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Financial Fairness Trust

Older Workers, Later Lives

Financial vulnerability amongst the over 50s.

A research collaboration between The University of Edinburgh and Smart Data Foundry

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NatWest Group

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SMART DATA FOUNDRY

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Executive Summary

In this research, we investigate the risk of financial vulnerability amongst those in their 50s and 60s, to understand what changes could be made to improve financial security in later life. Our mixed methods approach provides a valuable quantification of the extent of financial vulnerability; explores some of its causes; and provides policy solutions that are based on real-world experience.

The problem

The full state pension is currently £9,627 per annum, but a single retired person needs a minimum annual income of £10,900 per annum[1] for even a modest retirement standard of living. It is critical that older workers approach state retirement age with at least some pension savings if they are to avoid poverty in later life. However, pension wealth is unevenly held, and one-fifth of all individuals in the 55-64 age group have negligible pension savings[2]. After a lifetime of work and saving, 18% of those aged 55-64 in single-person households possess less than £20,000 in total assets, and a further 15% hold between only £20,000 and £85,000[3]. To put those figures into perspective, consider that £20,000 currently provides an additional fixed income of less than £950 per annum[4].

Many older workers rely on a mix of income sources, including occupational pensions, savings, part-time employment, and state benefits. Older people just above and below the state pension age can be in receipt of pensions and yet still be saving for retirement through workplace pensions schemes. We must understand the complex interplay between employment income and pension income to make appropriate policy adjustments to rules governing eligibility for state benefits, job creation schemes, and pension access.

The long-term financial well-being of older workers is especially vulnerable to the income shocks that come from job loss or ill health. Even apparently financially secure older workers can find themselves in a precarious financial situation in retirement if forced to withdraw early from employment. For the oldest workers, the chances of returning to work after a period out of the labour market are low and replacement employment is likely to be lower-skilled, lower-paid, and less secure[5]. Moreover, the benefit system is poorly adapted to supporting individuals who, at the end of their working lives, are not yet drawing the state pension. Shortcomings in benefit means-testing force households to run down pension assets prior to the state retirement age, placing older workers at serious risk of future financial vulnerability.

To understand the risks the over 50s face, we use aggregated banking transaction data from 453,604 individuals over 50 years old. We define financial vulnerability based on whether an account has a balance of liquid funds sufficient to cover three months' cost-of-living outgoings. (e.g., mortgage or rent, food, utility bills). We further classify accounts as severely financially vulnerable if they remain continuously overdrawn for at least a whole month. We augment the quantitative findings with insight from interviews and focus groups with 62 advice practitioners from the voluntary sector who have practical experience supporting older workers.

[1] PLSA Retirement Living Standards 2020/21, figures for outside London.

[2] Office of National Statistics (2019) Pension Wealth in Great Britain.

[3] Office of National Statistics (2020) Individual wealth by age, sex, household type and index of multiple deprivation, Great Britain April 2018-March 2020.

[4] Scottish Widows illustration rates for healthy 65 year old living in CB23 postcode, January 2022.

[5] Lain, David, Laura Airey, Wendy Loretto, and Sarah Vickerstaff (2019). Understanding older worker precarity: The intersecting domains of jobs, households and the welfare state. *Ageing and Society*, 39(10), 2219-2241.

Key Findings

Our analysis of the banking data, which forms the statistical element of this research, shows that:

Adults aged 50-54 are substantially more at risk of financial vulnerability than older retired individuals. Financial vulnerability reduces in retirement, primarily because of greater income stability from pensions and lower spending, especially on housing. Adults in their early eighties are over 80% less likely to become financially vulnerable than adults in their early fifties.

Sudden drops in income significantly increase financial vulnerability. Older workers who experienced an income drop of over 30% are between 60% and 170% more at risk of financial vulnerability than peers who have experienced an income drop of 10% or less.

There is a strong indication that retired individuals resort to withdrawing large sums from their pension pots when they are already struggling financially. This more than doubles their risk of financial vulnerability.

The higher the proportion of expenditure allocated to cost-of-living expenses (housing, food utilities, etc.) the higher the risk of financial vulnerability.

The risk of financial vulnerability varies by region, with the largest concentrations of individuals at risk in Greater London and the North East.

Our key findings from the consultations with voluntary sector organisations that form the qualitative element of this research are that:

Older workers can face multiple barriers to remaining in the labour market until state pension age. Challenges include declining physical fitness and unavailability of flexible working. Four out of ten unemployed older workers have been out of work for at least a year. Delays in adequate work placement support are leading to long-term unemployment and forced retirement. Economic inactivity rates have risen by a third amongst the over-50s since 2019.

The rise in the state pension age is causing unacceptable hardship for the over 60s who face employment income loss. Our key concern is the capital rule for the means-testing of benefits, which penalises those who access workplace pensions. Other concerns include the lack of support for older mortgage holders; the removal of pension credit for mixed-age couples; and delays in assessing health-related benefits and in paying the state pension.

There is insufficient free pension advice available - a single Pension Wise guidance session is inadequate for all but the simplest of cases - and this is leading to poor financial decision-making and precarity. People below state pension age are withdrawing funds from their pension pots to fund income shortfalls. Over half of the drawdowns taken by the under 65s are unsustainably high and are at risk of the funds running out before death, increasing the possibility of financial vulnerability in later life[6].

[6]In 2020/21 withdrawal rates were above 6% for over 50% of the funds making annual withdrawals. Source FCA Retirement Income Data 2020/21.

Based on our evidence, we make the following key policy recommendations:

- To **reduce financial hardship for homeowners on Universal Credit**, we call for the DWP to further reform the Support for Mortgage Relief (SMI) loan facility and remove the zero earnings rule.

- **To prevent pensioner poverty,** we call for the immediate reinstatement of Pension Credit for mixed-age couples on Universal Credit.

  The DWP needs to rectify shortcomings in the delivery of the state pension and allow Universal Credit recipients reaching the state pension age to continue receiving Universal Credit until the receipt of their state pension is confirmed.

- **To reduce the risk of pension assets being spent prior to retirement**, we call for the DWP to review the current capital limits for means-tested benefits. Our recommendation is that the current £16,000 limit should be significantly increased.

- **To improve transition to retirement**, we recommend increased government investment in the Pension Wise guidance service. The number of Pension Wise sessions available to individual savers needs to be increased, and Pension Wise's remit needs to be expanded to cover the state pension and defined benefit pensions.

- **To improve employment prospects for older workers**, we call for a government funded employment programme targeted at older manual workers and self-employed older workers who need support in changing their career.

  The Restart scheme, which helps the long-term unemployed back into work, should be available from the first day of unemployment for the over 55s.

Project overview

The aim of this project is to explain how financial vulnerability and income volatility in later life affect older workers' ability to achieve financial security in retirement.

We include everyone aged 50-70 in our definition of an older worker, but we focus on those aged 55-65 because at that age, older workers can access pension savings. This degree of flexibility provides them with a safety net in times of financial hardship. However, if savings - ostensibly built up for retirement - are spent before state pension age, this leaves older workers vulnerable to impecunity in later life.

A major benefit of the research is that we combine uniquely detailed banking transaction data with stakeholder-produced qualitative data. This allows us to give a much fuller picture of the financial vulnerability of older workers.

Our objectives are threefold. Firstly, to demonstrate the extent of financial vulnerability amongst older workers through close analysis of income and expenditure data supplied by a major UK bank. The quantitative analysis paints a picture of the financial changes experienced by those in the 55-70 age group over the past three years.

Secondly, we seek to understand the consequences of income disruption on older workers' financial wellbeing. We achieve this through quantitative analysis and through engaging with support organisations advising the financially vulnerable.

Thirdly, we seek to develop policy recommendations and practical solutions that should help alleviate the financial distress experienced by older workers.

Some of the questions that we set out to answer with this research are:

- *What is the extent of financial vulnerability?*
- *Are age and gender of an individual associated with the risk of financial vulnerability?*
- *Do income fluctuations and shocks increase the risk of financial vulnerability?*
- *What is the influence of retirement on the risk of financial vulnerability?*
- *What is the influence of an individual's spending choices on the risk of financial vulnerability?*
- *What is the impact of the COVID-19 pandemic on financial vulnerability?*
- *What are the social pressures facing older workers that might lead to financial vulnerability?*
- *What are the policy solutions that could support financially vulnerable older workers?*

Note: Unless otherwise stated, the research in this report relates to Scotland, England and Wales, and excludes Northern Ireland.

Why older workers?

As a group, households whose head is 55-64 years of age represent the highest net-worth individuals in the UK (median £553,400)[7], having built up assets in workplace pensions, savings, and housing. It might therefore be asked why we choose to focus on older workers, when many are in a seemingly more financially secure position than those at the start of their careers. But the aggregate statistics hide huge disparities between individuals. Older generations hold much of their wealth in housing, but housing asset wealth is not easily realisable for income. Moreover, the percentage of homeowners is falling. Around one fifth of those approaching retirement are in rental accommodation and cannot rely on housing as a safety net. Renting is more common for those from low-income backgrounds. Furthermore, the pandemic has had a polarising effect on income and wealth within the older workers' cohort. Those already in a more financially vulnerable position, especially those in low-paid work or reliant on state benefits, have experienced reduced income and increased costs, leading to a rise in indebtedness.

The COVID-19 pandemic has had a disproportionate impact upon the wealth of those in their fifties and early sixties. Those in their late sixties accrued a three per cent increase in wealth between February 2020 and May 2021 compared to a 13% increase by comparable households aged in their early thirties[8] and 42% amongst those over the state pension age. This relatively lower increase may be due to pension withdrawal to fund early retirement.

Disruption to earnings capabilities in the decade before the state pension age forces older workers to draw down on savings earmarked for retirement but the majority do not have sufficient wealth saved to provide a moderate lifestyle for a decade prior to receipt of the state pension. The median value of pension assets for households where the head is approaching state pension age is just over £200,000.[9]. The median individual private pension wealth of males aged 55-64 is £159,000 but for women it is only £62,000. One-fifth of all individuals in the 55-64 age group have no pension wealth[10].

Additionally, because older workers have limited earning and saving potential that could bridge savings shortfalls before retirement, their financial vulnerability risks becoming lifelong.

The quantitative research

For the quantitative analysis, our main objective is to quantify the factors associated with influencing the probability of an account falling into financial vulnerability.
Much of the previous research has investigated the factors associated with financial vulnerability by either using survey-based studies only or using macroeconomic data that is aggregated at the regional or household level rather than on the individual level. However, this perspective may fail to appreciate fully the heterogeneity of individual characteristics, such as their unique spending preferences and income circumstances. This carries the risk of drawing overly general or, in extreme cases, simplistic inferences and conclusions on the causes of financial vulnerability.

This study offers a novel contribution to knowledge in which we empirically quantify the risk factors associated with financial vulnerability, by exploring over three years of banking transactions from a large cohort of customers from one of the most prominent retail banks in the United Kingdom.

[7]Office for National Statistics (2022). Household total wealth in Great Britain.
[8] Resolution Foundation (2021). An Intergenerational Audit for the UK.
[9] Office for National Statistics (2022). Household total wealth in Great Britain.
[10] Office for National Statistics (2019). Pension wealth in Great Britain.

Through close analysis of income and expenditure data, the report paints a portrait of the financial changes experienced by the over 50s during the past three years. Data came from a representative GB-wide[11] sample of individuals aged 50-plus, numbering 453,604 individuals. The data encompasses multiple income sources, including employment, pensions and state benefits, and aggregated expenditure.

To achieve the aim of quantifying the risk factors of financial vulnerability, we employed a branch of statistical modelling called Survival Analysis. The analysis provides much needed clarity about the positioning of older low-paid workers on the financial vulnerability spectrum. It also provides a comprehensive picture of financial distress amongst financially vulnerable older workers, and of the impact of the COVID-19 pandemic-related economic downturn on their ability to achieve financial security in retirement.

The qualitative research

The qualitative research in this study investigated the challenges facing financially vulnerable older workers and explored potential solutions to ease financial distress. To achieve this, our research team engaged with third-sector support organisations across the UK.

The participants in the study were all actively involved in providing support and advice to the public. Most were front-line advisers working before and during the COVID-19 outbreak. Many of those taking part worked or volunteered for Citizens' Advice Bureaux. The participant pool also included pension advisers working for Pension Wise, local government advice centres and charities providing debt advice. In addition, we included specialist organisations supporting migrants, people with hearing loss, ex-servicemen, tenants, the unemployed, and those experiencing mental health conditions.

Between them, our participants have spoken to and advised many hundreds, if not thousands, of vulnerable citizens. These advisers' unique public-facing positions within the organisations they work for gives them an excellent perspective on the challenges facing people in their late 50s and 60s. They articulate the concerns of the many vulnerable older people that they support. This insight is invaluable.

We were especially keen to include a broad geographic spectrum of advisers to mirror the GB-wide banking data. The project involved representatives from every regional authority in Scotland and achieved wide geographic distribution across England and Wales. The study includes representatives from cities such as Glasgow, Manchester, and London; smaller towns as diverse as Perth, Bolton, and Milton Keynes; and rural areas, including Moray, Somerset, and Monmouthshire.

We reiterate our thanks to those advisers who took part in the study. Support organisations faced the dual challenge during the pandemic of increased workloads and curtailed services, and we are indebted to those individuals who found the time to participate. Their insight is invaluable, and this project would not have been possible without their help.

We conducted the qualitative research in stages, starting with support organisations in Scotland. The study used a mix of online focus groups and interviews. For the focus groups, we ran two message boards where participants could respond to questions posed by the researchers and interact with each other's posts. We kept the message

[11] Neither the banking data we use for the study nor the qualitative research cover Northern Ireland.

groups open for several months so that contributors could return and comment on fellow participants' observations. Across our focus groups, 40 advisers logged into the online message boards. We also interviewed 22 advisers by telephone or video link.

Research questions concentrate on identifying the challenges facing older workers, their unmet needs, and potential for support solutions with recommendations for responsive interventions.

How the report is organised

In the first of the analysis chapters in the report, we examine the income and expenditure of the over 50s between January 2019 and December 2022. Our analysis paints a picture of financial vulnerability at the end of 2021 and how this has changed since the outbreak of the COVID-19 pandemic.

We begin by describing in detail the data set we used to conduct the analysis. Second, by subdividing the dataset into five-year age bands, and £10,000 income bands, we present a visualisation of the changes in income sources as individuals age. Third, we show the main categories of expenditure across the accounts and how these relate to income. Finally, we examine financial vulnerability by focusing on the ratio of income to expenditure and consider the COVID-19 pandemic's impact on savings and overdrafts.

In Chapter 3, we achieve our aim of quantifying the risk factors of financial vulnerability by employing a branch of statistical modelling called Survival Analysis. First, we investigate how age and gender are associated with the risk of financial vulnerability. Second, we considered whether income fluctuations and shocks increase the risk of financial vulnerability. We follow this with an examination of the risk of retirement financial vulnerability. Then, we build on the earlier work in Chapter 2 and consider the link between individuals' spending choices and the risk of financial vulnerability, before finally, investigating the impact of the COVID-19 pandemic on financial vulnerability.

The second part of the report, from Chapter 4 onwards, introduces our findings from the qualitative research. We break the qualitative findings into several chapters, opening with a discussion on employment where we provide detail on the challenges faced by older workers. In Chapter 5, we investigate state benefits and see how older workers engage with the UK benefit system and the challenges they face. In our conversations with advisers, the failure of the benefits system to accommodate ill-health in the ageing population was a dominant theme, and we also cover this in Chapter 5. No analysis of financial vulnerability is complete without a comprehensive understanding of pensions, and we tackle this in Chapter 6. We highlight the need for more pension support and guidance. Throughout the report, we explore policy solutions that might elevate hardship amongst older workers, and we summarise these in the conclusion.

Descriptive Statistics

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This chapter presents a general overview of current-account behaviour in the banking dataset used in this research study. The descriptive statistics we present here act as a precursor to the work presented in Chapter 3 that quantifies the risk factors of financial vulnerability using a statistical modelling method called Survival Analysis.

As we noted in the introduction, we used de-identified, aggregated banking transactions data from a sample of NatWest Group customers. The financial transactions occurred between January 2019 and December 2021. The dataset covers 453,604 individuals between the ages of 50 and 84. The volume of data enabled us to examine the evidence for financial vulnerability across the British population and to draw inferences about the relative risk factors across age, gender, and geographical location.

Our main findings from this overview are that:

- People across all incomes and age bands experienced a 'pandemic effect' where income fell; however, over time, incomes recovered and by the end of 2021, average incomes were higher than at the start of 2019.
- Older age bands experienced less of a 'pandemic effect' than younger age bands.
- Income sources show a shift from salary to pensions in the 65 – 69 age band as some of the account holders reached state pension age. However, as we surmised in the introduction, pensions provide a source of income for younger age groups and salary a source of income for those over the state pension age. Accounts in the lowest income band (under £10,000 per annum) received the smallest proportion of income from salary and a larger proportion from benefits and pensions.
- The median income of an account holder in the 80 – 84 age bracket is around 40% lower than that of an account holder aged 55 – 59.
- Average total expenditure fell significantly at the start of the COVID-19 pandemic and remained below available income for most age groups and income bands, with the exception of accounts in the lowest income band (under £10,000 per annum).
- Most income groups, irrespective of age, spent between one-half and three-quarters of their income on essentials and committed expenditure.
- Those in the lowest income band and of working age (under £10,000 per annum and less than 65 years old) spend more than their income.
- The highest overdraft use is amongst those on middle incomes in the 55 – 59 age band. Around 25% of accounts on incomes between £20,000 and £49,000 have been overdrawn continuously for six weeks at one point during the three years of our dataset.

How the chapter is organised.

To begin with, we describe in detail the dataset that we used to carry out the analysis.

Secondly, by subdividing the dataset into five-year age bands, and approximately £10,000 income bands, we present a visualisation of the changes in income sources as individuals age. Thus, we are able to show the transition from earned income to pension income and illustrate the variation in financial outcomes between different income groups.

Thirdly, we show the main categories of expenditure across the accounts and how these relate to income.

Finally, we examine financial vulnerability by focusing on the ratio of income to expenditure and consider the COVID-19 pandemic's impact on savings and overdrafts.

For ease of understanding, we present these broad findings on changes to income and expenditure on a quarterly basis. In Chapter 3, where we report the findings from the deeper analysis using Cox Proportional Hazard models (CPH), we work with both quarterly and weekly data.

Data description.

NatWest Group (NWG) supplied Smart Data Foundry with aggregated transaction data from the current accounts for approximately 1.2 million UK customers from 1 January 2019. These accounts represent a de-identified, randomised and broadly representative sample from the bank's UK accounts.

It should be noted that all current accounts held by a single individual at NWG are aggregated into one case. Thus, a single case might hold data for an individual's current account and their joint current account if this is held at the bank. To this end, we are not directly measuring the financial vulnerability of individuals but measuring whether essential accounts linked to individuals are at risk of becoming financially vulnerable in any specific quarter.

The bank categorised all financial transactions, depending on their source, for credits, and the kind of expenditure, in the case of debits. The transactions were aggregated by category prior to supply to Smart Data Foundry's Data Safe Haven. This aggregation process further reduced the risk of identification of people. The categorisation is based on The Financial Conduct Authority's (FCA) classification as detailed in the FCA handbook and is briefly shown below in Box 1 (see the FCA handbook for full details)[1].

It is also important to understand that NatWest Group's data contains transactions that are credits and debits, and although these are categorised in this analysis as income and expenditure, this is only an approximation of the many ways people manage their finances.

[1] Financial Conduct Authority (2014). FCA Handbook MCOB 11.6 Responsible Lending and Financing.

Box 1. Data Metric Categories

Income_ Total income over the period
Income_Salary
Income_Benefits Including welfare benefits but not the state pension
Income_Pension
Income_Investment
Income_Interest
Income_Other Unclassified Not all credits can be classified as income.
Expenditure Total expenditure
Expenditure_Committed Including rent, mortgage, loan repayments & interest, some contracts, child maintenance.
Expenditure_Essential Basic essential expenditure; Including food, utilities, council tax, water, insurance, service charges, work travel.
Expenditure_QoL Basic essential quality of living; Including broadband, television, clothing, some other travel.
Expenditure_Discretionary Discretionary spend (disposable income) Gym, golf or other memberships, leisure, retail, or beauty spending.
Expenditure_Uncategorized Expenditure whose category is unknown; Credit card payments, cash withdrawals, cheques.
Cash_Balance_Final Cash balance at end of period (net total across all accounts)
Cash_Min Minimum net cash balance across the period
Cash_Max Maximum net cash balance across the period

Each metric was supplied weekly to Smart Data Foundry from the beginning of January 2019 (once for each week) until 31 December 2021.

Geodemographic characteristics.

The data included geodemographic characteristics of the underlying account holders and multiple weekly aggregate values for each class of financial transaction, as well as balance information. The geo-demographic variables included sex and age. The age used for an individual is their age at the final data point (December 2021) and was supplied aggregated into five-year age bands. So, for example, an individual aged 55 – 59 would have been aged between 52 and 56 at the start of data collection. To prevent possible identification, data for those individuals aged over 85 at the end of December 2021 was consolidated into one age band by the NatWest Group before being released. For the purposes of this research, we focused our attention on those accounts where the account holder was aged over 50 at the end of December 2021. The subdivided dataset we have analysed comprised accounts attached to 453,604 individuals.

The data specification provided was that customers are sampled at random from active customers of the banking group, with the minimum geodemographic indicators needed to understand geographic and demographic variation and to understand the bias and representativeness of the sample and population. The under noted maps (Figures 1 & 2) show the accounts used in this study and the bias, or deviation, of NatWest Group's customers from the population.

The hex graphic in green (Figure 1) illustrates the number of customers at the postal area level (the letters at the start of the postcode, EH, G, E etc.), with darker green representing a higher number of customers. For example, the graphic shows that the dataset has over 12,000 accounts from Edinburgh (EH) and Manchester (M) — the darkest green hexes — and fewer than 3,000 accounts from Llandrindod Wells (LD) and Shetland (ZE) — the palest green hexes.

NatWest Group's only deviation from uniform random sampling is the exclusion of approximately 5% of customers from very low population postcodes, due to concerns about re-identification risk. Although this exclusion of low-population postcodes does introduce some bias, we believe the effect is small. Note that accounts from Northern Ireland are not included in the dataset because the categorisation used for the rest of the UK was not available for most of NatWest's customers in Northern Ireland.

Smart Data Foundry has compared the geographic and demographic populations in the data sample with 2011 census data and the results are as follows:

Geographic bias.

For mainland Britain, at postal area level (the letters at the start of the postcode, EH, G, E etc.), the most underrepresented data has about half as many customers (c. 45%) customers than would be expected if the bank group's population composition matched the UK exactly. The dataset still has some 2,500 customers in that postcode. Similarly, in the most over-represented area, there are approximately twice as many customers as would be expected on the same basis (c. 95% more).

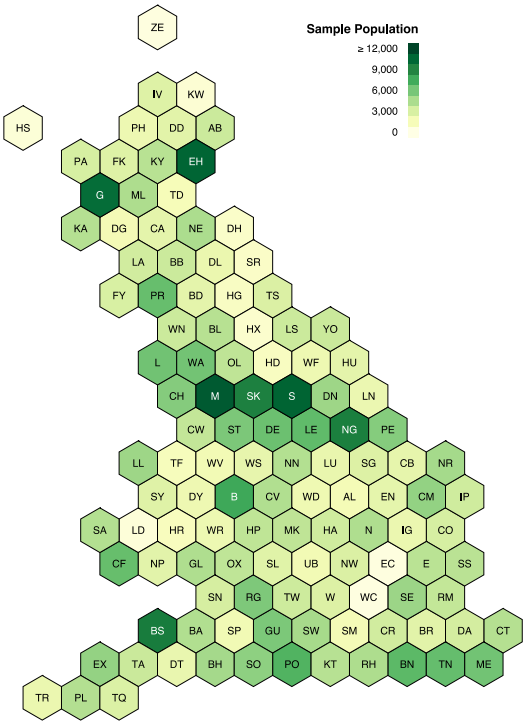


Figure 1. Location of accounts used in this work.

