Four things we learned from the Wealth and Assets Survey

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Introduction

The Wealth and Assets survey is the most comprehensive assessment of household wealth in Great Britain undertaken by the Office for National Statistics (ONS). The latest wave of the survey has just been released which gives us the opportunity to explore the state of the nations' wealth and how it has changed since previous waves. Here we set out four key things we learned from the latest wave.

1. Median pension wealth is worryingly low but the story is complicated

During the period 2010-12, median total pension wealth for all those who have saved something into a pension (that includes pensions that people are paying into as well as those that they are not) was £46,900. According to the Legal and General annuity calculator, this could provide an annual income of £2,659 over the course of retirement[1]. In effect then, this would only provide enough income to top up that gained through the state pension. Crucially though, if median pension wealth is calculated by including those who have no pension wealth it falls to **just £7,200**! This is driven by the 42% of adults who have no private pension savings.

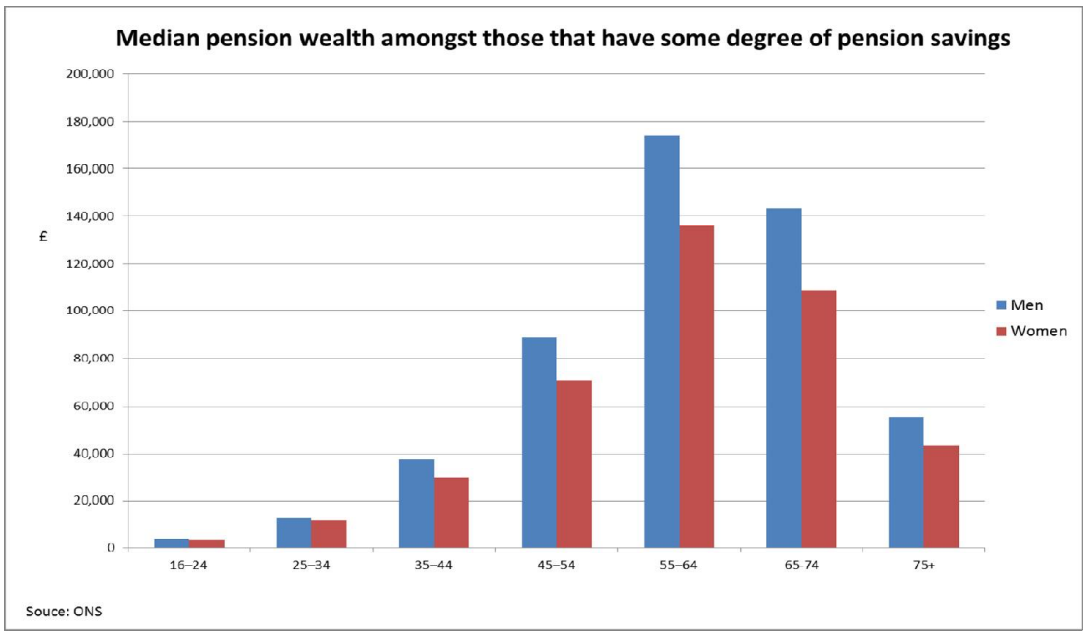
…pension wealth is higher for older groups but remains inadequate

Pension wealth is generally only accessed at the point of retirement, after (hopefully) many years' worth of contributions. So it is perhaps more important to look at total pension wealth amongst the immediate pre-retirement age cohort. Indeed, amongst the 55-64 age cohort, total median pension wealth is £135,900 after excluding all individuals who have saved nothing. Using the same annuity calculator that could deliver an annual income of £7,638 – a significant improvement on the overall median, though still woefully short of what is needed to secure an adequate income in retirement. And even amongst this older age cohort, 28% of individuals have no pension savings whatsoever which is very worrying.

