

Changing patterns of wealth accumulation and decumulation across cohorts

Laura Gardiner, Resolution Foundation

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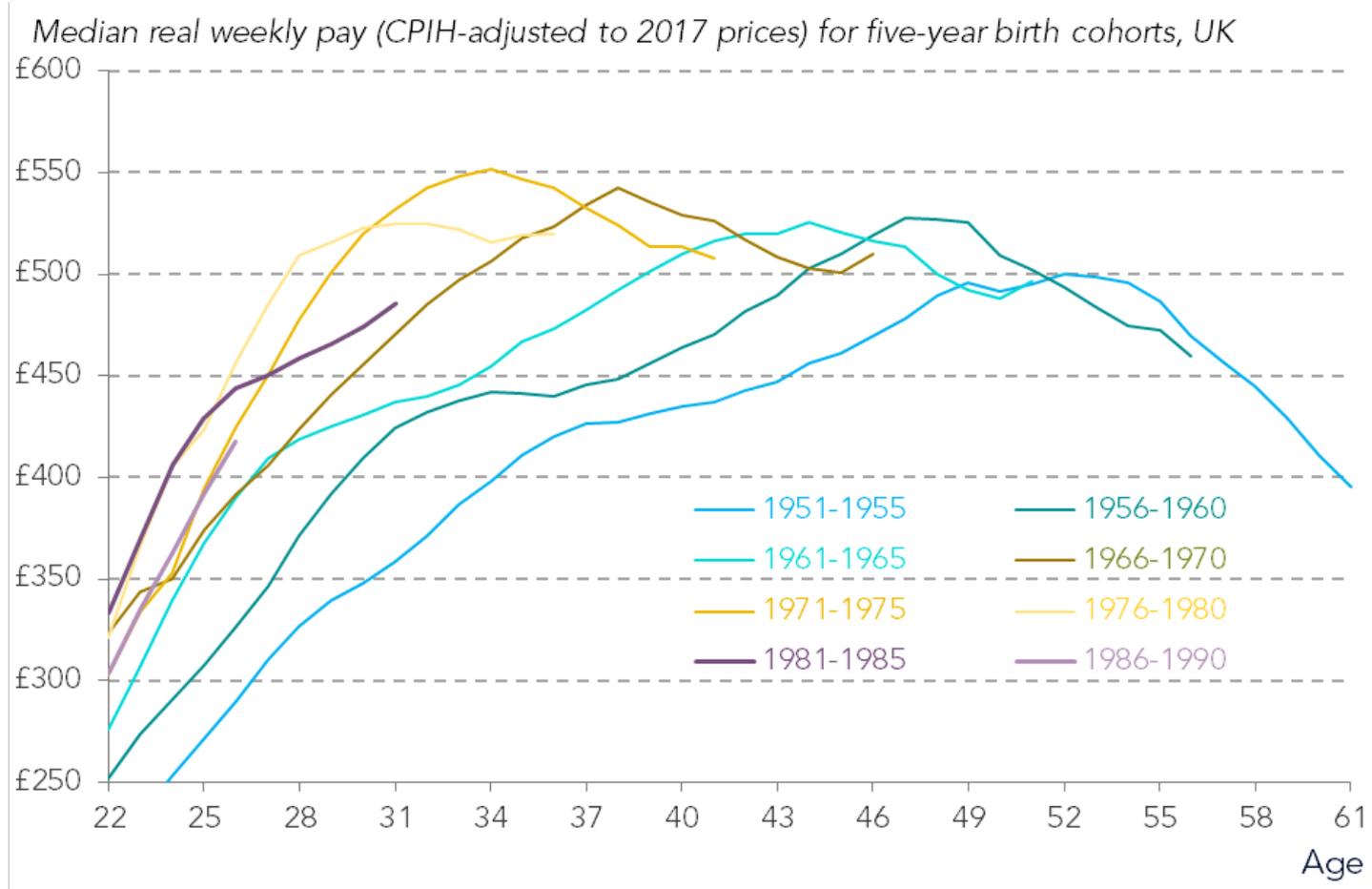
Full report available at: <http://www.resolutionfoundation.org/publications/the-generation-of-wealth-asset-accumulation-across-and-within-cohorts/>

Summary

- Principally using BHPS and WAS, analysis of total net family wealth for cohorts at the same age, and its component parts:
 - Financial
 - Housing
 - Pensions
- **Accumulation:** Distinction between ‘active’ savings behaviour and ‘passive’ windfall gains
- **Decumulation:** End of life analysis; downsizing and equity release; attitudes (forthcoming)
- Implications for policy (forthcoming)

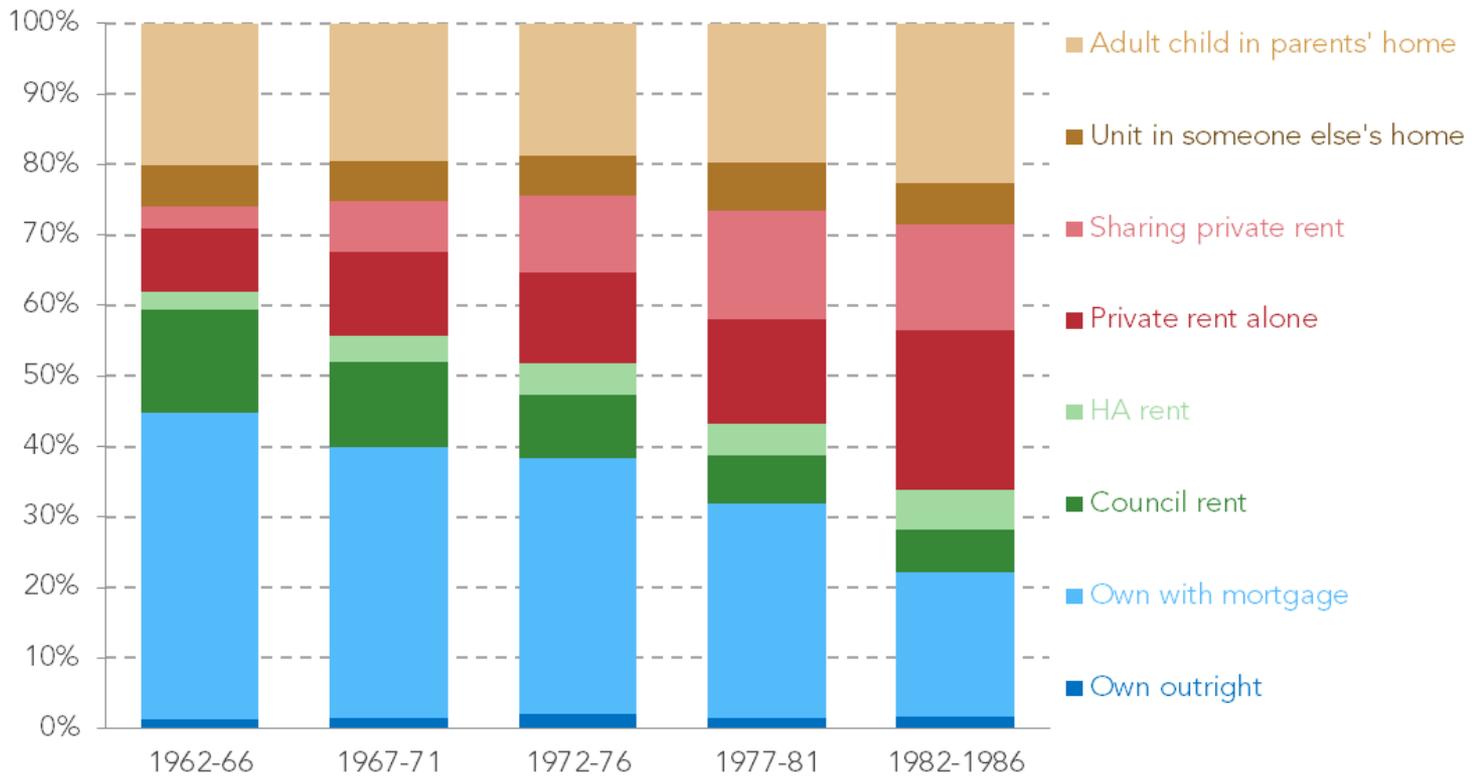
Introduction – why explore cohort differences in wealth accumulation?