Demographic bias.

In terms of demography, the biases are smaller. Combining sex and age band, the most over-represented segment is about 20% higher than might be expected from the 2011 census and the most under-represented segment is about 20% lower. The geographic biases are illustrated in the orange/purple hex graphic with over-representation being shown in purple and under-representation in orange. So, for example, The Western Isles (HS) and Stockport (SK), coloured darker purple, are over-represented and Durham (DH) and Wakefield (WF), coloured darker orange, are under-represented in our data.

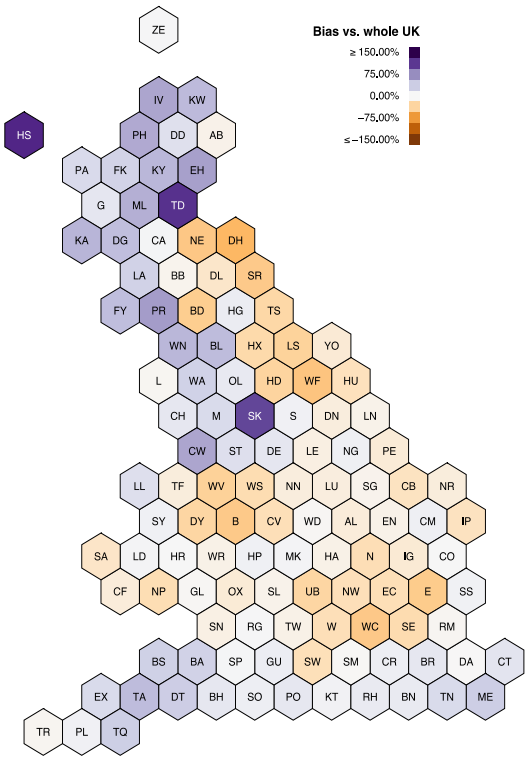


Figure 2. The difference in population by postcode between the dataset and the 2011 census.

In terms of actual numbers of individual account holders, Figure 3 shows the breakdown by age and gender with the youngest age band at the base of the pyramid. In all but the oldest age bands, we have data from over 50,000 account holders. There are more women than men in the dataset, which is likely related to the longer life expectancy of women.

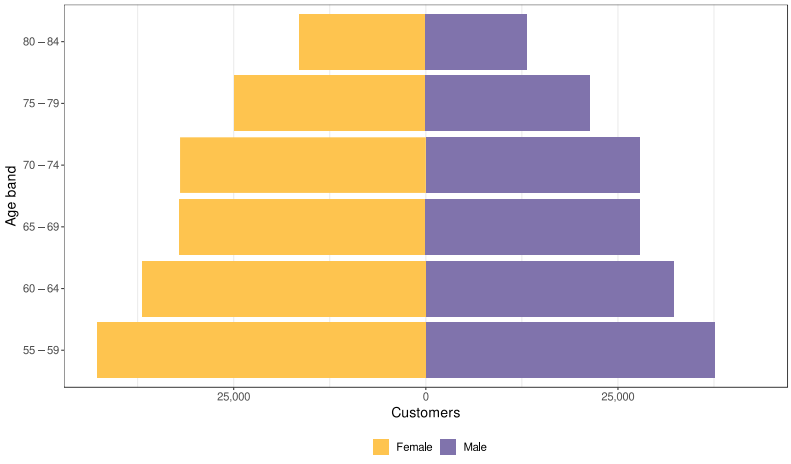


Figure 3. Population pyramid of the number of account holders by age and sex.

Points to bear in mind are firstly, the 2011 census is now nearly a decade old, and patterns may have shifted. Secondly, the characteristics of the banked population may be different from the unbanked population and thirdly, there are non-geodemographic factors that we cannot measure and for which we cannot adjust.

Smart Data Foundry has not yet attempted to understand representativeness in terms of income or wealth, which is believed to be challenging with the data available for various reasons (partial financial picture, double counting resulting from intra-account transfers etc.).

We should also mention that the banking accounts we are using are active banking accounts. That is, we only incorporated accounts where we could observe a minimum activity level, suggestive of the account's regular use (we cover this point in greater detail in Chapter 3).

The data supplied by NatWest Group is reported weekly, and we have observed that income frequencies and expenditure may vary across accounts and fall into different periodicities. We describe these variously as 'Regulars', that tend to have income and expenditure budgeted on a monthly basis, and 'Irregulars' that tend to make financial budgeting on larger intervals of time (up to a quarter). The latter is indicative of accounts that may have irregular income payments, such as account holders that are sole traders. To accommodate for the difference in budgetary frequencies and allow us to measure financial vulnerability (as opposed to simple cash flow management), we aggregated data on a quarterly basis. This provides a reasonable foundation upon which to accommodate for these budgetary particularities and allows us to measure more clearly the risk factors associated with financial vulnerability by avoiding short-term volatility and misclassification.

Research Findings: The impact of the COVID-19 pandemic on income and expenditure.

The dataset covers the three years from 2019 to 2021, and so we have two notable catalysts for change influencing each of the age bands: the considerable economic and social disruption caused by the COVID-19 pandemic and the passage of time as older workers reach pension entitlement and retirement age.

We began our analysis by posing the following question:
What was the impact of the COVID-19 pandemic on older workers' incomes?

The undernoted graphic illustrates the change in quarterly income over 2019, 2020, and 2021. Each line on the graph represents the median income of a different five-year age band. For ease of illustration, throughout this chapter, we exclude the 50 – 54 age band (which we use as the 'control' group for the modelling in Chapter 3, and the over 85 age band).

Figure 4 illustrates the income differentials between age groups, which shows that as individuals age, their income falls. The median income of an account holder in the 80 – 84 age bracket (the dark purple line) is around 40% lower than that of an account holder aged 55 – 59 (the brown line). This accords with the general understanding that pension and retirement income are usually lower than salary income.

In 2020, the arrival of the COVID-19 pandemic in Britain and the measures intended to contain its spread led to increased income volatility. Income dipped for all age bands during the first lockdown in March 2020, reaching a low point in Q2 when median quarterly incomes fell below 2019 levels. This was followed by a further drop in income in early 2021 which corresponded with the decline in economic activity as the second wave of COVID-19 developed.

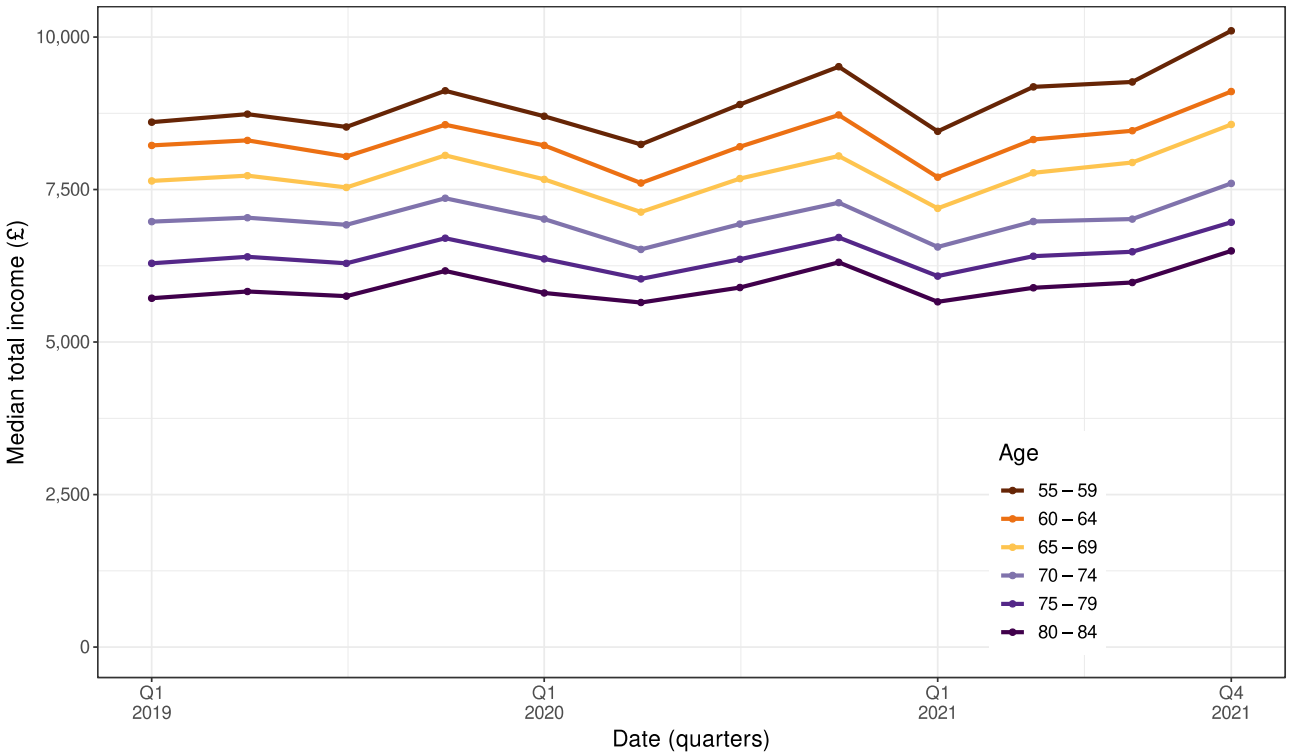


Figure 4. Quarterly median income from 2019 to 2021 inclusive. Each line represents the income of a five-year age band.

Despite the COVID-19 pandemic, median incomes were higher at the end of December 2021 than at the end of 2019, although the older retired age groups show lower income growth than younger age groups. We surmise that the increase in income reflects wage inflation and pension inflation indexing that occurred over the three-year period.

Older age bands experienced less of a pandemic effect than younger age bands. Although retired people's incomes on average prove lower than the working population's income, income volatility is lower because of the greater reliance on fixed income sources, such as state pension.

The second research question we sought to answer was:
How do income sources change as people age?

In the following charts, we build up a picture of the principal sources of income for account holders. The different sources of income an individual receives can be indicative of financial health — for example, revealing whether they are financially dependent on welfare benefits — and can indicate life events, such as the age of withdrawal from the labour market.

In order to understand how income changes as people age, we first examined the data in age bands. A major challenge we faced with this analysis is that we only have access to credits and debits on accounts, without being able to know for certain what many of those credits represent. NatWest Group categorised credits to the underlying accounts using the following aggregated sources: 'salary', 'benefits', 'regular pension payments', 'investment income', 'interest' and 'uncategorised income,' but the classifications NatWest Group have supplied for us are necessary inferences and will sometimes be incorrect. Moreover, some credits cannot sensibly be interpreted as any particular kind of income; some of the 'uncategorised income' credits, for example, could be payments from other accounts and banks. Examples of this are a partner crediting a joint account, cash deposits, the proceeds of asset sales, and inheritance. Further, they may not be income at all, but merely a transfer of money between accounts. An additional challenge we faced is that people may have other accounts with other institutions[2]. The data we have access to is rich and provides a powerful lens, but we remain conscious that it is unlikely to provide a complete financial picture of a person.

As Figure 5 illustrates, across all groups, the most common income source is 'uncategorised income', which includes transfers from savings and any other income not easily classified as salary, pension, benefits, investment, or interest. A proportion of this uncategorised income will include large transfers from house sales and inheritance, and these extreme values will impact group averages by raising them. With that in mind, we also examined data for lump-sum payments. Lump-sum accruals for all but the lowest income groups generally peak between the ages of sixty and seventy, with another peak in the 85-plus age group that may represent house sales to downsize accommodation or fund residential care. We explore the relevance of income fluctuation and lump sums in greater depth in Chapter 3. In our qualitative work in later chapters, we show examples of how lump sum credits can adversely affect financially vulnerable benefit claimants.

[2] The Social Market Foundation reports that 20% of UK adults actively use more than one current account provider.

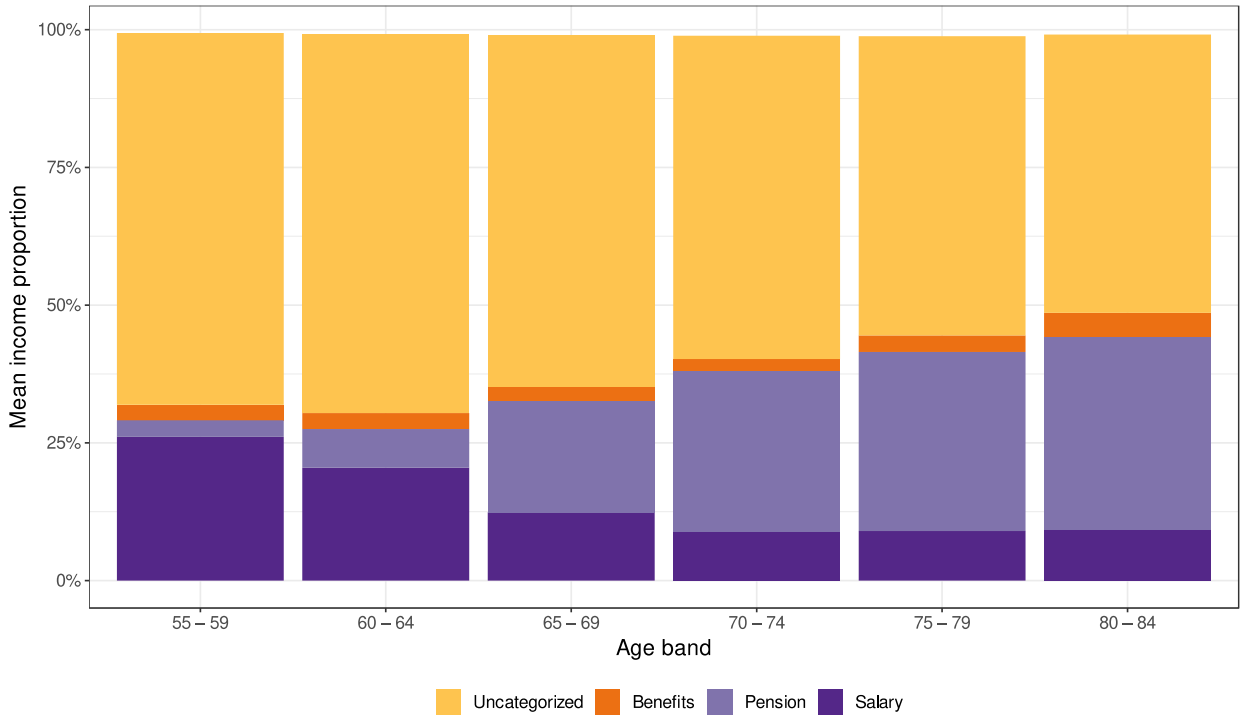


Figure 5. Source of income in 2021 by age band. Note: Totals do not reach 100% because income from investment and interest is not shown.

As individuals enter retirement, they experience a switch in income sources, from salary to pensions, and Figure 5 illustrates this process. The stacked bars represent the portion of income that came from uncategorised salary, benefits and pensions in 2021 for each five-year age band. Across the entire dataset, on an aggregated basis, investments and interest payments were negligible and, for clarity, we have removed these from the chart.

Uncategorised income (the yellow bar) represented a large source of income, although this became less relevant for older account holders. As expected, for those aged 55 – 59, the balance between pension income and salary income was heavily weighted in favour of salary. Salary paid directly into accounts (the dark purple bar) was approximately 25% of account credits for the 55 – 59 age band.

The 60 – 64 age band shows a small shift to pension income, but for the 65 – 69 age band, pension income overtakes salary income. The youngest in the 65 – 69 age band will have occupational pension income, but not yet be of an age to draw the state pension. Early pensioners (age 70 – 74), middle pensioners (age 75 – 79) and older pensioners (age 80 – 84) received the bulk of their categorised income from pensions.

Our third research question was:
What is the difference between income sources for different economic groups?

Thus far, the analysis has highlighted the changes in income sources as older workers age. In the following analysis, we look specifically at the relative incomes of our sample. We divided the population into five segments depending on the average monetary value of credits going into the account over 2019, 2020 and 2021. These credits were less any lump-sum payments, where a lump-sum is defined as a greater than 50% of annual income received in a single week from a single classification. Removing lump-sum income from the classification prevents accounts from being classified as high income from one-off events like a house sale or inheritance. We subdivided the accounts to reflect annual income of below £10,000, £10,000 – £19,999, £20,000 – £29,999, £30,000 – £49,999 and over £50,000[3].

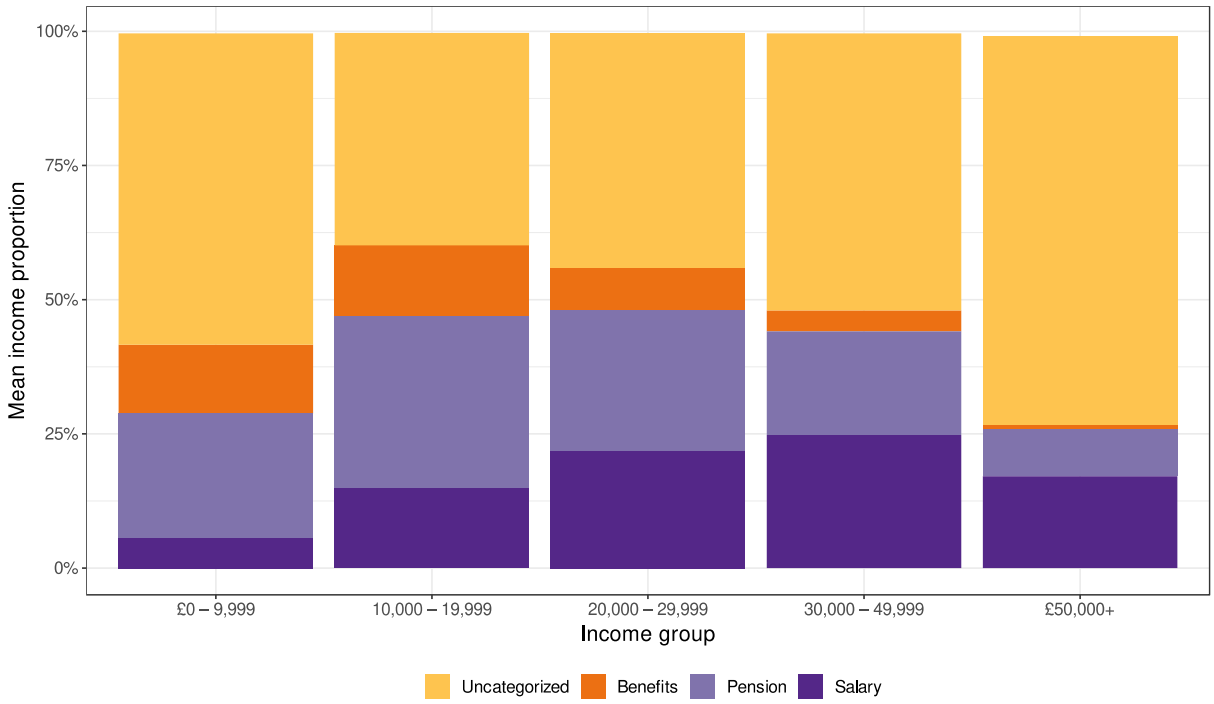


Figure 6. Source of income by annual income band. Note, income from interest and investment is not shown.

Accounts in the lowest income band received, as would be expected, the smallest proportion of income from salary and a larger proportion from benefits and pensions. Benefits, although representing an increasingly smaller component of income as income rises, were still present in some accounts with an annual income of over £50,000 a year. We surmise that the source of the benefits for the upper income band is 'attendance allowance' and winter fuel payment, which are non-means tested.

[3] Note that we have divided the accounts this way illustrative purposes and the income bands do not contain equal numbers of accounts. All the income bands contain over 80,000 accounts with the exception of the below £10,000 income band that contains just under 20,000 accounts. In the Cox Hazard modelling in Chapter 3 we use income quintiles.

Accounts with income under £10,000 per year.

Next, we look at each income group by age. First, focusing on those accounts with an annual balance of below £10,000 (Figure 7) for the youngest age bands, most accounts received the bulk of their income from uncategorised (yellow). We conjecture that the uncategorised income represents cash payments from work and transfers from other accounts. The second most common source of income was benefits (orange). We note that benefits were a larger percentage of income for the working age group than for those of state pension age, although benefits were higher again in the oldest age group, and we surmise that attendance allowance will represent a portion of these credits. Progressing through the age bands, moving from left to right, by the time an account holder is of state pension age, those accounts with lower incomes were more likely to have their largest income source as pension payments (pale purple). Salary (purple) was a negligible source of income for the average account in the older income bands.

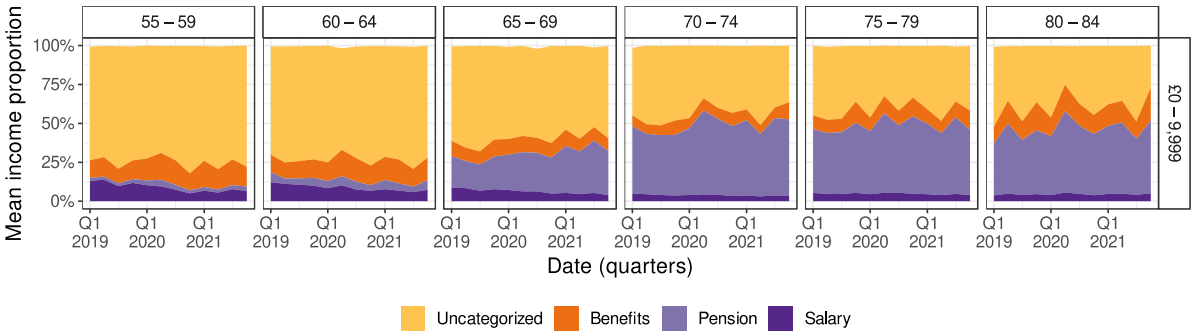


Figure 7. Source of income for those accounts in the under £10,000 income band.

Accounts with income between £10,000 and £19,999 per year.

Most accounts in the £10k to £20k group see a declining reliance upon salary income as account holders' age increases. Progressing through the age bands, moving from left to right, the youngest ages have negligible pension income (pale purple), as would be expected, but pension made an, albeit small, contribution to income in the 60 – 64 age band. None of these account holders will have reached state pension age and, in all probability, most of this pension income will be from work-related pensions. In the 'approaching retirement' (65 – 69) age band, we see that pensions supplement salary (dark purple) but there was also a decline in the relevance of benefits, with the lost income replaced by pensions. Our supposition is that benefits declined in the 'approaching retirement' age band as the children of this age group left school and parents were no longer eligible for child-related support benefits.

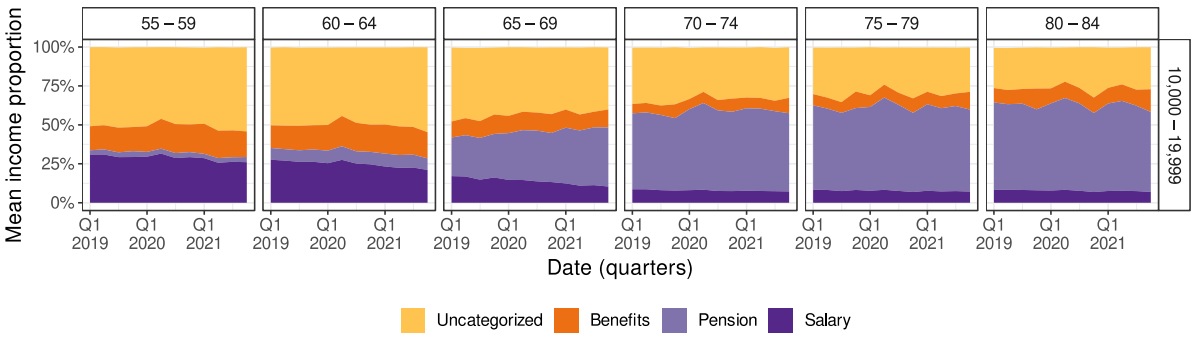


Figure 8. Source of income for those accounts in the £10,000 – £19,999 income band.

