

# Ageing, saving and financial markets – what might happen as we all grow older?

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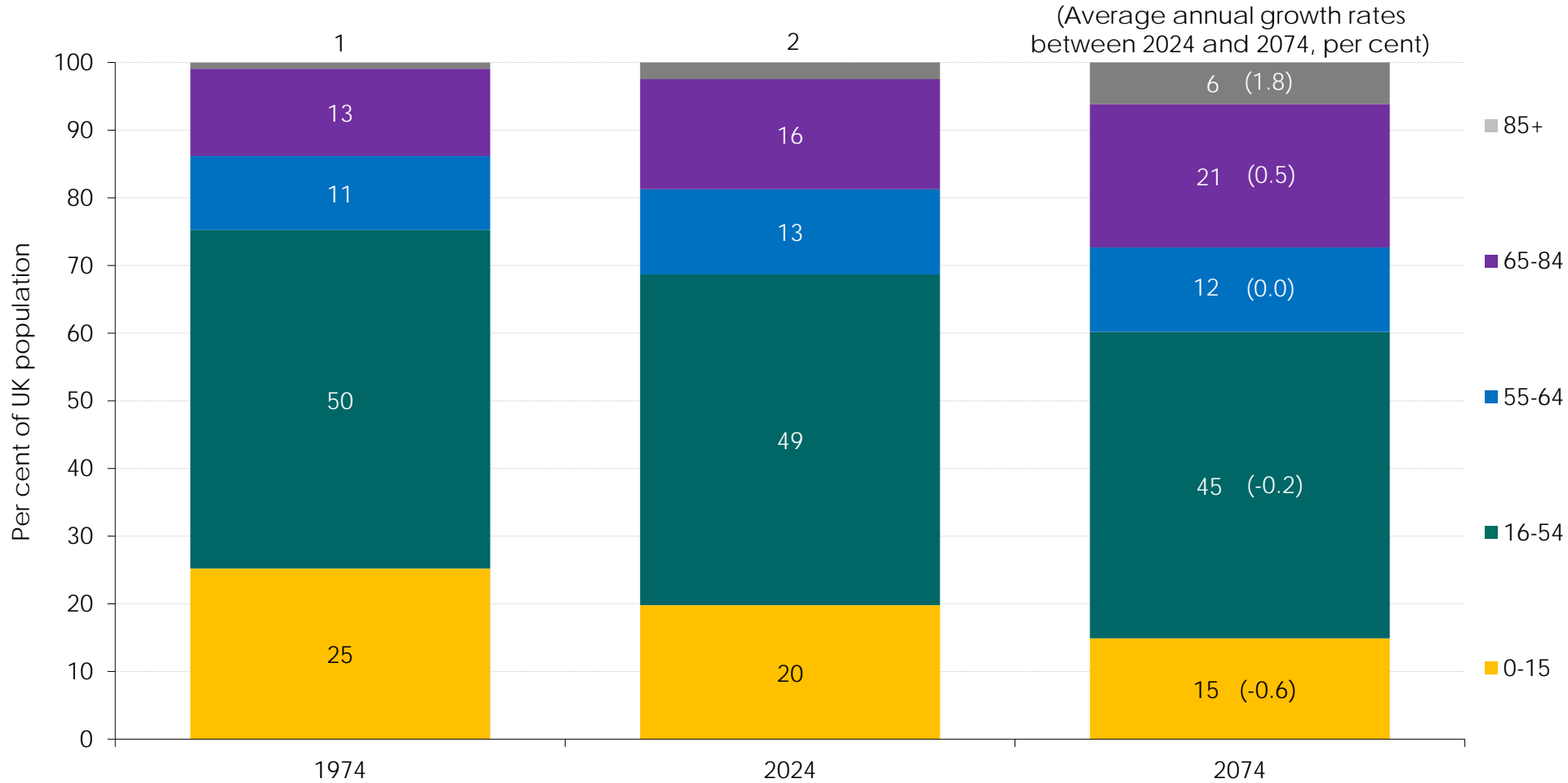
June 2025

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&  
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# Outline

- Demographics
- Public and private pensions – where do we start from
- The direct fiscal problem for governments
- The changing nature of private pensions
- Indirect fiscal problem 1 - adequacy of pension saving
- Indirect fiscal problem 2 - the demand for public debt
- Portfolio shifts in pension saving – who wants govt bonds?
- Saving for retirement - who holds the risk?
- Collective Defined Contribution schemes – the solution?
- Conclusions

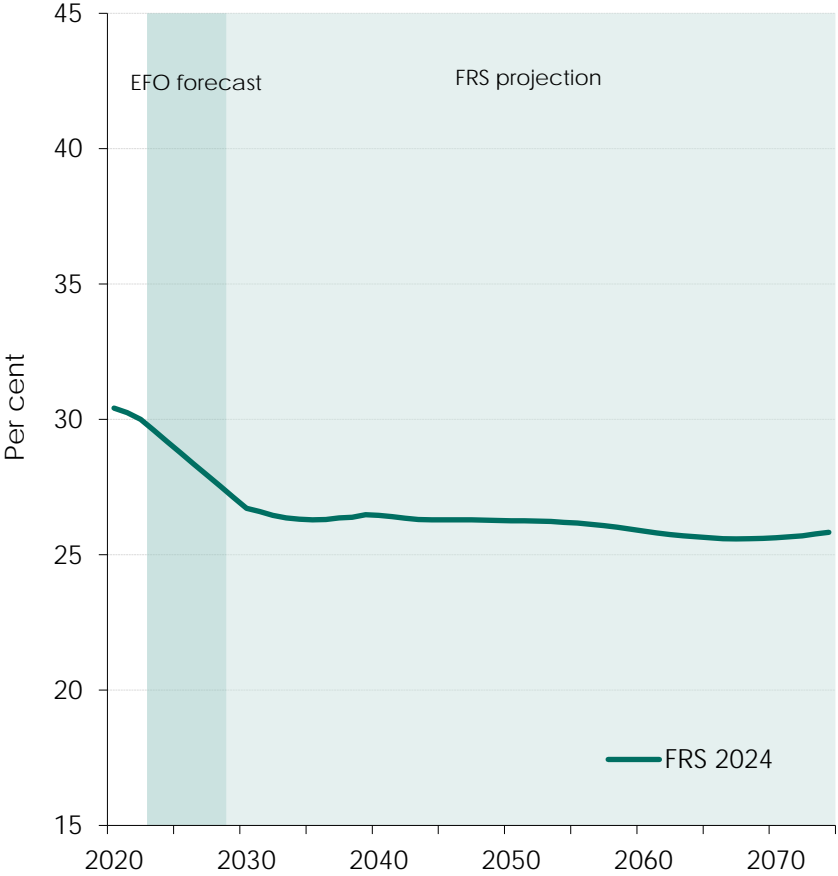
# UK Population is ageing



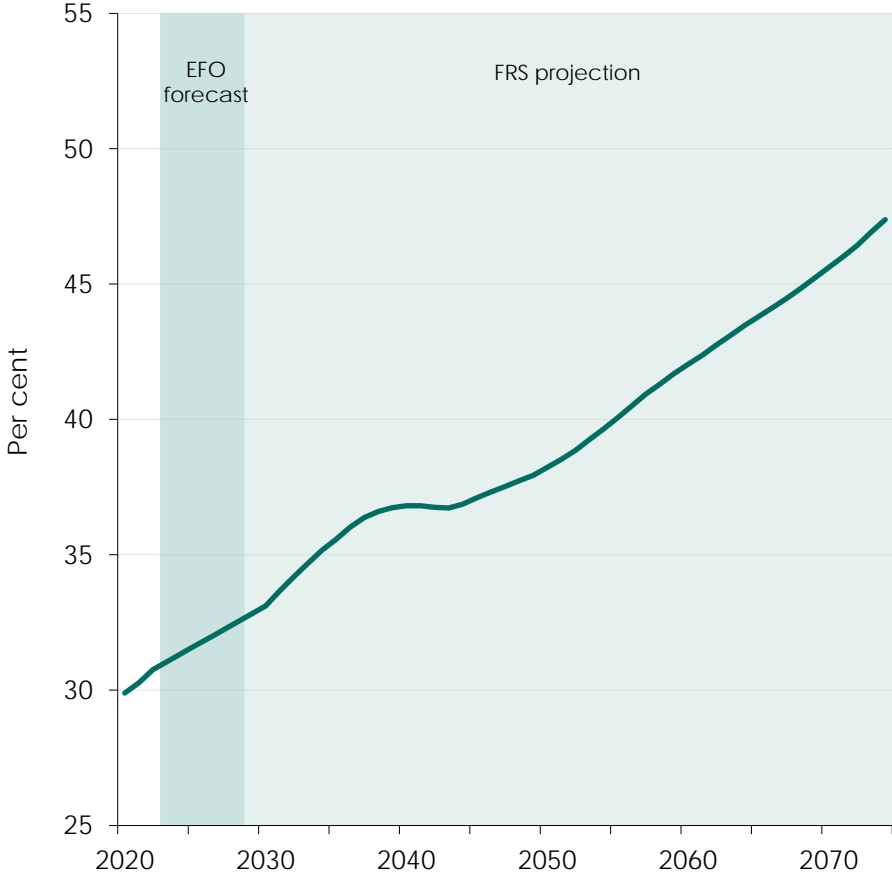
Note: 2024 and 2074 from the *FRS 2024* population projection. Average annual growth rate is for the share of the population.  
 Source: ONS, OBR