Cohort wealth concerns 1: Younger adults have so far failed to improve on the earnings of predecessors at the same age



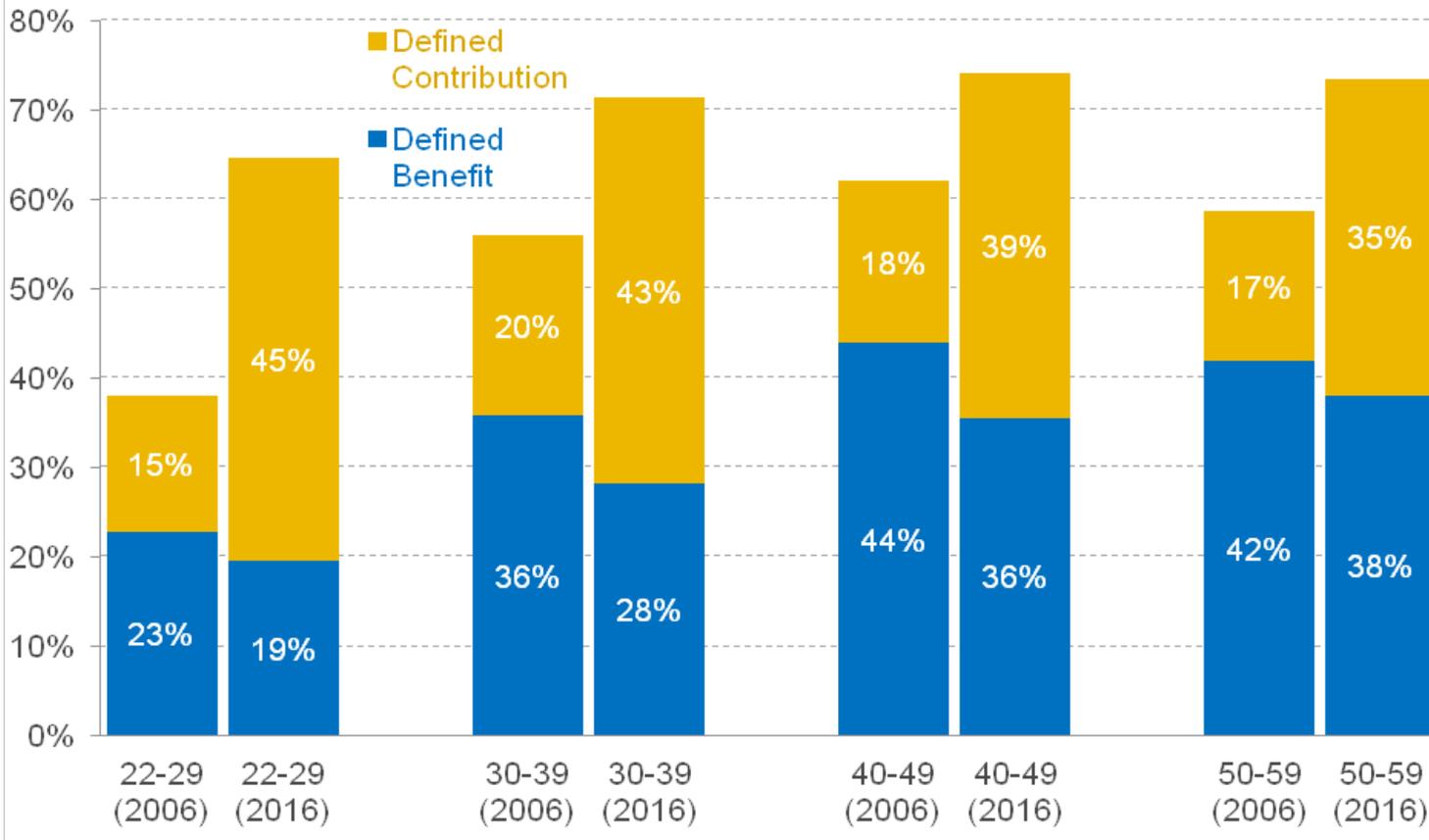
Cohort wealth concerns 2: Home ownership for those in their late 20s has halved in the past two decades

Housing tenure of 26-30 year old family units, by five-year birth cohort



Cohort wealth concerns 3: The decline of DB means pension pots are getting smaller

Proportion of employees with in-year pension provision by age and scheme type, 2006 and 2016

