Have pensioners' incomes grown in this period of austerity?

Introduction

There has been a growing focus on differences in trends in living standards between various age groups. The pensioner group has experienced greater increases to their median income than other age groups.

The median pensioners' household income reflects the distribution of these incomes, and this change is a measure of the shift of the distribution over time [Chart 1]. The experience of the individuals who make up this distribution, however, are far more varied. Using longitudinal data, incomes can be tracked over time and the experience of individuals can be analysed.

This Briefing Note examines the variation of the changes to income for different groups of pensioners between 2007-08 and 2014-15. It also assesses some of the factors that account for these changes.

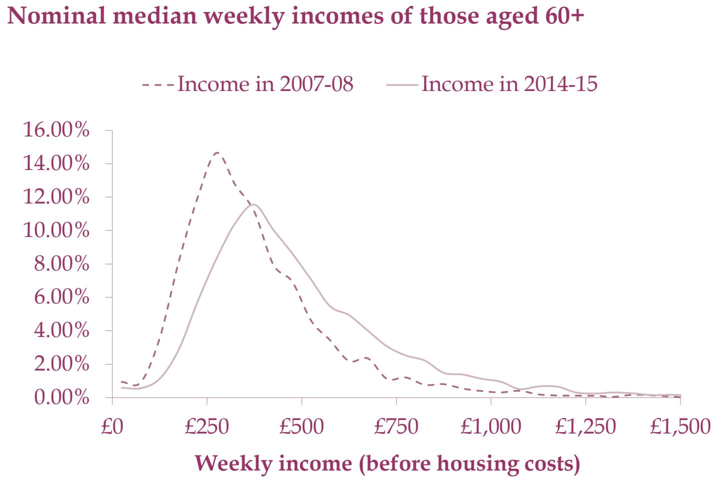
Key Findings

The median income of the pensioner group has increased substantially over the period, at a faster rate than other age groups.

This is largely due to new pensioners having a higher income than existing pensioners.

Half of those aged 60 and over in 2008-09 had lower incomes by 2014-15.

Chart 1: Household incomes for those aged over 60 have increased significantly in seven years



Using data from the Family Resources Survey (FRS) this note provides more detail around data that has been published by the Institute for Fiscal Studies (IFS).[1] This data set allows cross-sectional analysis of the pensioner population.

This note additionally uses data from the English Longitudinal Study of Ageing (ELSA), a survey of people aged over 50. This dataset tracks how the income of specific individuals has changed between 2008-09 and 2014-15. ELSA surveys the same individuals over time so that longitudinal analysis can be performed. The analysis includes individuals who took part in both Wave 4 (2008-09) and Wave 7 (2014-15) surveys of ELSA, to provide an account of how their incomes have changed over the period most closely aligned to the FRS analysis.

The proportion of pensioners in poverty has decreased since 2003

Relative poverty is a measure of the number of people with an income below 60% of the median.

Narrowing the income distribution and reducing the left hand tail (of low incomes) will reduce relative poverty levels.

In 2003 a quarter of pensioners were in relative poverty. By 2014-15 this proportion had decreased to 14%. Despite this, 1.6 million pensioners were estimated to be living in relative poverty with 900,000 (8%) suffering material deprivation.[2]

A higher proportion of pensioners have disabilities and receive benefits designed to meet the extra costs of these than the population at large

PPI Briefing Notes clarify topical issues in pensions policy.

In 2014, 43% of pensioners had a disability, compared to 16% of adults of working age.[3]

Disability benefits available to pensioners include the Attendance Allowance (AA) and Disability Living Allowance (DLA). Both AA and DLA are designed to meet costs associated with disability and care. While AA is only available to pensioners, DLA is also available to working age people.

In 2016, 55% of the total spend on AA and DLA was on pensioners.[4] This is despite the fact that only 16% of the population is aged 65 or over.[5] These disability benefits are typically included in the income figures for pensioners. However, as these are designed to meet the extra costs of disability, their inclusion may mean that pensioners' income is overstated relative to that of younger pensioners.