# UK "Dependency" ratios

Young-age dependency ratio

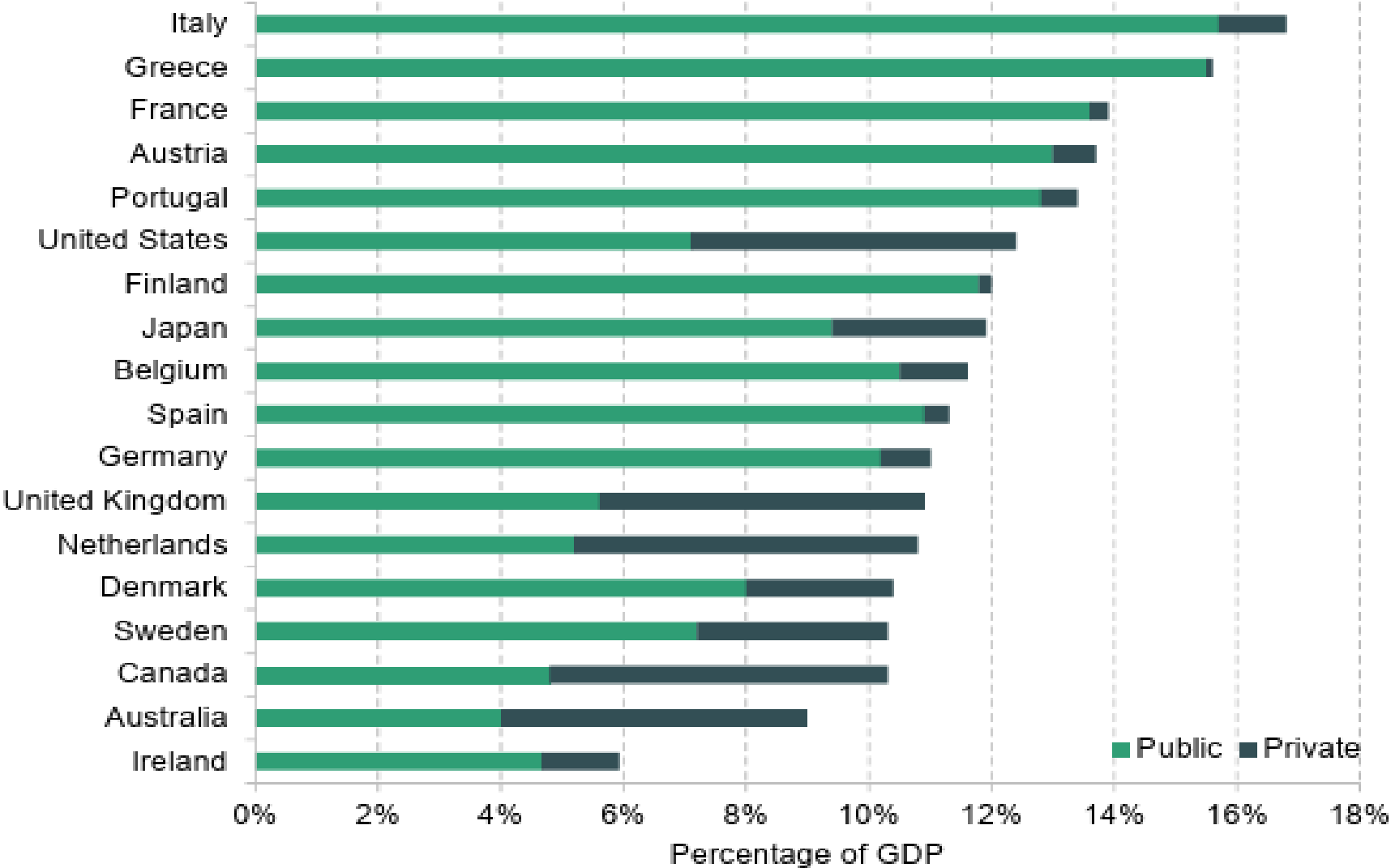


Old-age dependency ratio

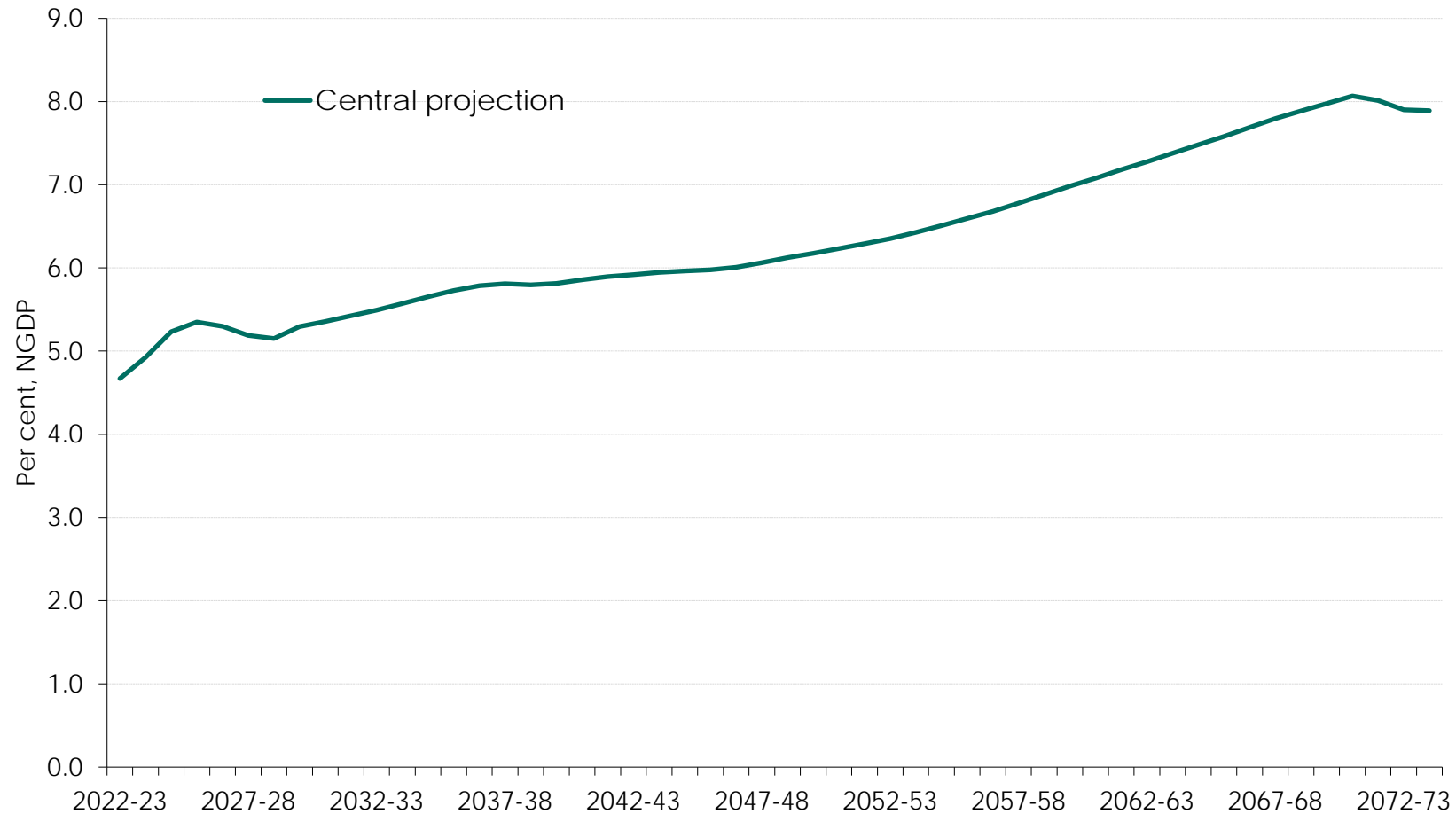


Source: ONS, OBR