Accounts with income between £20,000 and £29,999 per year.

In the financial year to March 2020 the median household income in the UK was £30,500[4], meaning this income group is especially interesting because it will contain many individuals and households that would not normally be categorised as at risk of financial vulnerability, but that might become so were circumstances to change. In Chapter 3, we look in depth at the individual risk factors that might tip an individual from financial security into financial vulnerability, and, in the subsequent qualitative research, we provide some real-life examples of how adverse events such as job loss can catapult individuals from security into insecurity. In the £20,000 to £29,999 income category, benefits as a percentage of income remain broadly similar across the age bands. As would be expected, the £20,000 to £29,999 income band was much less reliant on benefit income and received more income from salary. Pension income (light purple) was the main income source for the retired age groups, but salary income (dark purple) is still relevant even in the oldest age bands.

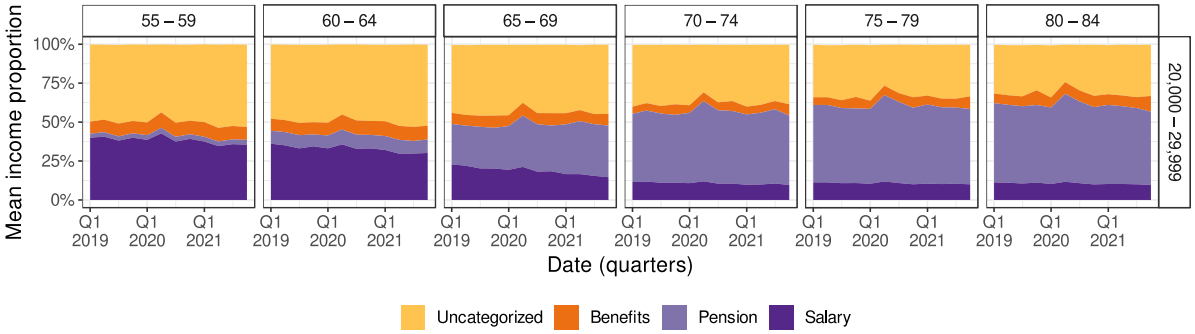


Figure 9. Source of income for those accounts in the £20,000 – £29,999 income band.

Accounts with income between £30,000 and £49,999 per year.

The younger age bands of the £30,000 to £49,999 income group received most income from uncategorised and salary with pensions not of principal importance until age 70. There may be bi-directional cause and effect here, in relation to salary and the income band — individuals who work longer have more opportunity to maintain higher income but, as we discuss in later chapters, individuals from higher socio-economic groups are, on average, in better health and more able to work in later life. Uncategorised income continued to be a significant source of income in later years, and we speculate that this represented cash inflows from investments, inheritance and property sales.

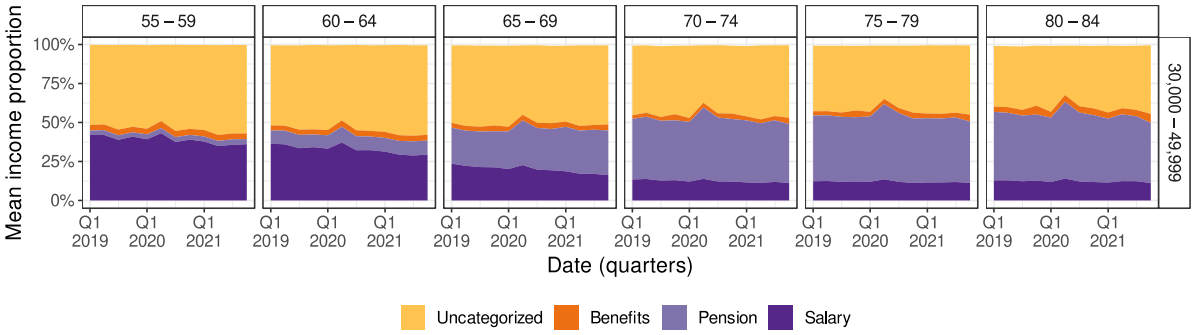


Figure 10. Source of income for those accounts in the £30,000 – £49,999 income band.

[4] Office for National Statistics (2021). Average household income.

Accounts with annual income of £50,000 and above.

For the highest income band, salary deposits dropped with age, but there was still salary income in the oldest age bands. The chart shows only the percentage of income represented by each source, but, in monetary terms, our additional analysis reveals that pension does not replace all the lost salary income of older wealthier accounts. The wealthiest income band is more likely to have additional income sources in retirement, such as investments, and may be more likely to use financial mechanisms which are difficult to classify.

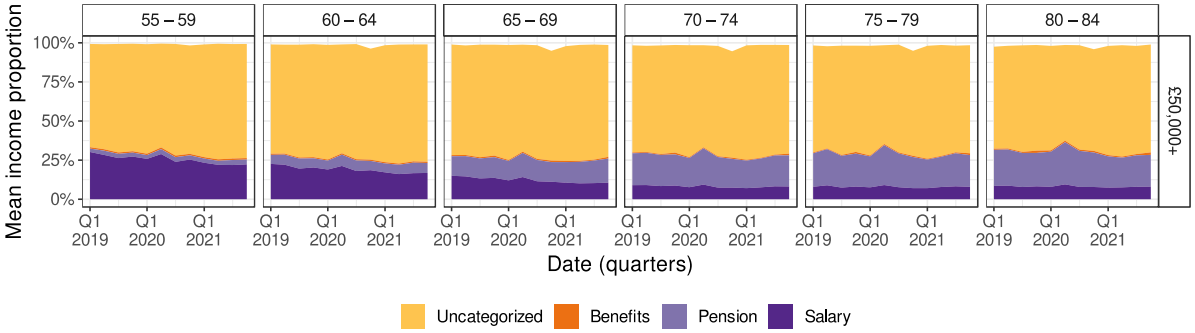


Figure 11. Source of income for those accounts in the £50,000 plus income band.

The composite picture

Figure 12. Changes in source of income over time by income and age bands.

Finally, we have amalgamated the five income band charts to demonstrate the differences in income sources between both age bands and income profiles. The income bands are shown as rows, and the age bands as columns. i.e., the youngest, lowest income group is in the bottom left square and the wealthiest, oldest age band is in the top right square.

The charts show only the relative proportion of income sources, but in our further analysis (Chapter 3) and in the qualitative work, we reveal that in monetary terms, those at the greatest risk of absolute poverty are individuals below the state retirement age. Incomes for the poorest generally rise when benefit recipients are able to access the state pension.

The median income derived from pensions in 2021 was £13,010 for those in the first decade after the state pension age (70 – 79 years at the end of the sample window). The inter-quartile range (25th to 75th percentile) was £8,590 to £19,930 for the same criteria. Income from pensions was lower among the over 80s and, although there was a slight rise in receipt of benefits, this did not fully replace the pension income shortfall. The explanation for the lower income is perhaps due to the gender imbalance in the older age group with more women, who have lower pension income, in this than men. We also note that there is an acknowledged shortfall in older age groups claiming Pension Credit. There were just over 5000 accounts attached to individuals over the age of 70 with income below £10,000.

Although income is of paramount importance, the other side of the equation to avoiding financial vulnerability is in maintaining affordable expenditure. Hence, our fourth research question is: ***What are the changes in expenditure since 2019?***

We have adopted a similar analytical approach to expenditure to the one we used in our examination of income. The composite chart below shows the changes in the types of expenditure throughout the period 2019 to 2021, broken down by age and income groups. We have separated out the five income bands on the charts to demonstrate the differences in expenditure. As above, we present the income bands starting with the lowest income band. The age bands are in the columns, starting with the youngest age group of 55 – 59 on the left and the oldest age band on the right.

Accounts with under £10,000 income per year.

The dominant expenditure type across all age bands was essential, (the purple line) which includes food, washing, utilities, council tax, work and school travel, and other similar items. The amount spent in this category fell in 2020 for every age band group, with minima coinciding with COVID-19 lockdowns. Those of working age reduced their essential expenditure the most, possibly in response to a decrease in income. The reduction in uncategorised spending was largest in the oldest age band.

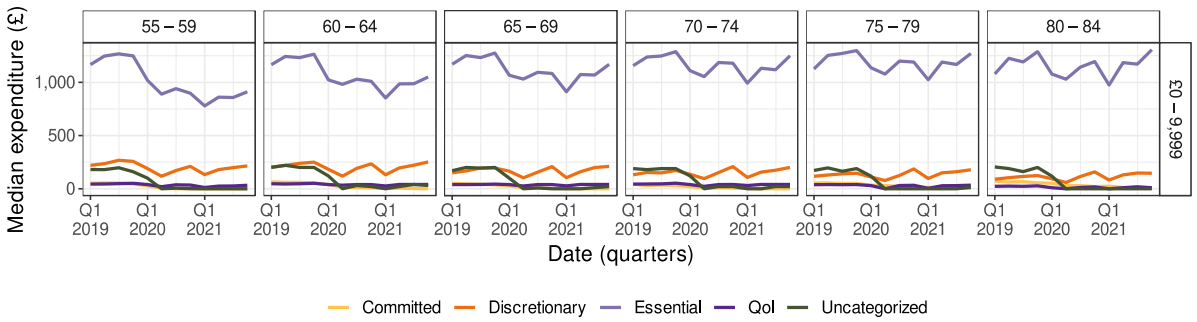


Figure 13. Source of expenditure for accounts with income under £10,000 per year.

Accounts with income between £10,000 and £19,999 per year.

The dominant expenditure type across all bands was essential, which includes food, washing, utilities, council tax, work and school travel, and other similar items. Essential expenditure was significantly higher than for the under £10,000 income group. This income group also increased essential expenditure over the three years, with only small decreases coinciding with the COVID-19 lockdowns. At the periods that coincide with the two national COVID-19 lockdowns, there was a decrease in discretionary expenditure (yellow line) most likely relating to the closure of places where individuals could spend money, but a rise in the period between the two lockdowns. Discretionary spending was higher for the younger age bands. There was a fall in uncategorised spending that coincides with the first lockdown, and we conjecture that this represents a shift from 'cash' withdrawals to traceable payments online (and, hence, categorised expenditure).

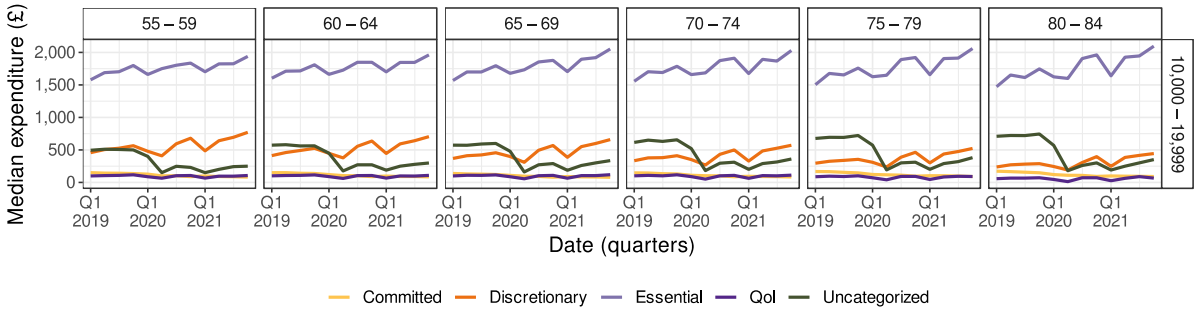


Figure 14. Source of expenditure £10,000 - £20,000 income band.

Accounts with income between £20,000 and £29,999 per year.

The expenditure patterns with this income band are broadly similar to the previous income band. The dominant expenditure type across all age bands was essential (represented by the purple line) and the actual sums spent were around double that of the under £10,000 income group.

The essential expenditure category includes work travel. The pandemic lockdown led to a dramatic reduction in work travel, as many worked from home. We would have expected to see essential expenditure fall during the period, but we see that was not the case. Discretionary spending was higher for the younger age bands. The fall in uncategorised spending that coincides with the first lockdown is more significant for the oldest age group, who are most likely to have been using cash.

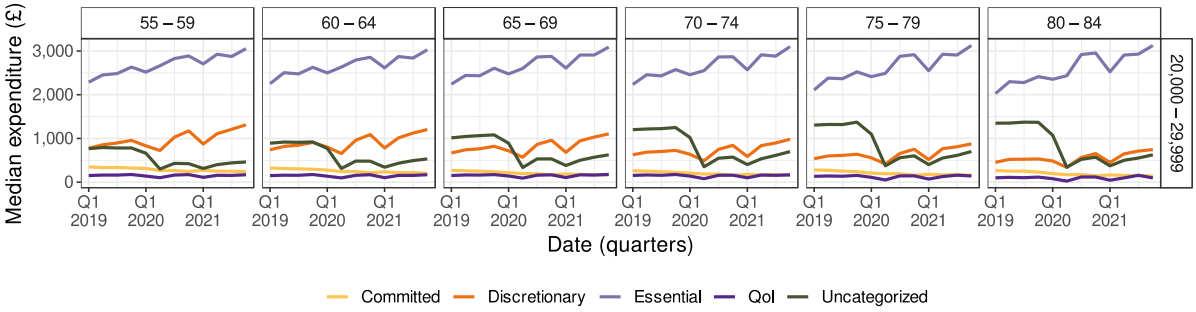


Figure 15. Source of expenditure £20,000 - £30,000 income band.

Accounts with income between £30,000 and £49,999 per year.

The amount spent on essentials in this income group is higher than for lower income bands and suggests that accounts are matching income and expenditure. An example of this behaviour might be those with higher incomes spending on better quality and more expensive items, such as organic or premium food.

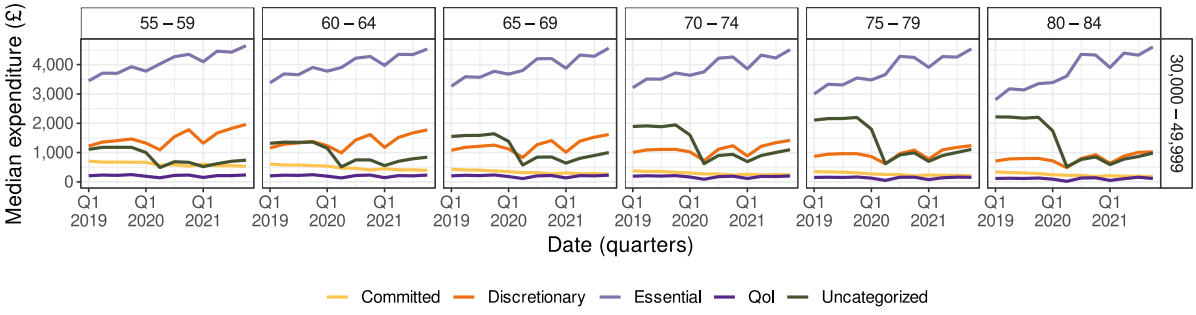


Figure 16. Source of expenditure £30,000 - £50,000 income band.

Accounts with income over £50,000 per year.

The median amount spent on essentials in this income group is considerably higher than for lower income bands and provides further evidence that households matching income and expenditure. A portion of this expenditure will be taken up by the higher council tax bills and utilities of larger properties. There is a very sharp fall in uncategorised spending in 2020 among the oldest age bands, which is so far unexplained.

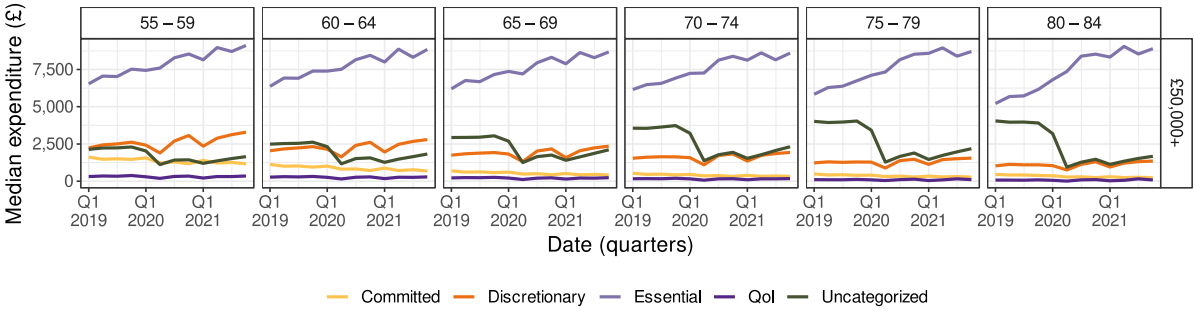


Figure 17. Source of expenditure over £50,000 income band.

The composite picture.

We now show the income bands aggregated with the youngest, lowest income group is in the bottom left square and the wealthiest, oldest age band is in the top right square.

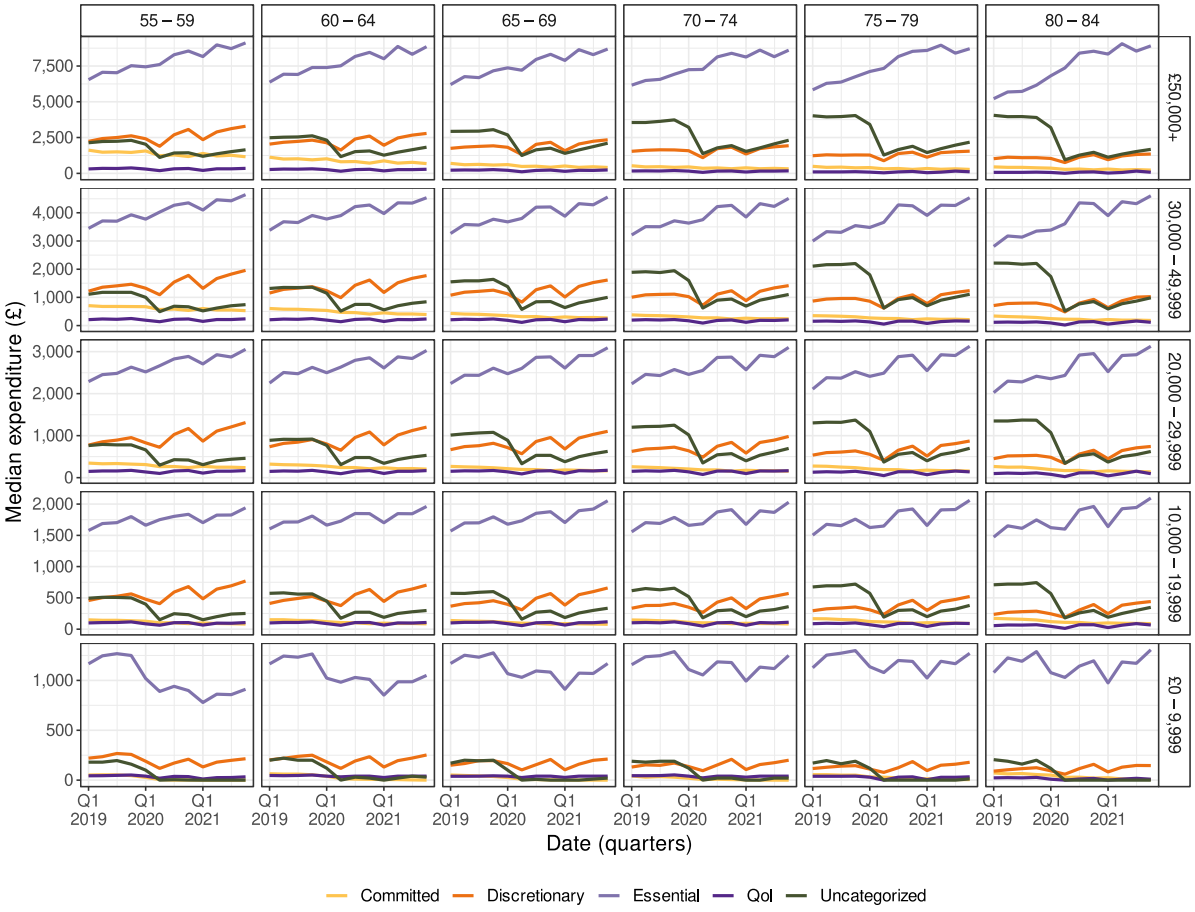


Figure 18. Average expenditure each quarter for income and age bands.

Several points stand out. All accounts, bar those of the lowest income, experienced rising expenditure on essentials over the period with higher spending in 2021 over 2019, and we conjecture that this reflects the rising cost of living. However, we must be alert to the sharp fall in the uncategorised category (the dark green line), especially in the oldest age bands. This coincides with the first lockdown. We conjecture that this represents a shift from 'cash' withdrawals to traceable payments online (and hence, categorised) expenditure. The lockdown saw an inflationary spike in the cost of essentials such as food and energy and inflation continued to increase in 2021. Across all the groups, we see spikes in essential expenditure during Q2 2020 and Q1 2021 lockdowns. These were more extreme for the oldest age bands and for those with the highest expenditure.

The committed expenditure category is represented by the orange line. This category includes loan repayments and interest, some contracts, and child maintenance. There was a fall in committed expenditure over time, which is so far unexplained. Quality of living expenditure is represented by the darker purple line. This includes broadband, television, clothing, and non-work-related or essential

travel. We cannot see much change in this dataset over the period, but perhaps this is because expenditure merely shifted within categories (e.g., less shopping and more streaming subscriptions).

The discretionary expenditure category (yellow line) captures disposable income and included expenditure such as gym, golf or other memberships, and leisure, retail, or beauty spending. As expected, discretionary expenditure across the board fell during the lockdowns.

Uncategorised expenditure represents expenditure whose category is unknown. Included in this category are credit card payments, cash withdrawals, and cheques. There was a sharp fall in this category (the green line), especially in the oldest age bands, coinciding with the first lockdown. We saw a sharp fall in uncategorised expenditure in the oldest age bands and a very sharp fall for the wealthiest oldest group.

Approaching financial vulnerability.

Our analysis considered whether income kept pace with expenditure for older workers during the pandemic and, if it did not, which age groups or income groups were most affected**.** Figure 19 below shows the relationship between income and expenditure over the three years of the dataset for each income group (the rows) and each age group (the columns). The youngest, lowest income band is in the bottom left square and the wealthiest, oldest age band is in the top right square.

