

## *Property or Pensions? Scenario testing*

In the May 2004 PPI publication *Property or Pensions?* charts 1 and 10 showed a selection of outcomes from different combinations of:

- Private pension contributions (including different starting ages and proportions of salary)
- Equity release (from different house values)
- Growth rates for pension funds and house prices
- Age of retirement

**The following pages illustrate further scenarios.**

The examples shown are based on an individual who will reach state pension age in 2028 with a typical working history, either having earned at median earnings for his or her age group, or - in the example of the highest value house - having been a higher earner at 1.5 times median earnings.

Examples based on 'average' private pension contributions assume a rate of 8%<sup>1</sup>.

In all examples, price inflation is assumed to be 2.5% a year, and average earnings to grow in real terms by 2% a year (4.6% nominal growth).

In the 'Best estimate' scenario, long-term pension fund and house price growth are based on external estimates:

- Real pension fund returns of 3% a year<sup>2</sup>
- House price growth broadly in line with average earnings<sup>3</sup>.

Alternative scenarios show the outcomes if pension fund returns or house price growth is higher or lower than suggested by these external estimates.

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<sup>1</sup> This has been calculated using ONS statistics on pension contributions. These statistics are currently under review, and likely to be revised downwards. Therefore, the actual average private pension contribution is likely to be less than 8%.

<sup>2</sup> Financial Services Authority (FSA) (2003) *Rates of return for FSA prescribed projections: Report of PricewaterhouseCoopers and peer reviewers' comments*  
[www.fsa.gov.uk/pubs/other/projection\\_rates.pdf](http://www.fsa.gov.uk/pubs/other/projection_rates.pdf)

<sup>3</sup> Centre for Economics and Business Research (CEBR) (2004) *Housing Futures 2024*

1. 'Best' estimate - house prices grow in line with average earnings (4.6% a year) and pension funds grow by 3% more than price inflation (5.6% a year)

Private pension contributions needed to achieve total retirement income of 2/3 final salary, including retirement income from the Basic State Pension, SERPS/S2P and the Pension Credit

Age starting pension contributions	Age retiring	No equity released	Equity released from a house of value:		
			£132,000 (median house value in England)	£200,000 (median house value in London and in the top 25% in England)	£300,000 (in the top 10% of house values in England); higher earner
40	65	19%	13%	10%	15%
50	65	37%	25%	19%	29%
40	67	12%	7%	4%	9%
40	70	4%	0%	0%	3%

Age of retirement to achieve total retirement income of 2/3 final salary for fixed private pension contributions from age 40 and equity release

	£132,000 (median house value in England)	£200,000 (median house value in London and in the top 25% in England)	£300,000 (in the top 10% in England); higher earner
Having made average pension contributions	67	66	68
Having made no pension contributions	70	69	73

**2. Higher house price growth - house prices grow by 3% above price inflation (5.6% a year) and pension funds grow by 3% more than price inflation (5.6% a year)**

**Private pension contributions needed to achieve total retirement income of 2/3 final salary, including retirement income from the Basic State Pension, SERPS/S2P and the Pension Credit**

Age starting pension contributions	Age retiring	No equity released	Equity released from a house of value:		
			£132,000 (median house value in England)	£200,000 (median house value in London and in the top 25% in England)	£300,000 (in the top 10% of house values in England); higher earner
40	65	19%	11%	8%	12%
50	65	37%	22%	15%	24%
40	67	12%	6%	2%	7%
40	70	4%	0%	0%	1%

**Age of retirement to achieve total retirement income of 2/3 final salary for fixed private pension contributions from age 40 and equity release**

	£132,000 (median house value in England)	£200,000 (median house value in London and in the top 25% in England)	£300,000 (in the top 10% in England); higher earner
Having made average pension contributions	67	65	67
Having made no pension contributions	70	69	71

3. Lower pension fund growth and higher house price growth - house prices grow by 3% above price inflation (5.6% a year) and pension funds grow in line with average earnings (4.6% a year)

Private pension contributions needed to achieve total retirement income of 2/3 final salary, including retirement income from the Basic State Pension, SERPS/S2P and the Pension Credit

Age starting pension contributions	Age retiring	No equity released	Equity released from a house of value:		
			£132,000 (median house value in England)	£200,000 (median house value in London and in the top 25% in England)	£300,000 (in the top 10% of house values in England); higher earner
40	65	21%	13%	9%	14%
50	65	39%	24%	16%	26%
40	67	14%	7%	3%	9%
40	70	4%	0%	0%	2%

Age of retirement to achieve total retirement income of 2/3 final salary for fixed private pension contributions from age 40 and equity release

	£132,000 (median house value in England)	£200,000 (median house value in London and in the top 25% in England)	£300,000 (in the top 10% in England); higher earner
Having made average pension contributions	67	67	69
Having made no pension contributions	70	69	71