

Growth in average gross income for pensioners

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Background

DWP data shows that average gross income for pensioner benefit units has increased faster than earnings growth in the past. DWP modelling has been used to investigate whether this trend is expected to continue into the future.

Methodology

Two tables have been produced. Table 1 uses historic data to give the growth in average pensioner incomes from past years to 2008. This growth is expressed in 2008/09 earnings terms to show how pensioner incomes have grown compared to the wages of workers. For example, between 1979 and 2008 pensioner incomes have increased by 40% in earnings terms, or 40% more than the growth in average earnings over the period. Table 2 uses simulated data to give the expected growth since 2008. For example, between 2008 and 2030 pensioner incomes are expected to fall by 10% in earnings terms i.e. an increase of 10% less than growth in average earnings over the period.

Methodology for historic growth

Historic data from The Pensioners' Incomes series 2008/09 has been used to look at past trends in pensioner income growth. This data is available on the DWP website: http://research.dwp.gov.uk/asd/index.php?page=pensioners_income

The published data is given in 2008/09 prices terms. These figures have been converted into 2008/09 earnings terms. **As the incomes increase over time when converted to earnings terms this indicates pensioner incomes have been growing faster than average earnings.**

Methodology for future growth

To estimate the average gross pensioner income in the future, a model called Pensim2, built by the Department for Work and Pensions was used. Pensim2 is a dynamic micro-simulation model used to provide projections of pensioners' incomes. The model has been used widely to inform much of the department's work on pensions and was also used by the Pensions Commission. It is considered to be the world's leading model of long term UK pension simulation.

The model takes an input dataset created from a combination of different sources (no single source provides all the different information required) that provides detailed characteristics of individuals and benefit units. It then simulates the life course of these individuals, modelling events like education, partnership/marriage, mortality and participation in the labour market. It uses these to simulate a pension entitlement in retirement.

As with all modelled results outcomes are sensitive to the assumptions made. Pensim2 is aligned to common modelling assumptions made across Government, for example, on inflation, earnings growth and demography. If any of these assumptions changed, results would be affected to a greater or lesser degree. Similarly the model and outputs are based on a sample of the population, giving uncertainty in the

outcomes. In addition, the model is a ‘closed system’, so only includes estimates of the GB population and does not model migration.

Gross pensioner income has been defined to match the definition of income used in the Pensioner Income series as closely as possible. The average value of this simulated gross pensioner income for pensioner benefit units each year from 2008 to 2050 has been used to predict future trends in income growth.

Results

Table 1: Historic mean gross pensioner incomes for all pensioner units and growth from each year to 2008 in 2008/09 earning terms

	1979	1989	1998/99	2008/09
Gross income (weekly)	£290	£300	£360	£410
Growth from year to 2008	40%	35%	10%	base

Source: Additional analysis based on DWP Pensioners’ Incomes series

Growth from each year to 2008 is calculated by comparing mean income in each year to mean income in 2008. This increase in income in earning terms over time indicates pensioner incomes have been rising faster than average earnings.

Notes:

1. Income figures rounded to nearest £10. Growth figures rounded to nearest 5%.
2. Figures given in 2008/09 earnings terms are additional analysis that have been derived from the Pensioners’ Incomes Series 2008/09 where incomes are given in 2008/09 prices. The values of the average earnings index used in this calculation can be found at: <http://research.dwp.gov.uk/asd/asd1/abstract/abstract2008.pdf>
(note that as the published incomes are in 2008/09 prices they must first be converted back to cash values before the average earnings index is applied. The GDP deflator used for this can be found at: http://www.hm-treasury.gov.uk/data_gdp_fig.htm)
3. A pensioner unit consists of either a single pensioner or a pensioner couple, where one or more are over State Pension age.
4. The results for 1979 and 1989 are based on the Family Expenditure Survey (FES). FES data is based on calendar years. The results for 1998/99 and 2008/09 are based on the Family Resources Survey (FRS). FRS data is based on financial years.
5. Gross income is the sum of state benefits, private pension income, investment income, earnings and other income.
6. Further information about the underlying data is available on the DWP website: http://research.dwp.gov.uk/asd/index.php?page=pensioners_income

Table 2: Estimate of growth in mean gross income of pensioner benefit units from 2008 to each year in 2008/09 earning terms

	2010/11	2020/21	2030/31	2040/41	2050/51
Estimated growth	5%	-5%	-10%	-15%	-15%

Growth is calculated **as a point in time** estimate by comparing simulated mean income from each year expressed in 2008/09 earning terms to the simulated mean income in 2008.

Source: Pensim2 version 11_01

Notes:

1. Simulated income growth is sensitive to modelling assumptions and these estimates can change when assumptions are updated. However, the general trend of long-term income growth of less than the growth in average earnings is not expected to change. Growth figures are therefore rounded to the nearest 5%.
2. The simulated income has been calculated to match as closely as possible to the income used in the Pensioner Income series. The modelled income is the sum of Basic State Pension, Additional Pension, private pension income, Pension Credit, Housing Benefit, Council Tax Benefit, earnings and interest from savings. The model does not include Disability Benefits (Disability Living Allowance, Attendance Allowance, Industrial Injuries Disablement Benefit and War Disablement Pension), Carer's Allowance and Winter Fuel Payments. However, these components make up a small proportion of total income for most benefit units and would not be expected to change the overall trend.
3. Interest from savings has been estimated from simulated earnings by assuming £1 of investment income for each £500 of savings. This replicates the rules used when calculating the income taken into account for Pension Credit.
4. The modelling uses all benefit units with at least one person over the Pension Credit qualifying age (which is linked to women's State Pension age). This is slightly different to the Pensioner Income series definition. However, this distinction is only relevant before the state pension ages equalise and so will not impact long term trends.
5. Modelling of Pension Credit, Housing Benefit and Council Tax benefit is based on benefit eligibility and assumes 100% take-up of these benefits. In reality we expect less than 100% take-up of these benefits. However, the impact of changes in benefit take-up would not be expected to significantly change overall trends in income growth.
6. The benefit level incomes used are not equivalised for consistency with the Pensioner Income series and so results may differ from other DWP analysis using equivalised benefit unit level income.

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