

Pensioners have done relatively well over the last three decades but will this continue?

(Dr Frank Eich)

- **Pensioners have generally done relatively well over the last three decades. While disposable income of retired households remains below that of non-retired households, the gap is now smaller than it was 30 years ago.**
- **This relative improvement is due to the steady increase in income derived from occupational pensions and annuities. As a proportion of total income for retired households, it is now as important as the state pension.**
- **This trend is the long-term outcome of a much earlier development, namely the increase in popularity of generous occupational pensions from the 1950s onwards.**
- **Given the time lags involved, occupational pensions will remain an important source of pensioner incomes for years to come. However, the closure of generous occupational pensions schemes over the last decade is likely to lead to the declining importance of occupational pensions as a source of pensioner incomes.**

Earlier this week the Office for National Statistics (ONS) published three updated chapters in its well-regarded Pension Trends series covering issues such as pensioner income and expenditure, financial resources, and inequality and poverty in retirement. The Pension Trends series gets updated on a rolling basis, with the chapter on saving for retirement next in line for a refresh. It will certainly be interesting to see what impact the economic crisis had on pension savings behaviour, so keep an eye out for the publication before the end of the year.

But there are plenty of interesting insights to be had from the latest releases too. A key insight is that pensioner households in general have done relatively well as a group over the last three decades. It sometimes feels as if this is not appreciated by the general public. While the disposable income of retired households remains - not surprisingly - lower than that of non-retired households, the gap is now smaller than in the late 1970s. Related, while nearly 60 per cent of all households in the lowest income quintile were retired households in 1977, that share had dropped to less than 40 per cent by 2008-09. Conversely, retired households now represent larger shares of the higher income quintiles, with the largest absolute jump recorded in the middle quintile: in 1977 less than ten per cent of households in the middle income quintile were retired households, now it is nearly 30 per cent. The share in the top quintile more or less doubled though remains small.

The main driver behind this relative improvement in prosperity was the substantial increase in gross income from occupational pensions and annuities. Amounting to an average £1,500 per household in 1977 (in 2008-09 prices), it steadily climbed to around £6,500 by 2008-09 and as such matched the average gross income from the state pension. Over the same period the state pension had seen a much more modest increase from around £4,500. In 2008-09, the share of the state and occupational pensions in total gross income stood at 39 and 38 per cent respectively. In 1977 these shares were 53 per cent and 18 per cent. Other sources of income, including from investment, employment or benefits thus became relatively less important.

The emergence of occupational pensions and annuities as the joint main source of income for retired households over the last few years is obviously the result of a much earlier similarly significant trend, namely the increase in the popularity of occupational pension schemes in the 1950s and 1960s. Given the time lags involved and the relative generosity of the pension promises made in the past, we can expect income from occupational pensions and annuities to continue to increase for many years to come, perhaps even replacing the state pension as the main source of income for the average household. Unfortunately these promises have turned out to be unsustainable though and as businesses have closed their defined-benefit pension schemes over the last decade, those in their 40s or younger today will no longer be able to look forward to a generous occupational pension in retirement.

While the ramifications of the fundamental changes to the occupational pensions landscape in the UK will take decades to work through, on current trajectory there will come the day when pensioners will start doing relatively poorly again. How will this be resolved in an ageing democracy?