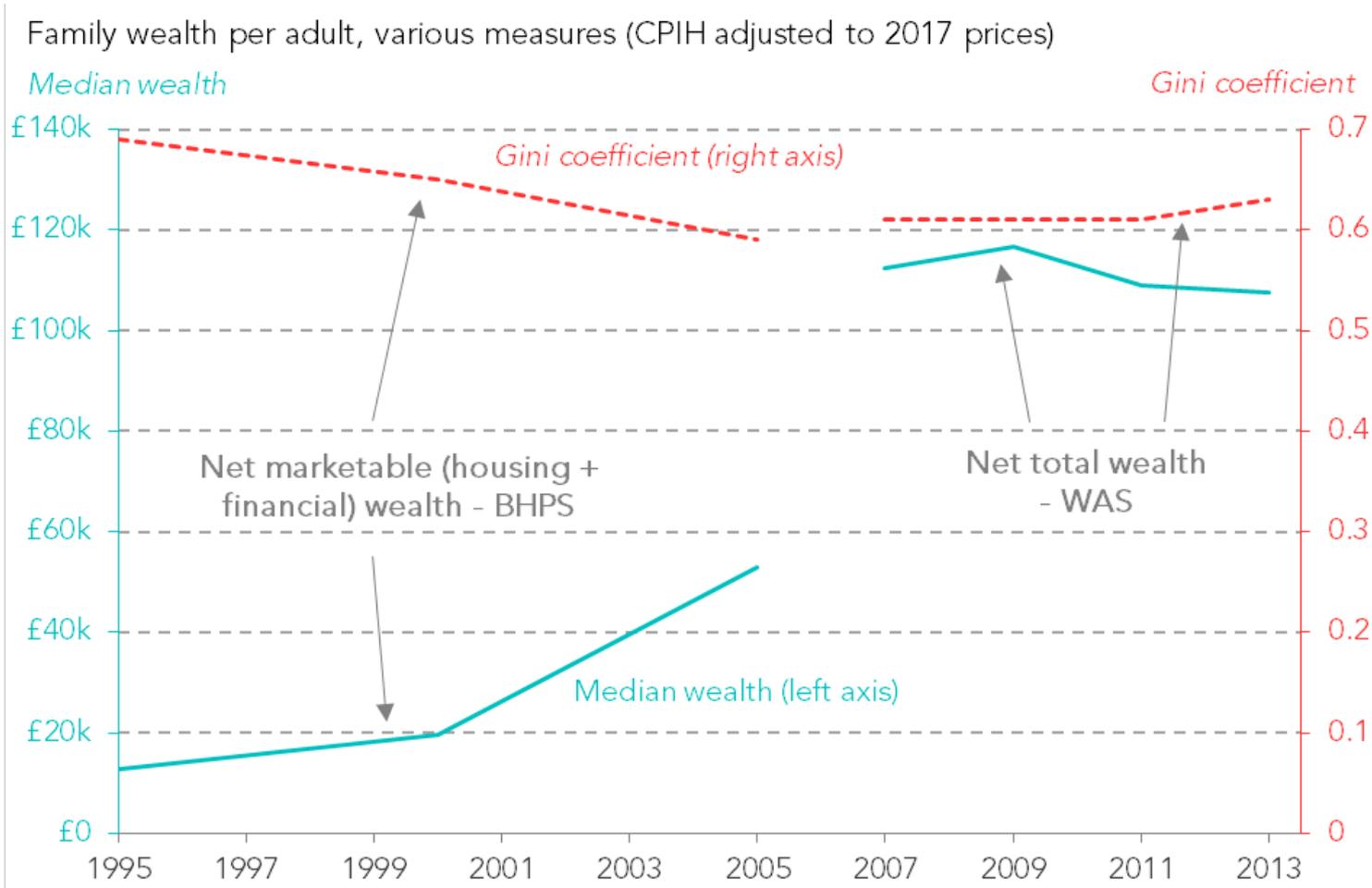


Recent wealth trends – what we know

Wealth is more unequal than incomes, but has probably become less so in recent years

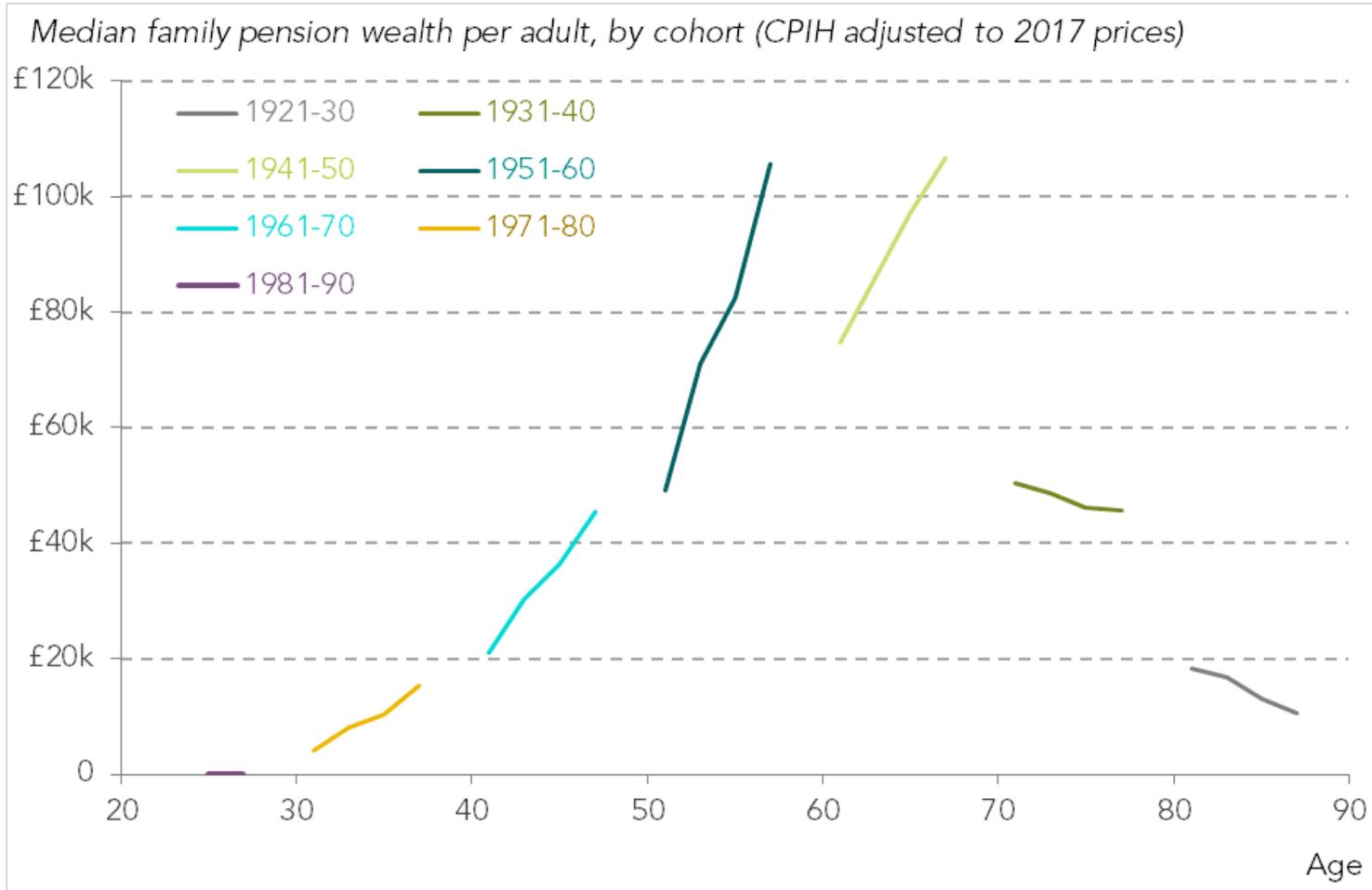
- Top half of households own around 90% of total wealth
- Total household wealth (including private pensions) has a gini of around 60, compared to income gini of 35
- Wealth distribution between individuals became substantially less unequal between 1920s (1% of individuals owned three-fifths of wealth) and 1970s (1% of individuals owned one-fifth of wealth)
- Over the past couple of decades, most sources suggest that wealth inequality has fallen further, due to growth in housing wealth in the middle of the distribution