..Gender divides remain stark

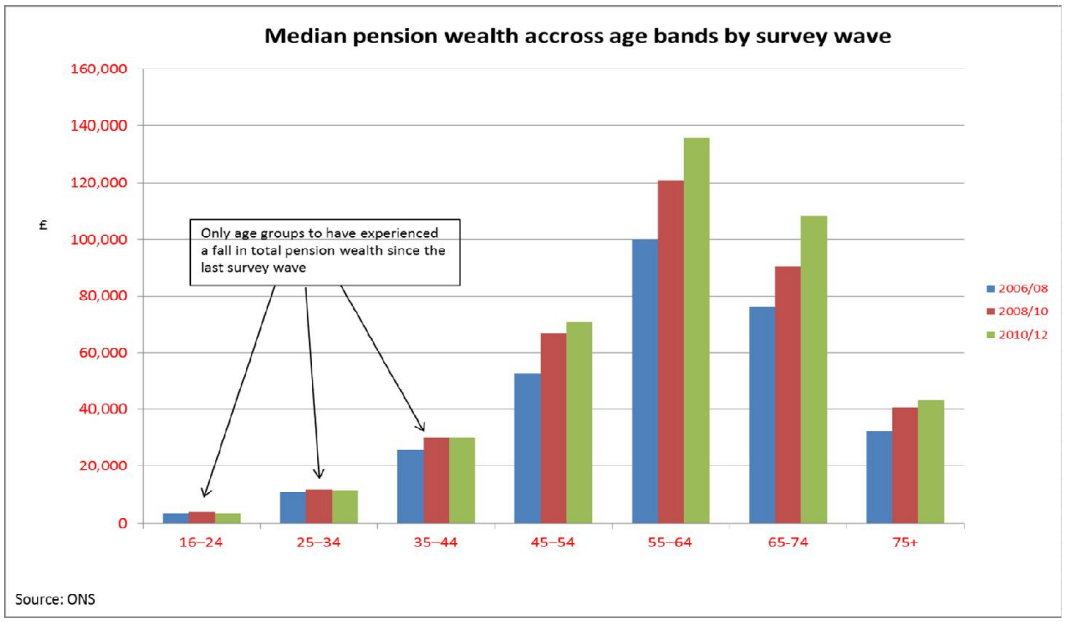
Things get worse when you look at gender. 37% of women amongst the 55-64 age group have no private pension wealth compared to 19% of men. Median pension wealth for those who have some pension savings, is far lower for women of this age group at just £99,100 compared with £173,100 for men. And as the chart below shows, the gender divide in pension wealth is noticeable for all age groups implying that securing a retirement income for women is likely to remain a particularly significant challenge over the coming generations.

[1] Assumed that a man takes an annuity at 65 and doesn't want to provide an income for spouse or partner. The calculator can be found here: http://www.legalandgeneral.com/annuities/pension-annuity/annuity-calculator/



