

The financial well-being of elderly people

At the end of the 1980s, the average real income of pensioners was 25-30% higher than ten years earlier but this increase was far from universal. The gaps between rich and poor, older and younger pensioners, those with and without occupational pensions - and between pensioners and non-pensioners - all grew. Private income does not guarantee a high total income. New analysis by Ruth Hancock and Peter Weir, of the Age Concern Institute of Gerontology, King's College London, found that:

f The median pensioner-income is more representative of pensioners' incomes than the more commonly used average (or mean) measure. Pensioner-incomes appear to be about 25% higher if the average is used rather than the median. Between 1979 and 1991, the average pensioner-income rose by 31%, but the median increased by only 21%.

f In the decade to 1989, the median income of the richest fifth of pensioners grew by nearly 40%, compared to only 5% for the poorest fifth. By 1989 the richest fifth enjoyed incomes nearly 3 times those of the poorest fifth, compared with 2 1/2 times in 1979.

f Incomes increased more for pensioners under 75. The median income of pensioners aged 75 and over was virtually unchanged between 1979 and 1989. That of women aged 80 or more fell by around 4%. However, between 1989 and 1991 the median income of pensioners aged 75 and over rose by more than that of younger pensioners.

f In 1979 pensioners' median income was two-thirds that of non-pensioners. By 1989 this ratio had fallen to 62%. However, between 1989 and 1991 pensioners' median income rose more than that of non-pensioners, returning the ratio to its 1979 level.

f The proportion of pensioners with occupational pensions has grown from 55% in 1989 to 60% in 1991 and the income gap between those with and without occupational pensions has increased. In 1979 the median income of occupational pensioners was 13% higher than other pensioners. By 1989 it was 50% greater.

f In 1989 a fifth of occupational pensioners lived in households with income levels below the equivalent of £70 a week (today's prices) for someone living alone.

f Although nearly two-thirds of pensioners had some income from savings, 40% of them received less than £5 per week and 50% less than £10.

Beware of no definitions

This study highlights the dangers of using summary statistics without due attention to definitions. Very misleading conclusions can be drawn if care is not taken in this area. Conclusions about how pensioners' incomes have changed depend very much on how incomes are measured and also on which groups are classed as 'pensioners'. For example: if no allowance is made for household size, incomes appear to increase more; if housing costs and benefits are taken into account they appear to have increased less; if the mean average is used rather than the median, the increase also appears greater; 'pensioners' may or may not include retired people in receipt of a pension, regardless of age.

In this analysis:

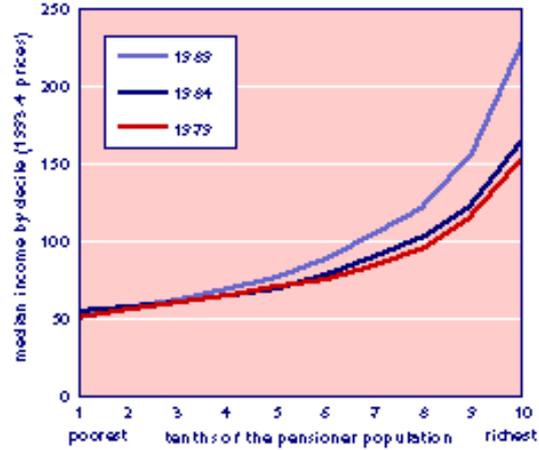
- 'pensioners' are individuals over state pension age; 'non-pensioners' are those aged 16 to state pension age;
- income is net of tax etc., before housing costs and benefits, totalled for the household in which the pensioner lives and adjusted for household composition;
- the unit of analysis is the individual pensioner who is ascribed the total income of the household in which she/he lives;
- the median is used in preference to the average as a summary measure of the distribution of pensioners' incomes. The median is the 'middle' pensioner if all pensioners were lined up in order of their income. It is not affected by unusually large incomes and can be estimated more reliably than the average.

The pensioner-income distribution

In 1979 average weekly pensioner-income was equivalent to £84 for a single person in today's prices. By 1991 it had risen to £110. This increase of about 30% is similar to the rise in average non-pensioner-income from £117 to £152 over the same period.