This disability impact has been accounted for in the UK population in the late 1990s. The poverty rate among pensioners was about 16 percentage points higher when the extra cost of disability was taken into account. This is higher than the figure of 3 percentage points for the whole population.[6]

Recent changes to the private pension system will have a limited impact on current pensioners

Automatic enrolment, introduced in 2012, enrolled employees aged 22 to State Pension age (SPa) into a workplace pension. This policy is expected to benefit future pensioners, but not current ones.

The triple lock, which is applied to the basic State Pension and not the additional State Pension for those people who reached SPa before April 2016, will have less of an impact on current pensioners, as opposed to future ones.

Pensioners' median income has increased to a greater extent than that of younger groups

Research conducted by the IFS found that, in 2014-15, the median income for those aged 60 and over is 11% above the 2007-08 level.[7]

This contrasts with younger groups. In 2014-15, median income had returned to its 2007-08 level for those aged 31-59. For those aged 22-30 it was still 7% below those levels.

These figures do not illustrate how the incomes of particular individuals have changed over the period. Rather they document the changing distribution of all pensioner incomes. The pensioner population has changed over the period with additional people ageing into it and existing members dying. As a result of this, it does not reflect the experiences within a specific cohort.

The IFS suggests that, as a group, people aged 60 and over have experienced these increases for the following reasons:

- **Strong growth in pensioner benefits;** while this will affect current pensioners, they benefit to a lesser degree because uprating by the triple lock is only applied to the basic State Pension.
- **Real growth in private pension levels and increases in employment among older people;**[8] this will, for the most part, be experienced by the new members of the pensioner population rather than existing members.

As private pension and employment changes affect younger (or future pensioners) this suggests a process by which older poorer pensioners are being replaced by cohorts of younger pensioners with higher incomes.

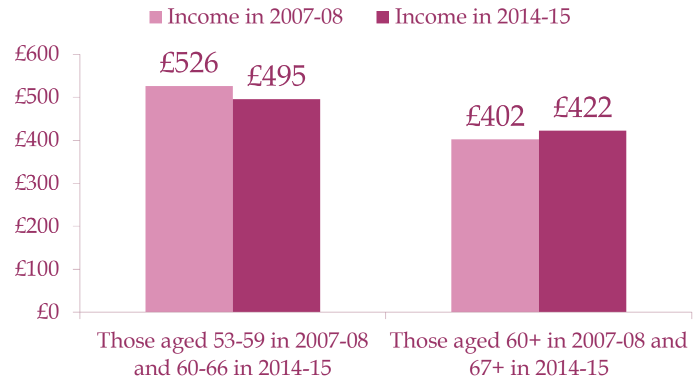
This trend is likely to continue as younger pensioners, who benefit more from the triple lock, replace older pensioners. This could lead to further increases to the pensioners' median income, while those older pensioners experience very little change or even reductions to their incomes. To understand more about this dynamic, the remainder of this note looks at those individuals who were aged over 60 in 2008-09 to assess how their income has changed.

In order to calculate real changes to income, price inflation has been taken into account over the period

Specifically, the figures used in this Briefing Note have been adjusted for a variant upon the

Chart 2: Those aged 53-59 in 2007-08 have higher incomes than older pensioners

Median weekly income of those aged 53-59 and those over 60 in 2007-08 in 2014-15



Consumer Prices Index inflation measure modified to adjust incomes before housing costs.

The Consumer Prices Index (CPI) is calculated to represent the increases in prices of goods and services that individuals typically purchase. This figure does not include costs related to housing.

In contrast, incomes before housing costs have been adjusted to account for mortgage interest payments, insurance and ground rent for owner-occupiers.

The IFS analysis has used the variant of CPI to adjust income increases. These adjustments to CPI have increased to a lower extent than the other goods and services included in CPI calculations, and therefore this variant is lower than CPI.

Using this index with a lower rate of inflation results in higher real-terms increases than if incomes had been uprated by CPI as less of the increase is attributed to inflation over the period.

This indexation of before housing costs income is considered an appropriate measure for the population overall. However, in practice, many older people do not have the same level of housing costs, such as mortgage payments as the working age population. Therefore, CPI may be a more appropriate inflation measure than this variation on CPI for this group.