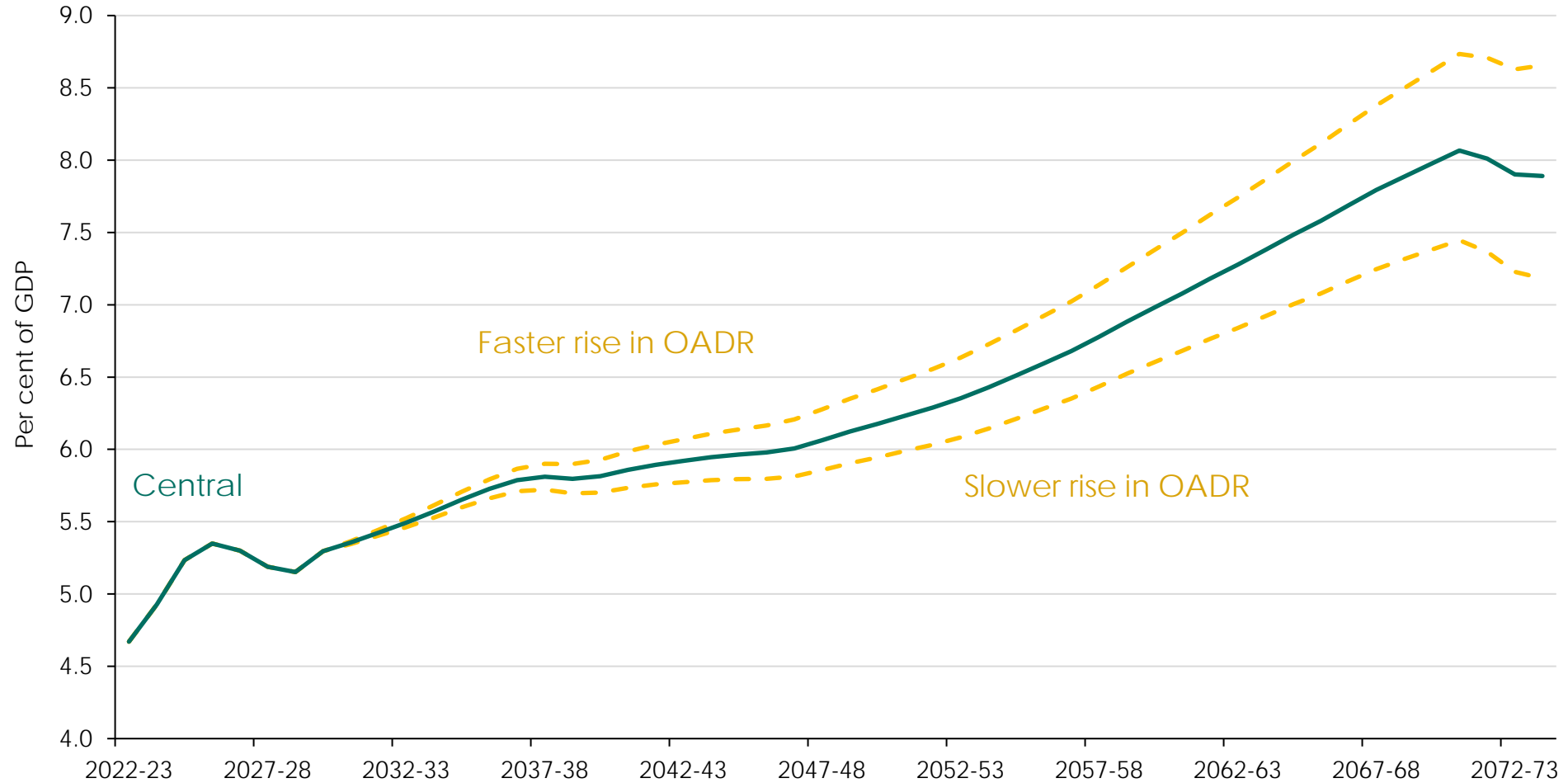
# Countries starting pension positions



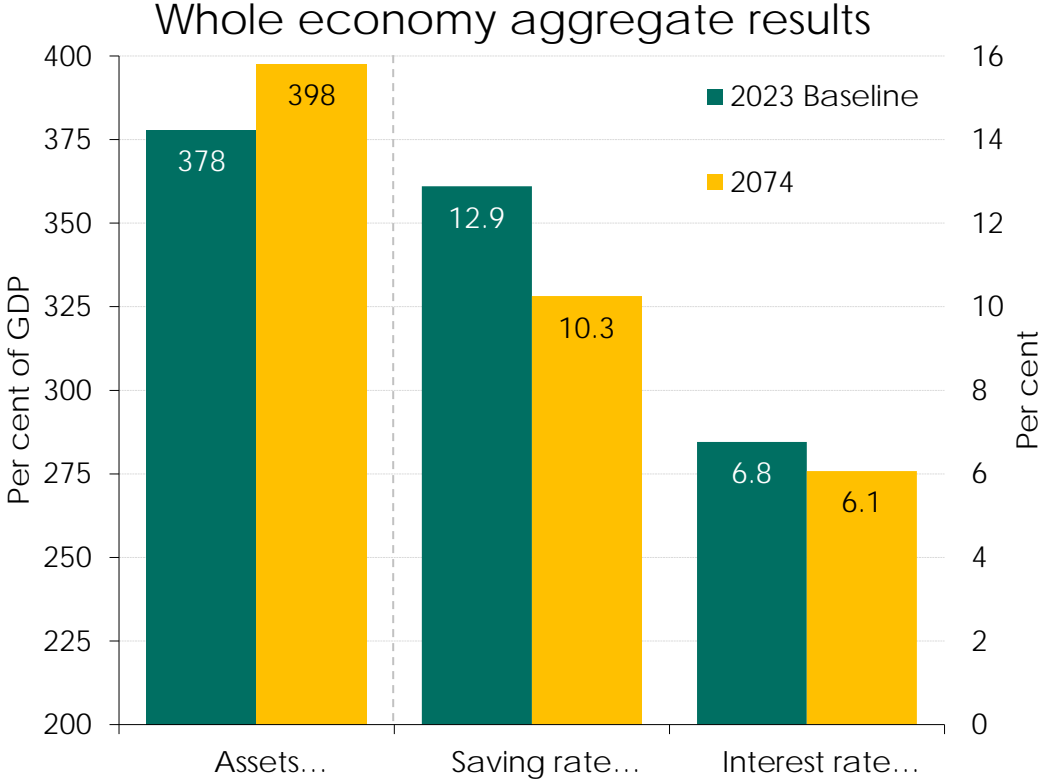
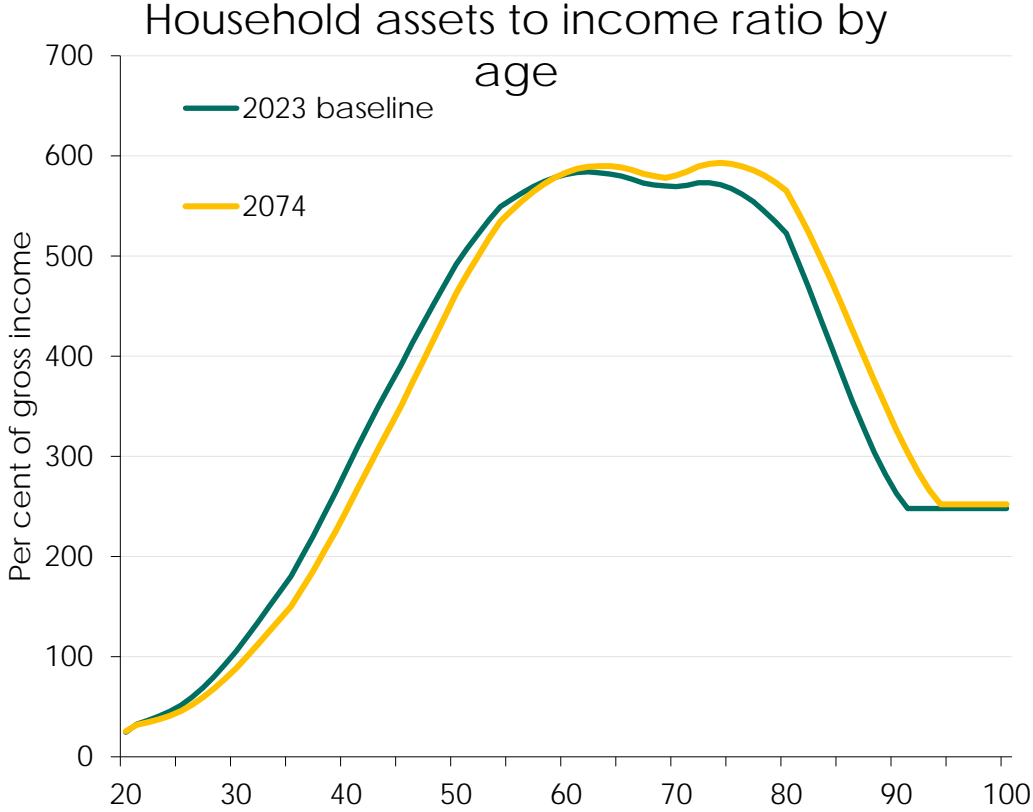
# Direct Fiscal pressure – UK state pension cost:



# Direct Fiscal pressure - State pension:



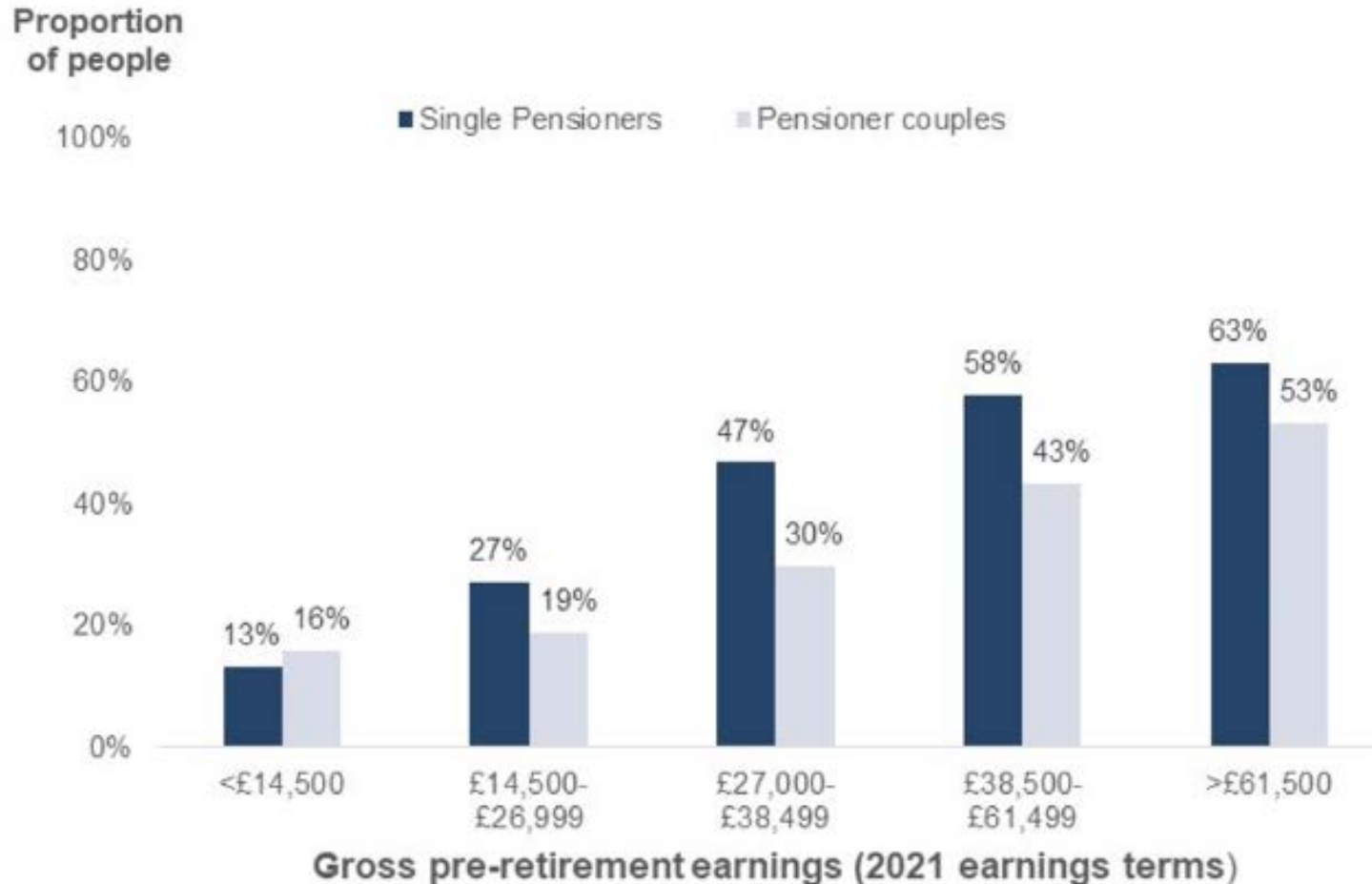
# Ageing population may mean a lower saving rate but more assets accumulated



Source: OBR estimates using UK overlapping generations model

# Replacement rates in retirement

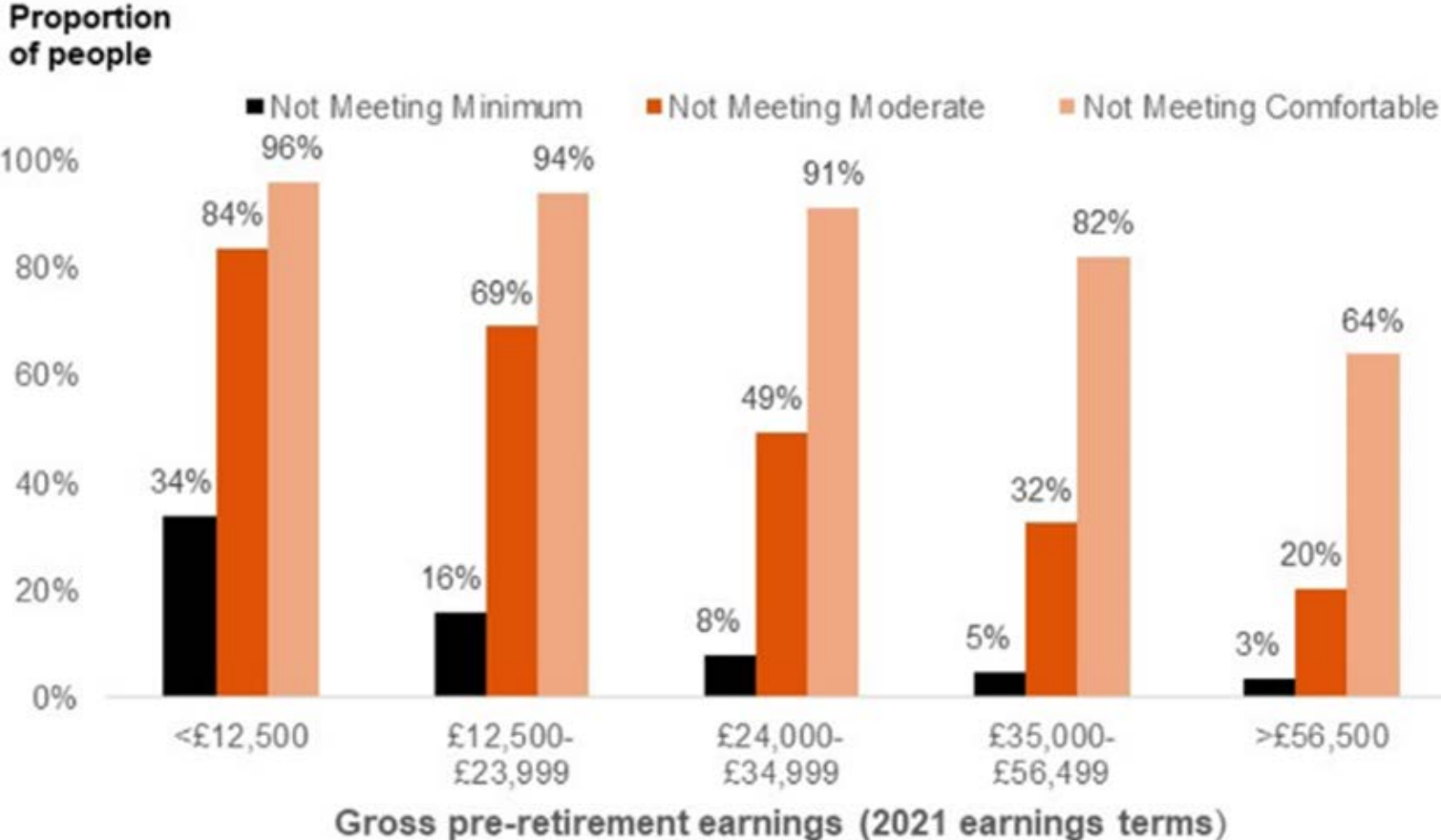
Share of working age population projected to miss DWP target replacement rate



Higher earners are more likely to be under saving relative to their target replacement rates

# Living standards in retirement

Share of working age population projected to miss PLSA reasonable living standard



Many people will not have enough income in retirement to meet retirement living standards, particularly those with lower earnings.

# Savings adequacy

- Issues with measures of adequacy:
  - Do not account well for non-pension wealth and variances in health costs in old age
  - Assumption that individuals will be mortgage free homeowners
  - Inadequacy does not necessarily translate into a fiscal risk
- Older generations wealth may create significant windfalls for younger generations
  - Currently, 76% of pensioners have property wealth, with a median value of £105,000
  - IFS analysis indicates 81% of couples reach their TRR after accounting for inheritances, up from 64%
- Around 2.5 million current DC savers who are not on track expect to receive an inheritance
- But wealth being passed down may not be the silver bullet
  - Wealth used to fund living costs in retirement
  - Social care costs
  - Highly unequal distribution of inheritances and skewed towards with higher incomes/wealth

# Inheritances go to higher incomes

Proportion of people receiving an inheritance of £1,000 or more, by age group and net income quintile: GB, 2018-2020