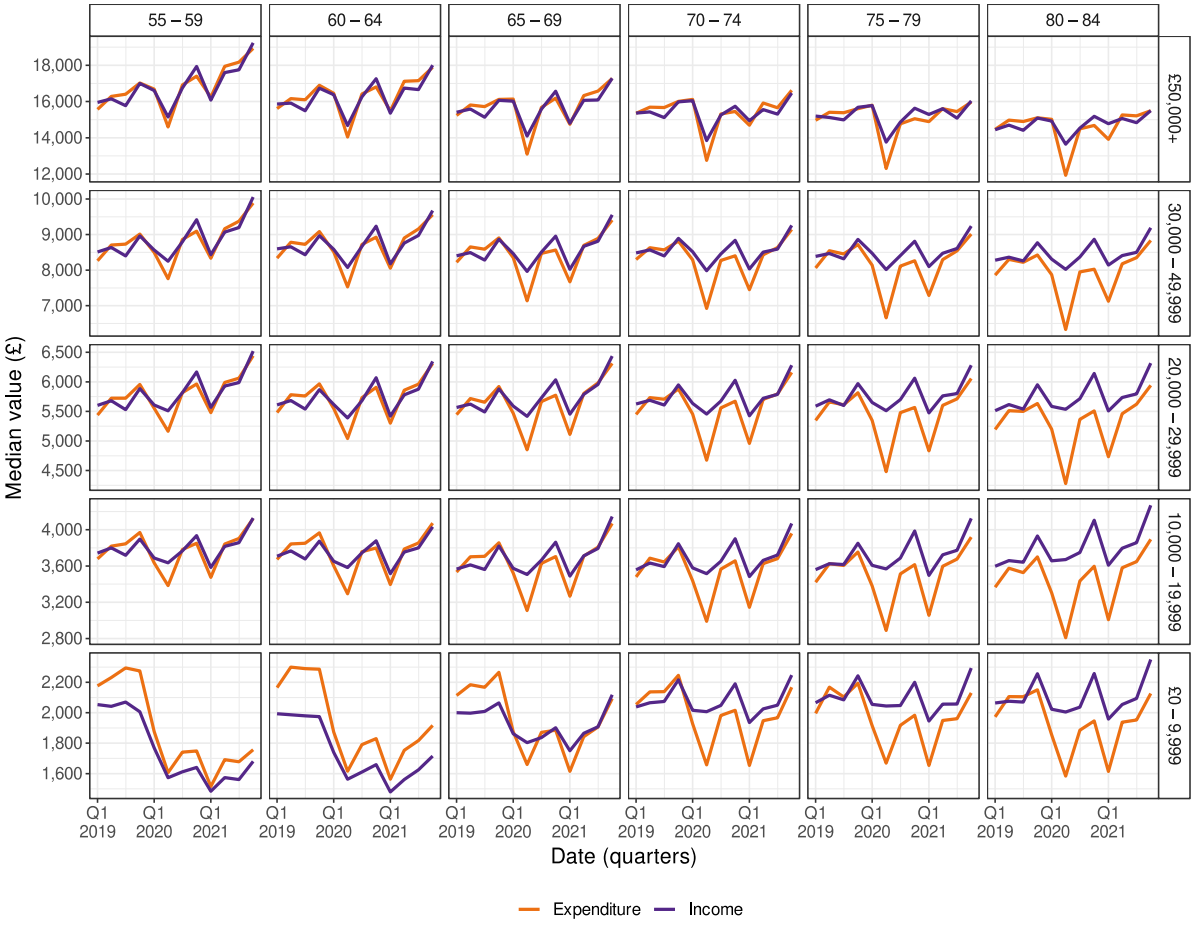


Figure 19. Median income and expenditure.

For every income band, we saw a pattern of reduced expenditure during the lockdowns, which took expenditure (marked in orange) for most groups below income (marked in purple). This was strikingly more apparent for the older age bands, with large falls in expenditure for those over the state pension age. This accords with ONS data that shows that consumption cuts during the pandemic[5].

The anomaly was the highest earners with income over £50,000 where income tracked expenditure very closely during the COVID-19 pandemic. We conjecture that some of the highest earners experienced income cuts from self-employment or did not receive productivity-related bonuses. This group may also have been able to regulate income in reaction to decreases in expenditure.

Focusing on the below £10,000 per year income band.

The focus of this research project is the financially vulnerable and so, in the following chart, we highlight the older workers in the lowest income category. These charts illustrate the pandemic impact on the lowest income group of working age, where income fell to approximately 70% of 2019 levels. For most of this group, expenditure was higher than income and this overspending was prevalent throughout all of 2019. There was a brief period of respite in Q2 of 2020 as expenditure fell sharply, but the pattern of income expenditure imbalance resumed. In the post-state pension age groups, although median income was low, it was sufficient to cover expenditure.

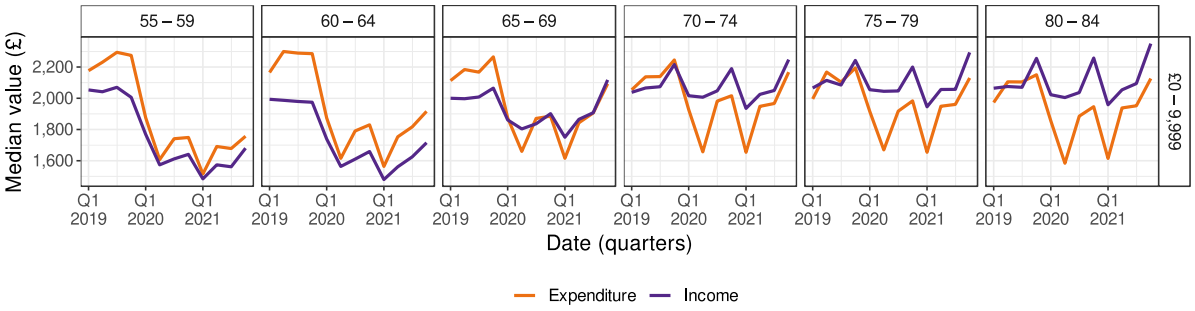


Figure 20. Median income and expenditure — Income band below £10,000.

In our second chart in this section, we look at the proportion of the account holder's outgoings that are categorised as essential or committed.

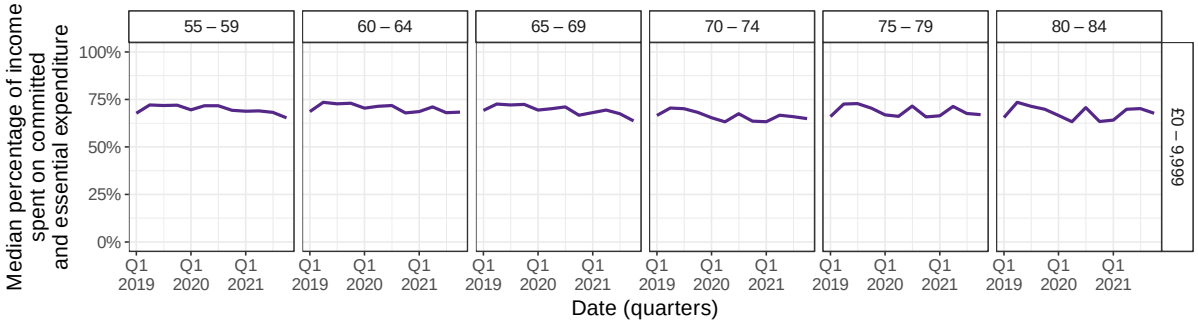


Figure 21. Percentage of total income spent on committed and essential expenditure each quarter for income accounts below £10,000.

[5] Office of National Statistics (Sep 2021) Weekly household spending fell by more than £100 on average during the coronavirus pandemic.

The dark line is the median value, with the envelopes representing the upper and lower quartiles (25th and 75th percentiles). Each small multiple shows a different age band.

Committed and essential expenditure represents, for example, loan repayments, rent, mortgages, utility bills and food. These are the categories of expenditure where households have little, if any, leeway for reductions. Understanding what proportion of income is spent in these areas helps us to better understand the financial vulnerability of accounts. Most income groups, irrespective of age, spent between one-half and three-quarters of their income on essentials and committed expenditure. It was noticeable in our dataset that the oldest began spending increasing amounts of their income on essential and committed expenditure at the onset of the COVID-19 pandemic. There was a corresponding decrease in uncategorised expenditure, much of which may be cash. Older people have traditionally used cash, but the fear of COVID-19 transmission via touching and handling may have moved some of this activity to online and payment card along with a concomitant reclassification by the data provider. Notably, accounts in the lowest income bracket consistently spent about three quarters of their income on committed and essential activity. It is difficult to distinguish, at this aggregate level, between those accounts which are being managed to just pay household bills (with credits set up to cover debits) and the accounts of the financially vulnerable who can barely afford to pay household bills.

Our final research question is: ***What was the impact of the pandemic on overdraft use?***

The NatWest data does not explicitly contain information on overdraft use, but it does contain the minimum balance each week. We have used the minimum account balance below zero as a proxy for overdraft use. We investigated frequent overdraft use and Figure 23 shows the percentage of accounts that were overdrawn on six or more weeks in any one quarter broken down by age band and income bracket. Each dot represents the percentage of accounts that were persistently overdrawn that quarter.

Persistent overdraft use is much more prevalent in younger age bands than in older age groups. The highest overdraft use is amongst those on middle incomes in the 55 – 59 age band. Around 25% of accounts on incomes between £20,000 and £49,000 have run an extended overdraft at one point during the three years of our dataset. Across all age and income bands, there was a reduction in overdraft use linked to the onset of the COVID-19 pandemic in Q2 2020. As places to spend money closed, individuals' bank balances increased. However, this was not consistent across all income bands — those accounts with the lowest income saw the smallest reduction in overdraft use, possibly because they had less flexibility in their spending patterns. Persistent overdraft use continued to fall during 2020 and the first half of 2021, although thereafter there is a slight uptick in overdraft use.

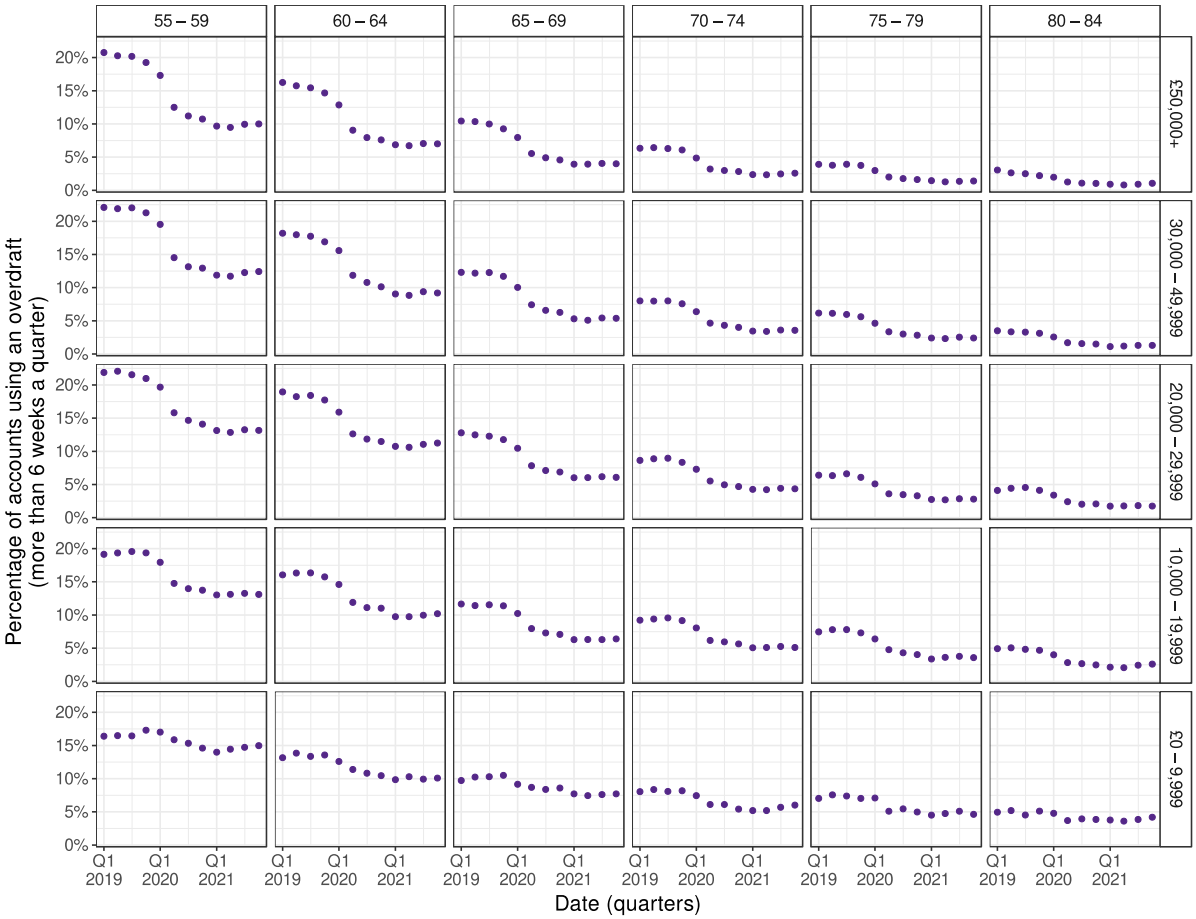


Figure 22. Percentage of total income spent on committed and essential expenditure each quarter for income accounts below £10,000.

As part of the modelling, the results of which we present in the next chapter, we also investigated extended overdraft use. We classify extended overdrafts as ones that are from accounts that have remained overdrawn for at least a full month. This eliminates most cases in which individuals involuntarily withdrew their accounts due to poor money management but do have the resources to settle the debt quickly. Figure 23 quantifies the accounts in each postal area that had extended overdrafts.

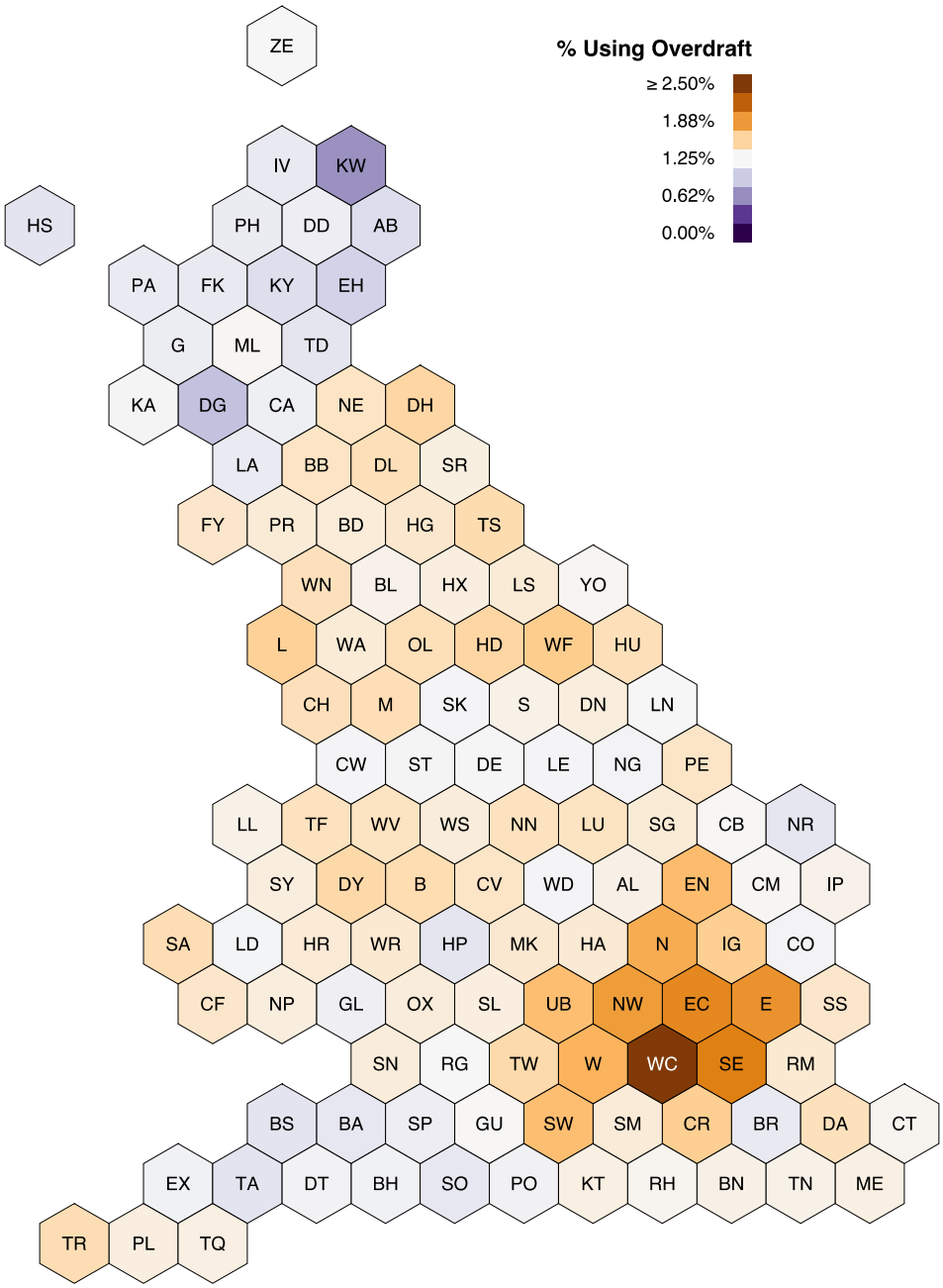


Figure 23. Percentage of accounts frequently using an overdraft by income and age band.

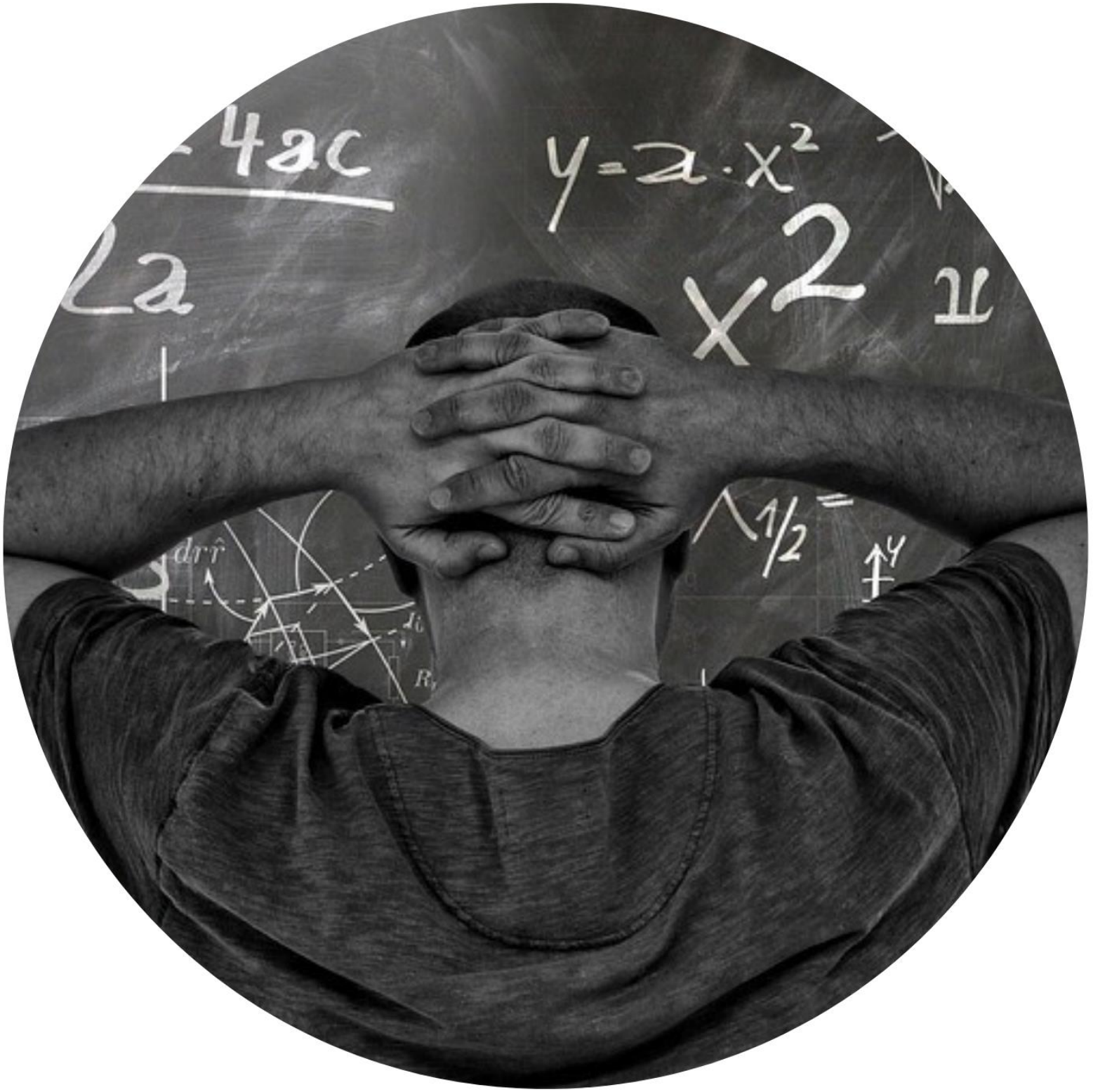
The postal area is defined by the one or two letters at the start of the postal code, e.g., an account holder residing in the Southampton area would have its postal area recorded as SO.

Roughly 14% of accounts had experienced an overdraft that endured for at least a full month. Extended overdraft use is widespread, although it is more prevalent in London. However, we add the caveat that accounts in central London are underrepresented in the dataset.

We are aware that these aggregated broad-brush descriptive statistics, albeit useful, do not fully capture the complexity of individual financial vulnerability in a heterogeneous population. In the following chapter, to determine the risk factors of financial vulnerability at the individual level, we will examine the financial circumstances and activities, via the banking transactions, of all the individual accounts that compose our dataset.

We also show, in our qualitative research in later chapters, the real life causes and effects of the mismatch between household income and spending and offer policy solutions to relieve the greatest hardship for those older workers unfortunate enough to fall into financial vulnerability.

Modelling Financial Vulnerability



SMART DATA FOUNDRY

THE UNIVERSITY of EDINBURGH

In this chapter, we quantify empirically the risk factors for financial vulnerability using the large sample of aggregated banking transactions data described in Chapter 2. We begin by justifying our use of Survival Analysis and explaining how we define financial vulnerability and the factors we use in the model. We then provide the results for our main research questions. First, we consider the influence of age and gender on financial vulnerability. Second, we quantify the impact of income fluctuations on financial vulnerability. Third, we consider the influence of retirement and, finally, we look at the impact of different categories of expenditure.

Our key findings from this section are:

- Adults that are on the verge of being able to access pensions (50-54) are substantially more at risk of financial vulnerability than older individuals. The oldest adults are up to 85% less likely to become financially vulnerable than adults that are on the verge of retirement.
- The retired are less at risk of financial vulnerability than those who are still working or transitioning into retirement.
- Men are at a slightly greater risk of financial vulnerability than women.
- Individuals who experienced an income drop of 31% or higher are between 60% and 170% more at risk of financial vulnerability than those who have experienced an income drop of 10% or less.
- There is a strong indication that individuals resort to withdrawing funds from their pension pots when they are already struggling financially.
- There is an almost 1:1 relationship between the proportion of an account's spending allocated to cost-of-living and increases in their likelihood of financial vulnerability. This means that increases in cost-of-living could have a direct effect on older adults by financially squeezing them.
- The risk factors in this study were lower after COVID-19.

Why do we use Survival Analysis?

Much of the previous research in this field, investigating the factors associated with financial vulnerability, has used either macroeconomic data aggregated at regional (or household) level or survey-based approaches.

Macroeconomic data can fail to reflect the variation between individuals, such as spending preferences and income circumstances, and may lead to generalisations or – in extreme cases – simplistic inferences and conclusions. Consider, for instance, how spending on food and utilities varies among individuals according to where they live, demographic characteristics, personal needs, circumstances, preferences, and lifestyles. These differences may distort inferences made from aggregate-level data or highlight changes in financial vulnerability that result primarily from changes in cohort composition. This exemplifies the long-standing problem of "aggregation over individuals" in socioeconomic studies[1].

Surveys, on the other hand, allow the manipulation of conditions to identify relationships between the variables of interest, but this may not fully capture the full richness of decisions and phenomena observed in the real world. Survey studies tend to use small sample sizes with limited population coverage, so capture only the coarsest effects. Additionally, surveys are prone to social desirability bias, i.e., capturing how research

[1] Stoker, Thomas. (1993). Empirical approaches to the problem of aggregation over individuals. *Journal of Economic Literature,* 31(4), 1827-1874.

participants think they should be behaving rather than their actual behaviour.

Our study offers advantages over both these methods because we explore the risk factors of financial vulnerability at the individual level using a large dataset of customers from one of the UK's largest retail banks.

The investigation of the risk factors of financial vulnerability from real-world banking transactions of individuals is still an unexplored arena. Hence, this study offers a novel contribution by exploring a large cohort of customers using three years of banking transactions from 2019 to 2021, a particularly interesting period spanning the global COVID-19 pandemic.

