

**Analysis of Personal Pension Income in
the Pensioners' Incomes Series**

**The Pensioners' Incomes Series
Methodological Paper No. 4**

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1. Introduction

Personal pension income is not currently analysed separately in the Pensioners' Incomes Series (PI), but is included with several other forms of income under the heading 'investment income'. We also include annuity income bought through occupational pensions as part of investment income rather than occupational pension income. This is because, historically, it was not possible to identify this income separately from other annuity income.

A more detailed description of the current methodology is included in '[The Pensioners' Incomes Series Methodological Paper No. 3](#)'. This methodological paper, written last year, sought to describe and appraise the options for changing current methodology in order to present analysis of personal pension income within PI. It recommended that:

- The new variable 'personal pensions income', when created, should include personal pension income, trade union and friendly society pension income, and annuity income from personal pensions.
- These forms of income should remain in investment income until the sample size is large enough to produce reliable estimates.
- Annuity income from occupational pensions should remain in investment income until the personal pensions income variable is created (to avoid making more than one change to the methodology) or until it starts to have a significant effect on estimates in PI.
- The sample sizes of personal pension income and the effects of occupational income annuities should be monitored each year, to see whether the income categories in PI can be changed.

The purpose of this paper is to follow the last recommendation. We examine whether personal pension income can be included as a separate income category and if annuity income bought through occupational pensions should be treated as occupational pension income in 'The Pensioners' Incomes Series 1999/00'.

Any comments on this paper would be gratefully received.

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2. Feasibility of Separately Analysing Personal Pension Income

Table 1 shows that the sample sizes are smaller than for other income categories currently used in PI and this leads to larger relative standard error values. Relative standard error is a measure of how reliable a mean income estimate is. The larger this is, the less reliable the estimate is. A large relative standard error value results in a wide 95% confidence interval range for personal pensions income. In this case, we can be only 95% confident that the true mean lies in the range £57-£103.

Table 1: PI Income Category Standard Errors, all pensioner units in receipt, 1998/9¹

	Mean (£pw)	N in receipt Ungrossed (grossed)	Standard error ²	Relative Standard Error	95% confidence interval range (£pw)
<i>Personal pensions income</i>	£80	383 (374,000)	11.75	15%	£57 - £103
Benefit income	£116	6,948 (6,820,000)	0.56	*	£115 - £117
Occupational pension income	£97	4,183 (4,079,000)	2.08	2%	£93 - £102
Investment income	£44	4,895 (4,788,000)	2.26	5%	£40 - £49
Earnings income	£236	541 (539,000)	12.62	5%	£211 - £260

Source: Family Resources Survey

For all pensioner units, including those who do not receive any personal pensions income, the mean from this source is £4 per week and there is a similar relative standard error of 16%. Again this is much higher than other categories already in PI, which have relative standard errors ranging from less than a half of one percent to 5%.

Although no work was undertaken on smaller subsets of personal pensions income (eg. by quintile, age or gender) we would expect the standard errors for these estimates to be even larger.

Having examined the standard errors for separate personal pensions income estimates, we recommend that no changes are made to the income categories for 'The Pensioners' Incomes Series 1999/00'.

¹ Estimates of less than 0.5% are labelled *. Money estimates are expressed in July 1998 prices and are rounded to the nearest pound. Grossed number in receipt rounded to nearest thousand.

² This definition of 'standard error' is a conventional standard error calculation under simple random sampling multiplied by a design factor to take account of the effect of the design of the survey.

3. Prospects for the Future

The sample size for those in receipt of personal pensions income is still growing over time and provisional estimates show that it could increase fairly quickly over the next five years. We recommend that the situation is monitored each year until sample sizes are of a sufficient size to allow publication of estimates.

4. Treatment of Occupational Pension Annuity Income

The amount of income from annuities bought through an occupational pension is also examined. Table 2 shows the impact on the mean amounts of occupational pension income and investment income for those in receipt of each source, of moving annuities bought through occupational pensions from investment income to occupational pension income.

Table 2: Mean income for those in receipt of selected sources, £pw, 1998/9³

		All pensioner units	Pensioner couples	Single pensioners
Occupational pension income	With annuities	98	128	70
	Without annuities	97	127	70
Investment income	With annuities	44	65	28
	Without annuities	44	64	27

Source: Family Resources Survey

The impact of moving annuities bought in this way from investment income to occupational pension income on these categories is almost negligible and well within statistical margins of error. In fact the increases in mean occupational pension income shown in Table 2 are 48 pence for all pensioner units and 82 pence for pensioner couples, these differences are slightly exaggerated in the table due to rounding.

After consultation with users we will be carrying out another project after the publication of PI 1999/00 to look into how annuity income should be treated in the PI Series (see Section 5). If we move annuity income from investment income, then to avoid making two sets of changes to the methodology and any resulting confusion, it is more efficient and desirable to split annuity income into the various components of income in one stage rather than two. We would therefore recommend that moving this form of income, if indeed we move it at all, should be postponed until the proposed new personal pensions variable becomes feasible or until annuity income bought through an occupational pension starts distorting results for either of the two categories.

³ Incomes in July 1998 prices, rounded to the nearest pound. Figures in plain text show the current situation, those in bold are what the figures would have been if annuities income was moved from investment income to occupational pension income.

5. Further Work

During the recent consultation period with users, there was some debate as to how we should treat annuity income from an occupational pension scheme. If we set aside the problem of possible misreporting, the income compulsorily converted to an annuity from a money purchase occupational pension is currently reported as occupational pension income. The problem of categorisation arises as a result of the ability of the individual to take part of their occupational pension fund as a lump sum. They may then decide to annuitise this, invest it in some other form (for example, stocks and shares) or spend it. At the moment the PI Series counts the income from the first two options as investment income. The issue is whether we should include annuities voluntarily taken out using a lump sum from an occupational pension, as occupational pension income or investment income.

In the same way, individuals can purchase an annuity with a lump sum from a personal pension plan. We will have to decide how to categorise this type of income when a new personal pension category is formulated, whether it should be included in personal pension income or remain in investment income.

As a result of this debate we will be carrying out a development project after the publication of PI 1999/00 to resolve the issues.

6. Summary of Recommendations

- No change to income categories for PI 1999/00. The relative standard error of the personal pensions income variable is too large and the effects of delaying the move of occupational pension annuity income are almost negligible.
- Continue to monitor the situation each year. However, we do not expect the sample sizes to be large enough to separately analyse personal pensions income for around 5 years.
- Revisit how annuity income bought through lump sums from occupational and personal pension plans should be classified in the PI Series.