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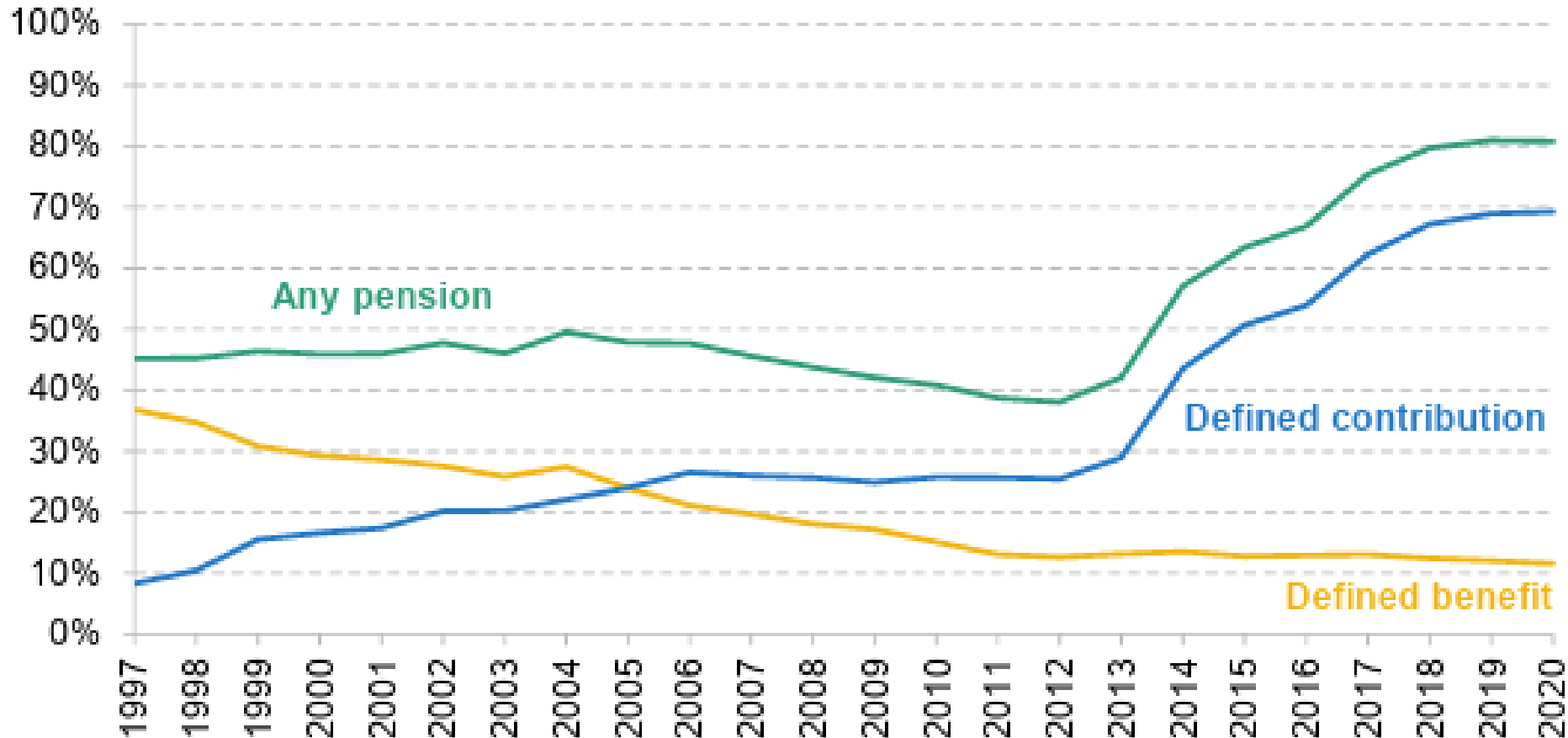


Source: RF analysis of ONS, Wealth and Assets Survey.

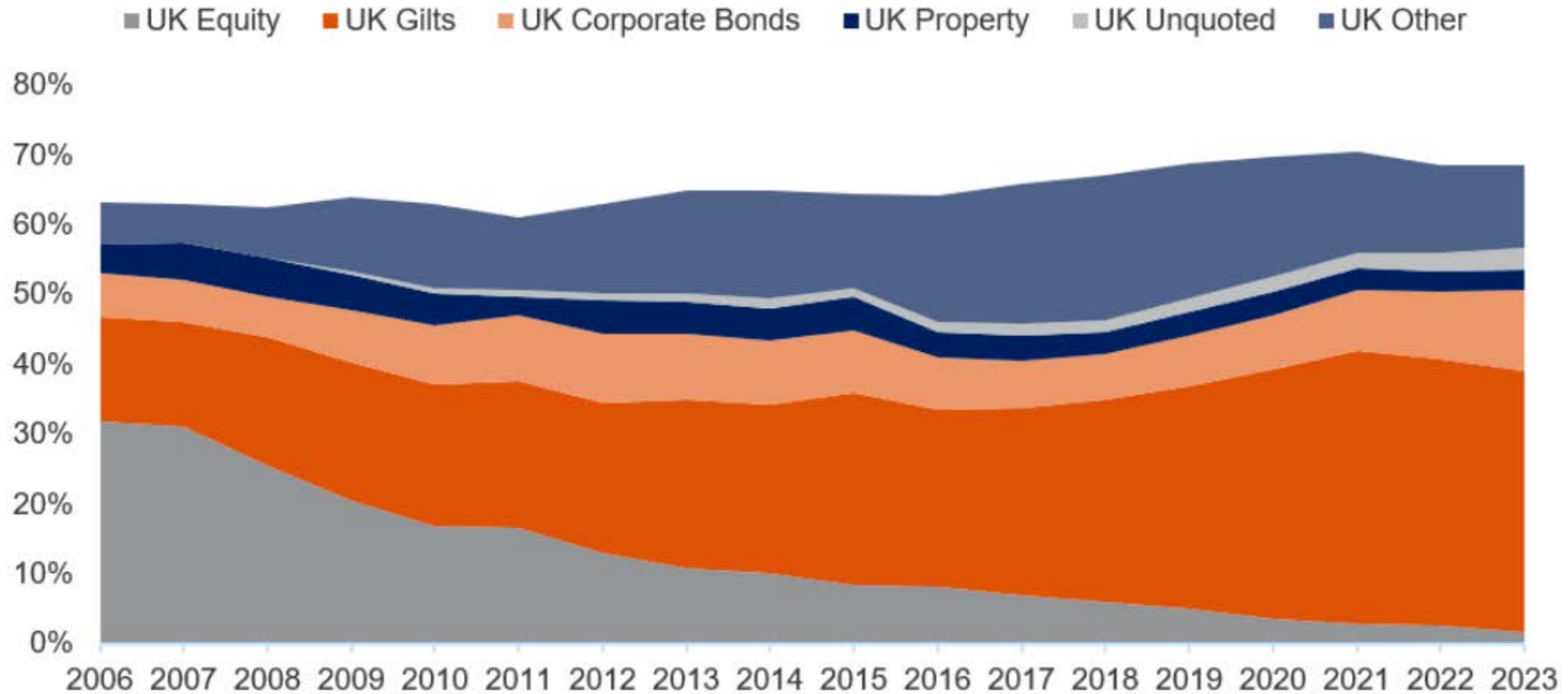
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# DB to DC transition

Percentage of private sector employees participating in defined benefit and defined contribution workplace pensions