To quantify the risk factors of financial vulnerability, we use a branch of statistical modelling called Survival Analysis (SA)[2], which models the time until an event of interest is predicted to occur for each individual, and quantifies the factors that increase or decrease the likelihood of the event occurring. These approaches have been widely used in medicine to model the proportion of individuals who survive past a certain time and to quantify the associated risk factors, hence the name. SA has also been successfully employed in many finance contexts[3, 4, 5]. In this research, we use 'survival' to mean 'not falling into financial vulnerability' (our 'event of interest'). We select a specific SA model called Cox Proportional Hazards model (CPH)[6], which has been successfully used in financial research, including modelling an individual's credit risk on personal bank loans[7].

CPH has two main components: (i) the Survival Curve, which measures the proportion of individuals in the population that 'survived' to each time period of interest, and (ii) the Hazard Rate which is the probability of an event occurring at any given time, conditional on the individual already having survived that long. The latter is the main focus of this study, which looks at the effects of financial indicators on the Hazard, allowing determination of risk factors from one's financial history. The CPH model is designed to handle predictor variables (e.g., age, gender, income, expenditure) which follow any distribution and no assumption is made as to the underlying event times. This is a major advantage for financial vulnerability modelling by using people's banking data, as there is no requirement for prior probability distribution assumptions to be made by the researcher.

Our CPH modelling focuses on quantifying the risk factors for financial vulnerability associated with (i) age and gender of an individual, (ii) income fluctuations and shocks, (iii) expenditure patterns, (iv) retirement and pension withdrawals, and (v) the coronavirus pandemic. These motivate the design of five research questions that compose the empirical study conducted in this chapter, and which are detailed in Table 1.

[2] Klein, John, and Melvin Moeschberger (2013). Survival analysis: Techniques for censored and truncated data. Germany: Springer New York.

[3] Lunde, Asger., Allan Timmermann and David Blake (1999). The hazards of mutual fund underperformance: A Cox regression analysis. *Journal of Empirical Finance*, 6, 121-152.

[4] Ongena, Steven R.G., and David C. Smith (1997). Empirical evidence on the duration of bank relationships. *SSRN Electronic Journal*.

[5] Shane, Scott, and Maw-Der Foo. (1999). New firm survival: Institutional explanations for new franchisor mortality. *Management Science,* 45 (2): 142-159.

[6] Stepanova, Maria, and Lyn Thomas. (2002). Survival analysis methods for personal loan data. *Operations Research* 50 (2): 277-289.

[7] *Ibid.*

Table 1. Research questions on the risk factors of financial vulnerability.

Research Questions
1. Are age and gender associated with the risk of financial vulnerability?
2. What is the impact of income fluctuations and income shocks on financial vulnerability?
3. What is the influence of retirement on the risk of financial vulnerability?
4. What is the influence of an individual's spending patterns on the risk of financial vulnerability?
5. What is the impact of the coronavirus pandemic on financial vulnerability?

Data Characteristics

Our dataset aggregates transactions for a cohort of NatWest current account customers on a weekly basis. Specifically, for every customer in our sample, for each week between 2019 and 2021, we have the total credits and debits from all activity that occurred across the current accounts held by that customer, as well as the observed balance at the end of each week. We also have some broad categories for both credits ('income') and debits ('expenditure').

Importantly, to achieve our objectives, we aggregated all measurements from an account on a quarterly basis. As discussed in Chapter 2, this allowed us to accommodate for accounts that manage income and expenditures weekly and monthly, as well as for the ones that budget their finances on a larger time span. This provided a more reliable base from which to quantify the risk factors for financial vulnerability.

Another important characteristic of the dataset is that we excluded customers without a minimum level of activity, suggesting the account was not a 'primary account' (i.e., the principal account used to pay for daily activities). Specifically, we excluded customers who, on average, had under £12 a week of expenditure categorised as 'essential'. We called the remaining accounts after this filtering process 'essential accounts'.

Defining Financial Vulnerability

In traditional SA studies, the 'survival' event of interest is typically an unambiguous binary outcome, such as death or whether an individual developed a medical condition. 'Financial vulnerability' is non-binary, and researchers and professional bodies define it differently. Therefore, to determine the measure of financial vulnerability to use in this study, we reviewed the key elements of financial vulnerability as perceived by major professional bodies.

The Money and Pensions Service (MaPS) characterises financially vulnerable people as those who struggle to maintain an adequate income to cover essential expenditure with bills and payments and who lack the financial capacity to deal with the unexpected and to be on track for a healthy financial future[8].

The Financial Conduct Authority (FCA) defines an individual as being financially vulnerable if they are unable to meet living costs and repayments, such as when there is evidence of non-payment of essential bills, the individual having to borrow further to repay existing debts, or the customer only being able to meet repayments of debts by the disposal of assets or financial securities[9]. The FCA also perceives individuals as financially vulnerable if, due to their personal circumstances, they are especially susceptible to harm due to their lack of financial funds. The drivers of such perspective of

[8] The Money and Pensions Service. What is financial wellbeing? (maps.org.uk)

[9] FCA (2020). Financial lives: The experiences of vulnerable consumers.

financial vulnerability are low resilience, low capability, suffering a negative life event or having an ongoing health condition that significantly affects day-to-day activities. Notably, this definition has been widely used to measure financial vulnerability in the United Kingdom. For example, the Citizens' Advice is increasingly targeting their help to people who experience inadequate income to cover essential living costs[10].

Based on the multifaceted conception of financial vulnerability, and on our study's inability to access non-financial hazards such as health conditions, we set out to investigate risk factors through the lenses of 'resilience' and 'capability'.

Resilience is concerned with an account's ability to withstand unexpected financial shocks in the short-term. This is motivated by the evidence that many adults in the United Kingdom have insufficient savings. For example, MaPS estimates that approximately 4 in 10 adults in the United Kingdom have £500 or less in savings[11]. Individuals rely on their savings as the primary source of funds used to sustain but many people do not have the financial means to withstand financial shocks, and this risk increases for people who are disadvantaged or have inadequate interpersonal support networks, such as living in isolation or without family members to rely on[12]. Alternatively, an individual could rely on high-cost short-term emergency borrowing (e.g., credit card and overdraft facilities) to withstand financial shocks, or seek alternatives such as expensive payday loans. Such high-cost borrowing has been shown to amplify financial vulnerability, as individuals struggle to afford high interest rates and may seek more credit to settle these loans[13]. To counter these issues, many financial experts have suggested that individuals should set aside an emergency fund. For example, MaPS recommends that households have an emergency savings fund that can be readily drawn upon to cover sudden unexpected expenses and to maintain living costs in the face of emergencies or life events, such as unemployment, that reduce income.

The amount to set aside for this emergency fund can be fixed or tied to an individual's cost of living. For example, Sabat and Gallagher (2019)[14] propose emergency savings of £1,950, which is an amount they suggest as being a sufficient liquidity buffer for low-income earners to sustain 95% of the possible financial shocks they might suffer. In contrast, MaPS recommends individuals maintain liquid assets to cover at least three months of living expenses and classify those individuals who do not have a financial 'cushion' as displaying low resilience and, therefore, being financially vulnerable. In our survival model, we call this emergency savings fund 'minimum essential balance'. Following MaPS' lead, we classify an account as being resilient (i.e., possessing a minimum essential balance) if it has a financial balance that is equal to or higher than the amount of the previous three months' cost-of-living outgoings. For example, if an account spent in total £3,000 in the previous three months to cover accommodation costs, food, utility bills and other essential or committed cost-of-living items, a resilient account would demonstrate a balance of liquid funds of £3,000 or more, whereas a financially vulnerable account would have less than

[10] Citizens Advice. Getting paid less than minimum wage or living-wage.

[11]Money and Pensions Service (2020) UK Strategy for Financial-Wellbeing 2020-2030.

[12] Perrig-Chiello, Pasqualina, Sara Hutchison, and Bina Knöpfli. (2016). Vulnerability following a critical life event: Temporary crisis or chronic distress? A psychological controversy, methodological considerations, and empirical evidence. In *Surveying human vulnerabilities across the life course*, pp. 87-111. Springer, Cham.

[13] Lusardi, Annamaria, Olivia S. Mitchell, and Noemi Oggero. (2017). Debt and Financial Vulnerability on the verge of Retirement". *SSRN Electronic Journal*.

[14]Sabat, Jorg and Emily Gallaher (2019) Rules of Thumb in Household Savings Decisions: Estimation Using Threshold Regression *SSRN Electronic Journal.*

this amount. The benefit of tying the minimum essential balance estimate to the observed total cost-of-living outgoings for each account (as opposed to using the same fixed amount for all accounts), is that this measure of financial resilience is continuously adjusted to reflect the most contemporaneous needs at each point in time for each of the individual accounts that compose our sample. This is of particular relevance when we considered the evidence from the aggregated accounts presented in Chapter 2, which demonstrated that, irrespective of income levels, essential expenditure is closely matched to available income.

Capability is concerned with an individual's knowledge of financial matters or ability to manage money effectively. Evidence suggests that individuals with adequate money management skills use expensive short-term borrowing less and, when they do, are nearly twice as likely to secure lower costs of borrowing[15]. Interestingly, debit card transactions are among the most common triggers of overdrafts,[16] which probably occurs because many are unaware they can overdraw by using debit cards, expecting that debit card purchases and cash withdrawals will be denied if the account lacks sufficient funds. Overdrawing events frequently occur in clusters (i.e., as a series of occurrences), due to multiple small debit-card purchases over a short period, increasing the amount by which an individual may (unknowingly) overdraw. With over half of all payments in the United Kingdom made by card, the risk of people (unknowingly) overdrawing is increasing and may increase substantially more in the near future.

Financial insecurity can also trigger overdraft use by forcing people to overdraw in order to afford basic or essential cost-of-living outgoings. This is illustrated by our interview and focus group research. We quote two passages from participants of this research to illustrate the extent to which increased costs may lead to financial struggles and, eventually, to incurring debt:

People who are on low pay and not entitled to much. They don't get free prescription, don't get all those extra bits, they're the ones that are struggling and they're the ones that come back time and time again. They pay off the debts and then the car breaks down and that starts the spiral again.

Citizens Advice, Essex

There comes a point when they have to replace their shoes or buy a new washing machine because it doesn't work anymore and that's when people get into debt – particularly because they have no buffer.

Debt Adviser, Durham

Furthermore, lower earners have been shown to be more likely to incur higher loan interest rates or have loan applications rejected, thus increasing their reliance on overdrafts to cover short-term expenses[17].

In the light of the evidence presented, we explored two formulations of survival analysis for financial vulnerability, one based on not achieving a minimum essential balance threshold and the other defining the hazard as prolonged overdraft use.

To help ensure we focused on financial insecurity, we defined the *overdraft hazard* as remaining

[15] Huston, Sandra J. (2012). Financial literacy and the cost of borrowing. *International Journal of Consumer Studies* 36 (5): 566-572.

[16] Parrish, Leslie, and Josh Frank. (2011). An analysis of bank overdraft fees: pricing, market structure and regulation. *Journal of Economic Issues* 45 (2): 353-362.

[17] Edelberg, Wendy. (2006). Risk-based pricing of interest rates for consumer loans. *Journal of Monetary Economics* 53 (8): 2283-2298.

overdrawn continuously for at least a full month. We believe this eliminates most cases in which individuals overdraw, but do have the resources to settle the debt quickly. Since NatWest typically notifies account holders when their accounts go into overdraft, failing to settle an overdraft for an entire month suggests financial vulnerability.

Factors associated with financial vulnerability

In this section, we present the factors associated with financial vulnerability extracted from the NatWest customer data. These are categorised as 'control factors' and 'risk factors'. Both kinds of factors are included in the CPH models to model the probability of a financial vulnerability event occurring at any given time, conditional on the individual already having not experienced the financial vulnerability event previously. Control factors are included to increase the validity of the risk factors estimated by the CPH models, as the former can partly explain financial vulnerability but are not the primary focus of our research. The CPH produces, for each risk factor and each control factor, an estimate of the change in the likelihood of an individual suffering the chosen hazard (i.e., either seeing their funds going below the minimum essential balance or go into overdraft). The control and risk factors that compose our study are briefly outlined below but are fully described and illustrated in Appendix 1.

The factors used in the model are the account holders' postal region, gender, income sources, expenditure sources, including uncategorised expenditure, and spending allocations as discussed in Chapter 2. We also identified income shocks (% change in income), income volatility, retirement phases (whether the account holder is working, fully retired or transitioning into retirement), receipt of pension lump sum, and economic status (based on income quintile).

The impact of the COVID-19 pandemic

In addition, we explored separately the impact of the COVID-19 pandemic on financial vulnerability. The outbreak of COVID-19 brought strict measures to combat the spread of the disease, such as the implementation of rigorous lockdowns and closure of businesses and transport hubs. Unfortunately, the pandemic imposed pervasive impacts on all aspects of life, including putting financial pressure on individuals due to direct or indirect loss of income, such as those caused by layoffs, illness, or loss of family members. To combat these, the UK government implemented a series of financial and non-financial measures aimed at helping to keep firms in business, preserve jobs, and provide direct financial support to its population. These measures were intended to counter the negative financial consequences that lockdowns and severe illness may have imposed on people.

Our analysis investigated the differences in the degree of financial vulnerability faced by older adults before and after the COVID-19 pandemic, and the extent to which the risk factors of financial vulnerability employed in the model vary between these periods. To achieve this, we first separated the banking behaviour measurements from our population into two sub-samples. Sample 1 contains all behaviour that occurred before the first lockdown enforced by the UK Government, dated March 23, 2020 (referred as 'before COVID-19'). Sample 2 contains financial data from after this date and until the end of December 2021 (referred to as 'after COVID-19'). We employed the CPH modelling on both of these sub-samples. This allowed us to estimate the degree to which each of the risk factors of the two measures of financial vulnerability varied before and after COVID-19.

Results of the CPH Modelling

This section presents and discusses the results of the risk factors of financial vulnerability derived from current account transactions, as estimated by CPH modelling. First, we provide an overview of the proportion of accounts that experienced our chosen measures of financial vulnerability: (i) an account falling below the minimum essential balance, or (ii) an account that remained overdrawn for a full month. We then discuss the risk factors for the five questions listed in Table 1, presenting the degree to which each risk factor changes the likelihood of an individual suffering the hazard in question.

Financial Vulnerability Overview

Our sample contains summary banking behaviour from 453,604 people. Between 2019 and 2021, we observed that circa 21% of accounts fell below the minimum essential balance and that circa 14% of accounts experienced an overdraft event that endured for at least a full month.

Figure 1 shows the proportion of accounts that failed to maintain a minimum essential balance. The findings demonstrate clear regional concentrations (with higher proportions found in Greater London, West Midlands, Wales and the North of England.).

Interestingly, experiencing an overdraft (as illustrated in Figure 23 in Chapter 2) seems to be a more evenly distributed phenomenon, with occurrences spread across Great Britain. This is with the notable exception of Greater London, where account holders have the highest observed instances of both of our defined financial vulnerability measures.

Taken together with the breakdown of overdraft use illustrated in the previous chapter, these results do show that it was important to control for an account's location in the CPH modelling, as there are geographic patterns in the proportion of accounts falling below the minimum essential balance and accounts going overdrawn for a full month.

We draw attention to the observation that, with respect to Greater London, the distribution of accounts that failed to maintain a minimum essential balance does not match the median wealth and income geographic distributions previously produced by the Office of National Statistics[18]. Wealth and income are unevenly spread across Great Britain, with median household income being lowest in Wales and the North East and highest in the South East, closely followed by Greater London. Incomes after housing costs in Greater London are lower on the relative scale, but still higher than most other regions. We speculate that our data is identifying the extremes of income present in the capital and the impact of the higher cost of living. However, we add the caveat that accounts in Central London are under-represented in our dataset.

[18] Office for National Statistics. (2020). Average household income per quartile by region.

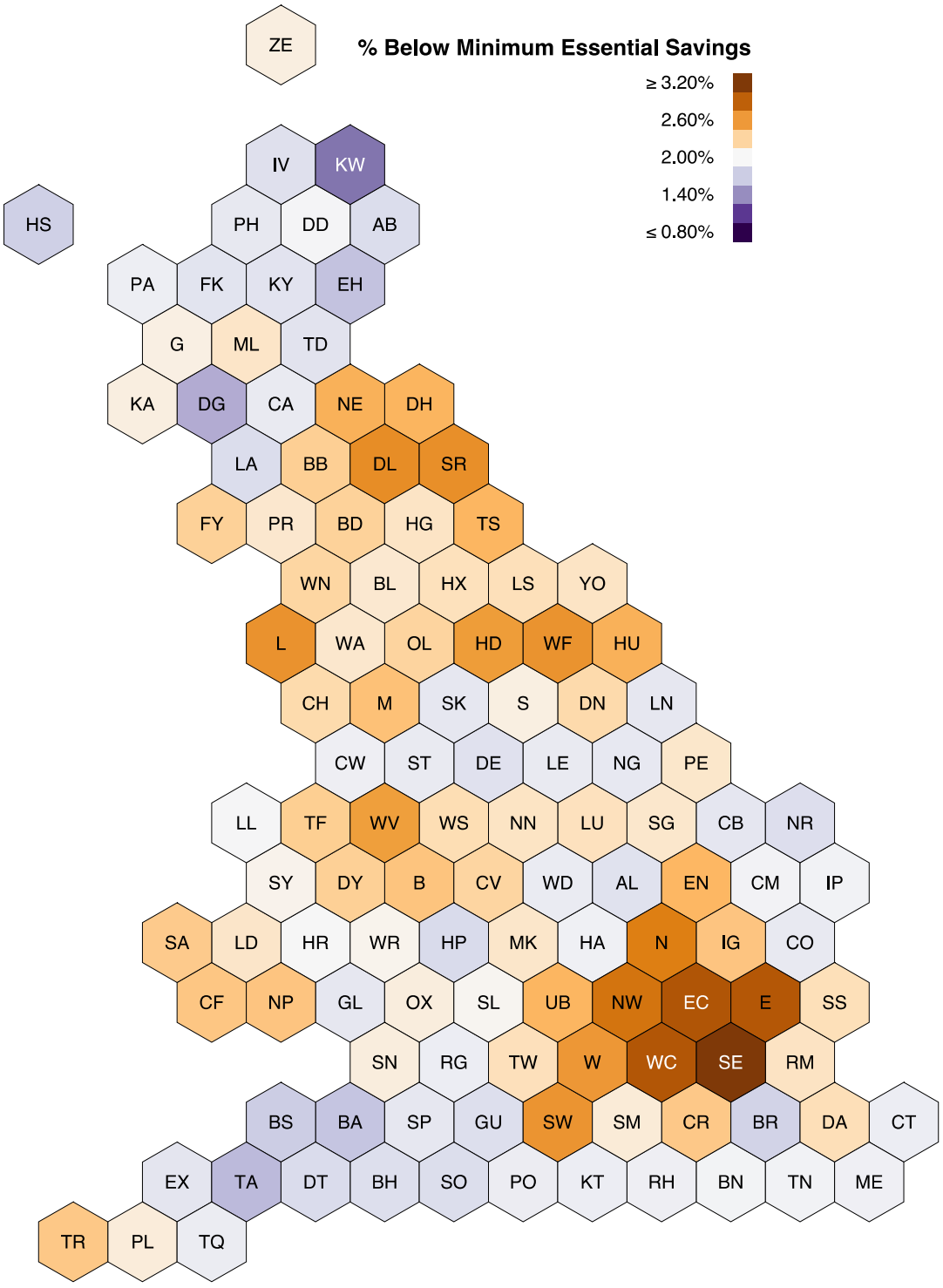


Figure 1. Proportion of accounts in each postal area that fell below the minimum essential balance between 2019 and 2021.

RQ1 Are age and gender associated with the risk of financial vulnerability?

Key Findings: as adults become older, they are less likely to become financially vulnerable. Men are somewhat more likely than women to fail to maintain an essential minimum balance and have an extended overdraft.

Age

To explore the influence of age on the risk of financial vulnerability, using the age group of 50-54 as the reference point (cf. the baseline hazard in the CPH model), we compared the difference in the relative likelihood of current accounts becoming financially vulnerable for the other older age bands. Our results, displayed in Figure 2, show that there is a negative linear relationship between age groups and the risk of an account failing to maintain a minimum essential balance or to experience an overdraft event.

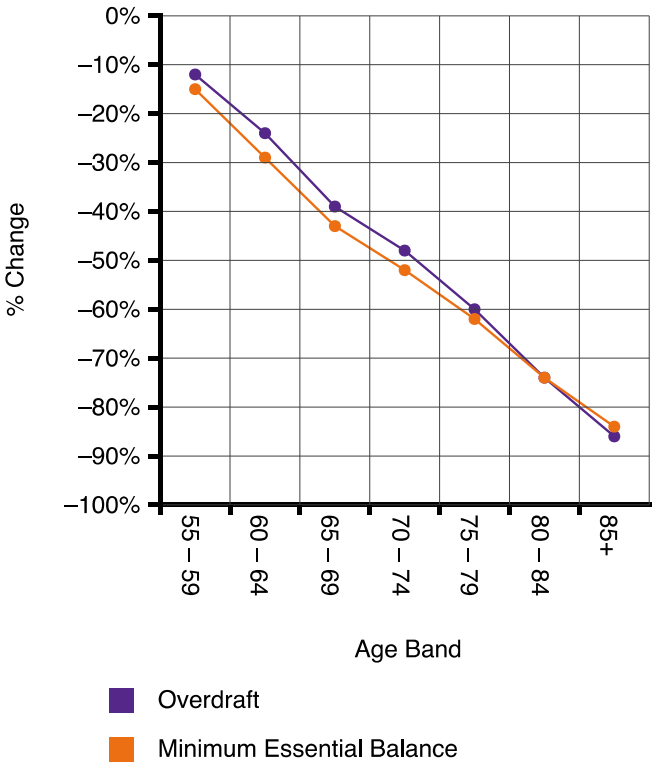


Figure 2. Changes in the relative likelihood of an account falling below the minimum essential balance and to overdraft, associated with age.

The purple line illustrates the risk of older people going overdrawn and the orange line illustrates the risk of dropping below minimum essential balance levels. The downward slope illustrates that the risks fall very consistently as people age. For example, the risk of financial vulnerability, by our measures, is over 80% lower for people over 85 than it is for people aged 50-54.

Most people under 55 have not yet retired and normally use work-related income for living expenses, so the instability of this income source may be an important driver of financial vulnerability. In this age group, spending may also be higher compared to older age groups. For example, younger age groups may be more likely to have dependants, such as teenage children, or still have to make mortgage repayments. Furthermore, this age group is likely to be more active, driving higher expenditure on discretionary goods, commuting, leisure, and other quality of living items. We conjecture that as individuals get older, the combination of having more stable sources of income from pensions and having fewer spending burdens leads to a lower hazard of financial vulnerability.

Gender

Men are somewhat more likely than women to fail to maintain an essential minimum balance, and to have a prolonged overdraft. Specifically, accounts belonging to a man are 8.5% more likely to fail to maintain a minimum essential balance and 10.7% more likely to experience overdrafts.

The finding that men are more at risk than women is surprising. A possible explanation is that the accounts used to manage essential and committed expenditure (such as rent or mortgages), and receive the main household income, may be more likely to have a man as the primary holder. This then raises the risk that these accounts could be at greater risk of income shocks. Accounts where women are the primary holder could have a higher

probability of being secondary household accounts and, therefore, could be more amenable to reducing expenditure if income falls.

An important point to bear in mind is that because we only have access to current accounts, we do not know for certain what slice of the account holder's financial history we have. Previous research concludes that women are, on average, less risk tolerant than men when making financial decisions and that this can lead to lower market-linked asset accumulation[19]. So it may be that women are more inclined to keep higher cash balances (which are perceived as less risky) in their accounts, whereas men may be more inclined to invest surplus income elsewhere. We conjecture that there might also be 'behavioural' differences and that women are more reluctant to overdraw their accounts.

Taken together, these age and gender results suggest that demographic factors significantly influence the risk of financial vulnerability and, therefore, are important risk factors of financial vulnerability.