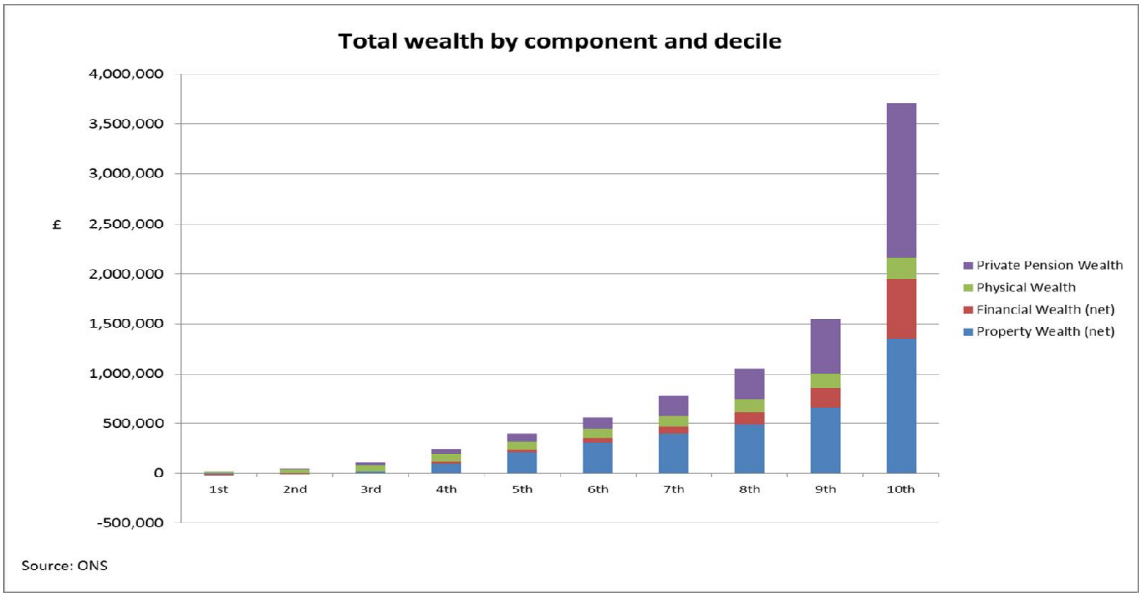
…don't forget younger age cohorts

The younger age groups (16-44) were the only age groups to experience a fall in total pension wealth since the last wave of the survey. This may be a consequence of the labour market challenges facing younger age groups including high levels of unemployment falling real wages. This is likely to have limited the extent to which they have been able to contribute to a pension scheme. If sustained over a number of years, this will have significant adverse effects on the size of this generation's pension pots and therefore their ability to generate an adequate income in retirement.



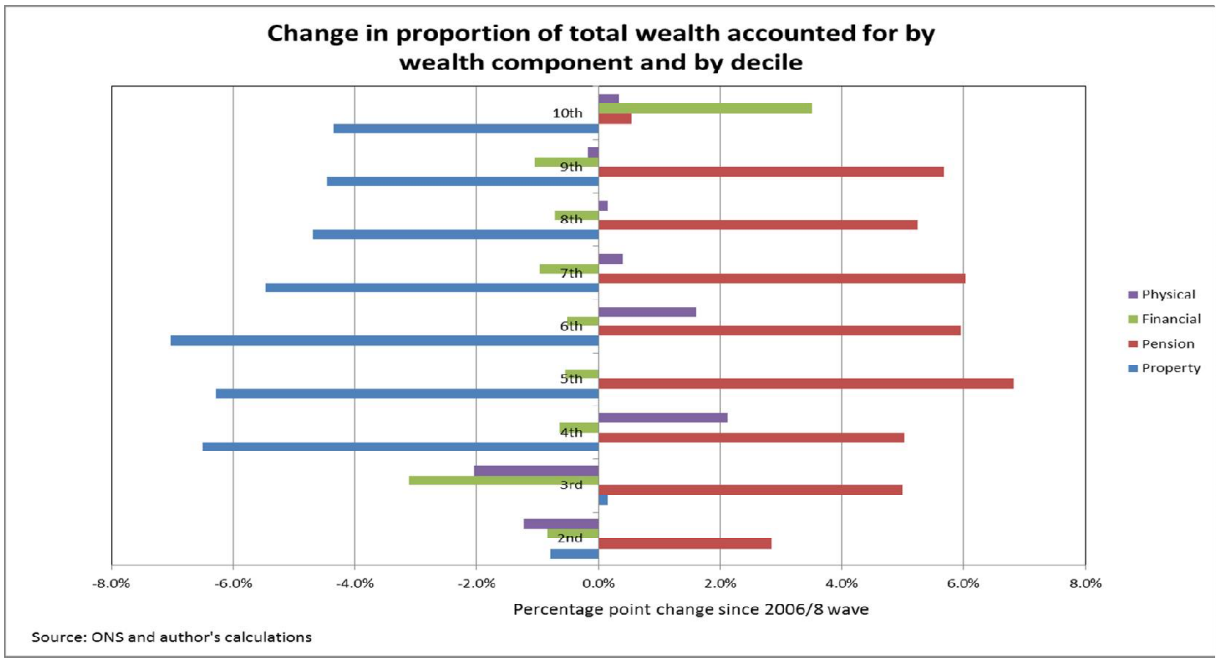
2. Property wealth remains king for many households

Consistent with previous waves, property wealth remains the largest component of total household wealth across deciles and the most evenly distributed (see chart). It accounts for a particularly sizable chunk of total wealth across middle decile groups. Higher decile groups have a larger proportion of their wealth sitting in financial assets and private pensions, while for those at the bottom, physical wealth (i.e. goods within the home, car etc.) is more important. For those with a high proportion of wealth tied up in a single asset, such as a house, falls in the value of that asset could create a significant dent in the amount of wealth that they have. Diversification is important in this regard, but these latest statistics show that few, other than those at the very top, have been able to significantly achieve this.



