Isaac Delestre

Who is wealthy in Great Britain?

New approaches to the measurement of pension wealth

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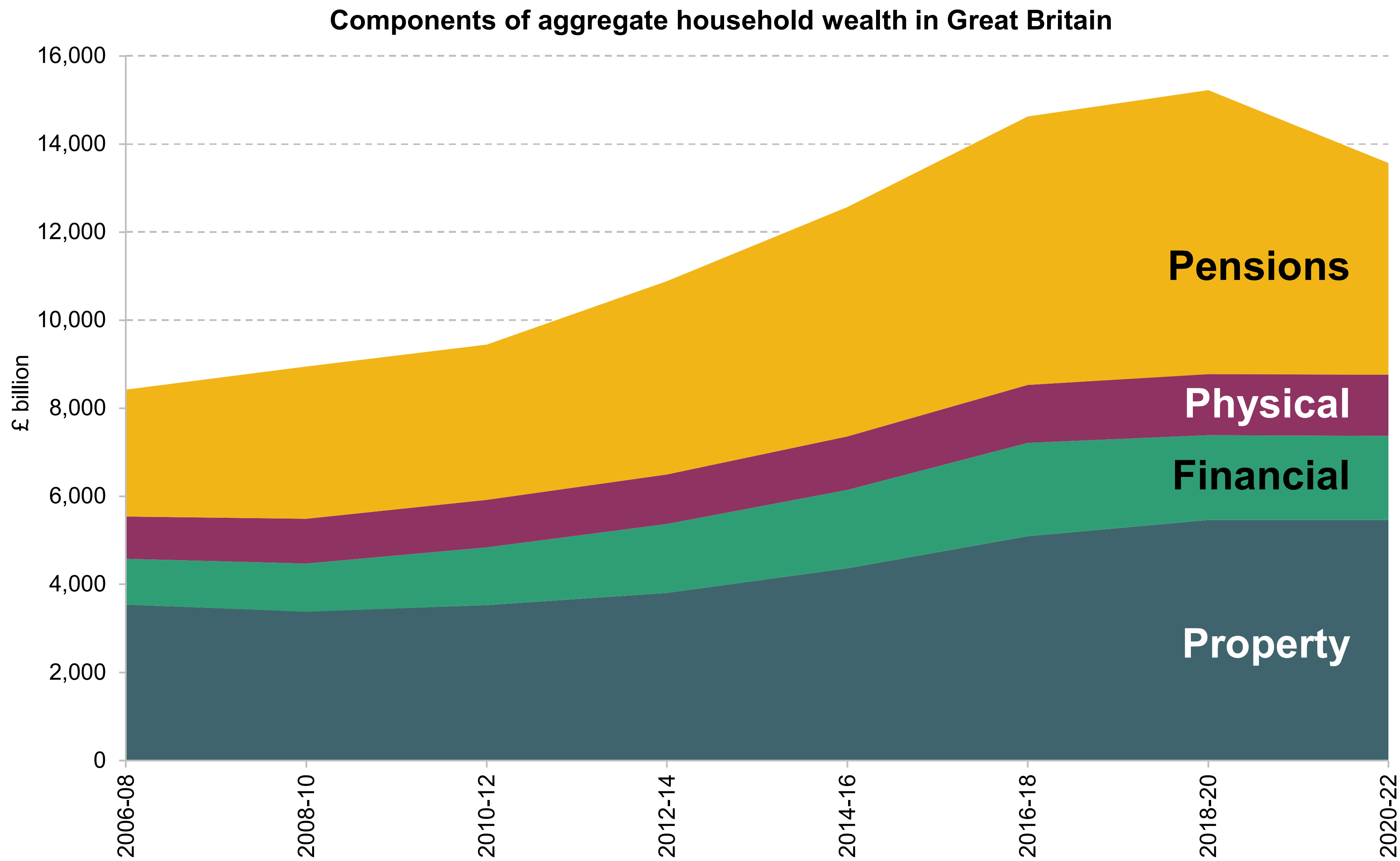
Economic and Social Research Council

Why pension wealth matters



Today’s talk

1. Measuring pension wealth in the Wealth and Assets Survey (WAS) and what the ONS methodology currently gets wrong
2. Suggested improvements to the ONS method
3. New estimates of household wealth
4. Unresolved measurement issues

What is WAS measuring?