What is the impact of the coronavirus pandemic?

After COVID-19, all age groups were slightly less at risk of falling into financial vulnerability, although this was not a material change.

When inspecting the financial vulnerability risk factor associated with gender, we identified two interesting patterns. The gender gap in the risk factor of falling below the minimum essential balance decreases by almost 20% after COVID-19 from 9.5% to 7.7%, whereas the gap increases by around 40% for overdraft after COVID-19 – from 10.2% to 14.4%.

In other words, men are less susceptible to the lesser level of financial vulnerability, but more susceptible to the greater level of financial vulnerability indicated by overdrawing.

This apparently contradictory finding may reflect the type of individuals who have been falling into financial vulnerability since the pandemic. There is evidence to suggest that, since the first lockdown, there have been some attitudinal changes to financial decision-making that have led to improved savings habits[20]. From a behaviour perspective, the lockdown may have helped some men with limited savings to develop a regular savings habit[21]. However, crucially, saving can only occur if an individual has 'room to manoeuvre' with their personal finances. Wealth inequality in the UK has widened in the last two years and precarious low-income households who are at greater risk for taking on debts have increased debt levels since the pandemic. We infer that we are seeing this increased indebtedness reflected among the most severely financially vulnerable in our dataset.

RQ2. What is the impact of income fluctuations and income shocks on financial vulnerability?

Income shock

We measure income reduction as a percentage, relative to the previous quarter's income and created five categories: income reductions between 10% and 20%, 21-30%, 31-40%, 41-50%, and over 50%.

The impact of an income shock on the risk of an account failing to maintain a minimum essential balance, or falling into an overdraft, is presented in Figure 3.

[19] Yao, Rui, Deanna L. Sharpe, and Feifei Wang. (2011). Decomposing the age effect on risk tolerance. *The Journal of Socio-Economics* 40 (6): 879-887.

[20] Aviva, New Savings habits are here to stay (Sep 2020)

[21] Financial Happiness: A report by Virgin Money and What Britain Thinks (2020)

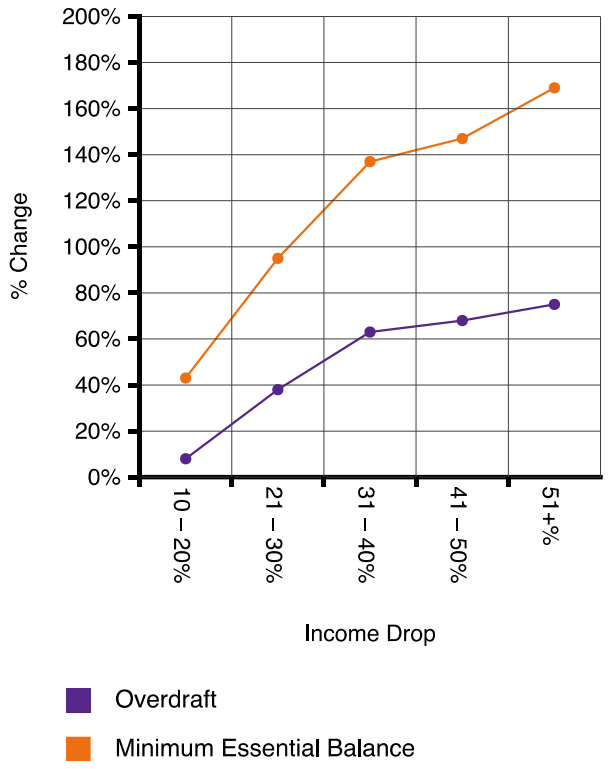


Figure 3. Changes in the likelihood of an account falling below the minimum essential balance and to overdraft, associated with income drops ('shocks') of 10-20%, 21-30%, 31-40%, 41-50%, and 51% or higher.

Figure 3 illustrates that larger income shocks are stronger hazards of falling below the minimum essential balance and entering into an overdraft. In particular, we observe an upward trend in the likelihood of occurrence of both measures of financial vulnerability with respect to increasing income drops. However, we notice that the increasing trend is steeper for the minimum essential levels compared to the one observed for overdraft, particularly for an income shock level of 31% or higher. This suggests that although larger income shocks do increase the likelihood of financial vulnerability, we observe a larger proportional increase in the risk of an account falling below the minimum essential balance compared to an overdraft.

In other words, income shocks have a much more pronounced impact on the likelihood of an account falling below the minimum essential balance hazard of financial vulnerability, compared to an account entering into an overdraft. For example, a customer is around five times more likely to dip below the minimum essential balance threshold, compared to overdrawing their account, in response to an income shock of 10-20%, and for income shocks over 50%, the risk of falling below the minimum essential balance is still over double that of overdrawing.

Income shock risk factors become substantially less severe after COVID-19.

Our thesis is that, beyond those on a minimum subsistence level of income, the magnitude of income drops is critical because individuals largely match expenditure to income. Hence, even an individual on a relatively high income can become financially vulnerable if they experience severe income loss (for example through unemployment or ill health). This is confirmed by our qualitative analysis in Chapter 4, where we discuss the shortcomings of the welfare state to provide a safety net for those who were not previously experiencing financial difficulties.

Income Volatility

As is common in finance, we quantify income fluctuations, using 'volatility', which standardises its units of measurement quarterly, which allows for a comparison that is more meaningful over longer time periods. We measure the volatility related specifically to salary income, separately from the other sources of income because increased salary volatility is most often caused by a reduction in salary whereas volatility in other income sources may be more generally associated with increases in income such as an individual receiving higher than expected returns from investments or being awarded additional benefits.

Table 2 shows the risk of financial vulnerability attributable to income volatility as a function of the position a customer is in the volatility distribution, measured in percentiles.

	Minimum Balance		Overdraft	
Volatility Level	Salary Volatility	Other Income Volatility	Salary Volatility	Other Income Volatility
50th Percentile	0.4%	–0.4%	0.6%	–0.3%
75th Percentile	1.6%	–0.8%	2.5%	–0.7%
99th Percentile	42.9%	–42.7%	68.5%	–39.5%

Table 2. Changes in the likelihood of an account falling below the minimum essential balance and to overdraft, associated with multiple levels of income volatility, ranging from the 50th percentile (less volatile) to the 99th percentile level (the most volatile).

At the 50th percentile (the midpoint in the volatility distribution) as expected, there is negligible risk. Interestingly, we observe that it is only when we see fundamental changes in volatility that we see a major spike in hazard. For example, the accounts with the 1% highest volatility are when we see a substantial risk of financial vulnerability. This is well illustrated when comparing the expected risk factor levels observed for the 99th percentile of salary volatility and for other sources of income volatility, compared to their 75th percentile or lower.

As expected, higher salary income fluctuations increase the risk of an account falling below the minimum savings level and going overdrawn, whereas higher fluctuations of other income sources decrease the risk of financial vulnerability.

A similar interpretation applies to the risk factor of volatility of income from other sources, the difference being that the risk of financial vulnerability is substantially lower at the 99th percentile level from this source of volatility compared to salary volatility. This is in line with our observation that higher fluctuations from other income sources are indicative of a more positive scenario and volatility is associated with large and 'unusual' sums of money flowing into an account, such as receiving an inheritance, selling a house, or large investment returns.

Taken together, the results presented in this section show that large fluctuations in salary income (which is usually, although not always, indicative of major salary income reductions) substantially increase the risk of financial vulnerability.

Whereas the opposite is observed for the risk associated with higher volatility levels of other sources of income (often indicating fluctuations associated with an individual experiencing higher income from non-salary sources).

Income volatility after COVID-19

The magnitude of volatility-related risk factors decreases after COVID-19 on both measures of financial vulnerability.

The proportional reductions in the risk factor of an account falling below the minimum essential balance are approximately 45% for salary income volatility and 75% for other income sources volatility. For overdrafts, the proportional reductions in the risk factors are approximately 55% for salary income volatility and 120% for the volatility from other income sources.

Interestingly, the reductions in the salary volatility risk factor of an account falling below the minimum essential balance or overdrawing after COVID-19 is less pronounced than the reductions in the magnitude of risk factor from the volatility of other income sources. This suggests that individuals who were able to increase income from other sources were less at risk of falling into any of the two

measures of financial vulnerability compared to fluctuations experienced on salary income.

Taken together, the results in this section suggest that the risk factors associated with income shocks and fluctuations had a less severe impact on financial vulnerability after COVID-19.

We postulate that these observed differences may be, at least in part, a result of the stability in the level of salary fluctuations provided by the furlough scheme, which was only made available in the period after COVID-19. In addition, individuals had fewer opportunities for spending due to lockdown restrictions and closures were 'forced' to save or not spend money, somewhat mitigating the impact of income variation.

RQ3. What is the influence of retirement on the risk of financial vulnerability?

We measure the risk of an individual becoming financially vulnerable associated with retirement via two risk factors: (i) moving into retirement, and (ii) withdrawing of a large sum from a pension pot ('pension lump sum').

Moving into retirement

To investigate risks associated with retirement, we classify accounts into those belonging to an individual who is 'working' (when we observe salary and benefits being the primary source of income) throughout the three years covered by the dataset and 'fully retired' (when we observe regular pension income and no salary).

Roughly 56% of the dataset account were fully retired and 39% were non-retired. Fully retired people have a lower likelihood of falling into financial vulnerability compared to older adults who are not yet fully retired. In particular, they are around 14% less likely to have funds below the minimum essential balance target and around 19% less likely to overdraw their accounts. Our assumption is that this is because the retired are no longer vulnerable to the risks of loss of income that come from unemployment or ill health and usually have a more stable income than the working age population.

We further categorised accounts that transitioned into retirement during the period covered by the data. This was around 5% of the dataset. We divided this group into two subgroups. Those where the account has moved from having the bulk of income from salary to pension and where the pension is equal to or greater than 60% of the previous salary income. Nine out of ten of the transition to retirement group were in this subset. We referred to these as 'planned retirement'.

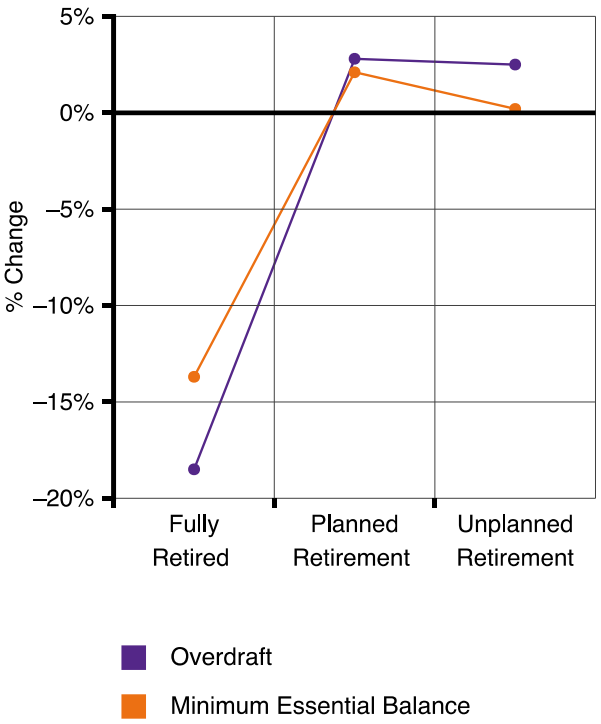


Figure 4. Changes in the likelihood of an account falling below the minimum essential balance and to overdraft, by comparing the risk factor of individuals who are fully retired, who went into planned retirement or unplanned retirement, versus individuals who are working.

The second much smaller subset (which we called unplanned retirement) had moved from having the bulk of income from salary to pension and where the pension income is less than 60% of the

previous. We surmised that individuals who move into retirement and are unable to replace 60% of their pre-retirement salary are less likely to have planned retirement

Overall, as expected, individuals who were transitioning into retirement were more financially vulnerable than those who are fully retired.
Relative to the 'working' population, (which is represented on Figure 4 by the 0% line) the transitioning group display a very slight increased risk in financial vulnerability. There was little material difference in the likelihood of financial vulnerability between our two sub-groups undergoing retirement. The risk of maintaining a minimum essential balance is marginally lower for the unplanned group. Although statistically significant, these changes are of a very small magnitude.

Retiring after COVID-19

Our analysis shows that COVID-19 influenced the risk factor of financial vulnerability associated with retirement. The risk factor is reduced slightly after COVID-19. Before COVID-19, a fully retired individual had an 11.8% lower chance of falling below the minimum essential balance relative to a not fully retired account. After COVID-19, this reduced slightly to 14.5%. Before COVID-19, a fully retired individual had a 16.5% reduction in the risk of overdrawing their account. After COVID-19, the risks reduced to 19.75%.

These results suggest that the general characteristics of being fully retired, such as having greater income stability from pensions, higher wealth, and lower spending on consumer goods, maybe reduced the likelihood of becoming financially vulnerable for the period after COVID-19.

Interestingly, COVID-19 affected the risk factors associated with individuals undergoing different retirement processes. When compared to the working population, individuals undergoing a planned retirement process before COVID-19 experienced a 6% greater likelihood of not having a minimum essential balance. After COVID-19, this fell to 3.7%. Pre COVID-19 they experienced a 3.1% greater likelihood of falling into overdraft but after COVID-19, this reduced to 1.1%. Although statistically significant, these changes are of a very small magnitude.

We should also be aware of the potential furlough effect on the planned retirement group. Individuals planning to retire could have postponed officially retiring while they were on furlough. Because the COVID-19 pandemic led to reduced expenditure, they would have benefitted from longer to build up account balances. The transition from earning a salary to receiving a lower pension income during the period under examination might be less severe than it would have been otherwise.

In contrast, the risk factor of both measures of financial vulnerability increased after COVID-19 for those who went through unplanned retirement. Compared to the working population, before COVID-19 they were 3.2% more likely to have a minimum essential balance and they were 1.39% less prone to fall into overdraft. These risks are reversed after COVID-19, when they then were 5.2% more likely to not have a minimum essential balance and, as Figure 5 shows, 11.2% more likely to fall into overdraft. These results suggest that going through unplanned retirement after COVID-19 increased the risks of financial vulnerability.

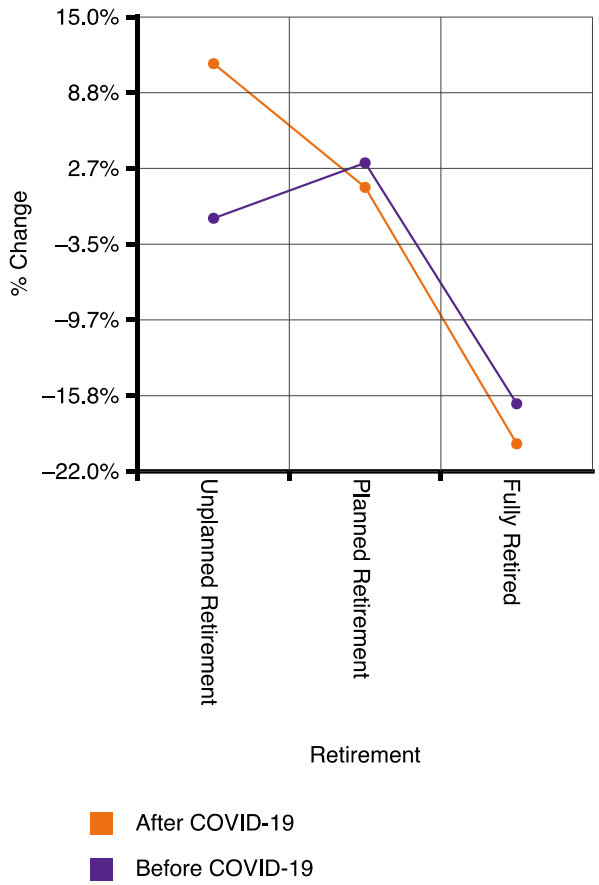


Figure 5. Changes in the likelihood of an account having an extended overdraft, by comparing the risk factor of individuals who are fully retired, who went into planned retirement or unplanned retirement, versus individuals who are not fully retired for the periods before and after March 23, 2020.

However, there are caveats to this conclusion. We should caution that the numbers involved in the unplanned retirement subgroup represent just under 2000 individuals. Nevertheless, our findings raise questions about the process of retirement and, in our view, the transition period from working to retirement merits further investigation.

Second, the post COVID-19 unplanned group may represent those individuals who were forced into retirement through job loss brought on by the pandemic and who may have been at greater risk of financial vulnerability before retiring. As we will discuss in the next chapter, the pandemic resulted in an increase in long-term unemployment, which will have led to some people taking unplanned retirement from a position of financial weakness.

Pension pot withdrawal

We classified a pension pot withdrawal as an abnormally large sum of quarterly pension income relative to the historical pension income observed on an account ('pension lump sum'). This typically occurred in circumstances when an individual's quarterly pension income increased by one standard deviation above the historical average pension income and had an absolute value of £10,000 or higher. An account that received a pension withdrawal had an approximately 175% increase in the risk factor of falling below the minimum essential balance and an approximately 85% increase in their risk factor of overdrawing.

The increased risk factor of financial vulnerability for those accounts may be associated with individuals who are requesting pension lump sums as a response to imminent financial difficulties, as well as the potential pension income reductions that may follow pension lump sums.

When analysing the differences in the risk factors associated with pension lump sums observed before and after COVID-19, Table 3 shows that the risk factor of not achieving a minimum essential balance and overdrawing the current account are greater for those who received a pension lump sum on both periods. Nevertheless, the risk factor of falling into any of these measures of financial vulnerability is greatly increased after COVID-19 for those who withdrew large sums from their pension pot. Particularly, those who withdrew a lump sum from their pension pot after COVID-19 increased their risk factor of not maintaining a minimum essential balance by approximately 62% and overdrawing their accounts by 133% after COVID-19 compared to the risk factor they faced beforehand.

Driver of Financial Vulnerability	Before COVID-19	After COVID-19
Minimum essential balance	118.4%	191.7%
Overdraft	64.2%	149.2%

Table 3. Changes in the likelihood of an account that has received pension lump sums (cf. to those that have not) falling below the minimum essential balance and to overdraft for the period that preceded the first lockdown enforced by the United Kingdom Government on March 23, 2020 ('before COVID-19') and that succeeded the first lockdown ('after COVID-19').

This provides a strong indication that individuals already in receipt of pension income resort to withdrawing funds from their pension pots when they are already struggling financially, and that this behaviour became more apparent since the COVID-19 pandemic.

Individuals can make pension withdrawals even if they are still working, or just prior to retirement, and this type of withdrawal is not represented in the analysis. Generally, pre-retirement pension encashment provides a short-term boost to finances, as was discussed in the income volatility section. The drivers and longer-term consequences of withdrawing pensions prior to state pension age are covered in some detail in the qualitative chapters.

Pension withdrawal levels have been relatively stable since the start of the pandemic, although there was an increase in the number of people accessing their pensions[22]. Notably, the number of individuals withdrawing their entire pension in one lump sum almost doubled in the latter half of 2020[23]. Full pension withdrawal is not usually tax efficient, nor usually recommended for that reason, and the increase in withdrawals is probably indicative of changes to financial circumstances.

RQ4. What is the influence of an individual's spending choices on the risk of financial vulnerability?

We calculated the risk factors for every £1,000 quarterly increase for each expenditure category; committed, essential, discretionary, and quality of living.

Notably, we observed that increases in committed and discretionary spend are modestly positively associated with financial vulnerability, whereas essential and quality of living expenditures are very slightly negatively associated with financial vulnerability. Among these, higher committed spending levels expose individuals to the highest risk factor of becoming financially vulnerable relative to the other expenditure categories.

For each £1,000 increase in committed spending, the account holder is approximately 4% and 5% more at risk of falling below the minimum essential balance and to overdraw their account, respectively.

This may occur because it may be more difficult for individuals to reduce their level of spending on these items when struggling financially, as there may be large penalties and contractual restrictions associated with failing to make committed payments.

The category with the second highest risk factor is expenditure on essential goods. Every £1,000 increase in the quarterly spending on essential items reduces the risk of an account falling below the minimum essential balance by approximately 1% and the risk of overdraft by 2%

This counter-intuitive negative relationship between spending levels on essential goods and

[22] HM Revenue & Customs (30 April 2021) Official Statistics Flexible payments from pensions.

[23] Association of British Insurers Nov 2020

financial vulnerability occurs because wealthier individuals may spend more, in absolute terms, on essential goods (e.g., if you are more financially comfortable, you might seek more premium essential items). The risk factors associated with the other expenditure categories are not substantially different to zero, which limits the extent to which we can consider them as relevant risk factors for financial vulnerability.

Spending ratios

Much more important than absolute expenditure levels is whether spending can be cut when an individual faces income loss. To that end we designed two risk factors: 'cost-of-living ratio', which measures the proportion of total expenditures that is allocated to spending on committed and essential items, and 'leisure ratio', which measures the proportion of total expenditures that is allocated to spending on quality of living and discretionary items.

The results presented in Table 4 indicate that every 1% increase in the amount an account spends on cost-of-living items in a quarter, relative to the total quarter's spending, heightens their risk factor of falling below the minimum essential balance by 0.61% and of overdrawing by 0.73%. We observe a similar relationship for the leisure ratio but on a smaller scale, where every 1% increase in the amount an account spends on leisure items in a quarter relative to the total quarter's spending heightens their likelihood of falling below the minimum essential balance by 0.33% and of overdrawing by 0.47%.

In other words, the results of the spending allocation risk factors suggest that allocating a larger proportion of one's finances into supporting cost-of-living items relative to leisure items is more indicative of an individual being financially vulnerable.

Risk Factor	Minimum Essential Balance	Overdraft
Committed expenditure	4.1%	4.8%
Essential expenditure	–0.8%	–2.4%
Discretionary expenditure	0.6%	0.4%
Quality of living expenditure	0%	- 0.4%
Cost of living ratio	0.61%	0.73%
Leisure ratio	0.33%	0.47%

Table 4. Changes in the likelihood of an account falling below the minimum essential balance and to overdraft for the different risk factors associated with expenditure categories and spending allocations.

Spending after Covid

The results of the risk factors for the different expenditure categories, before and after COVID-19, show that expenditure on committed items posed the highest risk factor before and after COVID-19.

There were no major differences in the risk factor associated with increased spending on essential or committed items after COVID-19 for every £1,000 spent, and only a marginal effect from discretionary expenditure. Every £1,000 spent on quality of living expenditure, the likelihood of experiencing an overdraft was 3.3% more likely after COVID-19.

The combination of these results indicates that greater spending sums on quality of living increased the likelihood of financial vulnerability on individuals after COVID-19.

Spending Ratios after Covid

The previous results provided an overview of the risk factors associated with (absolute) increases in the level of spending on the different expenditure categories. When narrowing down the investigation on the spending allocations, relative to total spending, on 'cost of living' (i.e., committed and essential items, measured by the 'cost-of-living ratio') and 'leisure' (i.e., quality of living and discretionary, measured by the 'leisure spending ratio'), we are able to more clearly assess the risk factors associated with an account's expenditure choices. These results are presented in Figure 6.

