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Demographic change and the UK savings rate

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Notes

¹ These figures are based on the 2000-based Principal Projection, which is GAD's central projection.

² The FES is an annual cross-section survey of around 7000 households (or around 20 000 individuals). It is a voluntary survey with a response rate of around 70%, collecting detailed information on household and individual consumption and income, and on

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⁷ In the National Statistics personal sector accounts, personal savings are defined as income net of taxes and social contributions – the latter including funded and unfunded pension contributions by employees and employers – minus personal consumption.

⁸ Annuities and pensions are treated as identical financial assets. For simplicity income derived from both is referred to as pensions.

⁹ The approach adopted has also been used recently by Chesher (<u>1997</u>, <u>1998</u>) when analysing individual nutrient intake. For earlier applications to consumer behaviour see Mankiw and Weil (<u>1989</u>) and Weil (<u>1994</u>).

¹⁰ For a more detailed discussion of this procedure see Demery and Duck (2001).

¹¹ Ignoring, for the moment, bequests.

¹² There is a possibility that some of the estimates of may be negative. For this reason
Deaton and Paxson (2000) employ a different technique to extract the age and cohort
effects. This problem does not arise in the present case once age-groups are restricted
as done for reasons explained below – to those aged 16 and above.

¹³ The regressions also include year dummies to pick up cyclical influences on income and consumption, influences that are common to all ages and cohorts. Year effects

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¹⁶ The state pension is treated as a transfer from one generation to the next and the adjustment factor is not applied. The proportion of income attributed to non-state pensions for households with heads aged 65 and above rose from approximately 12% in 1969 to about 30% in 1998.

¹⁷ The authors are grateful to Steve Smallwood of the Government Actuary's Department for providing mortality data for the period 1980–1999.

¹⁸ This latter approach ignores the effects of migration on the grounds that these effects are small over the relevant age group.

¹⁹ In fact there are a small number of people in each year who receive annuity income who are below the age of 50.

²⁰ Findings reported by Finkelstein and Poterba (2000) and by Murthi et al. (1999) suggest this 25% indexation may be an overestimate (at least for the private sector) and hence the proportion attributed to interest income may be on the high side.

²¹ The savings rate implied in Model A corresponds to the personal sector savings rate published in the national accounts (ignoring the equity adjustment discussed above). The implied aggregate savings rates from Model B would be closer to a savings rate derived from a consolidation of the accounts of the personal and financial sectors.

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²⁶ One practical restriction that this method imposes is that the growth rates of the income and consumption cohort effects must be the same. If they are not, the difference between them dominates the projection of the savings rate. In practice, the estimated growth rates were very close.

²⁷ The choice of the year of birth on which to base these re-estimates does have implications for the savings rate predicted. As a close examination of Figs 5 and 6 reveal, the 1935 cohort effect is low. The estimates reported below were carried out taking the 1935 cohort as the base. The general behaviour of the agggregate savings rate was much the same as that reported below but was approximately one percentage point lower.

²⁸ The data for the population and savings series were derived from published sources by the authors and are explained fully in Demery and Duck (<u>2003</u>). The early population figures involved a certain amount of interpolation and so the proportions appear a little smoother than they probably really are.

 29 Of course for all the pre-1936 cohorts the growth factor -1.9% rather than +1.9% has been applied. The projections shown for the 1969–1998 period ignore the estimated effects of the year dummies for those years. For the early part of this period the population proportions were only available in five-yearly groups. To construct an

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³⁴ Notable recent examples are Paxson (<u>1996</u>), Deaton and Paxson (<u>1997</u>) and Banks et al. (<u>1998</u>). The FES is considered sufficiently accurate for the analysis of consumption and savings. Atkinson and Micklewright (<u>1983</u>) suggest that there is little evidence of under-reporting in the income series, with the exception of investment income. Attanasio and Weber (<u>1993</u>) suggest that for consumption, 'under-reporting is noticeable only on alcohol, a relatively small item. Expenditure on other items is thought to be accurately recorded, thanks to the careful sampling design' (p. 633).





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