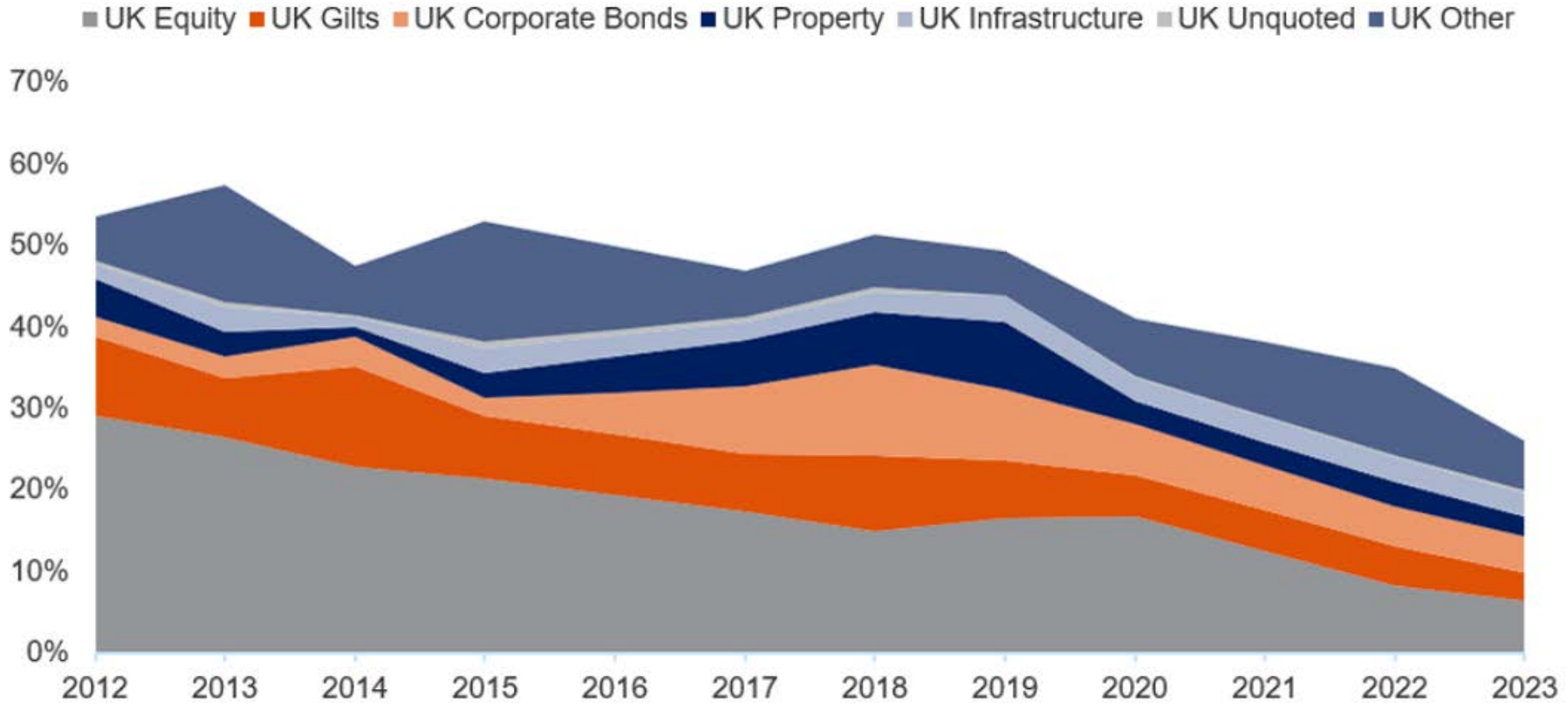


# DB schemes invest heavily in gilts

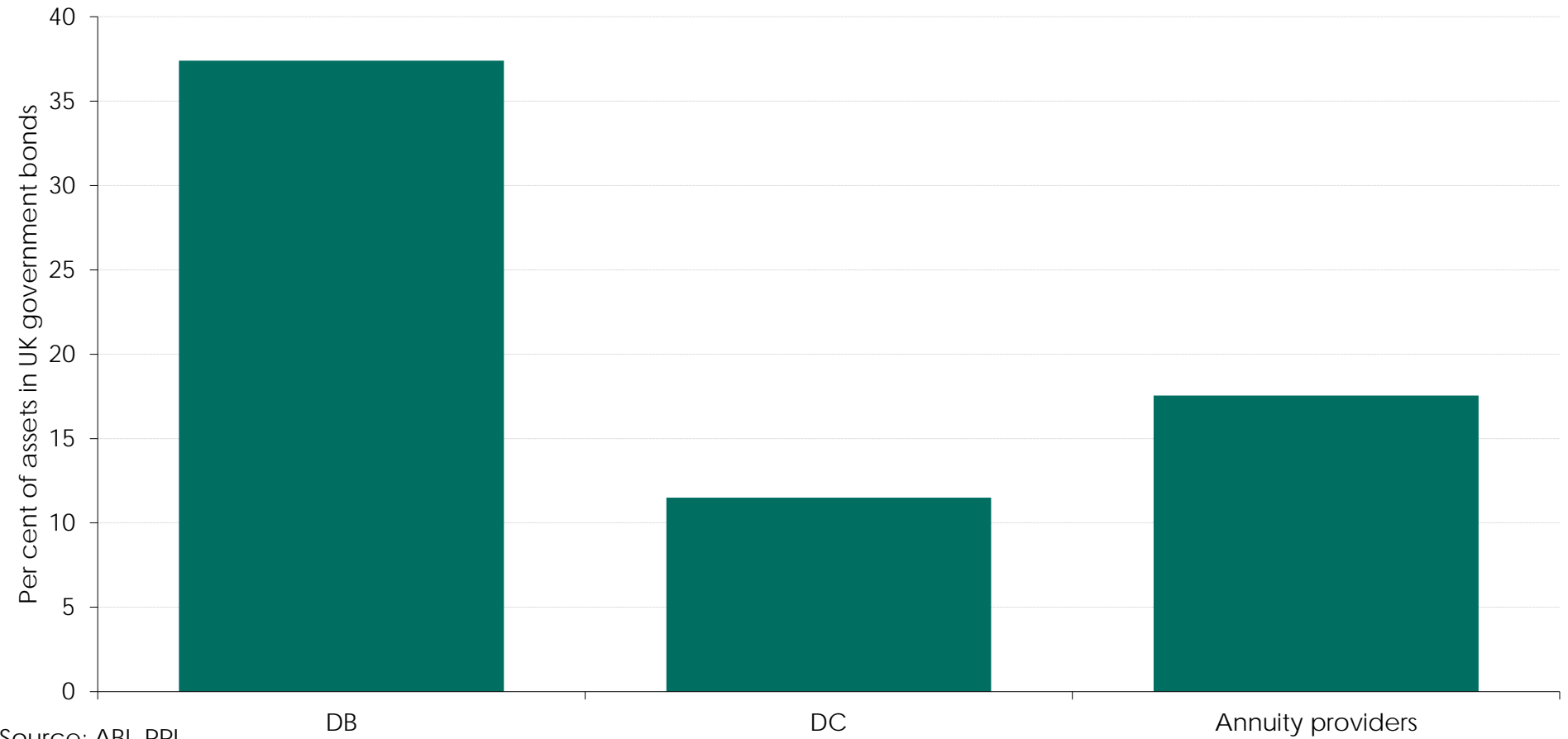


Source: DWP analysis of Purple Book and ONS data

# DC schemes invest less in gilts



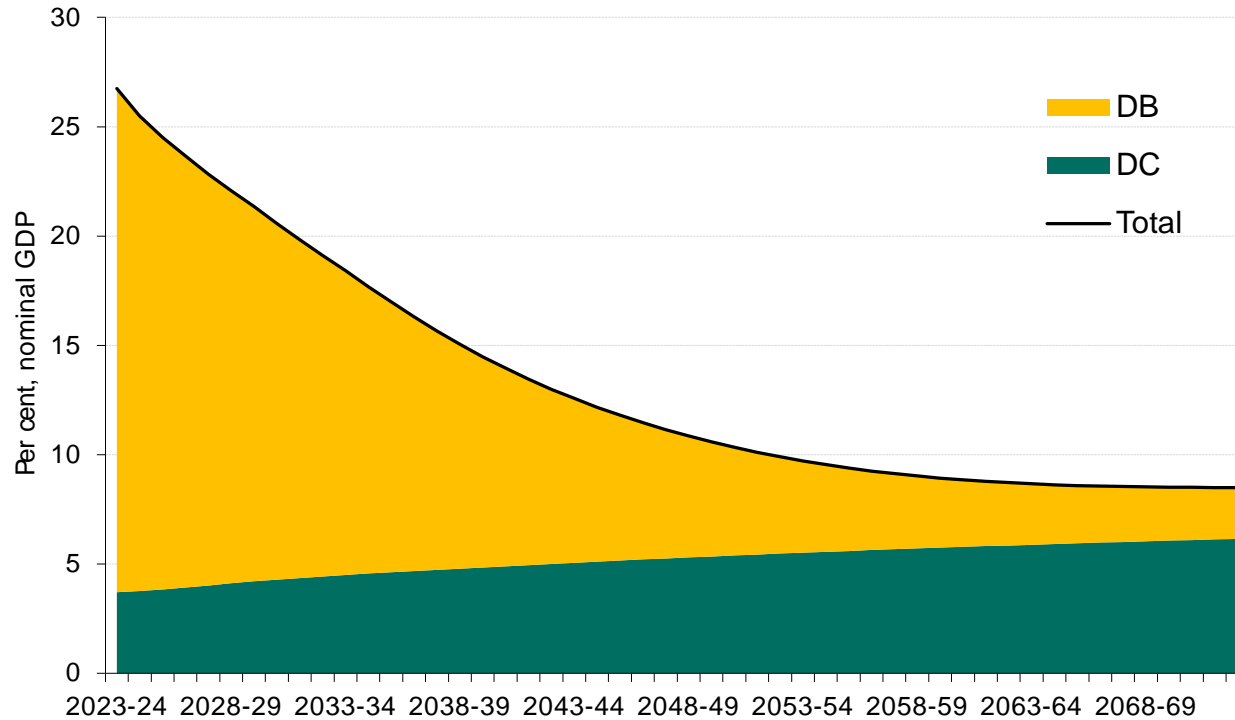
# DB schemes hold more gilts than DC



Source: ABI, PPI  
Note: DB excludes public sector DB

We are trying to model this run-down..

# DB to DC: gilt holdings



This shows our initial projection of the demand for gilts from DB and DC pensions, using a high-level model based on:

- DB
  - Based on TPR 10-year projections and analysis
  - OBR assumptions about scheme demographics and the demand for gilts
- DC
  - The number of people in workplace pension schemes, pension wealth by age and the share of pensions invested in gilts by age group
  - Grow in line with population growth and asset growth

# Run-down of DB gilt holdings in long term

We use 2023-24 data from UK (stakeholders?) The Pensions Regulator and Pensions Protection Fund to calibrate current inputs on net assets, asset allocations, demographics.

Scheme run-down modelling is then dependent on:

- **Scheme demographics**
  - Schemes which are closed to new members or closed to future accruals have a fixed stock of members. Gradually all members age into retirement.
  - Asset decumulation occurs as schemes pay funds to pensioners who are a rising share of members.
- **Asset growth**
  - We use our long-term projections for gilt rate to model asset return, and model new contributions to reflect asset accumulation among active members.
- **Insurance buyouts**
  - We use projections for insurance transactions (c.£40bn/year) and TPR projections on insurers' gilt holdings due to transactions – insurers retain roughly half the gilts they inherit.