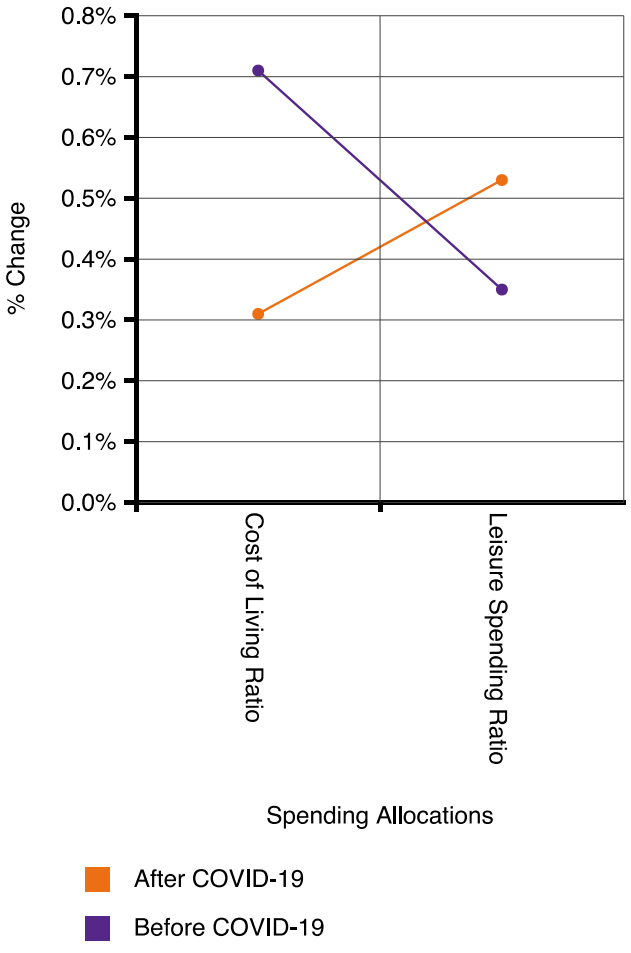


Figure 6. Changes in the likelihood of an account falling below the minimum essential balance associated with different spending allocations, for the period that preceded the first lockdown enforced by the United Kingdom Government on March 23, 2020 ('before COVID-19') and that succeeded the first lockdown ('after COVID-19').

In particular, the risk factor of not meeting the minimum essential balance for every 1% increase in the total spending allocated to cost-of-living went from 0.7% before COVID-19 to 0.3% after COVID-19. Whereas, for overdraft, this risk factor decreased from 0.8% before COVID-19 to 0.3% after COVID-19 (which represents a 56.8% and 60.8% proportional reduction in the risk factor associated with an account falling below the minimum essential balance and to overdraft, respectively).

Conversely, the risk factor associated with increases in spending allocated to leisure, given by the leisure spending ratio factor, greatly increased after COVID-19. More specifically, the magnitude of the leisure spending risk factor after COVID-19 increased by 49.5% for the minimum essential balance and by 57.5% for overdraft. Notably, the leisure spending ratio not only posed a greater proportional increase in the risk factor of both measures of financial vulnerability compared to the cost-of-living ratio, but its absolute risk factor level was also greater after COVID-19. These results suggest that those who spent more on leisure activities were, to a greater extent, more at risk of falling into financial vulnerability after COVID-19.

In other words, individuals' spending choices influenced the risk factor of financial vulnerability. Those who spent more on leisure items were substantially increasing their risks of not maintaining a minimum essential balance and to overdraw their accounts, and this risk factor was greatly increased after COVID-19.

This result has interesting implications for the understanding of the causes of financial vulnerability. Specifically, it suggests that spending

allocation and choices play an important role in financial vulnerability, and that individuals who allocate a higher spending budget on leisure-related activities may increase their risk of becoming financially vulnerable. The literature suggests that excessive consumption, which could manifest in our data set as leisure spend, has a behavioural element to it[24]. Although it is beyond the remit of this current research, there is merit in further investigation into the association between the rise in pandemic-induced anxiety, consumption patterns and debt.

Limitations and Additional Research

The data set used in this research, whilst offering unique benefits for exploring the factors of financial vulnerability amongst older adults during the COVID-19 pandemic, has some limitations. In particular, the data was drawn from a single UK high street bank over a relatively short time period (three years). Hence, further research is needed to confirm that the financial vulnerability risks identified from NatWest Group customers are mirrored by customers from other financial institutions. Furthermore, the availability of results from qualitative and survey studies of individuals across different geographical locations may provide us further insights to help remedy potential regional biases in our data analysis. If additional datasets related to real banking transactions do eventually become available, further research employing the CPH model would enhance our findings. Larger datasets of individuals' banking transactions over longer time horizons and from more financial institutions will certainly add robustness to the identification of risk factors of financial vulnerability.

This is arguably the first time that a large retail bank has provided such an extensive dataset to an external research institute. The support of NatWest Group has given us a unique perspective to observe and analyse what might have happened in real terms to older individuals' finances during the pandemic as well as allowing us to compare quantitatively individuals' financial vulnerability before and after the pandemic struck. Therefore, our preliminary results provided in this chapter are particularly valuable to understanding the risk factors of financial vulnerability and may help guide future research and policymaking in related fields.

The results of our analysis were estimated based upon the assumption of our financial vulnerability definitions and proxies, which were formulated according to the existing literature and definitions developed by The Money and Pensions Service and The Financial Conduct Authority. We explained in earlier sections why our definitions are likely to be valid. However, we should not ignore the possibility that there are other ways of defining individuals' financial vulnerability, and that the definitions we employed may contain potential overlaps with individuals' behavioural characteristics as opposed to strictly capturing financial difficulties (e.g., an individual entering into overdraft because of their financial risk-taking behaviour). We have performed a series of sensitivity analysis tests regarding the definition of financial vulnerability according to the existing literature in an attempt to reduce this limitation. Nevertheless, to cater fully for this possibility, further research would need to capture *all* the possible ways of objectively defining an individual's financial vulnerability across multiple banks and financial institutions. If possible, it would require the consideration of individuals' support networks (e.g., family and friends), life circumstances (e.g., health conditions, marital status, number of dependents, etc.) and financial behaviour characteristics. For instance, the dataset employed in our study is entirely de-identified, thus

[24] Brook, Judith S., Chenshu Zhang, David W. Brook, and Carl G. Leukefeld. (2015). Compulsive buying: earlier illicit drug use, impulse buying, depression, and adult ADHD symptoms. *Psychiatry Research* 228 (3): 312-3

preventing us from constructing a network of related accounts from dependents in order to enhance the true extent of the contextual characteristics underlying a bank account. In addition, we are unable to investigate ethnicity in our study because NatWest Group, to minimise risks of customer re-identification, did not supply us with personal characteristics other than age and sex of the account holders. Ethnic minorities are currently a small percentage (6%) of the older workers' age group, yet they will be a larger percentage of the population over the next decades, and we recognise that further research is needed in this area.

A further potential limitation is that there may be unobserved heterogeneity in individuals who fall into financial vulnerability. We have attempted to reduce this possibility by incorporating a range of variables as control factors, including demographic factors, an account's postcode, and various aspects of spending and income behaviour. However, further research incorporating an even wider range of variables (e.g., specific metrics to measure geolocation-related economic conditions, market volatilities and crises, inflation rates, etc.) would be valuable to address this potential unobserved heterogeneity.

Conclusion

The principal aim of the research conducted in this section was to quantify the risk factors of financial vulnerability experienced by real people, as derived from financial information from their current accounts. To achieve this aim, we examined the banking activity made by 453,604 distinct current account customers from January 2019 to December 2021. We used two measures of financial vulnerability; maintaining a minimum balance sufficient to cover three months of essential and committed expenditure, and prolonged overdraft use. We demonstrate that risk factors associated with gender, age, income fluctuations and shock, and expenditure choices and allocations are relevant risk factors for financial vulnerability.

A significant finding is that, surprisingly, as adults become older, they are less likely to become financially vulnerable with respect to the capability and resilience measures of financial vulnerability. This is despite them, on average, having considerably lower incomes than the working population. Retirees, and especially those over the state pension age, are much less at risk than younger individuals that are not retired. We presume that the increased vulnerability in the younger age bands is linked to higher financial commitments, higher spending, and greater risk of income volatility. We conjecture that, in addition, there may be learned behaviour dimension to these findings and that as people age, they acquire better money management skills.

Retired account holders were approximately 18% less at risk of financial vulnerability than those not fully retired. However, individuals already in receipt of pensions who have withdrawn large amounts from their pension pots are up to 1.75 times more at risk than those who have not. This provides a strong indication that individuals resort to withdrawing funds from their pension pots when they are already struggling financially, and that this behaviour became more apparent since the COVID-19 pandemic.

Together, the findings regarding age and pension withdrawals suggest that there is a need for improved financial education and access to pension advice for older workers and we discuss this in more detail in Chapter 6.

Individuals that experienced an income drop of 31% or higher are between 60% and 170% more at risk of financial vulnerability than those who have experienced an income drop of 10% or less. When turning our attention to examining the impact of the coronavirus pandemic on the risk factors of financial vulnerability, we observed that, in large part, the risk factors in this study were lower after

COVID-19. Although the data employed in our modelling does not allow us to determine unequivocally the causes underlying this fact, we hypothesise that this might occur because individuals may have lower opportunities for spending due to lockdowns. Furthermore, the furlough scheme introduced to protect people's income may have helped counter (to an extent) financial vulnerability during the pandemic. Income stability likely provided the necessary financial support to individuals to counter the negative (non-) economic shocks of the pandemic. This finding has wider implications for how the state supports individuals in times of adversity and suggests that welfare approaches that provide a modicum of earnings-related support (for example, as found in the Netherlands or Sweden) help individuals to avoid financial vulnerability[25]. In contrast, in the UK, Job Seekers Allowance (the flat rate minimum benefit paid to the unemployed) is too low to absorb income shock, especially for older workers who are less likely to be eligible for additional child-related benefits.

Another explanation for the reduced risks is because individuals had lower opportunities for spending due to lockdowns. Our findings suggest that that there might be an important financial behaviour element that can lead to financial vulnerability – i.e., individuals who spend more on leisure items are more likely to become financially vulnerable. Not being able to spend money due to COVID-19 lockdown restrictions may have helped counter the negative financial vulnerability consequences of the coronavirus pandemic. Some of those individuals who, prior to lockdown, were struggling to manage their finances, were able to restore household balance sheets under lockdown. This behavioural change suggests that (with the caveat that households have adequate income to cover cost-of-living expenses) it will be possible to reduce financial vulnerability through measures that help people to budget.

[25] Salgado, Mariña Fernández, Francesco Figari, Holly Sutherland, and Alberto Tumino. (2013). Welfare compensation for unemployment in the great recession. *Review Of Income And Wealth* 60: S177-S204.

Remaining in Employment

SMART DATA FOUNDRY

THE UNIVERSITY of EDINBURGH

Findings from the Qualitative Research - Preface

The research findings in the following four chapters draw on a mix of statistical data and the experience of our research participants to identify and explain financial vulnerability amongst older workers. Themes we discuss include the challenges that older workers face remaining in employment, how they navigate the benefits system, the lack of understanding about pension entitlements, and the problems of digital exclusion. Each chapter includes policy recommendations based on the research findings. The concluding chapter sets out overarching key findings on strategies to support financially vulnerable older workers and those organisations advising them.

To gather the qualitative data, our research team engaged with front-line advisers at support organisations across the UK. Many of those taking part worked or volunteered for Citizens Advice Bureaux. The participant pool also included pension advisers working for Pension Wise, local government advice centres and charities providing debt advice. In addition, we included specialist organisations supporting migrants, the hearing impaired, ex-servicemen, tenants, the unemployed, and those experiencing mental health issues.

The principal criterion for participant selection was that the individual had to have recent client-facing experience providing support and advice. During the pandemic, much of that advice was delivered online or by telephone, but the majority of research participants had experience giving in-person advice. Between them, our participants have spoken to and advised many hundreds, if not thousands, of vulnerable citizens. These advisers' unique public facing positions within the organisations they work for gives them an excellent perspective on the challenges facing people in their late 50s and 60s. They articulate the concerns of the many vulnerable older people that they support.

We conducted the research in stages, beginning in April 2021, and starting with support organisations in Scotland. The study used a mix of online focus groups and interviews. For the focus groups, we ran regional message boards where participants could respond to questions posed by the researchers but also interact with fellow participants' posts. We kept the message groups open for several months so that participants could return and comment on fellow participants' posts. Across our focus groups, 40 advisers logged into the online message board.

We also interviewed 22 participants by telephone or video link. The bulk of these interviews took place in late 2021 or early 2022. Research questions concentrated on identifying the challenges facing older workers, their unmet needs, and potential for support solutions with recommendations for responsive interventions.

We were especially keen to include a broad geographic spectrum of advisers to mirror the GB-wide banking data. The project involved representatives from every regional authority in Scotland and achieved wide geographic distribution across England and Wales. Included in the study are representatives from cities such as Glasgow, Manchester, and London; smaller towns as diverse as Perth, Bolton, and Milton Keynes, and rural areas including Moray, Somerset, and Monmouthshire.

We reiterate our thanks to those advisers who took part in the study. Support organisations faced the dual challenge during the pandemic of increased workloads and curtailed services, and we are indebted to those individuals who found the time to participate. Their insight is invaluable, and this project would not have been possible without their help.

Remaining in Employment

In this employment section, we concentrate on the challenges that older workers face remaining in employment. We begin by highlighting the rise in unemployment during the coronavirus pandemic. We detail the relatively high levels of long-term unemployment amongst those workers just a few years short of the state pension age, and we examine the rise in economic inactivity. Then, drawing on the experience of our research participants, we discuss the challenges older workers face in re-engaging with the labour market after a period of unemployment. Topics we cover include health challenges, caring responsibilities, the current job search support, psychological barriers, and ageism in recruitment. Our key findings regarding remaining in employment in later life are that:

- Withdrawal from the labour market is heavily influenced by health and caring responsibilities.
- Older workers lack adequate knowledge of the support they can access.
- Unemployed older workers face multiple barriers to returning to the labour market. These include a lack of digital skills, the unavailability of flexible working, a lack of specific government initiatives to help with re-training, age bias in recruitment, and psychological barriers.

At the beginning of this report, we emphasised the heterogeneity of older workers, with some having built up substantial assets prior to retirement, and others possessing scant access to pension wealth. The danger of falling into financial vulnerability in retirement varies between socio-economic groups and across the age spectrum. Because the state pension provides the merest minimum for survival during retirement, avoiding financial insecurity in older age requires additional resources. Attachment to the labour market is critical to an individual's capacity to save for retirement. Low earners, those with minimal education, and the oldest cohorts find themselves at the most risk of facing long-term unemployment in later life.

Almost as important as the levels of earned income is its stability over time. Although individuals can cope with fluctuations in salary income, our modelling work shows that reductions in salary, unsurprisingly, increase the likelihood of financial vulnerability. During the COVID-19 pandemic, although many individuals experienced a fall in income, because of the corresponding reductions in expenditure, many households did not suffer adverse financial effects. But two factors are critical to achieving financial stability – the ability to reduce expenditure, and the level of financial cushion available to tide a household over the period of income loss.

The higher the percentage of income spent on 'essential' and 'committed', the greater the risk of income loss causing financial vulnerability. In particular, higher committed expenditure may explain the increased risk of financial vulnerability in younger age groups. People in their fifties may well still have family commitments and mortgages and, on average, their committed expenditure is higher than those over state pension age. Hence, even an individual on a relatively high income can become financially vulnerable if they experience severe income loss (for example, through unemployment or ill health).

One of our conclusions from the qualitative work that we now present is that the welfare state is not well adapted to providing a safety net for those who were not previously experiencing financial difficulties but suffer a dramatic loss of income. Therefore, for older workers, it is critical that they remain employed until they are in a position to cut their expenditure if needed or supplement lost earned income from other sources.

Attempts to analyse employment outcomes for older workers face the challenge that much statistical data on labour markets uses 'age 64' as a cut-off point. Even our own quantitative analysis was hampered by the provision of the banking data in five-year tranches. We lack clarity about what happens to those 65-year-olds and 66-year-olds not in full-time employment but who are not yet receiving the state pension.

The complexity of trying to analyse the behaviour of older workers is further complicated by the legacy of occupational pensions. Because many workers have access to defined contribution pensions at age 55 and defined benefits pensions from age 60, we would expect employment rates to fall among the over 55 age group, as those with pension provision take early retirement. However, given that the average pension pot for males over 50 is circa £52,000, and for females is circa £28,000[1], it is unlikely that most individuals have sufficient pension provision at age 55 to support a full withdrawal from the workplace.

Employment rates by age

Employment rates fall as workers age, but this happens earlier than one might expect from looking at pension provision alone. Men's peak employment is between the ages of 40 and 50[2], which is well below the minimum age permitted to access pensions. As we will discuss, withdrawal from the labour market frequently occurs because of caring responsibilities and health-related issues.

Labour market attachment is markedly different for older men and older women[3]. For women, the distribution of employment participation rates is statistically speaking both flatter and elongated as women who had withdrawn from the workplace during prime childbearing years return to the labour market in later life. Women's peak work participation is at age 52 - slightly higher than for men but still significantly short of the state pension age.

During the COVID-19 pandemic, unemployment across all age groups rose considerably. Unemployment amongst the 50-plus age group stood at 2.7% in early 2019 but, by March 2021, had reached 3.8%[4]. The rise in unemployment amongst older workers, as with the even larger rises in the 18-24 age group, was linked to their higher propensity to work in hospitality and retail. The number of older workers seeking unemployment-related benefits doubled during the first lockdown. Claims for Jobseeker's Allowance (JSA) increased by over 280,000 alone between February 2020 and June 2020[5].

JSA is a non-means-tested unemployment benefit normally available to those newly unemployed who have paid, or been credited with, enough National Insurance contributions in the two full tax years before claiming. Some restrictions apply, such as not suffering an illness or disability that limits the claimants' ability to work. JSA is paid for 182 days, after which, the unemployed have to claim Universal Credit, which is means-tested.

A key point about eligibility for JSA is that neither the savings nor capital of the claimant nor their partner are taken into account. Critically, our research highlighted that because of the prevailing narrative that 'benefits are means-tested', some claimants assume they are not entitled to any support from the state. We discuss this in greater detail in the Benefits chapter.

[1] Pension Bee (2021) The UK Pension Landscape.

[2] Office for National Statistics (Mar 2022) People by age and combined economic activity status of household members: Table F

[3] Crawford, Rowena, Jonathan Cribb, Heidi Karjalainen and Laurence O'Brien (2021) R192-Changing-patterns-of-work-at-older-ages. Institute of Fiscal Studies.

[4] Office for National Statistics (Feb 2022) UNEM01 SA: Unemployment by age and duration (seasonally adjusted) - Office for National Statistics (ons.gov.uk)

[5] Ageing Better (2021) Tackling-worklessness-among-over-50s-after-covid.

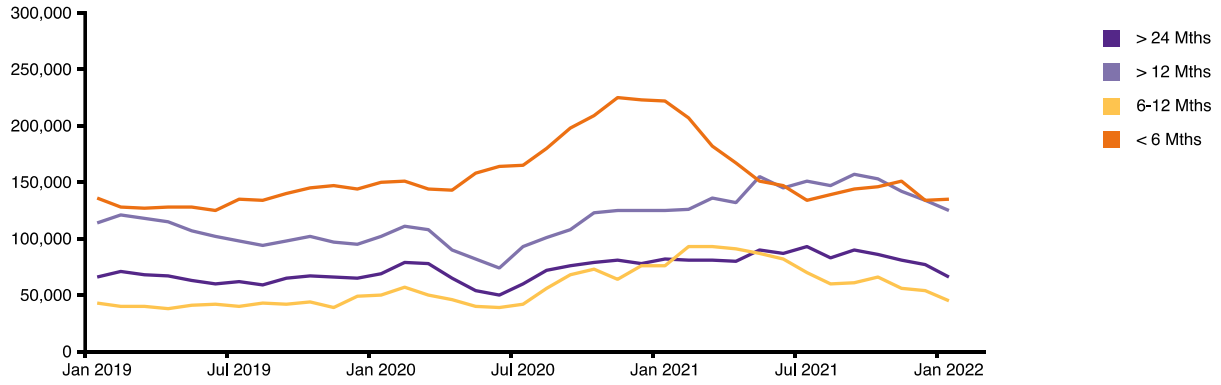


Figure 1 Over 50s unemployment by duration from January 2019 to January 2022

The risk of an older worker being unemployed increases with age and for those age over 65 is around double that of the 60 to 64 age group. This increased risk is reflected in the Jobseeker's data during the pandemic. A few years ago, the oldest JSA recipients would have been retired and drawing the state pension, but they now find themselves below state pension age.

Older workers find it harder to return to full-time employment than younger workers[6]. The decrease in unemployment in the over 50s in 2021 was driven by those out of work for less than 6 months. This fall in short-term unemployment is illustrated by the orange line in Figure 1. In contrast, long-term unemployment remained stubbornly high in 2021 and has only recently begun to fall. By January 2022, four out of ten of unemployed over 50s have been out of work for at least a year – an increase from three out of ten in December 2020[7].

Realistically, although unemployment rates are now falling, most of the oldest of these unemployed workers will never get back into employment, yet they must still go through the training courses and work capability reviews that are a pre-requisite for receiving benefits.

Our research participants impressed upon us that for those unfortunate enough to rely on benefits, the final few years before receipt of their state pension can be a financial struggle.

> *We see many people in their early 60s who would previously have been able to claim pension credit (much more generous than working age benefits) who are now having to claim Universal Credit. Often, they are not fully fit for work, but would not meet the WCA[8], so have to comply with job-seeking requirements. They will often have used savings before accessing state benefits and would have to continue to do so to top up benefit entitlement. They have very little income for anything other than the essentials.*
>
> *Citizens Advice, Stirlingshire.*

[6] Cominetti, Nye (2021) Three reasons to be concerned about job losses among older workers • Resolution Foundation

[7] Office for National Statistics, (Feb 2022), UNEM01 SA: Unemployment by age and duration (seasonally adjusted).

[8] Work Capability Assessment is used to decide if a person is fit for work..

The benefit system has strong conditionality. Claimants are required to undertake rigorous job searches and can have benefits cut for not complying, despite a lack of evidence that sanctions work[9] [10]. The emphasis on conditionality is not only ineffective but also inhumane where there are no suitable jobs available for older workers or where they face long-term personal issues that make holding down a job challenging.

Policy Recommendation

In recognition of the difficulties older workers experience finding suitable work, we propose that the Job Search Conditionality attached to Universal Credit should be removed for those close to state retirement age.

Inactivity and forced retirement

Unemployment has steadily fallen since the August 2020 peak and, indeed, there are shortages of skilled workers in some industries. But unemployment rates do not tell the entire story about these skill shortages. The ONS statistic 'economically inactive' captures the distinction between the unemployed and those who are currently not looking for work. Inactivity rates have risen dramatically since the pandemic, driven by the over 50s who have not returned to the workforce in the numbers seen amongst younger age groups[11] [12]. The net flow of people aged 50 to 70 years moving to economic inactivity between quarter two and quarter three of 2021 was 32.6% higher than the same period in 2019[13].

UK economic inactivity by age

The evidence suggests that the explanation for older workers' withdrawal from the labour market is a complex combination of intentional retirement, ill health, attitudinal change, and job loss[14]. Although economic inactivity for men has increased significantly since 2019, economic inactivity for women has not risen by as much (although it is still higher than for men)[15].

Retirement was the most common reason given for leaving work during the pandemic. Evidence concerning retirement intentions at the start of the Covid pandemic shows a mixed picture with some older workers having planned to retire earlier because of the crisis, while others planned to retire later[16]. But retirement intentions do not necessarily translate into retirement behaviour. The affordability of retirement for some workers is based on market-linked pension fund values. Rising equity prices, market volatility, and fears about inflation will have positive and negative influence on behaviour. Short-term shifts into economic inactivity have increased the most for men with tertiary education, suggesting that there is a link with higher earnings and, hence, affordability[17]. The affordability thesis is borne out by the gender differences: because women have, on average, lower pension savings than men, they are less financially able to withdraw from the labour market. The gender difference also suggests that we might be seeing compensatory behaviour at play. One possibility is that women in mixed sex

[9] Webster, David .(2019) Benefit sanctions, social citizenship and the economy. *Local Economy*, 34(3), pp. 316-326.
[10] Wright Sharon, Stewart Alasdair BR and Dwyer Peter (2018) Social security in Scotland 40677-Scottish-final2.pdf (welfareconditionality.ac.uk)
[11] Office for National Statistics (Mar 2022) Movements out of work for those aged over 50 years since the start of the coronavirus pandemic.
[12] Office for National Statistics (Mar 2022) Employment in the UK - Office for National Statistics (ons.gov.uk)
[13] Office for National Statistics (Mar 2022) Employment in the UK - Office for National Statistics.
[14] Office for National Statistics (Mar22) Reasons for workers aged over 50 years leaving employment since the start of the coronavirus pandemic.
[15] Office for National Statistics (Mar22) Employment in the UK - Office for National Statistics.
[16] Institute for Fiscal Studies (Sep 2020) Coronavirus alters the retirement plans of one in eight older workers, with one in three reporting a worse financial situation.
[17] Although note contrary annualised findings from the IFS June 22 p.16 The Rise of economic inactivity in people in their 50-60s.

households are taking up employment to compensate for male partner unemployment. This is borne out by the fall in the number of women classified as looking after family or home[18].