Middle wealth grew faster than prices before the crisis, and has been fairly flat since



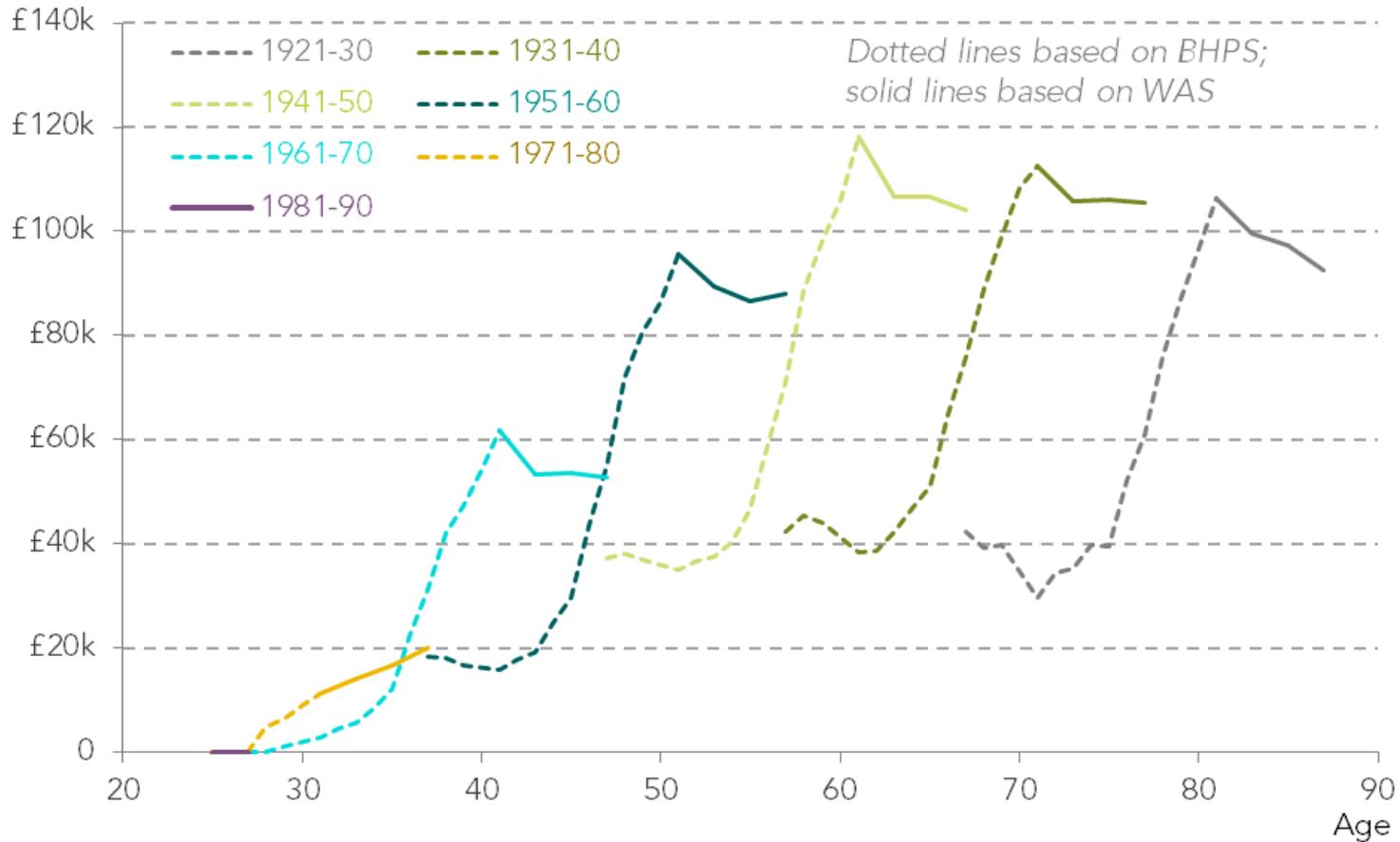
Wealth differences between and within cohorts

Pension wealth: strong accumulation for those born in '50s and '60s – younger cohorts tracking so far



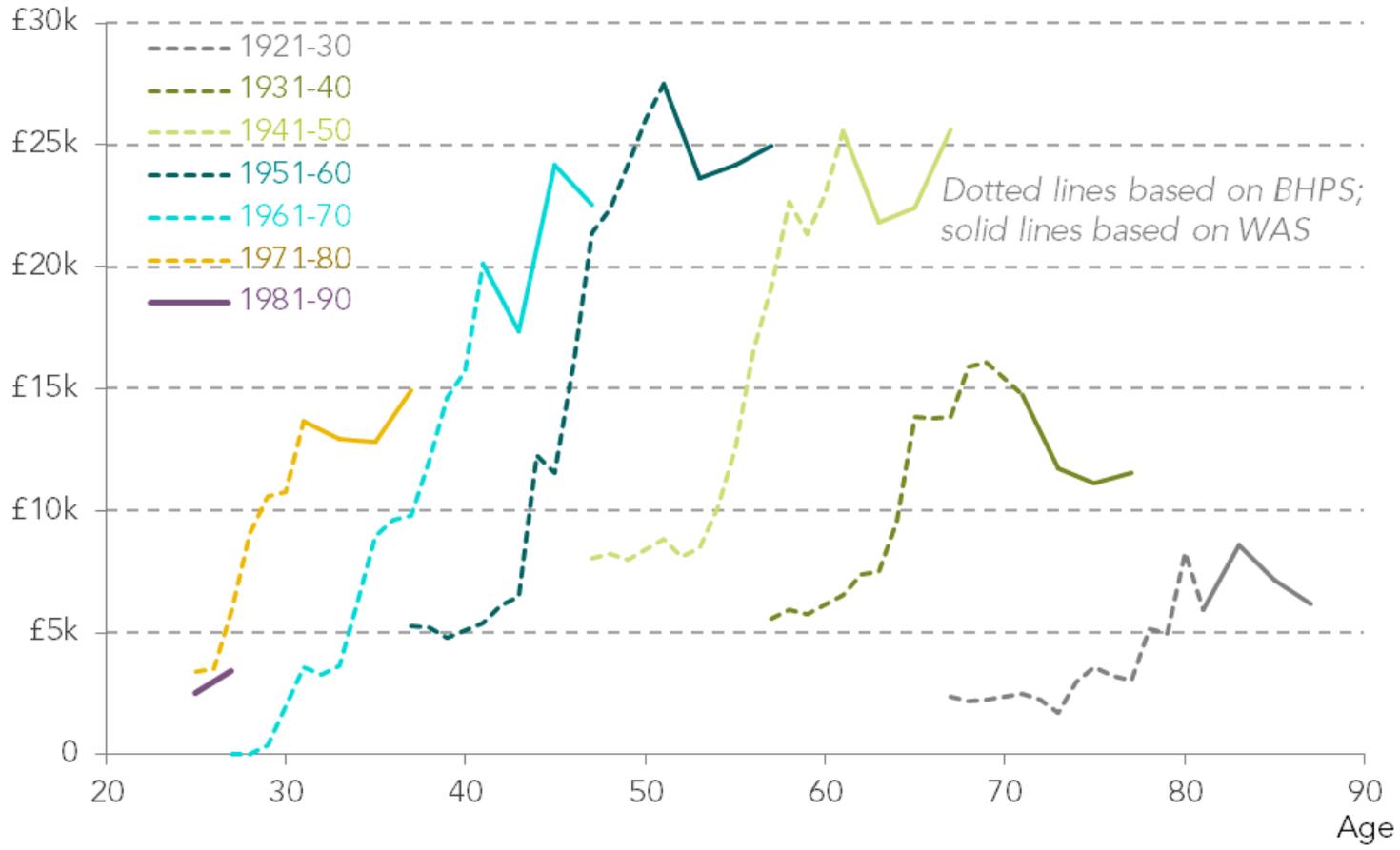
Housing wealth: all cohorts (that were old enough) benefited from rapid house price growth of 1990s and 2000s