# What does this mean for gilts?

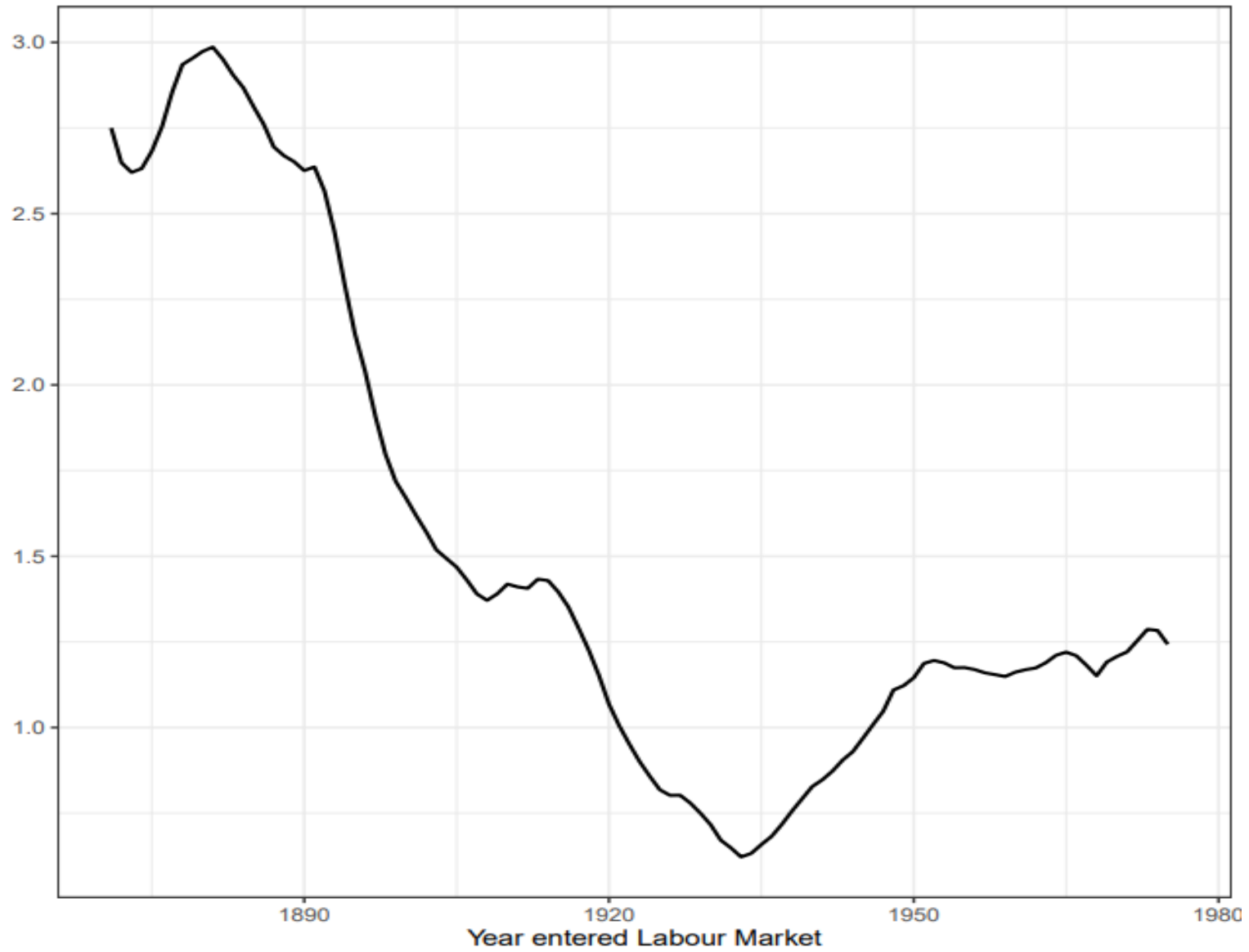
- It is plausible there will be a significant fall in demand for long dated gilts
- Switch to shorter maturities problematic – turnover problem PLUS pressure on central bank
- Initial analysis using elasticities drawn from BIS research on demand for public sector debt suggest there could be in the order of 0.2 ppts rise in gilt yields
- All this may mean there is to be greater fiscal significance of monetary policy where more government debt is affected by changes in monetary policy rate

# Changing pattern of where risk sits

- With DB schemes risk sits with the owners of corporate sponsors and also those who depend on the companies.
- With DC schemes the risk sits with pension savers – but can be controlled by portfolio choices
- Risk does not obviously rise or fall because of the DB to DC switch – just who bears it.
- For households, the risk/return issues of different portfolios mean that the trade-offs between higher average return and more security of return is unavoidable.
- In principle risk sharing between generations is attractive.
- This has triggered interest in – and great promise for – collective defined contribution (CDC) schemes
- Charts illustrate the *potential* scale of benefit – but its realisation is problematic.

