

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

**The Pensioners' Incomes Series
Methodological Paper No. 9**

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Executive summary

This paper provides an update of estimates given in '[The Pensioners' Incomes Series Methodological Paper No. 4](#)'. It examines whether sample sizes in the Family Resources Survey (FRS), of people in receipt of personal pension income, are large enough to provide robust estimates of income from this source.

Estimated confidence intervals around such estimates indicate that sample sizes are not yet large enough to provide robust estimates.

One of the recommendations in '[The Pensioners' Incomes Series Methodological Paper No. 8](#)' is that income from an annuity bought with an occupational pension lump sum should be included under 'occupational pension income' rather than 'investment income'. It is argued that such a change to definitions in PI should be made at the same time as the introduction of a separate 'personal pension income' category.

This paper examines whether, if the recommended changes to definitions are accepted by users, it will be acceptable to delay the change in this way. The impact of the change in definition is larger than in previous years, but is still relatively small. Therefore, it is still recommended that all the changes to definitions considered in this paper should be made at the same time.

Results for 1999/00 are consistent with previous conclusions that both these sources of income are likely to grow rapidly over the next few years. Therefore it is recommended that the situation should continue to be monitored each year.

Any comments on this paper would be gratefully received.

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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'. Annuity income bought through occupational pensions is also included 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 discussion of the definition of personal pension income, based on Family Resources Survey (FRS) data, is given in '[The Pensioners' Incomes Series Methodological Paper No. 3](#)'. This methodological paper 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 pension lump sums.
- These forms of income should remain in investment income until the sample size is large enough to produce reliable estimates.
- Annuity income from occupational pension lump sums 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 paper prompted further discussion on whether annuities bought with a private pension lump sum should be included as 'pension income' or 'investment income'. This is examined fully in '[The Pensioners' Incomes Series Methodological Paper No. 8](#)', which recommended such annuities should be treated as 'pension income'. All results presented here are based on this recommended definition, although it is noted that the choice of definition will currently have only a minor impact on results.

The purpose of *this* paper is to follow the recommendation in the last bullet point above. Data for 1998/9 were examined in '[The Pensioners' Incomes Series Methodological Paper No.4](#)'. This paper updates those results with data for 1999/00. It examines whether personal pension income can be included as a separate income category. It also looks at whether we can continue to delay the inclusion of income from annuities bought with an occupational pension lump sum, until all the proposed changes can be made at the same time.

2. Feasibility of Separately Analysing Personal Pension Income

Table 1 shows that the sample sizes of those receiving personal pension income 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 £60-£87.

Table 1: *PI Income Category Standard Errors, all pensioner units in receipt, 1999/00¹*

	Mean (£pw)	N in receipt Ungrossed (grossed)	Standard error ²	Relative Standard Error	95% confidence interval range (£pw)
<i>Personal pensions income</i>	£73	507 (454,000)	6.84	9%	£60 - £87
Benefit income	£123	7,543 (6,735,000)	0.58	*	£122 - £124
Occupational pension income	£102	4,503 (4,021,000)	1.99	2%	£98 - £106
Investment income	£43	5,589 (4,969,000)	1.89	4%	£40 - £47
Earnings income	£224	625 (580,000)	10.88	5%	£202 - £245

Source: Family Resources Survey

For all pensioner units, including those who do not receive any personal pensions income, the mean from this source is £5 per week and there is a similar relative standard error, of 11%. 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 smaller subsets of pensioners with personal pensions income (eg. by quintile, age or gender) have not been examined here, 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 2000/01’.

¹ Estimates of less than 0.5% are labelled *. Money estimates are expressed in July 1999 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

It has been noted in previous methodological papers that the sample size for those in receipt of personal pensions income is still growing over time, while provisional estimates showed that it could increase fairly quickly over the next five years. Estimates for 1999/00 are consistent with this assessment, showing significantly larger sample sizes than in previous years. Therefore, it is recommended that the situation should continue to be monitored each year, until sample sizes are large enough 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 of moving annuities bought through occupational pensions from investment income to occupational pension income, on the mean amounts received. Income estimates *after* the proposed change to definitions are shown in bold.

Table 2: Mean income for those in receipt of selected sources, £pw, 1999/00³

		All pensioner units	Pensioner couples	Single pensioners
Occupational pension income	With annuities	103	136	74
	Without annuities	102	134	73
Investment income	With annuities	43	66	26
	Without annuities	42	64	26

Source: Family Resources Survey

The impact of moving this type of annuity income from ‘investment income’ to ‘occupational pension income’ is larger than in previous years. While it is still well within statistical margins of error for single pensioners and pensioner units as a whole, the impact on estimates for couples is beginning to increase. However, it is still relatively small in percentage terms.

If this change to income definitions is introduced, it would be better to do so at the same time as other changes – in particular the introduction of a separate ‘personal pension income’ category. This is because simultaneous changes would be more efficient and less confusing for users. Therefore, if the proposed change to income definitions is accepted by users, it is recommended that it should be delayed until such time as the proposed new personal pensions variable can be introduced; but this should be subject to continued monitoring of the impact of such a delay on existing income estimates.

³ Incomes in July 1999 prices, rounded to the nearest pound.

5. Summary of Recommendations

- No change to income categories for PI 2000/1:
- The statistical uncertainty surrounding estimates of personal pension income is currently too large to provide robust estimates.
- The impact on current estimates, of including income from annuities bought with an occupational pension lump sum as ‘occupational pension income’ rather than ‘investment income’, is small enough to justify delaying such a change until it is possible to introduce a separate personal pensions income category.
- The situation should continue to be monitored each year.