Median net family housing wealth per adult, by cohort (CPIH adjusted to 2017 prices)



Housing wealth: for the very small group who hold other property, younger cohorts are tracking more closely

Mean gross family 2nd property wealth per adult, by cohort (CPIH adjusted to 2017 prices)

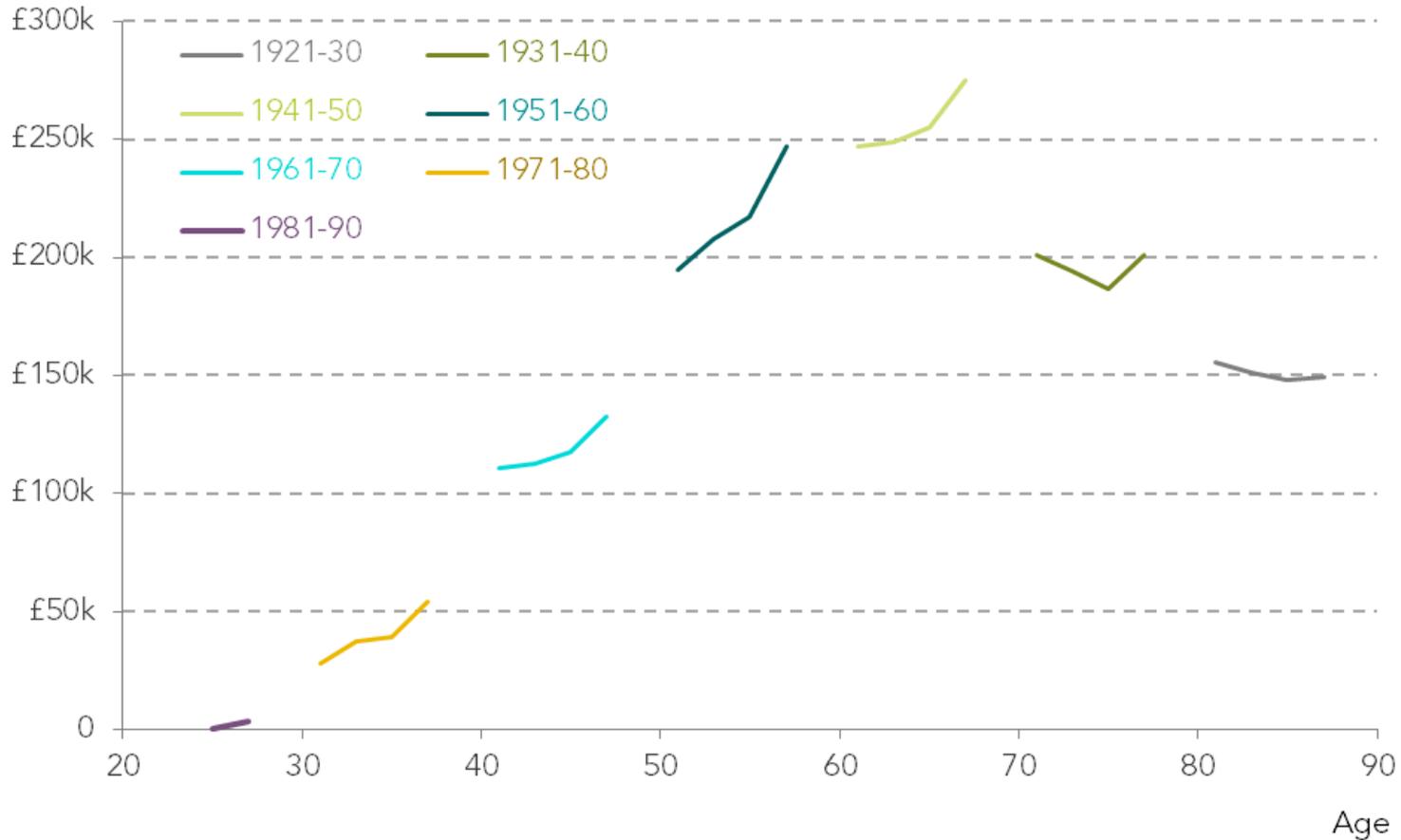


Financial wealth: cohorts in retirement don't appear to be decumulating, those born since 1950 aren't keeping up