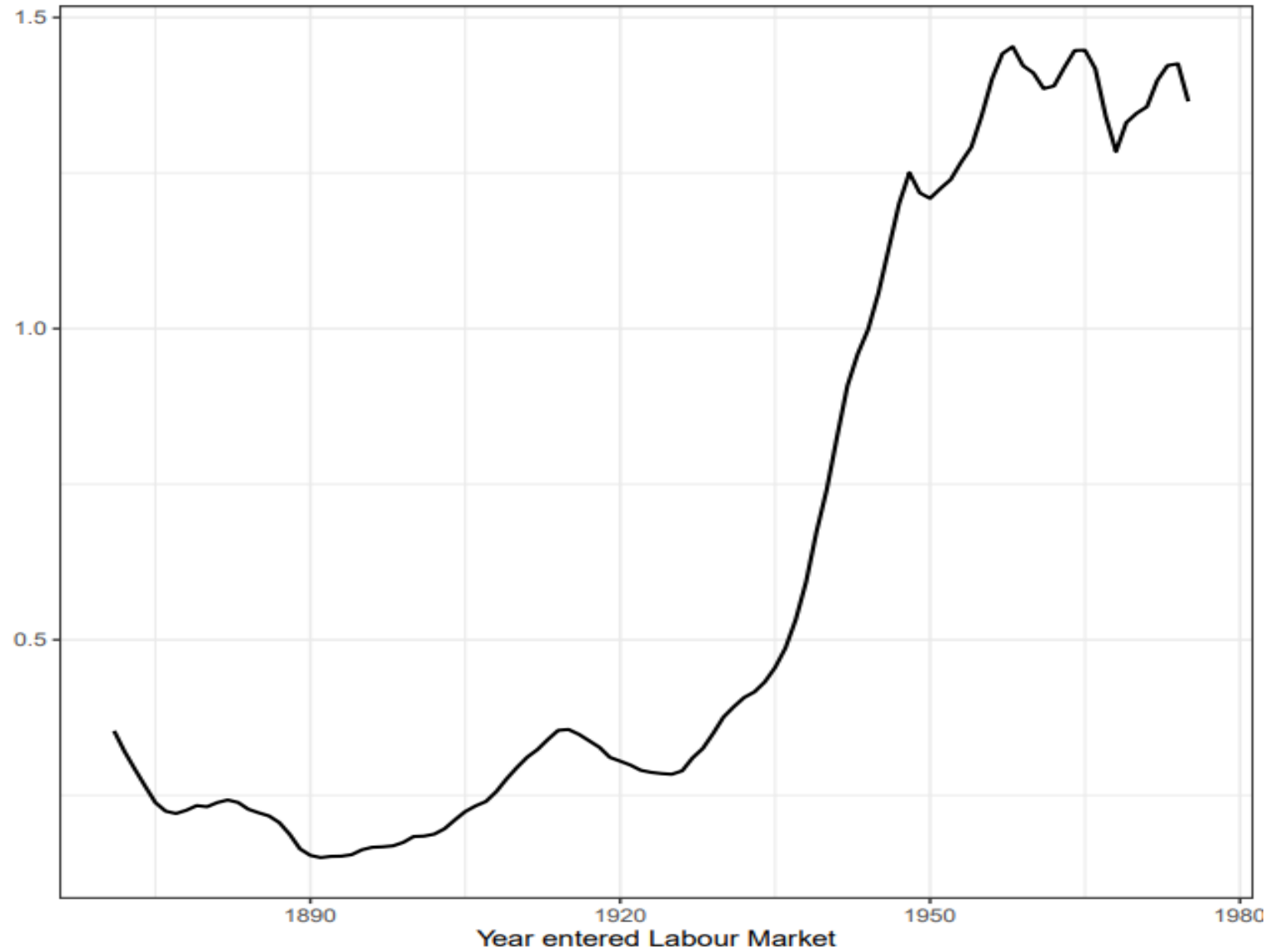
AUS

Average Retirement Consumption



BEL

Average Retirement Consumption



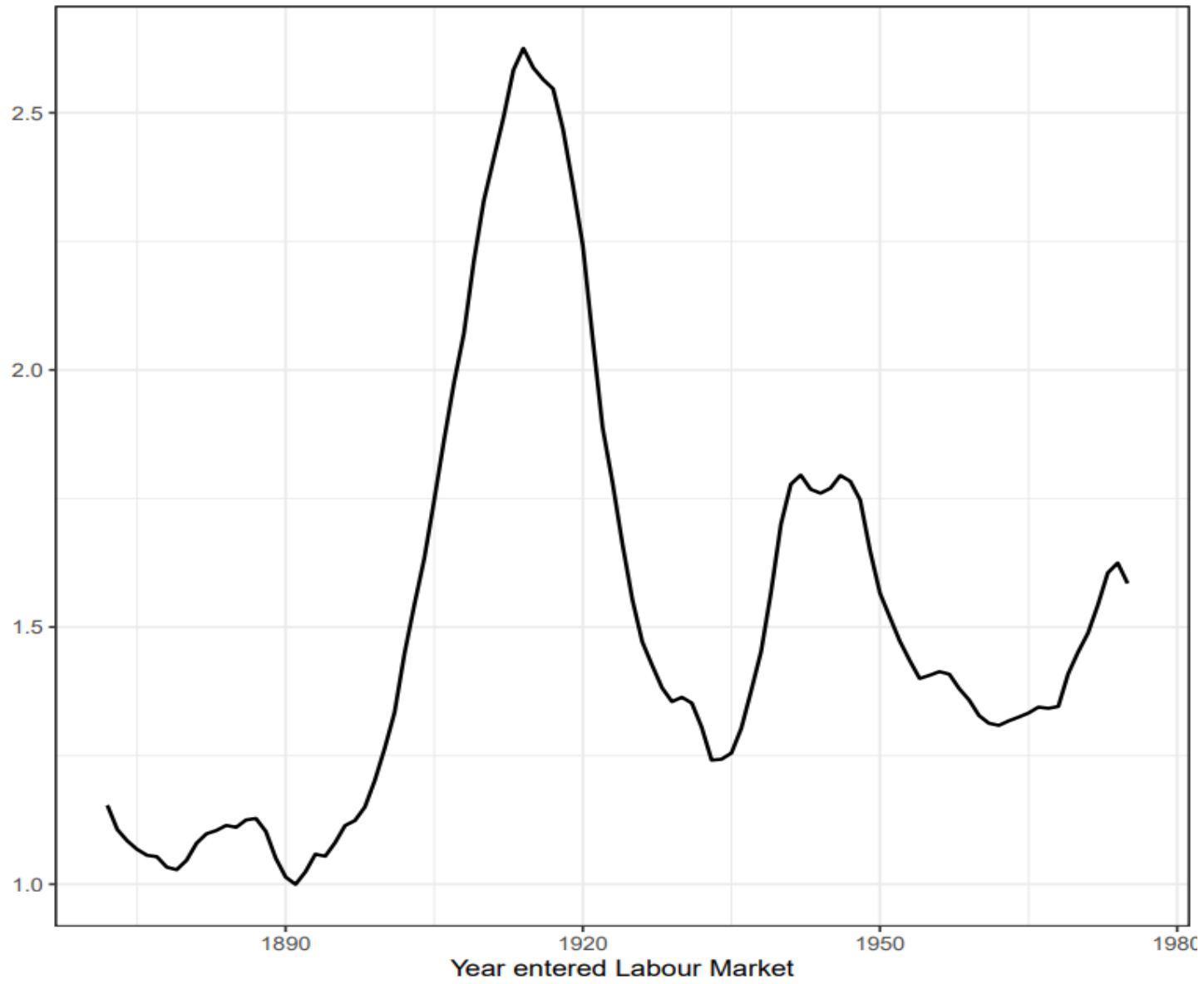
GBR

Average Retirement Consumption



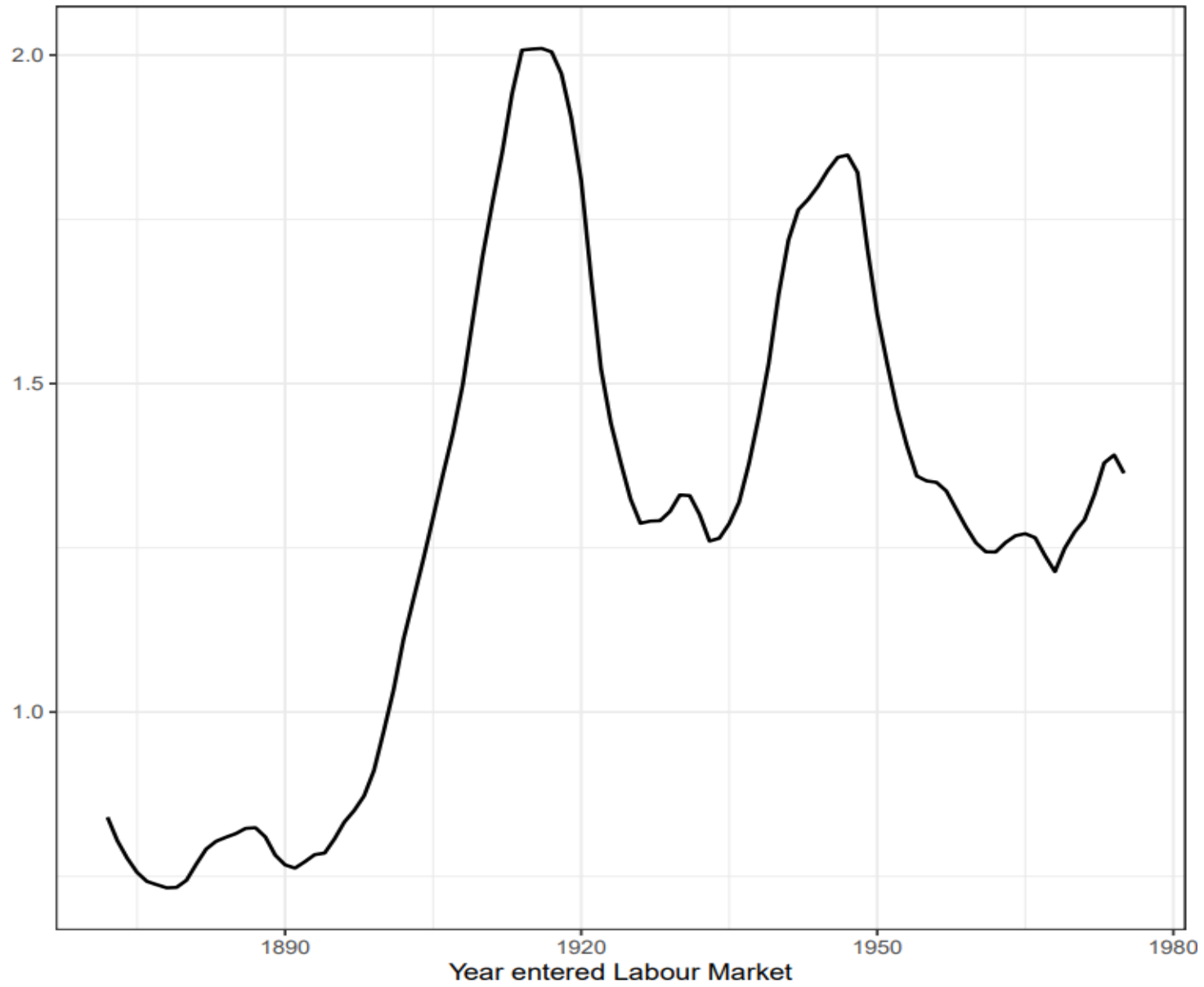
USA

Average Retirement Consumption



WLD

Average Retirement Consumption



# Conclusions

- Problems for government fiscal policy and for households managing risks are substantial
- Misleading to see the problem as individuals in aggregate have to take on more risk as DB to DC split arrives – companies may have held more risk in past but ultimately it sat with people, and not just shareholders.
- The CDC route to “solve” the problem is problematic – in many ways they are inherently unstable
- But in many ways, these are the problems that come from the success in so great an improvement in longevity –
- None of these need be addressed **just** through pensions policy/taxation of savings
- Greater labour supply options for the 60+ is key and with work never less physically demanding there is potential for this to be a major part of the adequacy issues.

# Annex PSLA Retirement living standards

	<b>Minimum</b>	<b>Moderate</b>	<b>Comfortable</b>
<b>Single (Expenditure)</b>	£10,900	£20,800	£33,600
<b>Single (Total income pre-tax)</b>	£10,900	£22,860	£38,860
<b>Couples (Expenditure)</b>	£16,700	£30,600	£49,700
<b>Couples (Total income pre-tax)</b>	£16,700	£31,966	£55,840

# Annex target replacement rates

**Table 7: Target Replacement Rate and Pre-retirement earnings bands**

Gross Pre-retirement (50-SPa) Earnings	Pension Commission (2004)	BHC Thresholds 2021 earnings	BHC Target RR	AHC Thresholds 2021 earnings	AHC Target RR
Band 1	Less than £9,500	Less than £14,500	80%	Less than £12,500	84%
Band 2	£9,500 to £17,500	£14,500-£26,999	70%	£12,500 to £23,999	75%
Band 3	£17,500 to £25,000	£27,000-£38,499	67%	£24,000 to £34,999	71%
Band 4	£25,000 to £40,000	£38,500-£61,499	60%	£35,000 to £56,499	63%
Band 5	Over £40,000	Over £61,500	50%	Over £56,500	53%