Assets in WAS are valued at their **current market price**, e.g.:

- Property wealth: ‘[a]bout how much would you expect to get for your current home if you sold it today’

One major advantage of market price approach:

- Allows wealth of different kinds to be added up (i.e. ‘total wealth’)
- And (therefore) different individuals to be compared

Are pensions different?

Pensions cannot be bought and sold (i.e. they have no market price).

That is a meaningful difference to other kinds of wealth.

Broadly two possible approaches:

1. Exclude pension wealth from statistics entirely
   - Some statistical authorities internationally do this
   - But given (as currently measured) pensions are single largest component of household wealth this would be a big omission
2. Estimate what a pension would be worth if it were marketable
   - Broadly, the current WAS approach

Determining market value

In the market, asset prices are determined by:

- Stream of future benefits to which they entitle the owner
- Market interest rates (i.e. the value of £1 tomorrow vs £1 today)

One way to think about the importance of interest rates is:

- How much do I need to save today to achieve future income X?
- When interest rates are low future income more valuable

Interest rates changes constantly alter asset values: housing, bonds, shares, etc.

How to value a pension?

DC pensions: starting point is to look at cash value of the pot (although n.b. this is a less innocuous decision than it seems!)

DB pensions: broadly 2-step valuation:

1. Work out the stream of future income the pension will produce
    - Function of scheme rules & mortality expectations
2. Convert to today's terms using a 'discount rate'
    - But which discount rate?