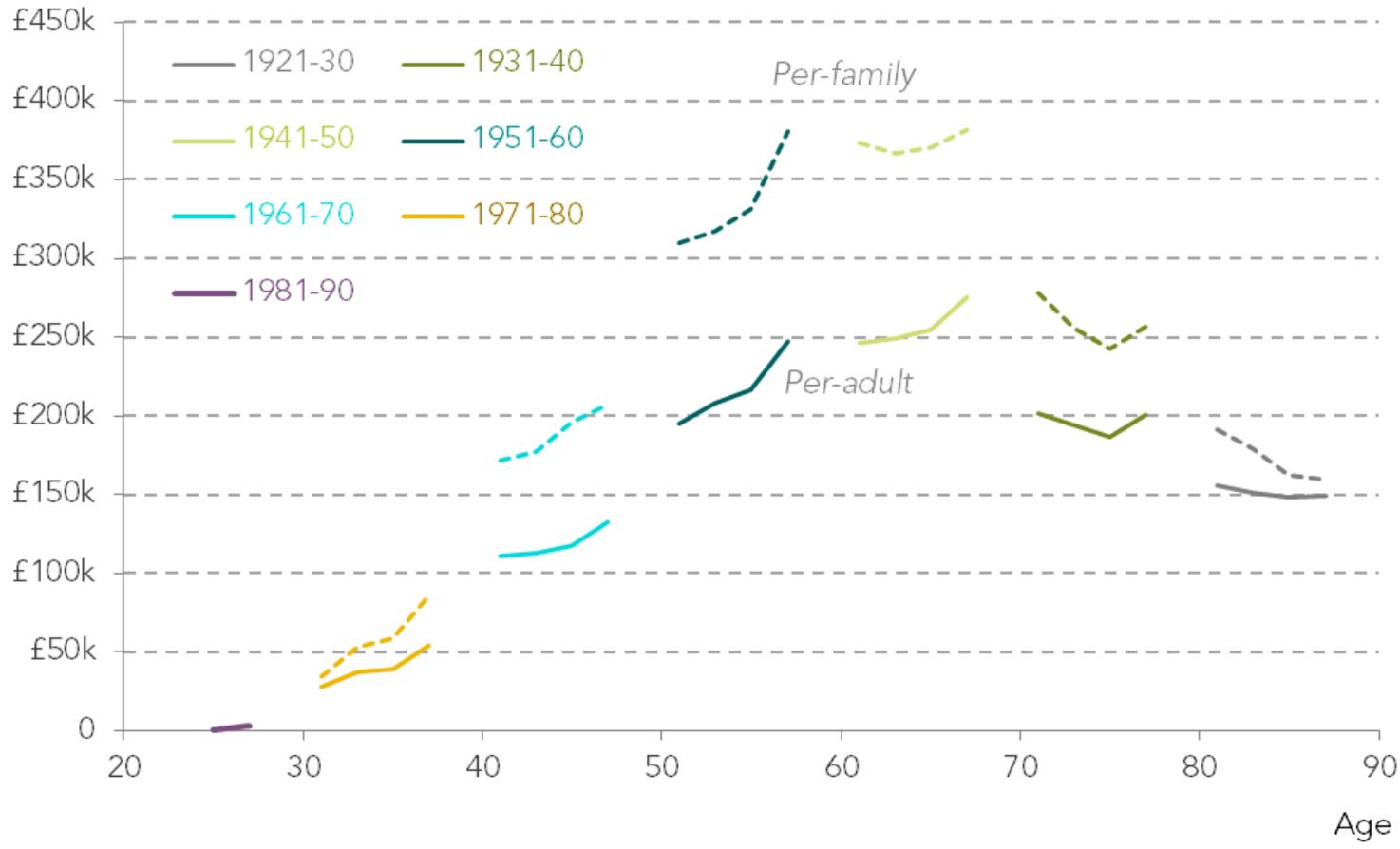
Total wealth: Signs that generation X and millennial cohorts aren't tracking predecessors

Median total family wealth (exc. physical) per adult, by cohort (CPIH adjusted to 2017 prices)



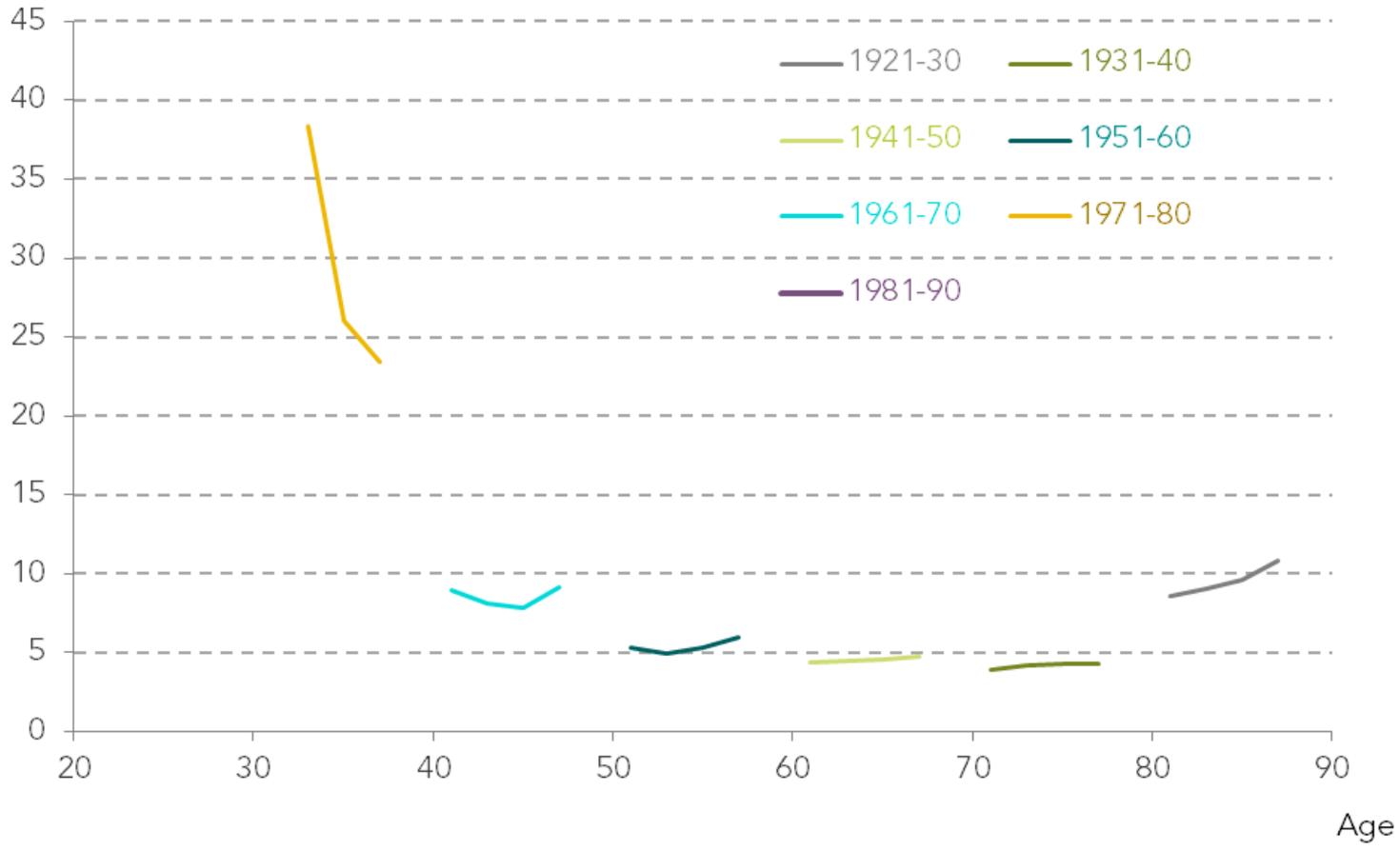
Life-cycle trends are starker at the family level – coupling, divorce and death materially change wealth position

Median total family wealth (exc. physical), by cohort (CPIH adjusted to 2017 prices)



High p75:25 ratio when younger – is this a life-cycle or cohort effect?