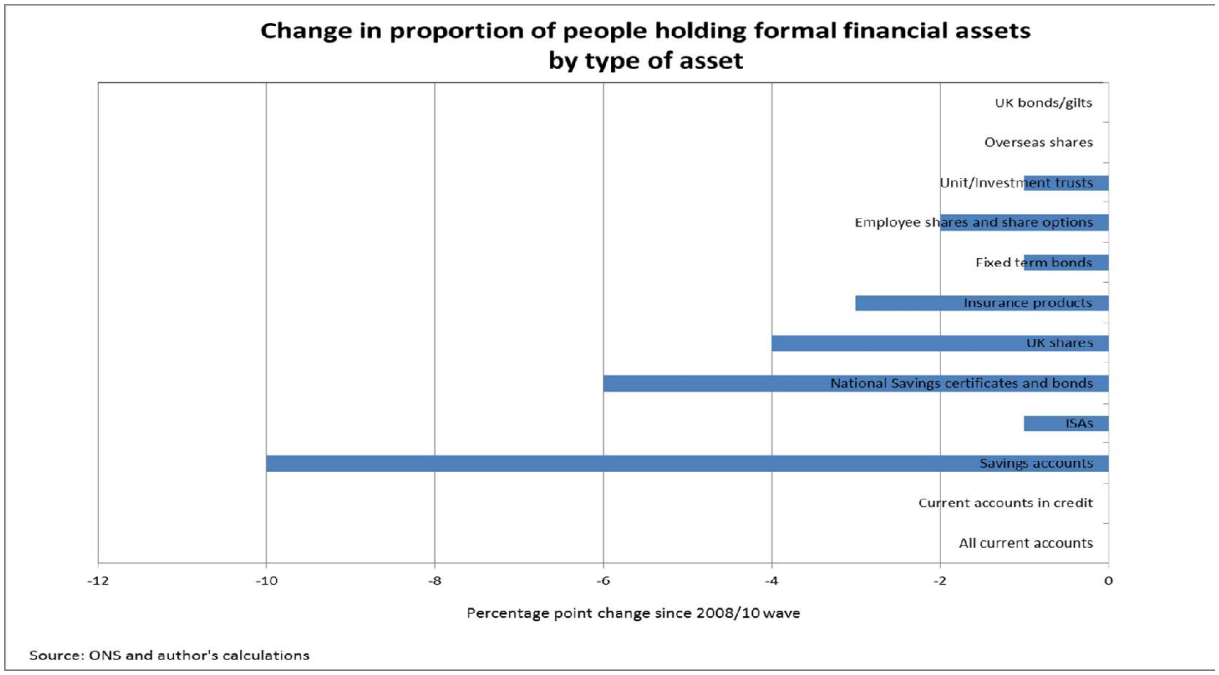
…but property accounts for a lower proportion of total wealth that it did

Despite property accounting for such a high proportion of peoples' total wealth, it has declined since the first wave in 2006/08, while pension wealth has increased. This trend is consistent across deciles. This is partly because the nominal value of property wealth has fallen across many deciles since 2006/8 while the value of pensions has risen. The data is not deep enough to ascertain whether we are starting to see a move away from property as the main vehicle for storing wealth, but with a decline in homeownership likely over the coming decade, it may by a trend that gathers steam over the years ahead.