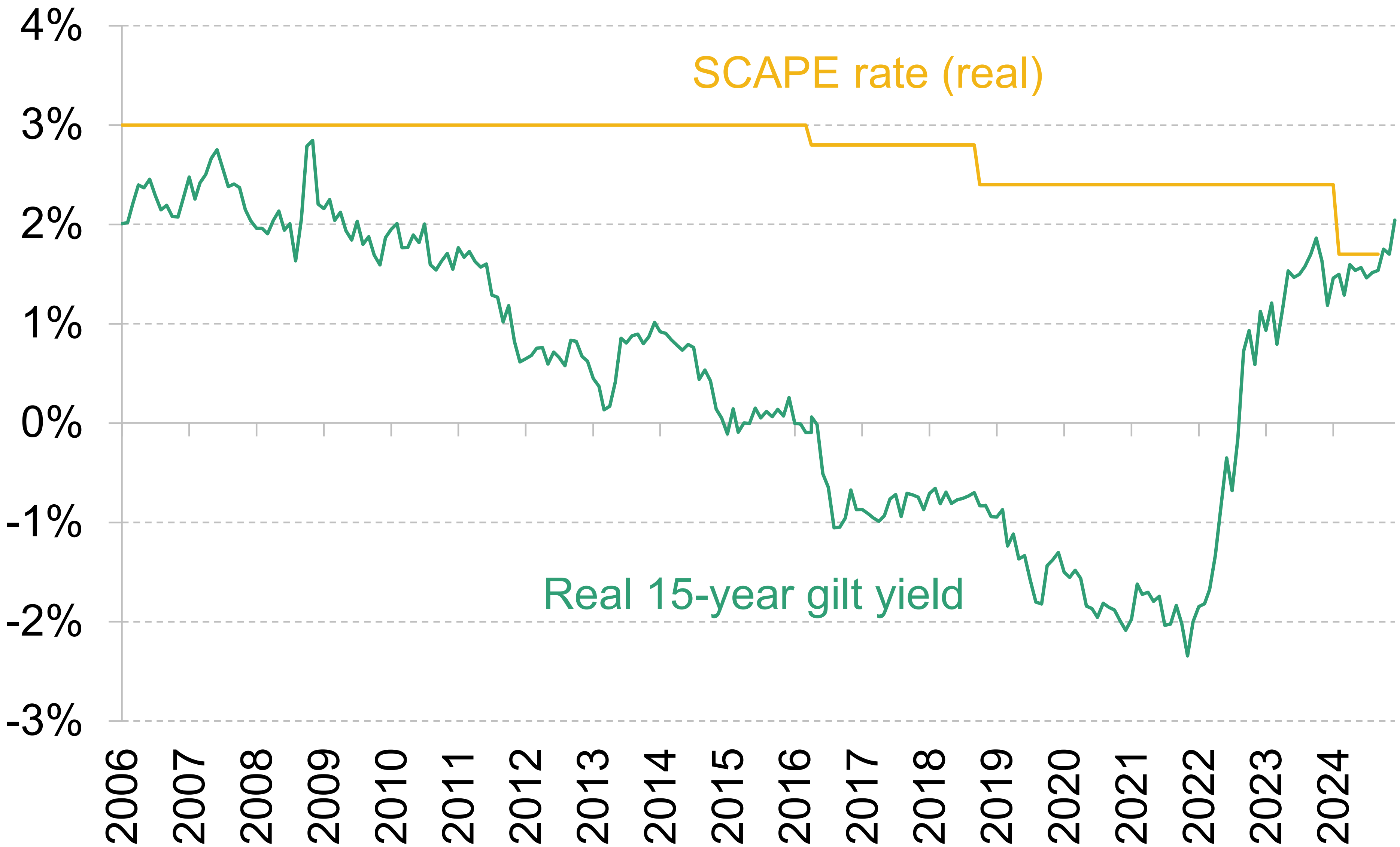
Discounting pension income

WAS has changed its approach over time (with the result that series is not comparable before/after 2020).

But in latest methodology (and to a lesser extend in previous iterations) discount rate used in WAS is **SCAPE rate**.

- SCAPE is a medium-term forecast of real UK GDP growth
- Recall that question to be answered is: how much do I need to save today to get £X in the future?
- <u>Only</u> reasonable way to answer this is to look at *market returns*
- Very unclear why GDP forecast is relevant

Interest rates over time



Which market interest rate?

If market returns are the right object to discount by, which market return should be used?

- Different investments (e.g. stock, corporate bonds, government bonds) offer different expected returns
- Primary reason for this is risk
- Riskier propositions must offer a higher expected return

