Asset accumulation and lifestage

an analysis of the wealth of households as they approach and pass the retirement age

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Introduction

There has been much debate and concern in recent years over the provision that people are, or are not, making for retirement. Following the pensions mis-selling scandal of the 1990s and the stock market collapse of 2001 to early-2003, many people fear that there is a 'savings crisis'. Indeed, Oliver and Wyman, in an influential and much quoted piece of research, estimate that there is a shortfall of £27 billion per year in the United Kingdom in the amount that is being saved or put into pensions[1]. Add in concerns about the growing levels of consumer debt, which as a proportion of income has reached record highs at nearly 120% of annual post-tax income, and it would appear that there is much to be concerned about when considering the financial health of the UK population.

Yet, at the same time, the value of consumer assets is at an all time high. Of course, the dramatic fall in the value of equities in recent years (albeit with some recent recovery) has had an impact on pension funds but the affect on total asset values has been more than offset by the continued strength of the housing market. The result is that total net household wealth is higher than ever in real terms (but with housing's proportion of that returning to levels last seen in 1990). This suggests that if there is a savings crisis now, there must have been an even worse one 10 or even five years ago. Why, then, the concern now?

One potential problem is that we know that wealth is distributed in a very unequal way. Some people are super rich and many have few if any assets at all and such polarisation has, indeed, increased over the last few decades. In 1986, the most wealthy 5% of the population owned 36% of total personal wealth and by 2000 this had increased to 42%[2]. But how much this inequality represents pure wealth polarisation across the life course (once people become rich – either at birth or at some early point in life – they stay rich) and how much it denotes a planned build of assets in preparation for retirement is unclear. This is because we know very little about asset accumulation and planning since micro data on assets and savings has not been available until very recently.

So what is needed is a bottom-up analysis of asset accumulation over the life-course and in particular during the period leading up to retirement. How many people have reasonable asset bases and how are these distributed among the population and how are they split between liquid and illiquid assets like housing? This is crucial in understanding how much of a 'savings crisis' there really is and what sort of products (like equity release) or other actions (like extending the retirement age) will be required going forward.

In this report, we explore patterns of asset accumulation leading up to and through retirement among UK residents. The main research source is the British Household Panel Study (BHPS) that is unique in providing detailed data on household level accumulation of wealth in the form of savings and investments as well as in housing equity. Further, the BHPS gathers data on personal debt as

[1] The future regulation of UK savings and investment. *Targeting the savings gap*. Oliver, Wyman and Company, for the Association of British Insurers, September, 2001
[2] Source: Inland Revenue

well as money owed through secured lending. Employing BHPS data, we are able to assess the total assets available to a household, balancing positive assets against liabilities, across the life course. Note, though, that we do not cover pension assets in this analysis as the BHPS, while collecting data on pension income, does not collect information on the value of an individual's or household's pension funds. Fuller details of the BHPS are provided in Appendix A.

The value of consumer assets and debts

Table 1 shows the average (mean) amount of assets and debts for households in the United Kingdom. A household is defined as being all those persons who reside within a physical accommodation sharing the same address. The household could be comprised of a single family, a single individual or several unrelated individuals.

We report gross assets, debts and assets net of such liabilities. To measure net liquid assets, we sum self-reported savings and investments for all individuals within a household and then subtract self-reported personal debt. We evaluate illiquid assets as the value of all properties owned by members of the household in 2000 prices less any outstanding mortgage owed on any such properties.

Table 1. Basic Characteristics of the UK Asset Structure, 2000

	Average (Mean)
Liquid Assets	
Savings	£10,367
Investments	£11,074
Total Gross Liquid Assets	£21,441
Personal Debt	-£3,023
Total Net Liquid Assets	£18,418
Illiquid assets (property)	
Main Property	£77,090
Secondary Property	£8,598
Total Gross Illiquid Assets	£85,688
Mortgage	-£17,194
Total Illiquid Assets	£68,494
Total Gross Assets	£107,129
Total Gross Debts	£20,217
Total Net Assets	£86,912

Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

Table 1 shows that money held in illiquid assets – one's main residence or any secondary property – accounts for the majority of assets in the UK in 2000. The mean of total assets in 2000 is about £87,000 of which nearly 80% is accounted for by property assets and only a fifth is in a form readily available to the household – like savings or investments.

Within the context of other assessments of assets, debt and equity in the UK, our findings for housing wealth and secured debt 'largely agree with aggregate estimates' as noted by the Bank of

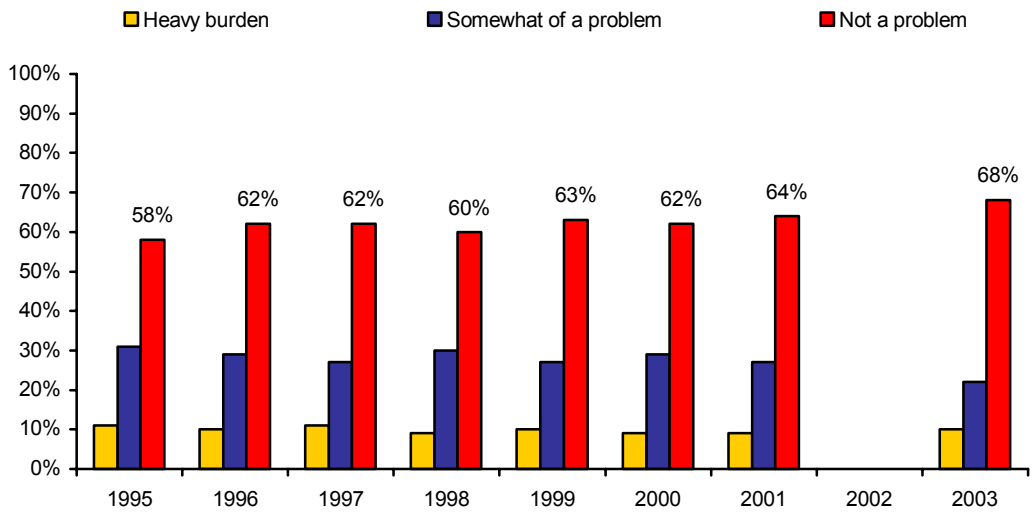
England[3]. However, for liquid assets and personal debt, our aggregate estimates are quite a bit lower than official statistics. We believe that one reason for the under-reporting of this form of asset is that our estimate does not include cash holdings in current accounts. For personal debt, the Bank of England has noted the apparent under-reporting from the BHPS and other surveys and believes that a significant reason is that survey respondents are likely not to report credit card debt that they plan to pay off quickly. As the Bank notes 'part of the difference between survey and official figures is that surveys are stating what people perceive to be their normal stock debt position, whereas official aggregate figures are also picking up credit used temporarily to make transactions'[4].

There are a number of interesting observations, therefore, from this analysis at an aggregate level:

1. In many ways, the level of personal, unsecured debt as measured in the BHPS is a better indicator of the actual position of consumers than the official aggregate figures as it excludes short-term transaction debt (like credit cards) and thus the growing use of credit cards for transactions, and hence of official estimates of aggregate debt, is not, in itself, necessarily a concern. Certainly it is worth noting that the proportion of people who claim their unsecured debt is not a problem has increased from 58% in 1995 to 68% in 2003 (figure 1).

Figure 1 Burden of debt

How much of a burden is unsecured debt?



Source: Bank of England, BHPS, NMG Research, Bank calculations, *The distribution of unsecured debt in the UK,* op. cit.

[3] *The distribution of unsecured debt in the United Kingdom: survey evidence*, Bank of England Quarterly Bulletin, Winter 2003
[4] *The distribution of unsecured debt in the United Kingdom: survey evidence*, op. cit.

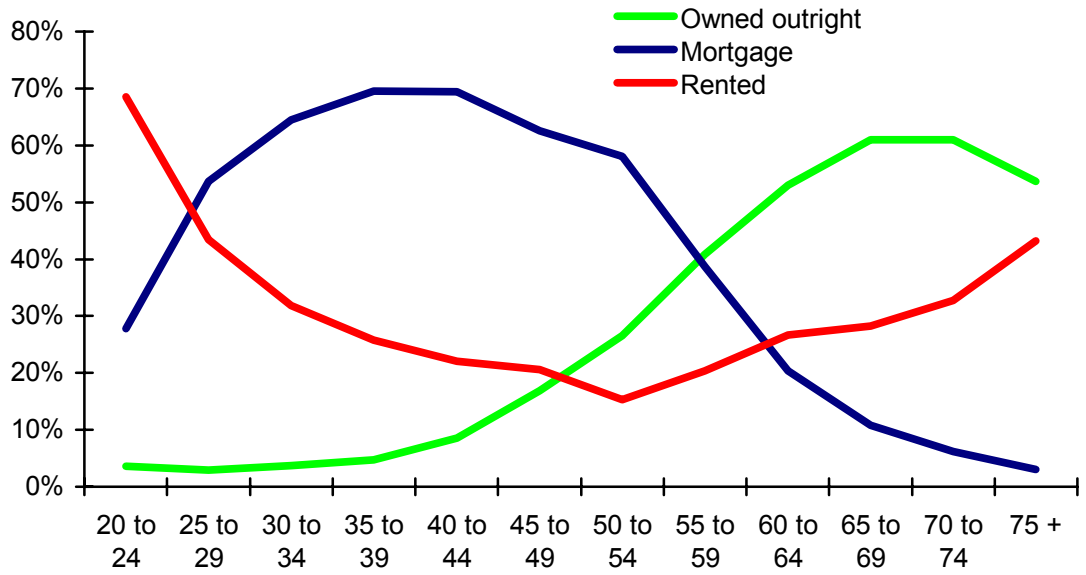
2. The fact that the BHPS underestimates liquid assets suggests the true level of asset holdings is higher than reported here although in part this may represent cash holdings set aside for transactions – the asset equivalent, if you like, of the credit card debts not included in our liability figures. Perhaps of most importance, however, is that our results are probably a reasonably accurate reflection of consumers' own perceptions of their net liquid asset position and therefore are most relevant to decisions about saving and spending.