The IFS include additional analysis of income after housing costs, an alternative which redresses this particular issue. However, recent focus has been upon income before housing costs are deducted.

For the purpose of consistency with already published analysis, the before housing costs CPI variant is used in the remainder of this note.

The increase in median income is largely driven by replacement in the population with younger members who have a higher income

Analysis of FRS data shows that the median incomes of individuals aged over 60 in 2014-15 increased by **11%** between 2007-08 and 2014-15. However, for those individuals who were already aged over 60 in 2007-08 the increase in their income is **5%**.

This suggests that the income of existing pensioners is not increasing to match the incomes of those who reached age 60 between 2007-08 and 2014-15. The replacement of members of the population with younger pensioners who have higher incomes accounts for the increase in the income above the level of those who remained in the population.

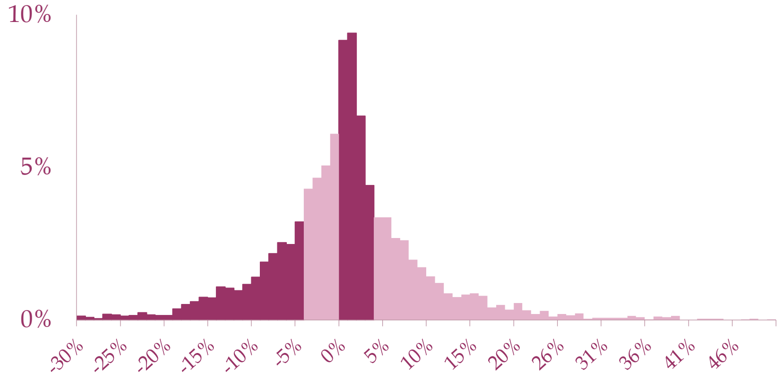
This finding is supported by comparing weekly income figures for older and younger pensioners [Chart 2].

In 2014-15 the median weekly income of those who were aged over 60 in 2007-08 is lower than for those who joined the 60+ age group in the seven years to 2014-15 (£422 compared with £495).

The individuals who were aged

Chart 3: Half of older households have lower incomes in real terms in 2014-15 than in 08-09

Income increases or decreases per year for people aged 60 between 2008-09 and 2014-2015, coloured by quartile



60 in 2007-08 have seen an increase in their median income from £402 in 2007-08 to £422 in 2014-15, an increase of 5%.

The younger 'pensioner' group, passing the age of 60 between 2007-08 and 2014-15 has higher incomes than older pensioners in both periods. However their median weekly income decreases over the period from £526 in 2007-08 to £495 in 2014-15. This is largely a result of their withdrawal from the labour market.

An alternative dataset, ELSA, shows that income for individuals aged over 60 has risen by a similar rate each year

The increase of 9% between 2008-9 and 2014-15 represents approximately the same annual increase in income level. This is over a shorter period for increases to have accrued than the period used for the FRS data.

This figure is based on a comparison of those surveyed aged over 60 in 2008-09, Wave 4, compared with those surveyed who were aged over 60 in 2014-15, Wave 7. This is a comparable period to the FRS data as individuals will have experienced the same economic conditions.

Longitudinal analysis is necessary to understand how these aggregate changes apply to individual pensioners

To enable analysis of a particular cohort of pensioners over time **ELSA data has been used to track the income of individuals through the course of their retirement.** In contrast with FRS, ELSA is a longitudinal survey, tracking members of the cohort through waves of the survey.

This section of the note uses the ELSA dataset to analyse incomes for those individuals who were aged over 60 and participated in both 2008-09 (Wave 4) and 2014-15 (Wave 7) surveys.

Half of individuals surveyed have lower incomes in 2014-15 than in 2008-09

Where the incomes of individuals who took part in both Wave 4 and Wave 7 are assessed, half have lower incomes in real terms in 2014- 2015 than in 2008-09 [Chart 3].

While the aggregate income level of this group of pensioners has increased, a significant proportion of individuals over 60 have experienced decreases to their incomes. Considering only the median income level for the group does not therefore reflect the changes experienced within the population.