Need to match the risk profile of pensions to that of discount rate

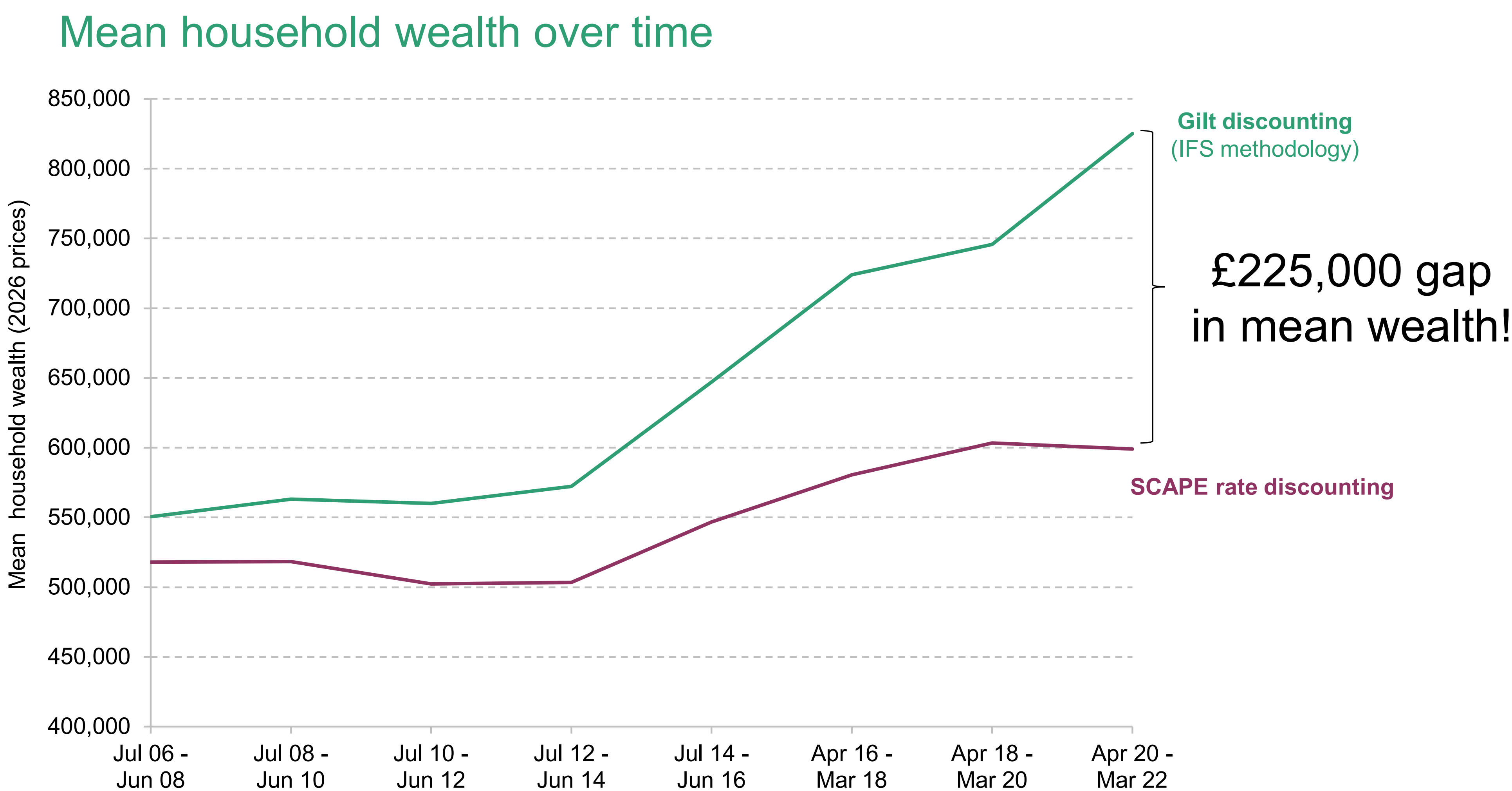
- Pensions are (virtually) risk free
- So a low-risk/risk-free discount rate is appropriate
- In our methodology we choose the UK gilt rate for this reason

Improvements to the ONS method

Our estimates of household DB pension wealth/pensions in payment that differ from ONS method in the following ways:

- Use of gilt-rate discounting (with maturity matched to period being discounted)
- Applied consistently over time (ONS method currently has a structural break in 2020)
- Joint-life annuity rate for people with a partner and a single-life annuity rate for people without one