3. The vast majority of assets are held in the form of illiquid property. In order to understand the distribution of assets and how they accumulate over the life course, the first aspect we need to consider, then, is home ownership.

The role of housing in asset accumulation

Figure 2 shows that the key transition from mortgage holder to outright owner occurs among 55 to 59 year olds as about 40% of households either own outright or have a mortgage among this age group. Past this age, the balance tips in favour of outright owning rather than mortgaging.

Figure 2 Housing tenure by age



Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

Perhaps more important for the purposes of this analysis, figure 2 further shows that the proportion of households who rent is also higher among the older groups. This is likely to reflect two aspects:

1. A lower proportion of older age groups having ever been home owners – they just never got onto the property ladder. Our survey shows that 85% of those aged 50-54 currently own their own home (either outright or with the help of a mortgage) - a figure much higher than would have been the case twenty or more years ago when those currently aged 70 or more would have been in that age group. Given the importance of housing as an asset resource,

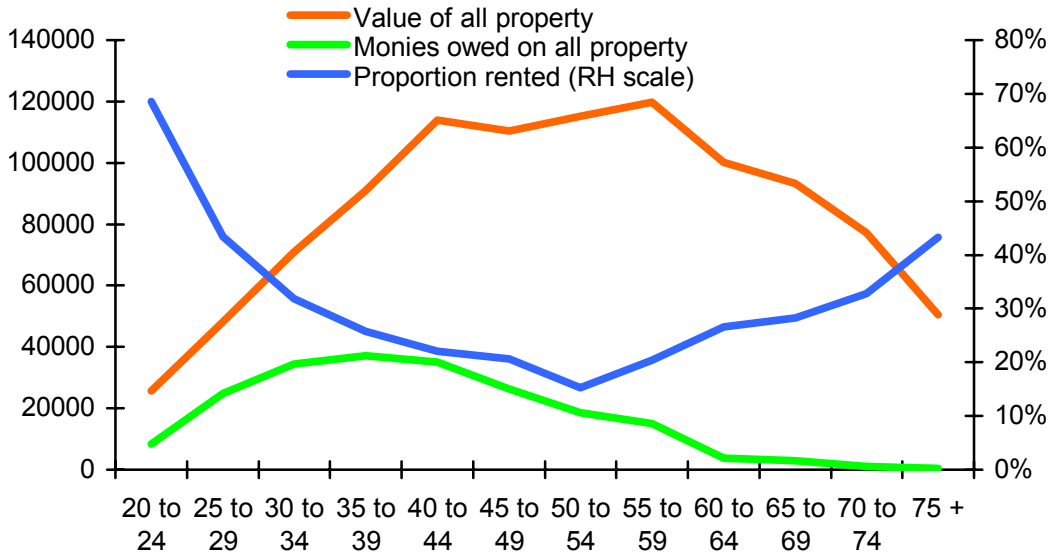
this suggests that younger generations will have higher levels of assets as they get older than those aged 65 or more currently do.

2. Some release of equity as people get past retirement age and trade down their property or release some of assets in some other way (we discuss the evidence for equity release later).

Figure 3 shows the impact of the lower levels of home ownership among older households on the value of illiquid assets. The total money held in properties grows as younger people move out of rented accommodation into owned property and as mortgage debt declines. It then drops from the late fifties onwards. Clearly, by the time most households hit retirement, money owed on property is very small which should increase net wealth but this is more than countered by the decline in value of properties. The main reason for this is the lower level of home ownership as can be seen by the inverse correlation with the proportion of renters within each age group.

Figure 3 Gross illiquid assets and mortgage debt

Main residence, second properties and mortgages on all properties



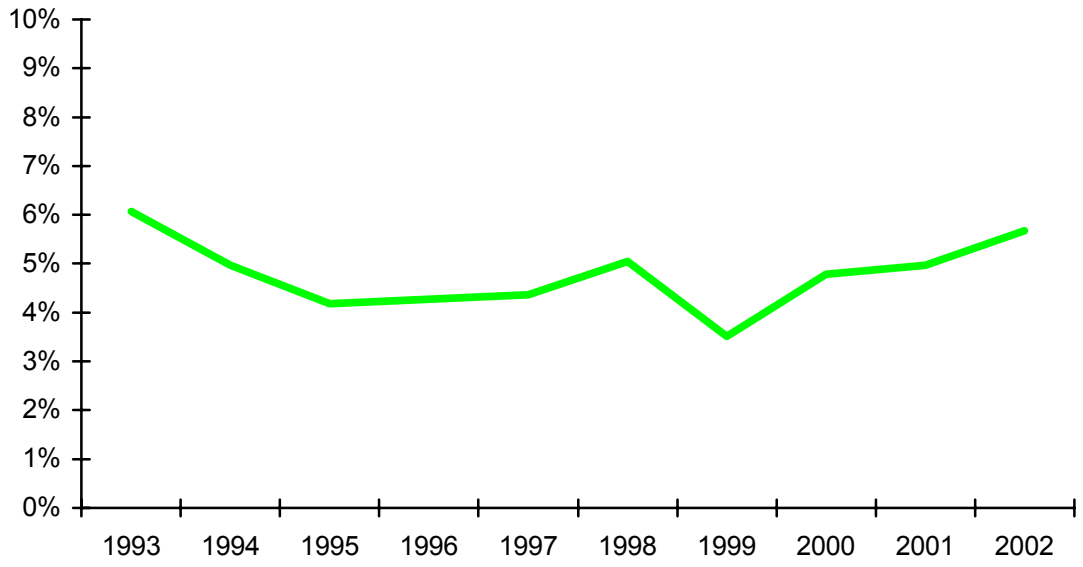
Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

A separate analysis looking at only those who own a property also shows a decline in the value of housing assets from 60 onwards but not nearly as dramatic as that shown in figure 3 suggesting that much of the decline in illiquid wealth in older age groups is the result of never having been property owners in the first place. But if they do own a house, why should a 70 year old's property be worth less than a 50 year old's? One possibility is that these older owners acquired cheaper properties in the first place, or live in lower value areas. More likely though, is that older people have deliberately been downshifting to smaller homes, in part to make home maintenance, cleaning and the like more manageable but also in part to release equity into more liquid funds that can be used for, amongst other things, general living expenses. What evidence is there of such equity release?

Equity release

Those owning property can release cash from such properties through several possible methods, namely (a) taking a second mortgage or re-financing a mortgage, (b) selling one's house and moving into a house costing less than the money generated from the sale, or (c) taking out a first mortgage on a property one previously owned outright. There are, of course, special equity release products but until the significant increase in their usage over the past year (which saw a 121% increase in value between the first half of 2002 and the first half of 2003[5]), there has been little consumer interest in them. Even at the levels seen in early 2003, it represents just one-fifth of one percent of the total property assets of those aged 65 or more and the total number of equity release loans in operation is less than one per cent of 65 plus households. Given the asset data in BHPS relate to 2000, there would be few people, if any, in the survey who would have taken advantage of such schemes.