Median incomes, however, were considerably lower and rose less fast, reaching £87 per week for pensioners and £133 for non-pensioners by 1991

Figure 1: Equivalent household income of pensioners



(Table 1). Median pensioner-incomes rose by only 21% compared to the 31% increase in average pensioner-incomes.

Between 1979 and 1989 there was a general widening of the distribution of pensioners' incomes (Figure 1). The median income of the richest fifth increased by well over a third (37%) compared with a 5% increase for the poorest fifth and by 1989 was three times rather than only 2 1/2 times the median income of the poorest fifth.

Table 2: Percentage change in median income 1979 to 1989

Pensioners	%
men	+16
women	+12
aged under 75 years	+24
aged 75 years and over	+1
with an occupational pension	+25
without an occupational pension	-8
Non-pensioners	+24

Gainers and losers

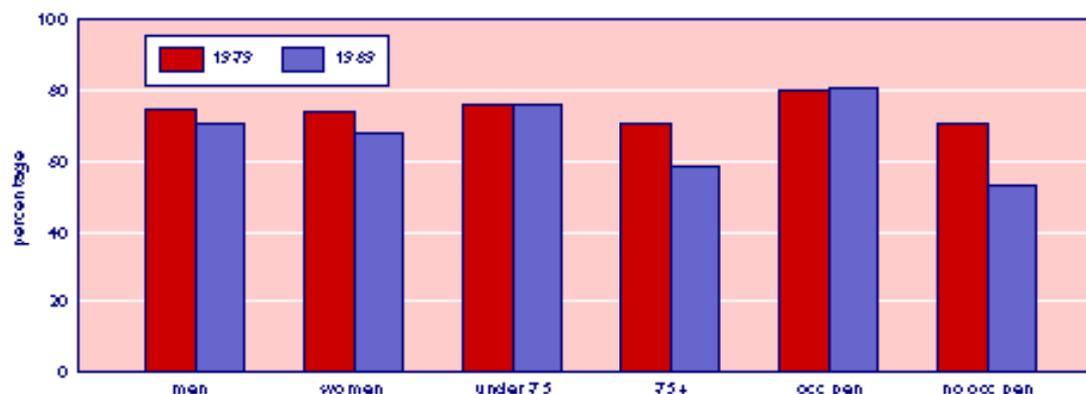
During the 1980s, the pattern of income change varied across different groups of pensioners. Table 2 shows the percentage changes in median income for different groups of pensioners. The growth in the median incomes of pensioners aged under 75 and those with access to occupational pension was on a par with the growth in median income of non-

Table 1: Weekly pensioner and non-pensioner incomes 1979, 1989 and 1991

	1979		1989		1991	
	median	mean	median	mean	median	mean
pensioner	£72	£84	£83	£107	£87	£110
non-pensioner	£108	£107	£134	£152	£133	£152

Money values are in 1993/94 prices

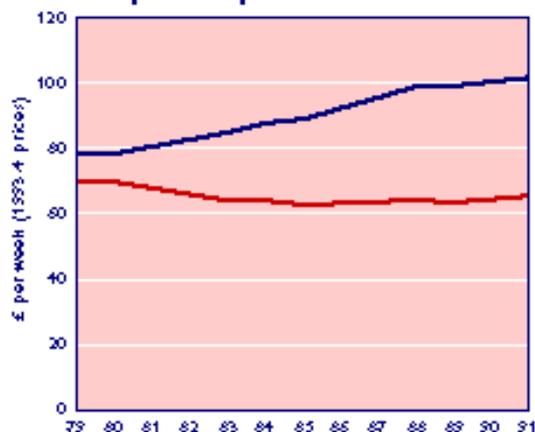
Figure 2: Median incomes of groups of pensioners as a percentage of all adults median incomes



pensioners. However, the median income of older pensioners hardly grew at all, while that of those without occupational pensions fell by 8%. Between 1989 and 1991 the picture is rather different. The median income of pensioners aged 75 years and over rose at twice the rate of younger pensioners. Overall median pensioner-income rose by 5% whereas that of non-pensioners - hit by the recession - fell by 1%.

The incomes of pensioners remained well below those of non-pensioners and in some cases fell further behind between 1979 and 1989 (Figure 2).