P75:25 ratio for total family wealth (exc. physical) per adult, by cohort



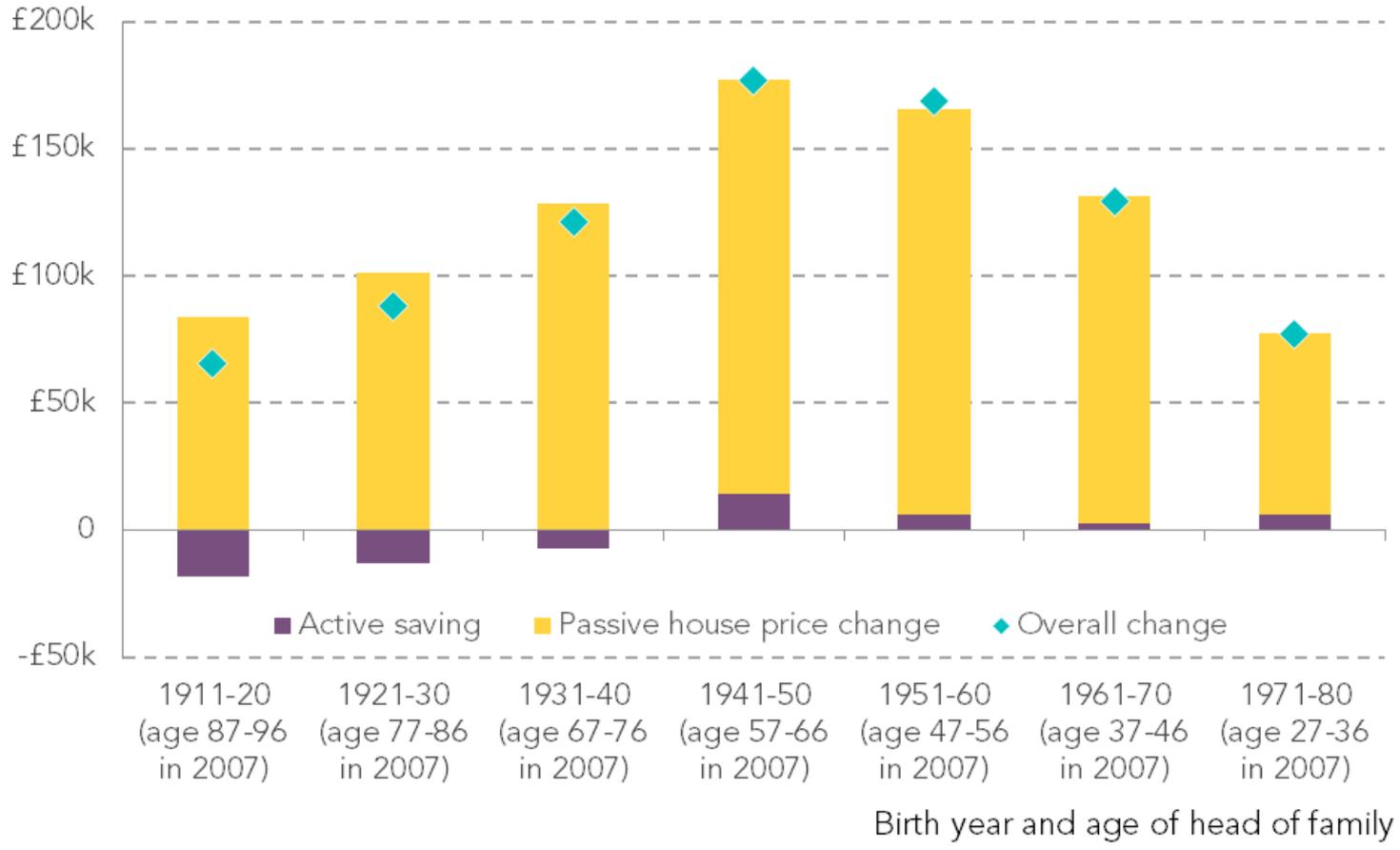
'Active' and 'passive' wealth accumulation

How much of cohort wealth gains are driven by active savings behaviour, as opposed to unexpected / external factors?

- Using panel nature of data to distinguish between ‘active’ saving behaviour and passive wealth increases (based on IFS method):
 - **Financial:** Passive saving is interest / investment return if no additions / withdrawals made to assets; active saving is the amount saved / invested over time
 - **Housing:** Passive saving is house price growth if same property assets maintained; active saving is the net change from buying / selling and paying off debts, plus the value of improvements
 - **Pensions:** For DB, can distinguish between changes due to accruals (‘non-valuation’ changes); and changes in the position of DB (relative to DC) driven by annuity and discount rates (‘valuation’ changes)

'Active' vs 'passive' housing wealth accumulation: Largest absolute housing windfall for baby boomers

Mean change in net housing wealth between 1997 and 2007, by cohort (nominal)



How Defined Benefit pension wealth is valued in the Wealth and Assets Survey

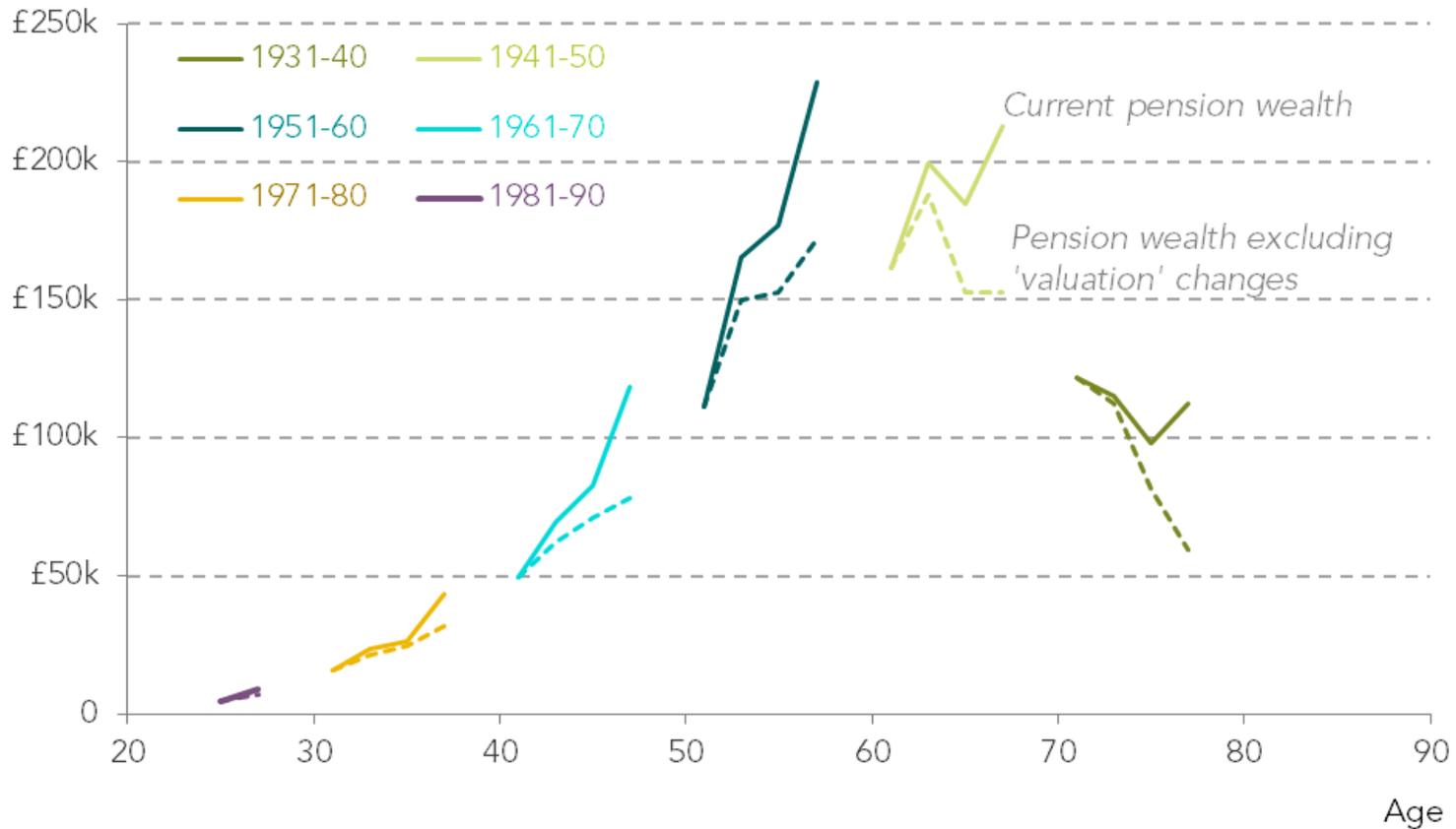
$$W_t = \frac{A_{R,t} Y^P_t + L_t}{(1 + r_t)^{R-a_t}},$$