Figure 4 Historical trend in rates of equity release, 1993 to 2002



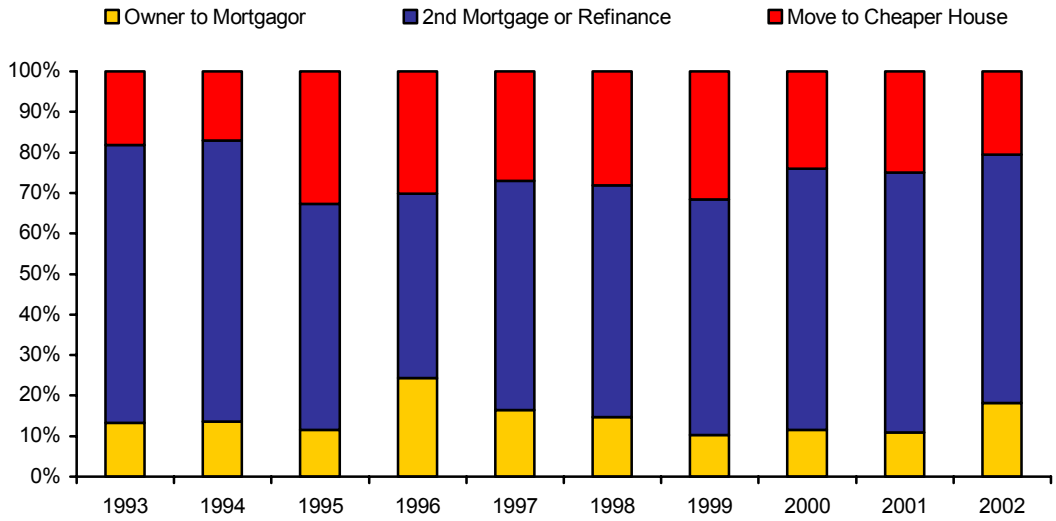
Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

Figure 4 shows the historical trend of equity release among householders – defined in the three ways above – in the UK between 1993 and 2002. Rates of equity release vary between 1993 and 2002 from about 6 percent of households in 1993 to a low of about 3.5 percent of households in 1999. The rates drop during the mid-1990s and have recovered somewhat in recent years. The high rates of the early nineties might represent distress re-mortgaging given the more difficult economic times then. The pick-up in recent years reflects the significant release of equity as property prices soared (and which, incidentally, underpinned consumer spending during those years).

[5] Source: Council of Mortgage Lenders press release, 21 August 2003

This thesis is supported by figure 5 that shows the historical popularity of various types of equity release between 1993 and 2002 among homeowners. It confirms that re-mortgaging was indeed higher in the earlier and later years. Currently, about 60 percent of households obtain cash from their property by either refinancing or taking a second mortgage. The remaining 40 percent of households obtain cash from their property by either taking a first mortgage on property previously owned outright or moving into cheaper accommodation.

Figure 5 Historical trend in equity release types among households releasing equity



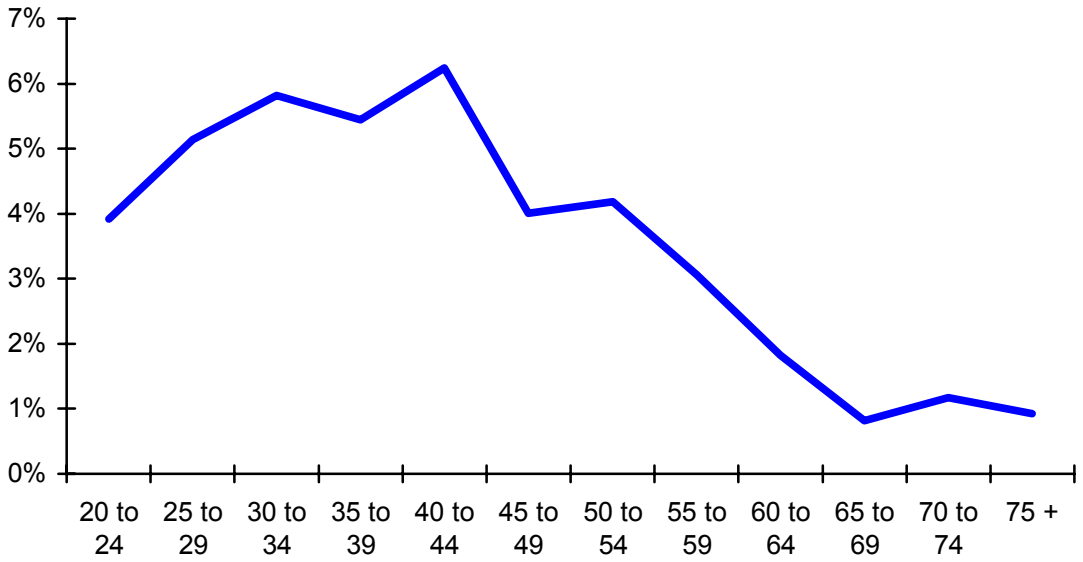
Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

An analysis of patterns of equity release across age groups reveals that obtaining cash from property owned is actually most likely among younger households and least likely among older households (figure 6). This again supports the idea that most equity release in recent years has been spurred by low interest rates and rising property prices and been used by younger households to finance consumer spending. You might expect that older households, facing fixed income patterns during retirement, would use equity release as a means of translating illiquid assets into cash for retirement. However, this does not seem to be occurring to any great extent.

Indeed, at the low levels of equity release among older households identified here (around 1% of all households over 65 and 2% of those owning property) there should be no new decumulation of assets for the group as a whole since typical house price rises would more than compensate for it. A paper by Banks, Smith and Wakefield also based on analysis of the BHPS and comparing changes in wealth between 1995 and 2000 makes the same point: 'the issue of housing wealth for the elderly is far from uninteresting to study, not least because on average there has been a real accumulation as opposed to downsizing over this period'[6]. As these authors note, further analysis of this issue (including more detailed analysis of the BHPS) would be fruitful.

[6] Financial wealth and wealth dynamics among the over fifties in Britain, 1995-2000, Institute for Fiscal Studies

Figure 6 Proportion of households releasing equity by age of household head



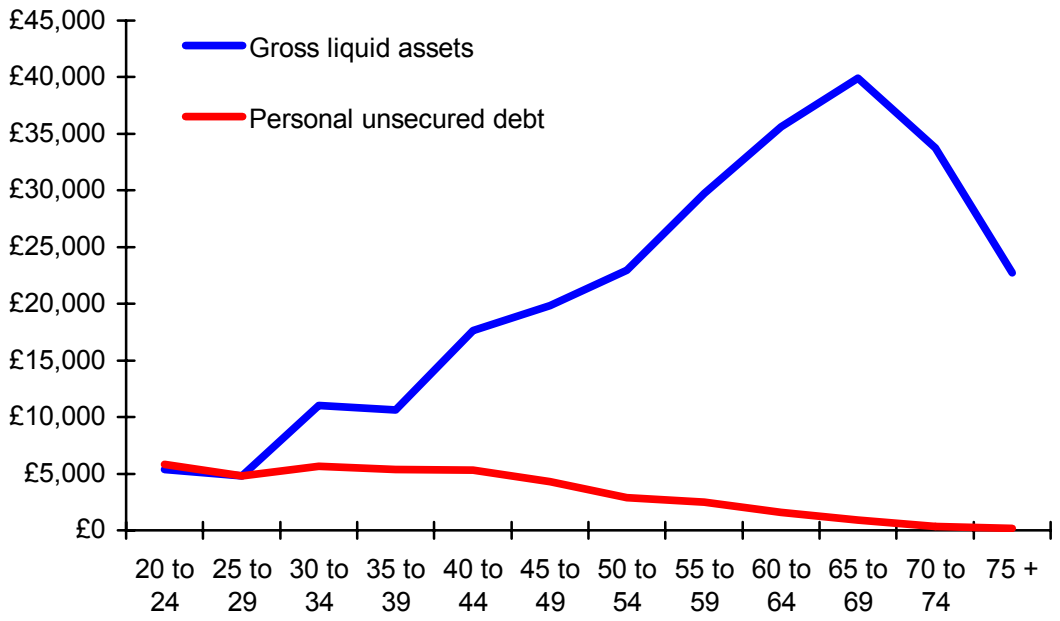
Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

The accumulation of liquid assets

To complete our picture of the wealth position of UK households we also need to consider liquid assets. Figure 7 shows that liquid assets (in this instance a combination of both of savings and investments) increase over the life course through to retirement then drop abruptly post retirement – a similar pattern to illiquid assets but starting and peaking slightly later. It is interesting to see that personal debt is very much the preserve of younger age groups being between £5,000 and £6,000 for those aged 20 to 44 and then declining rapidly after that to close to or below £1,000 at retirement age and effectively non-existent for those aged 70 or more. It would seem that households exhibit a pattern of preparation for retirement as debts get paid off and savings and investments are built up. (Note: this is in terms of average – mean – figures. Clearly there are a few post-retirement households that still have a reasonable amount of personal debt although 90% have none at all.)

Having looked separately at liquid and illiquid assets and liabilities, we can now view the pattern of net asset accumulation (and depletion) over time.

Figure 7 Gross liquid assets and personal (non-mortgage) debt



Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

Asset structure over the life course

Before discussing the results, it is important to reaffirm a point alluded to earlier. Our results reflect the age distribution at one point in time and is not, as such, a cohort analysis. So in looking at the distribution of wealth by age we are assuming that those currently aged 45-49 are similar to those currently aged 55-59 were ten years ago. In this way, we can view the results as a 'picture' of the progression of wealth of a 'typical' household over the course of its life. In reality, of course, this is not true as we already showed in relation to property ownership – such a crucial component of asset accumulation. More middle-aged households own their own home today than did so 20 or 30 years ago. However, we believe that this caveat aside, the results presented in this paper provide a reasonable representation of the likely changes in asset holdings among households over time. Certainly, work that has tried to look at assets on a cohort basis has identified similar results[7].