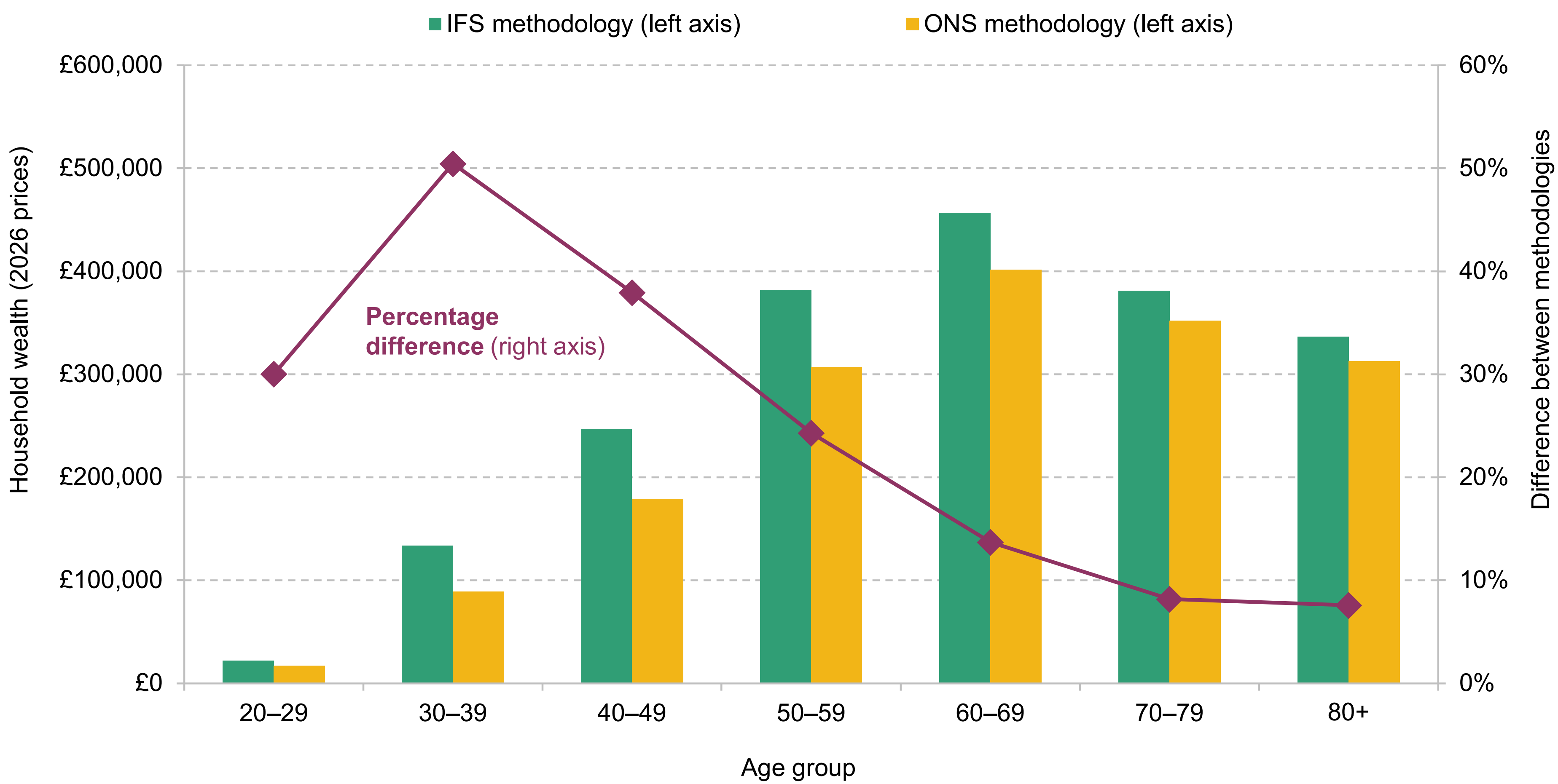
Choice of discounting method has first-order implications for wealth



Source: adapted from Figure B1 of Delestre & O'Brien (2026).