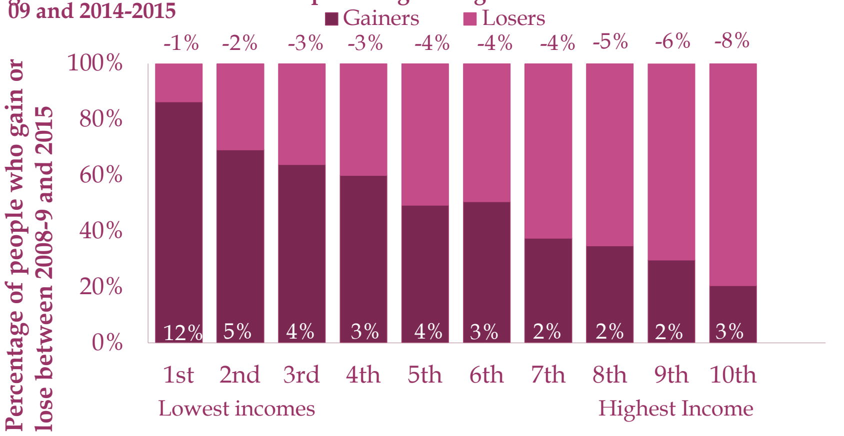
Individuals with the lowest incomes in 2008-09 are more likely to experience increases to their income

Pensioners with the lowest incomes are more likely to have gained. 86% of those in the lowest decile of income in 2008-09 experience annual gains to their income compared to only 20% of those in the highest decile [Chart 4]. While there will be regression to the mean, the sources of income experienced by an individual will change over time.

Those in the highest decile were more likely to receive employment earnings in 2008-09 and may have stopped working over

Chart 4: Individuals with the lowest incomes in 2008-09 gain more in percentage terms

Proportion of individuals for each income decile in 2008-09 who have experienced gains and losses with median percentage changes to annual incomes between 2008-09 and 2014-2015



the period.

Those in the lowest decile may experience gains because some individuals start to receive pensioner benefits that are set at a higher level than working age benefits.

Of those who gain, those in the lowest decile and highest decile have the largest absolute gains in income of £155 per year (12%) and £216 per year (3%) respectively.

Conclusions: have pensioners’ incomes grown over this period?

The median income of the pensioner group has increased substantially over the period, at a faster rate than other age groups. This is largely due to new pensioners having a higher income than existing pensioners.

Half of those aged 60 and over in 2008-09 had lower incomes by 2014-15. Individuals exiting the workforce, are more likely to experience the most significant decreases to their income. There is a often a step change in income at the end of a working life, and only a fraction of the population may be capable of continuing to work beyond retirement age.

An individual’s sources of income may increase at different rates, resulting in the composition of income developing over time. Some components, including certain state benefits, may increase in line with earnings, however additional State Pension is linked to CPI. Some sources of income may have decreased in real terms, such as private pension in the form of a level annuity or income from investments.

To improve understanding of the outcomes for individuals further analysis would need to be performed. This could focus upon the outcomes of particular groups, and consider the income of those who have passed SPa or withdrawn from the labour market. Further context could be added through analysis of the wider financial position of individuals and considering how this matches the spending needs of the group.

1.Institute for Fiscal Studies (2016) *Living Standards, Poverty and Inequality in the UK: 2016*
2. House of Commons Library (2016) *Poverty in the UK: statistics*
3. Papworth Trust (2014) *Disability in the United Kingdom 2014 Facts and figures*
4. Department for Work and Pensions (2016) *Benefit expenditure and caseload tables 2016*
5.Office for National Statistics (2015) *Overview of the UK Population*
6.Zaidi, A. Burchardt, T. (2005) *Comparing Incomes When Needs Differ: Equivalisation for the extra costs of disability in the UK*
7.Institute for Fiscal Studies (2016) *Living Standards, Poverty and Inequality in the UK: 2016*
8.Institute for Fiscal Studies (2016) *Living Standards, Poverty and Inequality in the UK: 2016*

For more information on this topic, please contact
Tim Pike, Head of Modelling
020 7848 4488 tim@pensionspolicyinstitute.org.uk
www.pensionspolicyinstitute.org.uk