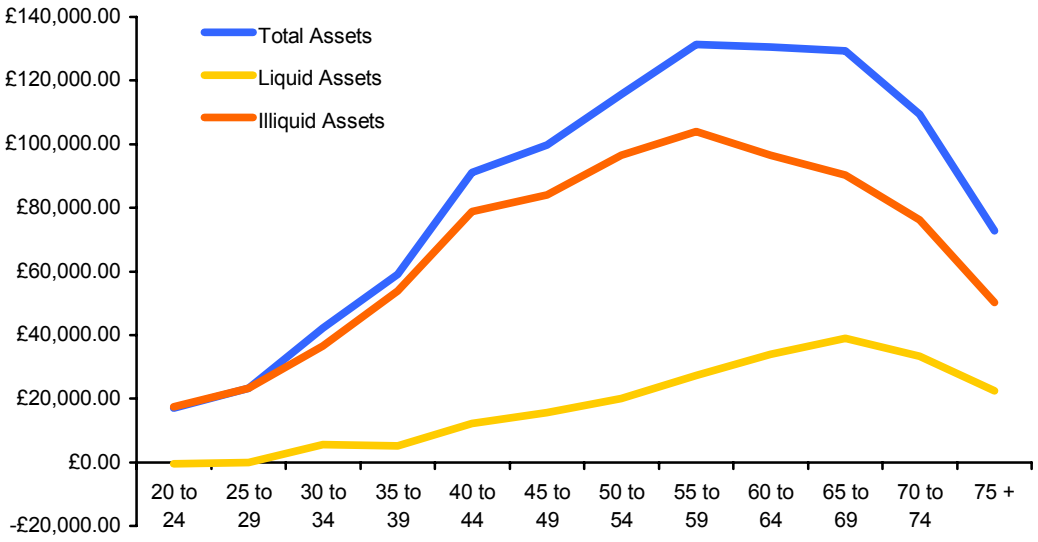
Our results indicate that a fair amount of preparation for retirement takes place among UK residents. As households mature, there is a build up of both liquid and illiquid assets that later appear to fall away as households move through the retirement years.

Figure 8 demonstrates this tendency to accumulate wealth for retirement as total assets peak among 65 to 69 year olds. The value of total net assets increases through the life course toward these years then sharply declines as households move into retirement. Figure 8 shows further that across all age groups, the total money held in illiquid assets, such as a house or second property, exceeds funds stored in a ready form, like savings or investments. However, the mix changes over the age groups

[7] Financial wealth and wealth dynamics among the over fifties in Britain, 1995-2000, op. cit.

such that older households have a greater proportion of their wealth stored in liquid, or easily accessible, form.

Figure 8 Total net assets broken by liquid and illiquid



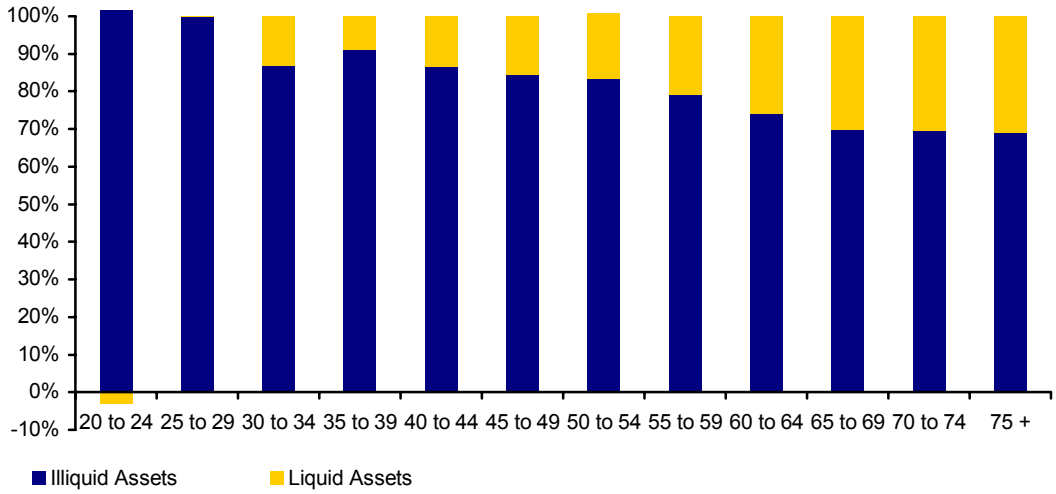
Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

Note that net liquid assets are comprised of money held in savings and investments less any personal debt among all members in the household. Savings can include money held in individual or joint savings or deposit accounts, money in the National Savings Bank, or money held in a TESSA or ISA account. Investments include money held in a national savings certificate, premium bonds, unit trusts, personal equity plans, money in shares (UK or foreign), NS/BS insurance bonds, or other investments or securities. Potential debt includes money committed through a hire purchase, personal loans, credit cards (but note our point made earlier about the difference between 'official' and personal estimates of this), mail order purchases not yet paid, DSS Social Fund loans, loans from individuals rather than banks, overdraft facilities, student loans, or any other debt. Illiquid assets comprise the value of the household's primary owned accommodation plus the value of any second properties owned by household members. We report these values net of any outstanding security on the property, such as a mortgage.

So, as households age, the portion of assets among each age group shifts progressively towards savings and investments (figure 9). The portion of assets held in property shifts from around 85 percent of total assets for those aged 40-54 but is only around 70% for those over the age of 65. A major factor in this shift in mix of assets is almost certainly a result of ending mortgage repayments on property – when people have paid off a mortgage, inevitably this releases money that can now go into savings or investments. The tendency to save is positively related to completing a mortgage. Another factor in the rise of liquid assets around retirement – and presumably why the value of these peak in the 65-69 age group – is the impact of lump sum payments from pension schemes. The exact

impact of this is beyond the scope of this report but the receipt of such sums is covered in the BHPS[8] and would warrant further research. Finally, of course, household running costs may be reducing as children leave the family home, allowing more active saving of income[9]. The net effect of all this is a build up of cash ready assets relative to illiquid property throughout the life course and from the late forties in particular.

Figure 9 Mix of liquid and illiquid assets by age group



Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

This is consistent with a significant degree of retirement planning taking place. Through the life course, people slowly build up assets, so that they peak at around retirement age. (Note, that many people are also building up their pension assets too, something which is not – to remind readers – included in this analysis.) In early life property is the main asset resource (and in times of strongly rising property prices is used to fuel a certain amount of everyday spending).

There is clearly some release or use of assets after retirement. However, this is probably not to the full extent implied by figure 8 because, as we discussed earlier, some of this apparent equity release almost certainly reflects lower property ownership levels among older generations. Where there is a release of equity from property, other research has highlighted that this tends to occur most among poorer households and that, if anything, assets continue to accumulate for richer households[10].

This last point reinforces a very important fact when considering asset accumulation – wealth is very unevenly distributed among households in the United Kingdom. All the figures we have discussed so far have been (mean) averages which disguises a very wide variation across the population.

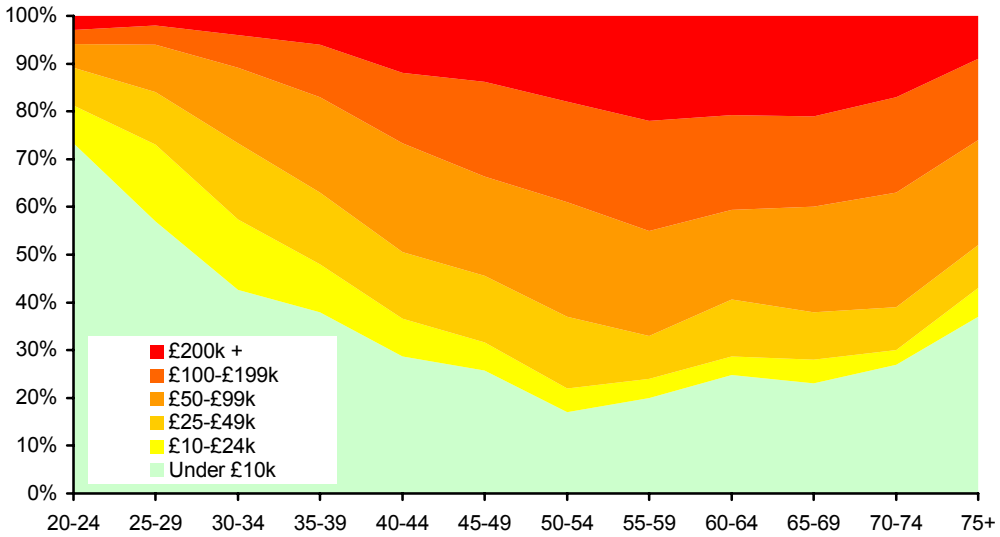
[8] Around 1% of the population receive a lump sum pension pay out in any one year according to the BHPS.
[9] Earlier analysis of the BHPS by the Future Foundation for Abbey National has shown that the period in life when income most exceeds expenditure is between the mid-forties and late fifties. Details available from the Future Foundation.
[10] Financial wealth and wealth dynamics among the over fifties in Britain, 1995-2000, op. cit.