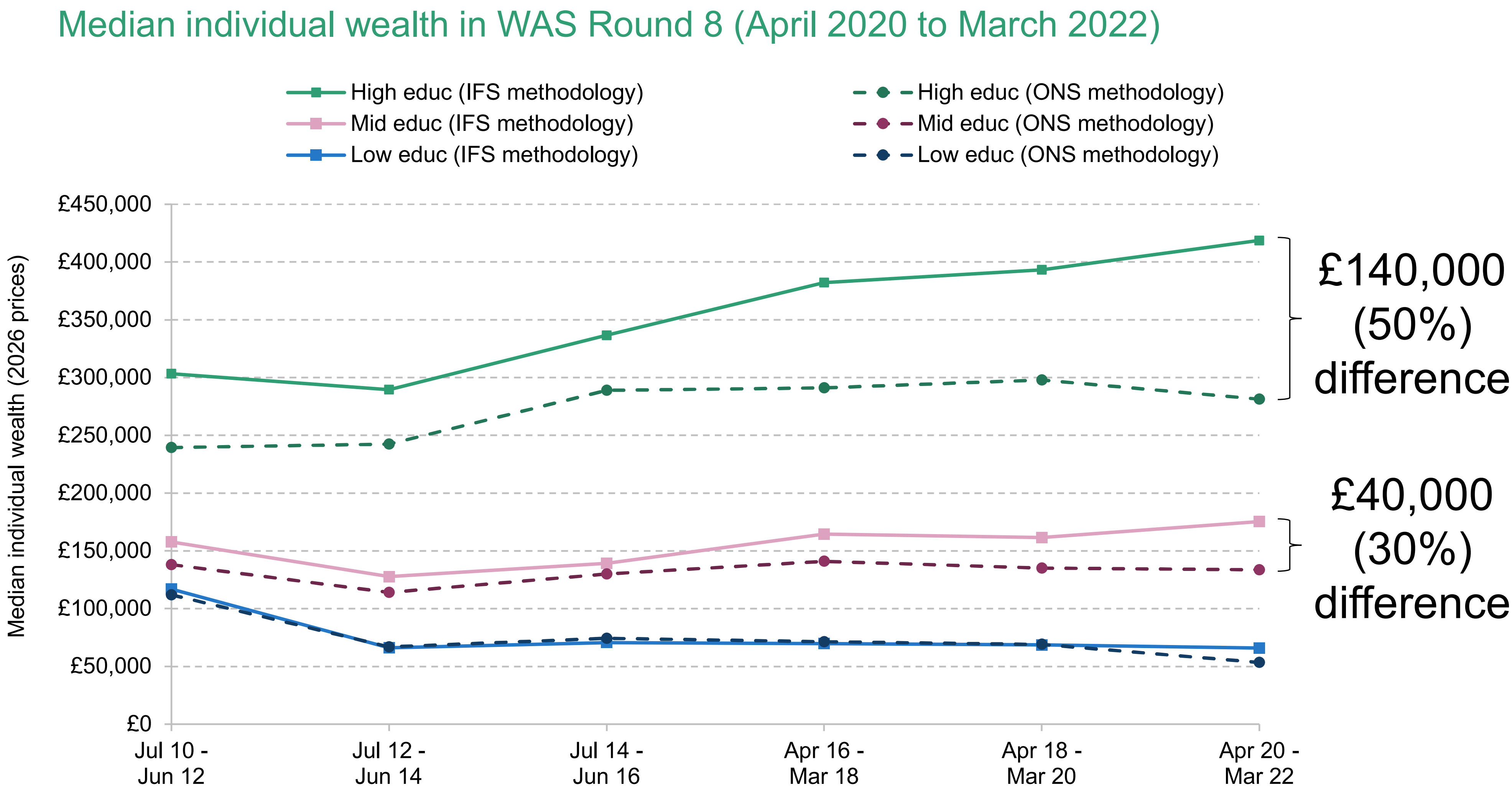
Our methodology suggests higher share of wealth held by younger adults

Median individual wealth in WAS Round 8 (April 2020 to March 2022)



Source: Figure 8 from Delestre & O'Brien (2026).

But larger wealth gaps by level of education



Source: Figure 6 from Delestre & O'Brien (2026).

Outstanding issues

- Tax treatment of private pensions
- Adjustment for illiquidity of private pensions
- Final vs average salary DB pension schemes
- Misreporting of pension type
  - 30% of private-sector employees report saving in DB pension in WAS vs. 12% in ASHE
  - 20% of public-sector employees report saving in DC pension in WAS vs. 7% in ASHE

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