where Y^P is annual pension income (estimated as an annual accrual fraction multiplied by tenure in the current scheme multiplied by gross annual pay at time of interview), A_R is an age- and sex-specific annuity factor at pension age, R , L_t is the lump sum paid at retirement, r is the SCAPE discount rate¹⁸ and a is age.

$$\text{Valuation change } w_1 \text{ to } w_2 = \frac{A_{R,2} Y_2^P + L_2}{(1 + r_2)^{R-a_2}} - \frac{A_{R,1} Y_2^P + L_2}{(1 + r_1)^{R-a_1}};$$

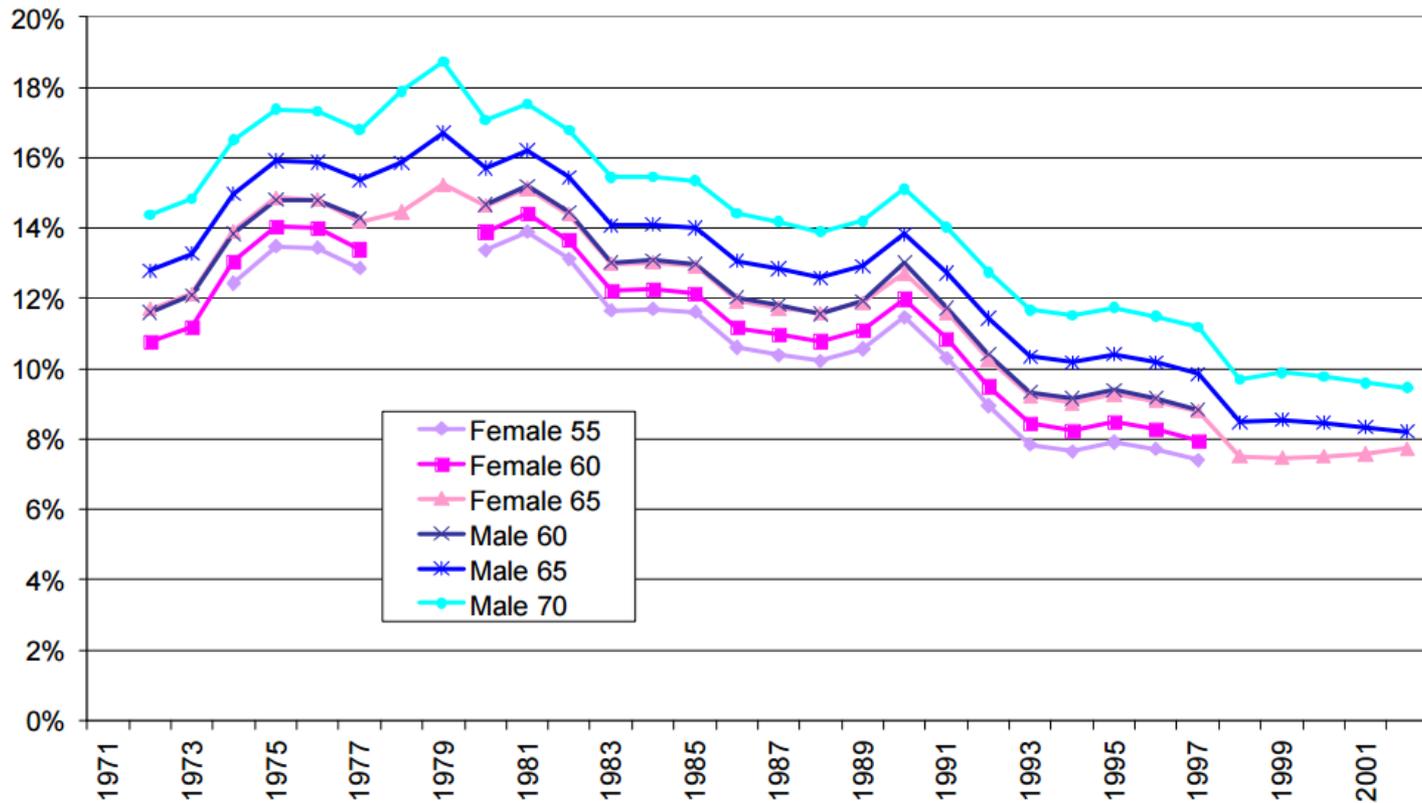
'Valuation' changes to pension wealth: These have doubled the pace of wealth growth for those born in the '50s and '60s

Mean family pension wealth per adult, including and excluding valuation changes, by cohort (nominal)



Valuation effect is likely to have been bigger in previous decades – annuity rates have fallen consistently

Figure 1: Annual Annuity Series



Source: Cannon & Tonks (2003)

Concluding remarks

- Signs that younger cohorts aren't tracking their predecessors in terms of wealth accumulation – and concerns that this trend may be exacerbated in future
- Indication that inequalities within cohorts (at a given age) may be increasing – an area we will explore further
- Emerging evidence that much of the wealth gain certain cohorts have experienced is down to external factors (longevity increases, asset price boom, falling interest rates) rather than savings behaviour
- With wealth taxation generally not as sensitive to changes in value as income taxation, does this change the nature of the debate in terms of the balance between the two?

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