The unequal distribution of assets

One way to look at the distribution of assets is to present the data from figure 7 in a different way. Figure 10 takes the same data but looks at how many households of different ages have certain levels of asset holding. It shows, if anything in an even more dramatic way than figure 7, how the asset position of people changes over the life course. Three quarters of 20-24 year olds have less than £10,000 in assets while only around one in ten have more than £50,000. These figures are almost reversed for those aged 50-59, with around two-thirds having at least £50,000 and only one in five having less than £10,000. The proportion of people with very few or no assets starts to rise again after retirement, presumably reflecting some drawing down of funds to pay for everyday living (among the poorer households) and a generational effect (older generations having fewer assets to start with) that we have already discussed. Nearly four in ten 75 or older households have under £10,000 of wealth.

So part of the apparent polarisation of wealth is, in fact, an artefact of the life stage approach to assets accumulation that we have identified in this report. Younger people just have fewer assets which makes the polarisation of wealth across the population as a whole seem greater than it may actually be, as many of these households will gain considerable assets as they age. To confirm this point, Inland Revenue data show that the richest 10% of the population own 54% of total marketable wealth (a slightly different definition than ours but not sufficiently so to undermine the comparison). Yet, among the 55-59 year old age group on the BHPS the richest 10% of this age group own much less – 34% - of the liquid and illiquid assets covered in our analysis. The wealth is still distributed in a very unequal way but significantly less than that suggested by looking at the population as a whole regardless of age.

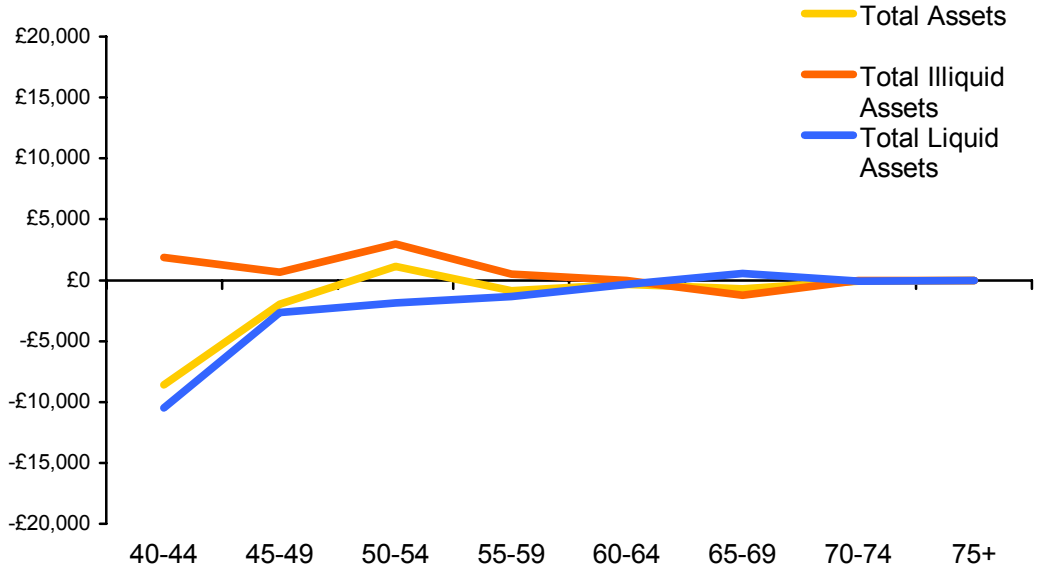
Figure 10 Proportion of households with certain asset holdings



Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

Figures 11 and 12 look specifically at the least wealthy and most wealthy 20% of households, showing average asset holdings within the lowest and highest quintile of each age group above forty.

Figure 11 Mean assets of the lowest 20% of households within each age band

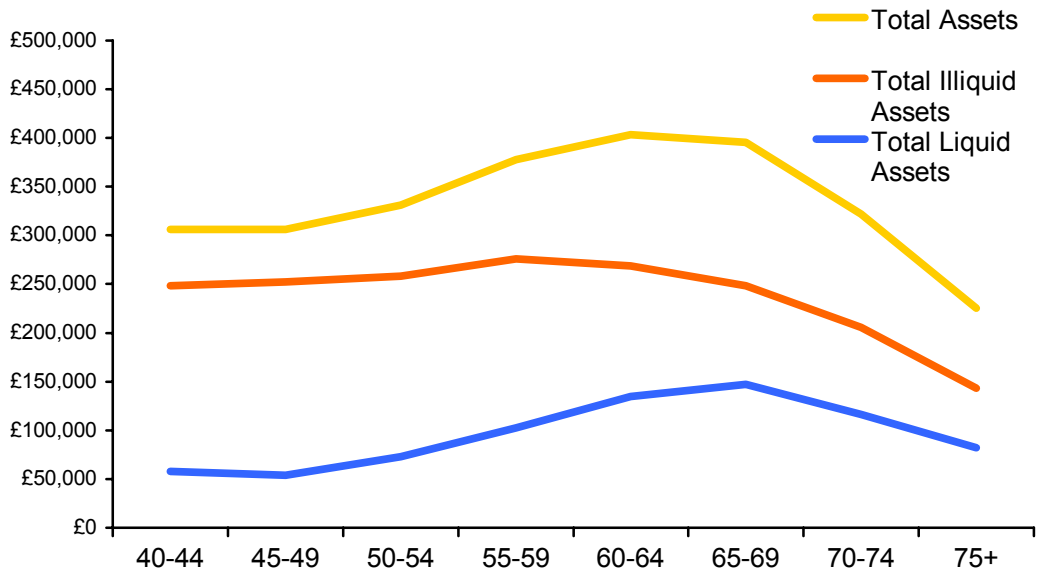


Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

Figure 11 shows that the least wealthy 40+ households in the UK have, effectively, no assets at all. Indeed, the youngest age groups shown here are net debtors. Since few of these households own property, the main problem here is personal debt, with those aged 40-44 owing around £10,000 on average. But, it appears that much of this is paid off by the time retirement is reached with the 50 plus households having on average no assets, but no debts either.

What a contrast to the top 20% of households. Here, although there are some levels of personal debt, this is more than matched by holdings of savings and investments amounting to over £50,000 for those aged 40-49 and rising to nearly £150,000 for those aged 65-69. These households have significant illiquid assets too at around a quarter of a million pounds even for the younger age groups. It remains at this level until retirement age which, given the rise in liquid assets, provides a rising asset pool that peaks at £400,000 for those aged 60-69. We note, however, that as the wealthiest households pass into and through retirement, a greater proportion of wealth comes to be held as savings or investments rather than in property. This mirrors the pattern for the population at large.

Figure 12 Mean assets of the highest 20% of households within each age band



Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

Table 2 displays information about the physical aspects of the homes in which the lower and upper 20 percent of UK households reside. Here, the analysis is based on the total population, so proportionately more of the lowest 20% are younger people, since we have already shown that it is older age groups that have the greatest assets. It can be seen that the least wealthy households are overwhelmingly concentrated in rental accommodation and are most likely to have a smaller house or flat. In stark contrast, the most wealthy households tend to be owner occupied or in a mortgaged home. Moreover, the homes of the wealthiest are significantly larger with 50% of homes having six or more rooms.

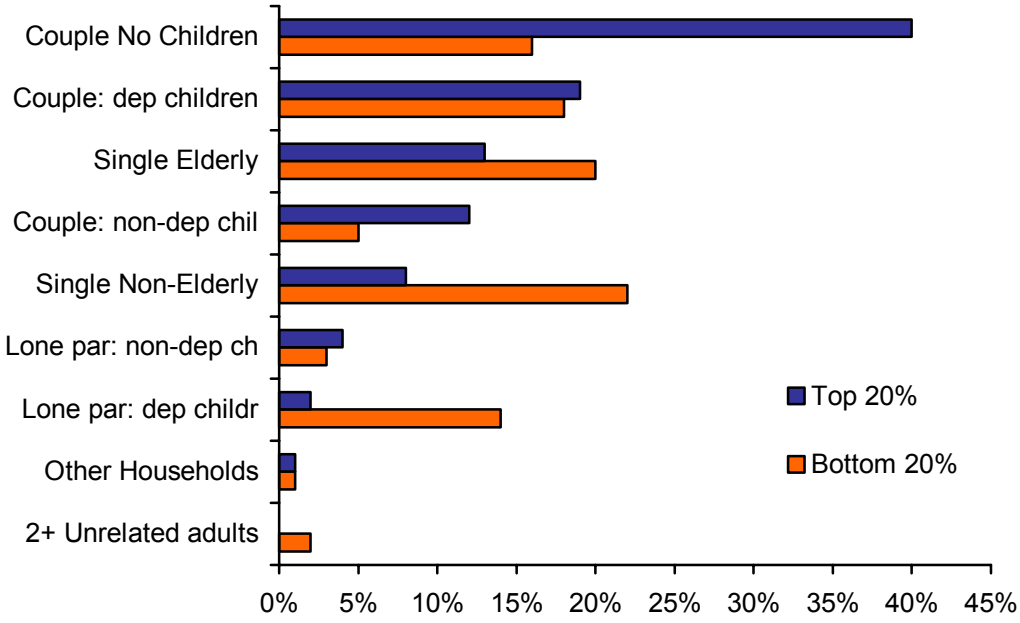
Table 2 Housing tenure and size of home among the wealthiest and least Wealthy Households

	Upper 20 Percent	Lower 20 Percent
Tenure		
Owner	61.34%	0.18%
Mortgagor	37.09%	10.51%
Renter	1.57%	89.31%
Number of Rooms		
1 or 2	1.57%	20.22%
3	6.79%	30.33%
4	14.32%	28.76%
5	27.32%	15.31%
6	21.61%	3.80%
7 or more	28.39%	1.58%

Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

Considering the social composition of households, figure 13 shows that the least wealthy are relatively much more likely to be single (either young or old) or a lone parent. On the other hand, the most wealthy are relatively more likely to be in couples – either with no children or no dependent children in the home. Many of these will be the so-called 'empty-nester' couples in their fifties and sixties whose children have left home. Couples with no children account for 40% of the richest fifth of households.