Figure 3: Median incomes of pensioners with and without occupational pensions



However, some ground was regained by 1991.

The role of private income

Despite growth in occupational pension coverage, many pensioners - including both young and older pensioners - still do not have any income from occupational pensions. In 1989, 40% of pensioners under 75 and 55% of those aged 75 or over had no occupational pension. In 1991 40% of all pensioners had no income from occupational pensions.

In general, the gap between the incomes of those with and without occupational pensions grew substantially during the 1980s. In 1979 the median income of occupational pensioners was 13% higher than that of non-occupational pensioners; by 1989 it was over 50% higher. The median income of non-occupational pensioners was lower at the end of the decade than at the beginning (Figure 3) and this persisted into 1991.

However, receipt of an occupational pension does not guarantee a high income. Some occupational pensioners have low incomes while some without occupational pensions have relatively high incomes:

Occupational pensioners with incomes below £60 per week tended to have small occupational pensions (on average £5 per week), small savings incomes (averaging 70p per week) and were unlikely to be living with younger people. In contrast non-occupational pensioners with incomes greater than £100 were usually living with younger people whose earnings boosted household income; they also had higher than average income from savings.

The proportion of pensioners with savings income rose from 46% in 1979 to 65% in 1989, but in general even in 1989 amounts of savings income tended to be small: 40% of those with some income from savings received less than £5 per week, 50% less than £10 per week; for 60% of pensioners savings amounted to less than 10% of total income; for just over a quarter of pensioners, savings income contributed at least a fifth of total income.

Table 3: Incomes of Occupational pensioners

Equivalent weekly income (1989-90 prices)	with occupational pension	without occupational pension
<£50	7%	40%
<£60	25%	61%
>£90	42%	20%
>£100	33%	16%

The contribution of the basic state pension

The level of the basic state pension is an inadequate indicator of the incomes of many pensioners, although it remains dominant for a substantial proportion. In 1988, nearly half all pensioners were dependent on means-tested benefits or other state benefits; for a quarter the basic state pension accounted for less than a third of their total income.

Summarising pensioners' incomes

It is not possible to capture the full diversity of pensioners' incomes in a single summary statistic such as the *average* (or mean) or *median* (the level which divides the poorest and richest half). However, average pensioner-income has remained well above the median level indicating that it overstates the income of the majority of pensioners. In 1991 average pensioner-income was more than 25% higher than the median. The median is generally more representative of pensioners' incomes than the average. For example, in 1989 55% of pensioner households had incomes within 25% of the median, but only 31% had incomes as close as this to the average; and this represents an increased differential since 1979.

All estimates from sample surveys are subject to a margin of error. In the case of pensioners' incomes, this margin is generally smaller for the median than the average. For example the 15% increase in the median income of pensioners between 1979 and 1989 has a margin of error of plus or minus 1 percentage point, the 27% increase in the average has a margin of error of plus or minus 4 percentage points.

About the study

The study involved extensive analysis of General Household and Family Expenditure survey data spanning the period 1979-1989, plus some analysis of 1991 data, to explore the implications of different approaches to measuring pensioners' incomes and the statistical reliability of findings based on these surveys. The aim was to provide a comprehensive factual basis for informed and productive debate on pensioners' incomes.

All the figures presented in this *Findings* are based on General Household Surveys.

Further information

A summary of the results of the study, **More Ways than Means: A Guide to Pensioners' Incomes in Great Britain during the 1980s**, by Ruth Hancock and Peter Weir (ISBN 1 872342 36 1), is available, priced £7.00 from the Age Concern Institute of Gerontology (ACIOG), King's College London, Cornwall House Annexe, Waterloo Road, London SE1 8TX, Tel 071-872-3035. Please make cheques payable to King's College, London.

Also available from ACIOG are ACIOG working paper No.7, **Pensioners' Incomes 1979-1989: detailed analysis of the General Household and Family Expenditure Surveys** by Ruth Hancock and Peter Weir and ACIOG working paper No.8, **Pensioners' Incomes in Great Britain, 1979-1989: An annotated bibliography** by Peter Weir.

Peter Weir is now a senior research officer at the Employment Department, but the views expressed here are those of the author and not necessarily of the department.

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