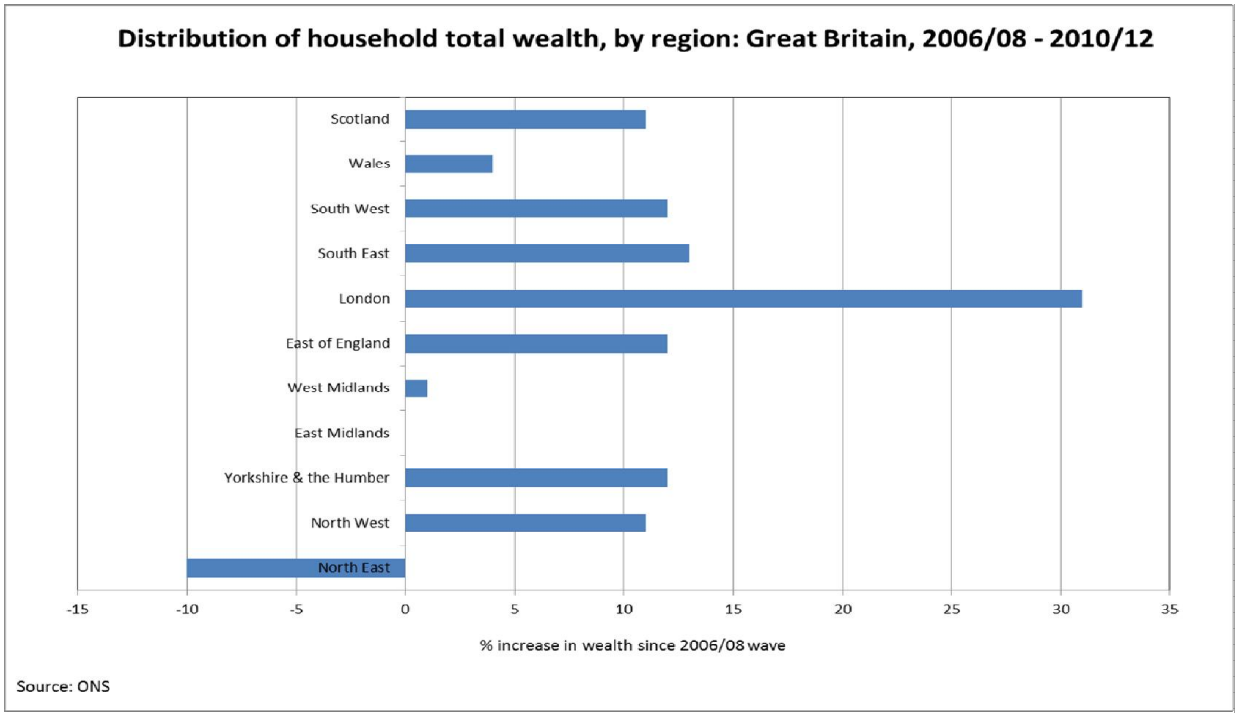
3. Savings account…get me out of here

There has been a general move away of formal financial assets since the last wave but particularly so with regard to savings account. Most dramatically, the proportion of people with a savings account has fallen from 68% to 58% since the last wave. This is a substantial drop perhaps reflecting two things – first, the interest rate on savings accounts have been negative (in real terms) making them less attractive to consumers and second, the decline in real household disposable income has made it more difficult for people to save at the end of the month. From a financial resilience point of view, this trend is obviously cause for concern.



4. Beware of regional differences

Relying on averages for Britain as a whole can result in missing some significant regional differences. Indeed, the latest wave not only shows regional divides in terms of absolute levels of wealth but also the extent to which certain divides have been growing. For example, as the chart below shows, total wealth in London has risen by over 30% since the 2006/08 wave by comparison to a fall of 10% in the North East. The strength of wealth growth in London is likely to be a function of the strength of the economic recovery across the region as well as the fact that earnings have historically been, and remain, so much higher in London than across the rest of the UK[2]. The latest release therefore demonstrates how important it is to explore regional differences when thinking about the state of the nation's wealth.



[2] http://www.ons.gov.uk/ons/rel/regional-trends/regional-economic-analysis/changes-in-real-earnings-in-the-uk-and-london--2002-to-2012/art-changes-in-real-earnings-in-the-uk-and-london--2002-to-2012.html#tab-2--Changes-in-earnings-of-employees-in-the-UK-and-its-regions--2002-12

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