Figure 13 Social structure of the wealthiest and least wealthy households



Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

Exploring income patterns, Table 3 shows the distribution of income among the wealthiest and least wealthy households. We can see that the least wealthy are most likely to have a low annual income as two thirds report annual income less than £15,000. There are very few households that are income rich and asset poor. The converse is not true, however. Although household income is, unsurprisingly, likely to be higher in the wealthiest 20% of households, it is not universally so. Nearly a half of the top fifth in asset terms have income under £25,000. Many of these, of course, are retired making the point that a significant number of households are asset rich and (relatively) income poor[11].

[11] Note: this analysis takes no account of household size and should therefore be treated with some caution. After all, a one person retired household on an annual income of £24,000 could hardly be described as poor. This same caveat of course applies to asset holdings too. Further work could usefully be conducted to take account of this fact.

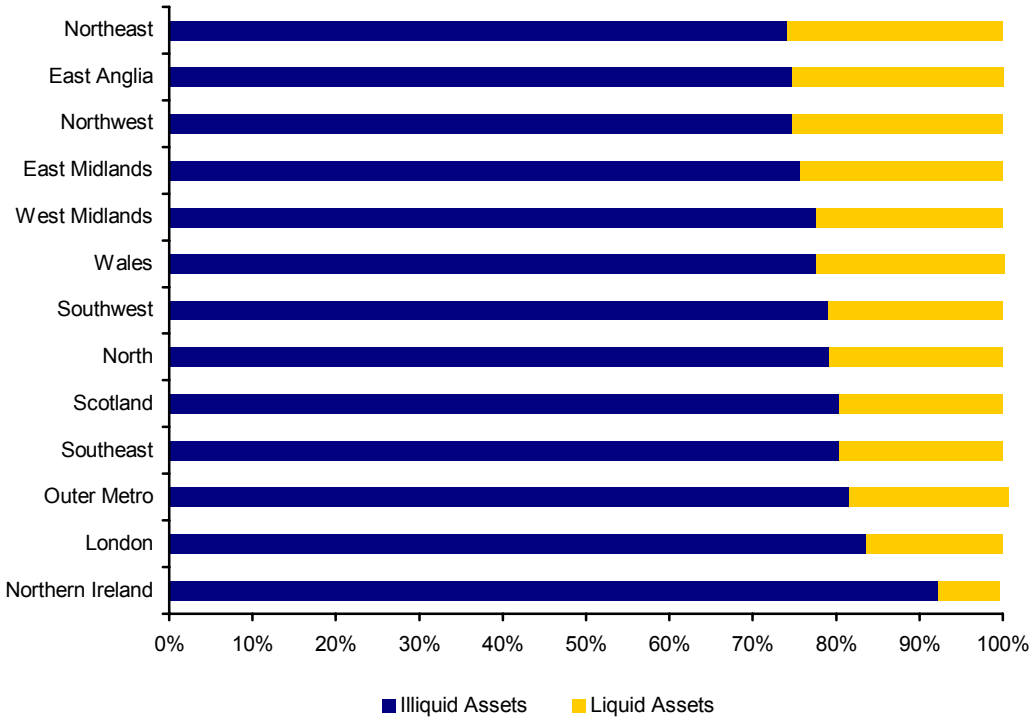
Table 3 Annual household income among the wealthiest and least wealthiest households

	Upper 20 Percent	Lower 20 Percent
Less than £15,000	22%	65%
£15,000 to £24,999	23%	20%
£25,000 to £34,999	18%	9%
£35,000 to £44,999	13%	4%
More than £45,000	25%	3%

The regional variation in assets

Does the mix of assets vary over the regions of the United Kingdom? Are liquid assets more common in certain parts of the country? Figure 14 shows the mix of net assets across regions with the proportion of money held in property highest in the south of England (and Northern Ireland) and lowest in some Northern and Midlands areas. Overall, however, there are not major regional differences. Of course, property prices (and hence asset values) are higher in London and the South East but so too are liquid assets – with, for example, those in the South East having an average of £25,000 of the latter, compared to £8,000 in Scotland and £10,000 in the North.

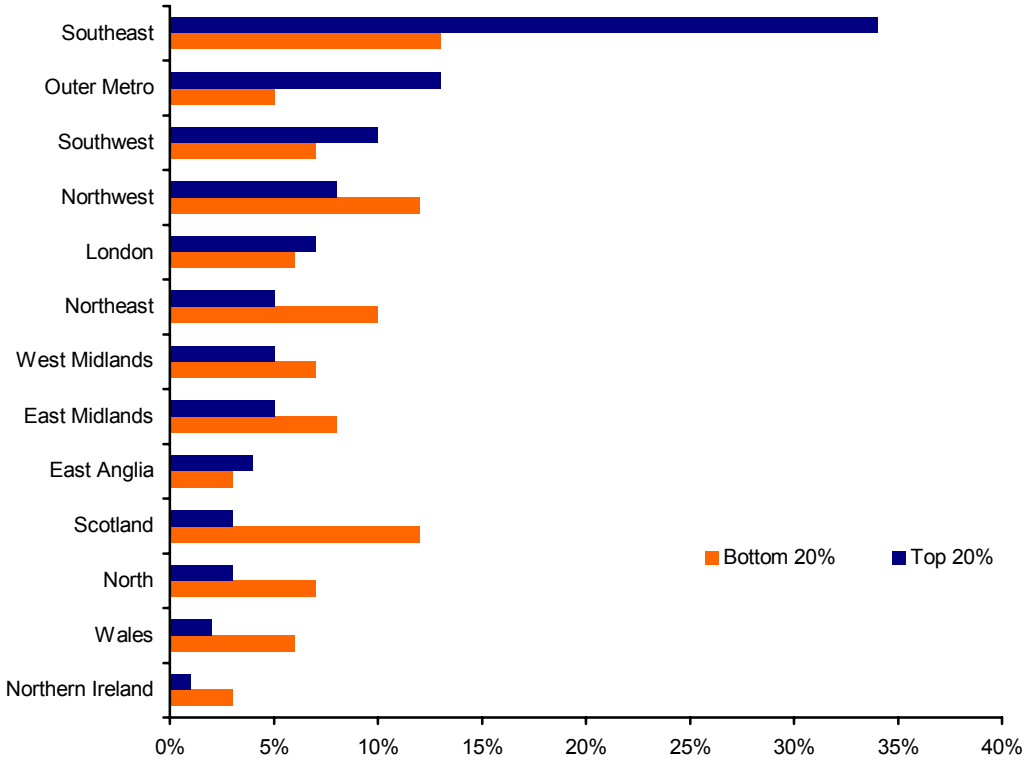
Figure 14 Mix of net liquid and illiquid assets across UK regions



Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

Exploring the characteristics of the least and most wealthy households further, Figure 15 shows the distribution of households by wealth category across the regions of the UK. Unsurprisingly, the vast majority of the wealthiest households are concentrated in the South East, the suburbs of London and the South West. Scotland stands out as having a significantly higher proportion of the least wealthy households, as does Northern Ireland, Wales and parts of the north of the country. In part, this clearly reflects differential property prices across the country.

Figure 15 Regional distribution of the wealthiest and least wealthy households



Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

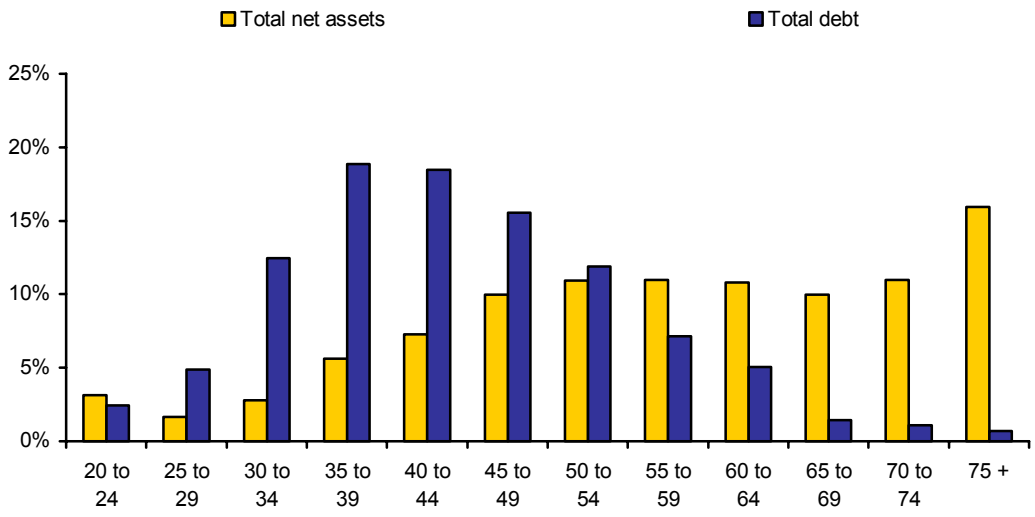
Summary and conclusions

Our findings show that there is a significant degree of life-stage financial planning taking place in the UK – perhaps more than many people, and certainly the doom-mongers, had appreciated. When people are young they have few assets and many have unsecured debts. But entry into the housing market provides a wealth accumulation mechanism (of course, only if the value of property continues to rise) to the extent that those aged 35-39 have an average of around £60,000 of assets. From then on, debts (both secured and unsecured) are paid off, illiquid assets continue to grow and an accelerated amount of money is accumulated in liquid assets to the extent that **the mean amount of wealth is £130,000 for those aged 55-64.** Figure 16 illustrates this by showing our asset and debt data in a somewhat different way. It uses our average figures and the number of households within each age group to estimate the amount of total national assets and debt (on the basis of the definition used throughout this paper) accounted for by each age group. It can be seen that

households headed by people aged under 49 hold nearly three quarters of all the consumer debt, while those aged 50 and over account for 70% of all net wealth.

Figure 16 Proportion of all debt and net assets held by households

By age of head of household



Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

After retirement, these assets are run down but perhaps less than might be anticipated. There is some evidence that – certainly for richer households – assets continue to accumulate after retirement suggesting significant implications for inheritance. Currently, those who do release equity are more likely to be younger households who presumably are doing so to fund current expenditure like household improvements.

There are also some further conclusions from our research:

1. Despite the considerable widespread concern about savings levels, the net household wealth position (that is taking account of debt) is better than it has ever been. At the same time, there is the suggestion that government figures may over-estimate the true level of unsecured debt as it includes, amongst other things, credit card debt that people plan to pay off immediately. Certainly, the consumer position as reported by the BHPS is much more benign than the government figures suggest (with consumers, apparently, underestimating their gross liquid assets too). Whether this mismatch is the result of households reporting their 'true' position – taking account of monthly cash transactions – or a denial on the part of consumers to recognise their real position is beyond the scope of this study. But the clear conclusion is that micro level analyses such as those presented in this paper are a very useful addition to understanding.

2. Whether there is a savings crisis or not depends on the distribution of assets across the population and the degree of pension provision in relation to such assets – both points we

address below. But, since such a large proportion of wealth is in property (particularly for less well off households) there is an implication that there is a need for better designed and better communicated equity release products

3. We have shown that there is, however, a major polarisation of wealth across the UK but less than aggregate figures might imply since, in part, it reflects the very fact that assets are accumulated over the life cycle. The fact that young people have few, if any assets, does not, as such, mean that the UK is an unequal society in wealth terms. This is not to deny that for any given age huge variations in wealth exist (see appendix B for further data on this subject), but rather that looking at figures at an aggregate national level is misleading. This, if anything, is the main socio-economic finding of this research.

4. The polarisation of liquid assets is much more acute than that of illiquid ones (see appendix B also). This implies, as the property market has flourished over recent years and equities have declined in real terms, that polarisation may have reduced (albeit only for those who own property) since the BHPS wealth data were collected. The same applies to the regional aspect of asset polarisation that we have illustrated in this report. With property prices in places like the North, Yorkshire and Humberside and Wales growing significantly more than those in London and the South East since the survey was conducted, regional variation may have, in fact, declined (again, only for those with property). Inevitably, however, rising property prices leads to greater polarisation between those who own their homes and those who do not: *'over periods of rising real house prices, differential levels of home ownership lead to rapidly increasing inequalities in the distribution of wealth'*[12]. This reinforces the importance of property in determining the wealth of households.

5. So, as illiquid assets have become a greater proportion of total wealth for the majority, so it reinforces the need for equity release products, or at least strategies for people to free up wealth (by, for example, down-shifting to a smaller home).

6. The importance of housing assets highlights another important suggestion from this research that reflects the higher levels of home ownership for the current generation of pre-retirees. As more of this cohort own their own homes, so the total wealth of the group is likely to be greater indicating that **the current 45-59 year old generation potentially represents a golden generation**. And despite all the concern about pensions and pension funds, they may well be better provided in this way too. So, for the next 10 to 20 years we may well see the position of new retirees being better than current ones, assuming no major declines in either equity or house prices. Of more concern are the younger age groups where there is evidence that people are having trouble entering the housing market and the BHPS shows a significant decline in 15-34 year olds paying into a private pension between 1993 and 2001[13].

[12] William Patterson, *Housing and the Dynamics of Wealth-Holding in the UK*, BHPS – 2003 conference, Institute for Social and Economic Research, Essex University

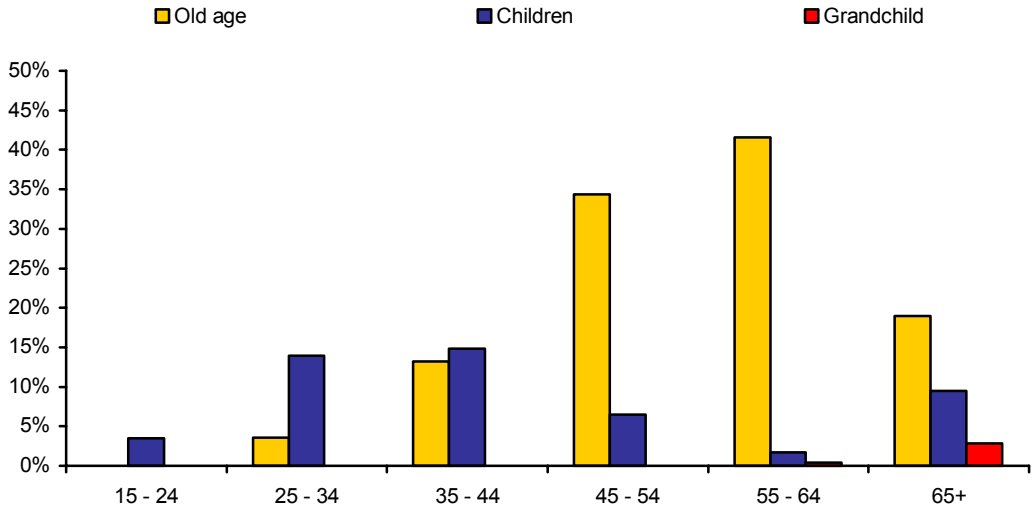
[13] Source: BHPS, nVision. *n*Vision is a subscription service from the Future Foundation that combines an extensive on-line data and analytic resource with workshops and briefings about future trends.

7. This is likely to become more acute as more students leave university with significant debts meaning their net asset position is poorer than the current generation. In such a situation, the prospect of taking on a mortgage or starting a private pension might be more daunting.

8. For these reasons inheritance may well grow in importance. First, it is likely to grow in real terms (as was argued in an earlier paper on inheritance for the International Longevity Centre[14]) and second it may be the mechanism for helping younger people enter the housing market or build up their assets. Research has shown that for wealthier households and specially those with private pensions, there is a degree of 'passive saving' in the sense that their assets accumulate at a faster rate than they can be used in current expenditure[15]. For some retired households in rude financial health, there is also an element of 'active saving'. Figure 17 shows that some of this is specifically with the purpose of providing for younger generations (the high proportion of people who save for no specific reason is presumably another form of 'passive saving'). People save for their children when they are young, for their own retirement when they are middle-aged and start saving again for their children (or grandchildren) after retiring.

Figure 17 Reason for saving (first or second reason) by age of head of household

Proportion of people who save, excluding those who said 'no specific reason', which accounted for 43% of responses



Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

[14] *The Giving Age: inheritance in the context of an ageing population*, International Longevity Centre, 2003

[15] Financial wealth and wealth dynamics among the over fifties in Britain, 1995-2000, op. cit.

We would like to finish with some suggestions for areas where further research might be warranted.

- There is a need to know more about how people view, and therefore might use, housing wealth, particularly given that in the current climate, such assets continue to accumulate after retirement. Further analysis of this issue (including more detailed analysis of the BHPS) would be fruitful.

- We have shown how the value of liquid assets rises significantly as people approach the statutory retirement age. In part this reflects active saving made possible as mortgages are paid off, but there is also the impact of lump sum payments from pension schemes. The exact impact of these is unclear but could be considered further by more extensive analysis of the BHPS that not only has information on mortgage repayments (and how these change over time as it is a panel study) but also on one-off payments from pension schemes.

- To assess fully the importance of both illiquid and liquid assets we also need to know how households are placed in terms of pension funds and state entitlements. As Patterson notes[16], taking account of pension entitlement reduces the implied asset inequality. What is needed, therefore, is a more complex analysis of the inter-relation between pension funds/income and wealth.

- We have suggested that there might be a 'golden generation' about to enter retirement. But this is based on certain assumptions of life-stage asset accumulation built around a one-off, cross-sectional analysis. We noted at the start of this report that although there are dangers in such an approach, we felt it does present some sort of approximation of reality. To be sure this is in fact true, we really need a proper cohort analysis – looking at how the same people's situations have changed over time; something the BHPS does allow us to do. Some initial analysis along these lines has taken place[17] but not specifically looking at the issue of a 'blessed' cohort. Ideally, we would have 10 year cohort data – something that will not be available from the BHPS until 2005/6.

- Finally, it should be noted that our analysis takes no account of household size and should be interpreted with this in mind – to have £100,000 of assets in a single person household is clearly very different from the same amount for a two-person household. To understand fully whether people have built up sufficient assets for retirement and how this relates to pension provision we need to address household composition too and how this might change over time (by the death of one partner, for instance). The BHPS has comprehensive information on household structure and is also a panel study so could be usefully analysed to take account of these factors.

Clearly, there is much more work to do before we can understand the complex issues involved around life stage asset accumulation and planning and the impact of ever-longer life spans on this. But we hope that this report is a useful contribution to understanding of this issue.

[16] William Patterson, *Housing and the Dynamics of Wealth-Holding in the UK*, op. cit.
[17] Financial wealth and wealth dynamics among the over fifties in Britain, 1995-2000, op. cit.

Key findings for Financial Service providers

- The mean amount of wealth for those aged 55-64 is £130,000 and around three-quarters of this age group have £50,000 or more in total assets. This is perhaps greater than many financial service providers presumed and suggests that there are great opportunities for wealth management for households as they approach and reach retirement.

- Since, as we have shown, much of this wealth is in the form of illiquid, property assets, there is a real need to educate older consumers about how equity release could help them. This will, of course, depend on the provision of suitable and properly regulated products. But these is a hope that the new generation coming through will be more amenable to such ideas since, as we have identified, younger people are already actively using equity release (mainly in the form of re-mortgaging) to manage income/asset issues. If such people continue to hold a more flexible attitude to housing wealth (seeing it as an asset that can be drawn on as required), then the potential for formal equity release products is all the greater.

- Contrary to a current view that it is today's 60 to 70 year olds who represent a 'golden' generation, it seems possible that this description might better apply to those currently aged 45-59. Their greater levels of home ownership provide them with a solid asset base, although, of course, they may suffer from the current under-funding of corporate pension schemes. This suggests this will be a key group for financial services companies in the coming decade.

- However, for younger generations things may be more difficult. On top of the higher levels of debt already existing for those under the age of 35 there will also be student loans at levels that will dwarf (for those that have them) existing debt levels. This suggests that this generation too will need debt and asset management advice. They may also need help and possibly innovative products that enable them to enter the housing market. Inheritance and other inter-generational transfers present an opportunity here.

- This raises the question of whether the most significant savings crisis, if it is to occur, will be in 40 years' time rather than now, when today's twenty-somethings start considering retirement. But, perhaps by then the idea of retiring at 60 or even 70 will be seen as strangely outmoded and the asset accumulation cycle that we have mapped here will have been elongated to a new degree. Under such a scenario, could people's wealth then peak in their seventies or even eighties as they look forward to twenty years of healthy retirement? With steadily improving longevity, developments like these seem increasingly likely.

Appendix A

The British Household Panel Study

The British Household Panel Study (BHPS) is an 11 year survey of over 10,000 individuals within the United Kingdom conducted by the Institute for Social and Economic Research at the University of Essex. It is recognised as a unique and robust source of survey information on financial and other issues and is, for example, often quoted in Bank of England reports.

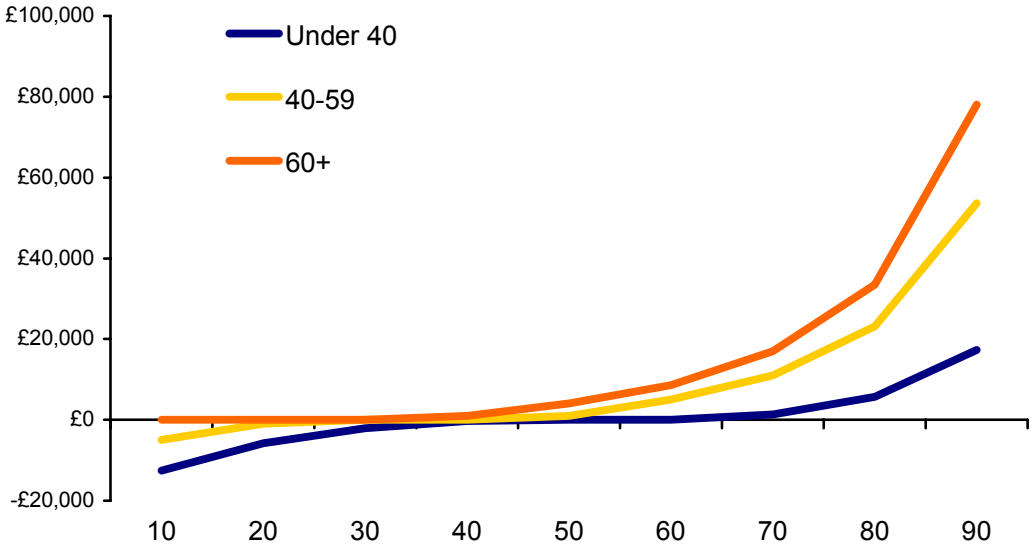
The sample is built from a cluster sample of over 5,000 households with all individuals within those households aged 16 or over falling into the study. Respondents are re-interviewed during the fourth quarter of each calendar year thereby forming a continuous record of life experiences since 1991. In 2000, specific questions were asked about personal savings, investments and debts and it is these data form the backbone of our analysis. Our analysis also considers data concerning home value and outstanding mortgage levels collected in each wave.

For this report we have looked specifically at assets and liabilities by the age of the head of household or the oldest person in the household for those households with no identifiable household head. We define the head of household as the eldest principal owner or renter of the household's accommodation. In a certain minority of households, no such discernable principal owner or renter can be identified. In such instances, we have identified the eldest person in the household as the head of household and keyed household characteristics based on this person's data. In practical terms, we sort households into five year age bands based on the age of the head of household or, in instances of no discernable head, on the age of the eldest person in the household.

Appendix B

Figure 18 Illiquid assets by deciles for three age groups

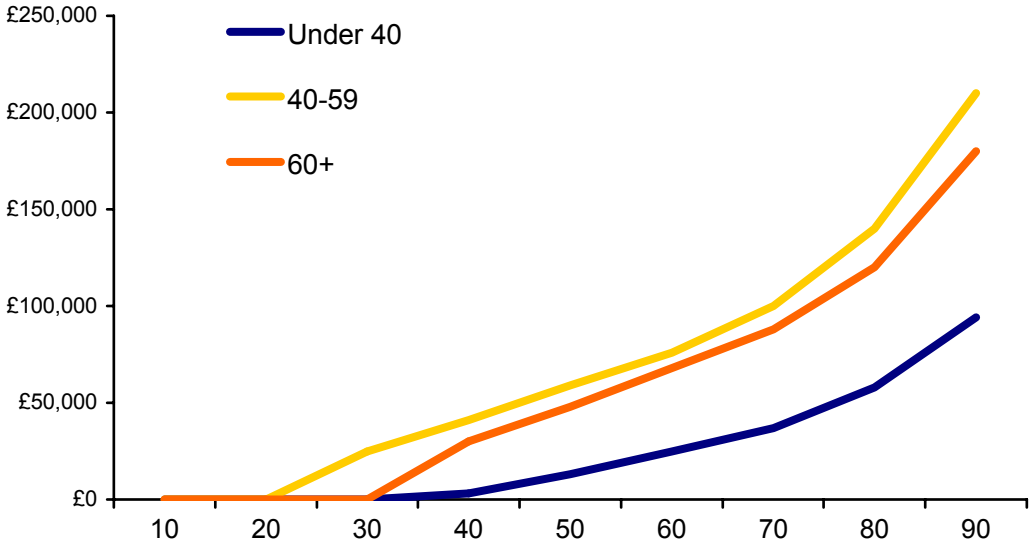
The bottom 10% decile are those with the least assets, the top 90% those with the most.



Source: British Household Panel Study, Institute for Social and Economic Research/Future Foundation

Figure 19 Liquid assets by deciles for three age groups

The bottom 10% decile are those with the least assets, the top 90% those with the most.



Source: British Household Panel Study, Institute for Social and Economic Research/Future Foundation