The NONS data suggests that in the post-Covid era, much of the rise in economic inactivity appears to be driven by attitudinal change. The number of economically inactive people who, when asked, stated that they wanted a job increased in the initial stages of the pandemic but has since fallen to a record low.

That we saw elevated levels of economic inactivity during lockdown is not entirely surprising, but it is the long-term knock-on effect upon future financial vulnerability that is important. More than three quarters of those in their fifties had left work sooner than they had intended. More than a fifth had experienced redundancy, and the evidence suggests that redundancy leads to a reappraisal of early retirement. Rising economic inactivity also raises questions about how many of the longer-term unemployed are disillusioned with the job market and are on the cusp of forced early retirement. This point was made to us by several of our research participants, who have first-hand experience of the difficulties older workers face returning to the workplace if they are made redundant.

The drift from unemployment-induced economic inactivity to retirement inactivity matters in the longer term. Although the early retired may already be drawing occupational pensions, none of them will be in receipt of the state pension. Early access to defined contribution pension schemes increases the risks of outliving assets. Ironically, even those previously on higher earnings are at risk because, on average, they have higher life expectancy.

Increased economic inactivity, especially amongst the under 60s, raises a warning flag about increased incidence of financial vulnerability in the decades ahead. Although our analysis of the banking data shows reduced financial vulnerability as people age, we want to emphasise that some of this trend will be a product of higher home ownership rates amongst those in their sixties and seventies and regular income from defined benefit pensions. We cannot assume that these conditions will continue.

Supporting older workers back into employment

As we noted earlier, older unemployed workers find it harder to return to full-time employment than younger workers[19]. Does prolonged unemployment stem from older workers' unsuitability for the contemporary labour market or is there a systemic problem that could be rectified by changes to the support provision for the unemployed?

Our study identified multiple obstacles impeding older workers' return to employment. They can face health challenges or caring responsibilities that prevent full-time work. Moreover, the experience of unemployment often leads to low confidence and a lowering of aspirations that have long-term financial implications. Systemic barriers include the failure of the current government job search support to accommodate the specific needs of older people, and age discrimination that leads to a failure to value older workers' 'soft skills'.

Healthy life expectancy

One reason some older workers find themselves unemployed in the first place is physical incapacity, especially for those that were formerly in manual or physical labour. Although the state pension age has increased to 67, this change only reflects increases in longevity. It has little bearing on the physical wellbeing of the working population. Workers are expected to remain in the workplace for longer and for many older workers the

[18] Office for National Statistics (Mar 2022) Movements out of work for those aged over 50 years since the start of the coronavirus pandemic.

[19] Cominetti, Nye (2021) Three reasons to be concerned about job losses among older workers • Resolution Foundation.

opportunity to continue working in later life is welcomed, but being physically fit enough to do so does not match the lived reality of every older worker. Inevitably, stamina and flexibility reduce with age, and many enter their sixties suffering from chronic illnesses. A one-year increase in national longevity rates does not inevitably lead to a full year's increased capability to remain in one's current occupation.

The statistics on ill health paint a depressing picture. Our study examined the ONS health expectancy measures, published in March 2022[20] (these cover the period between 2018 to 2020 and reflect the early impact of the Covid-19 pandemic). The ONS defines healthy life expectancy as the period of a lifetime spent in either very good or good health, based on an individual's perception of their general health. Healthy life expectancy at birth for males is 62.8 years and for females 63.6 years.

For males, UK-wide, there was a decrease in healthy life expectancy of 3.6 months from the previous data collection point (2015-2017), but for women, healthy life expectancy was unchanged.
The ONS also calculates disability-free life expectancy. This was 62 years for males and 60.7 years for females. There was a significant decrease of more than nine months in disability-free life expectancy since 2017 for males and of over one year for females.

Healthy life expectancy is linked to socio-economic position. Those living in the most deprived areas have almost two decades less of life in good general health than those in the least deprived areas[21]. Only males living in the more advantaged areas (deciles 7 to 10) in England were expected to live over 65 years of their life in good health. Estimates in Scotland are lower than for the UK as a whole and healthy life expectancy at birth is almost two years lower for both sexes[22].

Of more relevance to our study, it is clear that the health of many older workers is not keeping pace with the rising state retirement age.

To help understand the implications of healthy life expectancy, another way of thinking about it is to consider that over half of 63-year–old females now live with poor health. The statistically significant fall in reported healthy lives coincides with the increase in the state pension age for women from 60 and may be a consequence of their being forced to remain in the labour market[23]. Single mothers' employment prospects seem to be particularly hard hit by the onset of poor health because they were often already in a financially precarious position.

> *We have one client who expected once her children had grown up that she would have more disposable income. But in fact, it's the reverse. She is struggling to work full time because of arthritis kicking in. She's working less hours and she's not getting the tax credits she used to. And all the bills are going up. She is struggling to make ends meet.*
>
> *Citizens Advice, Monmouthshire*

Most individuals in the UK will encounter some health problem before they reach the state retirement age. Ill-health, then, is the norm, not the exception. Increasing the state pension age may not have much impact upon the well-being of an affluent office worker in good health but it can cause hardship for the most economically vulnerable. Indeed, in the poorest communities,

[20] Office of National Statistics (2022) Health state life expectancies.

[21] Office of National Statistics. Health state life expectancies by national deprivation deciles, England.

[22] In Scotland, male healthy life expectancy fell 1.4 years to 60.9 and female healthy life expectancy fell 0.9 years to 61.8.

[23] Carrino, Ludovico, Karen Glaser, Mauricio Avendano (2020) Later retirement, job strain, and health: Evidence from the new state pension age in the United Kingdom. *Health Economics*. 29:891–912.

the majority will experience poor health for at least a decade before accessing their state pension. The current policy of increasing the state pension age has been made based on longevity alone; it disregards any of the health attributes associated with socioeconomic position and age and assumes that all older individuals have the capacity to increase the time they can work.

The 'Catch 22', moderately ill health

Many age-related health issues have little impact upon an individual's capacity to work, or are easily accommodated, but the healthy lives data raises whether there is sufficient support in the benefit system to help those people who need it. The UK benefit system treats people as either well/fit or unwell/unfit and sets the barrier for the latter at a high level. Several of our panel highlighted the fate of older workers with declining fitness, who found that they could not continue working full time in their current jobs.

> *They might be too unfit, unwell, or ill to be able to work, or to work at the type of job they have done for thirty or forty years, but they are not so unwell or disabled that they qualify for PIP.*
>
> *Citizens Advice, Perthshire.*

Life can be challenging for those who find that they are no longer fit enough to do the jobs they were trained for, but who do not meet the requirements for ill-health and disability benefits. They may often struggle to continue in their current occupation, and yet still be fit for other work and so may not be entitled to state support.

> *It is not uncommon to see people in their late 50s to early 60s in physically demanding jobs who feel they have little choice but to continue working. The benefits system isn't easy to navigate without guidance and even if they get to the point of making an appropriate application, ESA/UC[24] work capability assessments may still consider them fit for less physical work, but securing such work is likely to be challenging.*
>
> *Citizens Advice, Moray.*

Numerous advisers spoke of clients, often those involved in physical work, who could not continue in their current jobs because of declining stamina. The only option open to them was to change career, but current older workers' programmes such as 50 Plus choices are not targeted at those workers who need to change employers or are self-employed. Without retraining and financial support, many manual workers and tradesmen find themselves excluded from the workplace and claiming benefits as a jobseeker or relying upon the income of a partner or spouse. The dearth of new career opportunities for those wanting to shift from manual to office-based work can mean that older workers struggle on reduced income for years until they can access workplace pensions or the state pension. Minor chronic health problems can therefore cause a permanent loss of income and disruption to pension provision.

Policy Recommendation

We urgently need tailored training programmes and financial support for older manual workers and the self-employed who are unfit for their current jobs and need to retrain.

Our advisors frequently encountered older people who had been in employment for many years but, because of ill health, were trying to navigate the benefits system for the first time.

> *Many people I assist find this very difficult due to its complexity. We provide advice and*

[24] Earnings Support Allowance/Universal Credit. ESA is a means-tested benefit paid to those who have a disability or health condition that affects how much they can work.

assistance, but not everyone will contact us for advice and we find many people do not claim what they are entitled to.

Citizens Advice, Dundee.

Our support organisations were highly critical of the convoluted benefits claims process and the delays in receiving payment. This is not exclusively an older workers issue, but older people are more likely to require health-related support.

You can get limited capability for work-related activity (LCWRA) assessments under Universal Credit, but these are incredibly stressful and don't happen quickly. It can take months.

Even worse is PIP[25], with its mandatory long phone call requiring evidence from the GP even to request an application form, which is 54 pages when it arrives, and needs incredible amounts of evidence. Even if your claim is accepted (and less than 50% are at the first try), you have to wait six months to two years to get any money. We had a client who ran through his pension pot while waiting for PIP.

The result of all this is very often deep depression. 66% of our clients say they have suicidal feelings. Over 80% of them are being treated for depression. And the longer all the above goes on, the harder it is to bounce back.

Community Charity, Leicestershire

In the past decade, the Government has changed the assessment criteria for welfare benefits for those with long-term health conditions or disabilities. Eligibility assessments have been outsourced to the private sector, and it is widely accepted that the system is flawed and insufficiently flexible to adequately support the declining health of an aging workforce.

Although the eventual award of disability-related benefits may resolve financial hardship, it does not automatically support a transition back into the workplace. Individuals, during a vulnerable period in their lives, have to navigate different welfare systems and face multiple assessments. The current UK benefits system penalises inability to work full time by applying rules with a broad brush that discriminate against workers, especially those with declining health but who are still able and willing to work.

Policy Recommendation

We reiterate Ageing Better's call for greater support at work for workers experiencing minor ill health, and the NHS to focus on improved management of long-term conditions that increase the risk of labour market withdrawal.

I see it on a regular basis, the health challenges people face and just managing day to day. It takes a joint and co-ordinated approach to help people manage their needs, not only their health but their financial well-being.

Citizens Advice, East Dunbartonshire.

We should emphasise here, of course, that not all older workers experience ill-health, nor indeed is it only older workers who suffer ill-health, and there are clearly socio-economic factors at play. The government needs to work with employers and public bodies to ensure that older workers with declining health are not forced out of the labour

[25] Personal Independence Payment is a benefit that help with extra living costs for those with a long-term physical or mental health condition or disability.

market in the first place. To meet this challenge, employers need to be exhorted to make workplace adjustments to help their employees stay in work when they have a health issue.

> *The lack of adjustments, knowledge and use of technology is shocking!*
>
> *Disability Charity.*

We note the laudable research work being supported by the Centre for Ageing Better under the Healthy Ageing Challenge Framework[26] which looks to extend healthy, independent lives while narrowing the gap between the experience of the richest and poorest. Ageing Better's research suggests that older workers with health conditions do not always receive the sustained support and empathy they need to remain at work[27].

Caring Responsibilities and Flexible Working

The evidence from our research clearly demonstrates that we need to provide opportunities for both men and women to combine well-paid secure employment and unpaid caring. Currently, those with caring responsibilities are more likely to be employed in lower paid part-time or fixed-term work and are more likely to be at risk of redundancy during economic downturns.

Although long-term unemployment is a significant risk for older workers who withdraw from the labour market, people sometimes have little option but to resign from their current positions. Our participants recounted multiple incidences of clients who had been compelled to relinquish their jobs and change their personal lives because of caring responsibilities. They described them as 'the squeezed generation', supporting grandchildren and ageing parents, but often suffering financially as a consequence.

> *That's another problem that we are seeing – people no longer able to work because of having to look after elderly relatives and then falling into debt.*
>
> *Housing Adviser, Shropshire.*

Part of the problem in this regard stems from delays in the care system and in the assignment of care packages. The long-term consequence of these delays is that carers accumulate lower pension contributions and face a heightened risk of poverty in older age.

> *It is shocking how little support there is for carers. The delays making awards and the inadequate support for those trying to simultaneously hold down a job and care for a loved one is a disgrace.*
>
> *PIP adviser.*

Caring responsibilities, although these do not fall exclusively on women, compel a considerable number of women to withdraw from full-time work[28]. In the past, women would have been able to draw their state pension at age 60 and sustain their caring responsibilities. As the state pension age for women has risen, the probability of men engaging in caring activities now has also increased[29].

Our participants saw the need for a combination of practical solutions to help older workers overcome health-related challenges and caring responsibilities. One such solution is the right to flexible working. When applying for jobs, the phrase 'flexible working' has been found to be

[26] Industrial Strategy Challenge Fund (ISCF) Healthy Ageing Challenge Framework | Centre for Ageing Better (ageing-better.org.uk)

[27] Centre for Ageing Better (2018), Health warning for employers: Supporting older workers with health conditions.

[28] Marchand Alain, Jaunathan Bilodeau, , Andrée Demers, , Beauregard Nancy, Durand Pierre, Haines, Victor Y (2016) Gendered depression: vulnerability or exposure to work and family stressors? *Social Science & Medicine* (1982), 2016-10, Vol.166, p.160-168.

[29] Giusta, Marina Della and Simonetta Longhi (2021). Stung by pension reforms: the unequal impact of changes in state pension age on UK women and their partners. *Labour Economics* 72.

particularly appealing to older workers[30]. Although one in three businesses offer flexible working, just one in twenty use the phrase "flexible working" in their job adverts. Flexible working is a right by law after 26 weeks' employment, but this is of little help to those seeking work. Ironically, since the Covid pandemic, there has been a drop in the use of flexible working arrangements, excluding home working, but flexible working from the outset should help older workers obtain access to part-time work and a gradual retirement.

> *The right to flexible working should be from day one.*
>
> *Community Advice Centre, Outer London.*

Advisers noted that unimaginative working practices, based around the once standard Monday to Friday 9-to-5 working week, restricted opportunities for older workers to re-engage with the workplace. Little is done to support well-paid part-time employment at reasonable salaries. The consequence of this is that older workers are often forced into low paid work.

An innovative solution suggested by this research is job sharing, where a full-time position is shared between two employees. Job sharing is still exceedingly rare (involving just 0.4% of the workforce[31]) and is more common in white-collar occupations. The gendered pattern of job-sharing shows that it is more common amongst women, which would be explained by caring responsibilities. For males, job sharing reaches a peak in the 60-64 age group and near parity with females but falls appreciably thereafter. Job share fell from 0.46% before the pandemic to 0.38% by Dec 2020[32].

Our view on job sharing is that although, overall, the group of older workers that might benefit from this form of flexibility is small, offering sharing would be a valuable way to keep experienced workers in the labour force. We can envisage a symbiotic working relationship between younger workers.

Policy Recommendation

We call for the right to flexible working from the outset to be included in all employment positions.

We recommend employers provide greater support for job sharing.

State provision job search

Our study identified shortcomings in the current support for older people seeking work. Previously, as part of the Welfare to Work initiative, there was a program known as 'New Deal 50' specifically designed to help older workers into employment. The program included one-to-one job search support, a training grant, and a tax-free wage top up. New Deal 50 was abolished in 2009 and replaced by the Flexible New Deal that provides support for all ages. On paper, there is ample support to help the unemployed find work. In most UK cities, there is at least one Job Centre Plus. These are government-funded employment agencies and social security offices that aim to help people of working age find employment. Job Centre advisors provide support either in person, or (during the pandemic) by telephone. This provision is supplemented by a government sponsored website named 'Find a Job' where jobseekers can search for employment and employers can upload and manage their vacancies.

[30] The Behavioural Insights Team (2021). Ads for all Ages ads-for-all-ages.pdf (ageing-better.org.uk)

[31] Chartered Institute of Personnel and Development (2021) Flexible working arrangements and the impact of the COVID-19 pandemic.

[32] Chartered Institute of Personnel and Development (2021) Flexible working arrangements and the impact of the COVID-19 pandemic.

However, the reality is that the system is ineffective in providing secure long-term work for older workers. A 2014 DWP report noted that older workers were less likely to receive the same level or intensity of support. Likewise, Parsons and Walsh[33] argued that older workers do not see the same benefits from employment support programs.

One significant challenge is that the unemployed older worker may have found him or herself unemployed for the first time in years. Job turnover decreases with age and consequently many of the older newly unemployed are unfamiliar with the task of looking for a new position. In recent years, the recruitment process has also become much more digitalised and data driven, with job seekers now being unable to rely on contacts or word-of-mouth to find work.

Advisers drew attention to the digital skills needed to navigate the current job market.

> *Applicants are expected to complete online application forms, upload digital CVs and photographs, use Facebook, log into the recruitment portal of the firm managing the recruitment, and other social media. A Zoom or Teams interview is also a possibility. Considering many of my older clients struggle to manage their Universal Credit account on their phone, this new set of digital skills represents a huge barrier.*
>
> *Citizens Advice, Surrey*

Support organisations such as Citizens Advice that provide face-to-face advice are disproportionately likely to see individuals who face challenges navigating the digital environment and so we are cautious about drawing conclusions about the extent of the problem of low digital skills. However, we also spoke to several employment advisers and advisers who had themselves experienced unemployment in their fifties and sixties. Our participants impressed upon us that many of the newly unemployed older workers have no experience applying for jobs in a digital environment. So although they may be digitally skilled and able to find vacancies, their application approach is outdated.

Increasingly, employers and employment agencies use Artificial Intelligence (AI) to screen potential candidates for interviews. Screening involves algorithms that search for keywords in the CV and covering letter. Candidates need to write CVs using the terminology that the system recognises, such as the keywords used in the job advertisements. Writing a CV is a skill that needs to be learned and candidates without experience of applying for jobs can be at a disadvantage. Advisers highlighted serious deficiencies in the help available for unemployed older workers and emphasised that poor re-employment outcomes are made more so by a lack of job search skills.

> *If someone has worked for decades, never been out of work before, then the job market has changed completely, as have applications, interviews, etc. I think there should be support for how to apply for jobs, interview skills and, if someone does need to change career, there should be support to do this and help with re-training.*
>
> *Citizens Advice, Renfrewshire.*

Another key point identified by this research is that there are psychological as well as practical barriers that the older worker may have to overcome to make themselves relevant to the modern recruitment market.

[33] Parsons David and David Walsh (2019). Employment support for over 50s: Rapid evidence review. Centre for Ageing Better.

From my experience as a career adviser, people who become unemployed over 50 are more often than not petrified.

Local Advice Centre, Bristol.

Our research identified concerns about low pay, a greater risk of temporary contracts, job security and forced self-employment.

It's a real concern. When someone loses their job in their 60s, they often think they'll never work again. I think there is clearly age discrimination when seeking work, but also, it's a really scary position to be in.

Citizens Advice, Renfrewshire.

Several of our panel had been unemployed themselves and had experienced the loss of confidence that comes from being out of work. Repeatedly, we heard first-hand accounts of people who feared that they would never work again and who applied for low-paid jobs because they did not feel that they had anything worthwhile to offer employers. This downplaying of skills and desperation to work has even led some previously well-paid financial professionals to work for debt advice organisations and Citizen's Advice Bureaus.

I see many older workers looking at lower paid, more insecure jobs purely because they assume that no one will employ them in higher paid roles. They seem to feel just grateful someone will let them work rather than recognise they have "skills" worth employing and they deserve a permanent job.

Pension Wise, Aberdeenshire.

On average, when an older worker returns to work after a period of unemployment their income is 17% lower than in their previous employment[34]. One explanation offered for this is a reduction in working hours. The proportion of people in employment working part-time involuntarily rises from 2% in the 30 to 50 age group to 3% in the 50 to 64 age group. This is mostly a gendered issue and there is little evidence of men shifting from full-time work to part-time work.

Another concern advisers highlighted is the shift to working in the 'gig' economy and quasi self-employment. The probability of being self-employed increases with age and part of the explanation for this rise is the difficulty older workers face finding employment. For many older workers, self-employment is a positive step that improves wellbeing. But the flip side of the successful older entrepreneur is the financially vulnerable, older person in the gig economy struggling to make ends meet.

Whenever an older person wants to go "self-employed" it flags up warning signs to us. Car washes make use of this labour. While they might be getting enough money to cover minimum wage, they are not paying tax or insurance and therefore miss out on any tax credits they should be entitled to.

Migrant Support Charity

One of the few positive employment policies that advisers mentioned was Scotland's Fair Start programme. Fair Start Scotland is an employment support service that offers people in Scotland up to 18 months' support to find work. Applicants work with a dedicated work coach to identify skills, training needs, and jobs. At Fair Start, the focus is

[34] Cominetti, Nye, (2021). Three reasons to be concerned about job losses among older workers. Resolution Foundation.

on finding *suitable* employment, not just any employment.

This approach is in sharp contrast to that embodied in the Job Centre, where the emphasis is on removing people from the benefits system as quickly as possible. The unemployed only have a limited time to find employment in their previous line of work before being required to take any job that is available. The irony of policies that encourage upskilling at the start of an individual's career but ignore it in later life was not lost on our panel. Investment in earlier years is wasted if older workers end up in low-paid jobs through lack of adequate employment support in their 50s and 60s.

> *People are finding it difficult because it might mean picking up a new skill or retraining and there is not a lot of help from the Job Centre. It is not felt to be the most friendly process.*
>
> *Citizens Advice, Somerset*

Although there is support for the unemployed, including the recently instigated Restart scheme, there is too much of a delay before the unemployed can access these schemes. Older workers are at greater risk of long-term unemployment, and they need help from day one of being out of work.

Policy Recommendation

We recommend that the DWP introduce an employment programme specifically targeted at older workers and allow access to Restart from the first day of unemployment.

Age discrimination in the recruitment process

Our study uncovered concerns about bias in the recruitment process that creates barriers to older workers' job searches, and endemic age discrimination that leads to a failure to value older workers' skills.

Age is a protected characteristic under the Equality Act of 2010. The law provides protection from direct discrimination, for example, the denial of training or promotion for age reasons. However, it was widely asserted by our research participants that ageism is rife. Much of this is what one might refer to as 'soft discrimination'[35]. Soft discrimination is based on age stereotypes about older workers' capabilities.

The impact of employment-related assumptions about the suitability of any individual has been compounded by the higher risk factors from COVID-19 identified in older age groups.

The attitudes that employers have adopted are not necessarily meant to be discriminatory (they may have developed as a desire to protect older workers from COVID-19)[36], but our panel considered it possible that soft discrimination could lower an individual's expected value to an employer and that this might ultimately lead to 'harder discrimination'.

We have already seen a rise in longer-term unemployment amongst the over 50s since 2020, and, if older workers are seen as a potential economic liability because of their increased risk from COVID-19, there must be a fear that employers will be less willing to re-employ them. As one of our panel commented,

> *The difference starts when people reach 50. Getting taken on by an employer is difficult when you reach a certain age. Underlying*

[35] Stypinska Jusryna and Konrad Turel (2017). Hard and soft age discrimination: the dual nature of workplace discrimination. *European Journal of Ageing* 14, 49-61

[36] Lyons David (2020) Covid-19 and vulnerable workers: avoiding age discrimination — age discrimination

health conditions will be taken into consideration and scrutinised.

Migrant Support Charity.

Discrimination based on age varies across industries. Those in precarious employment, such as part-time seasonal workers, are more likely to be exposed to discrimination. And some industries, such as the service sector, are identified as being more age discriminatory than others. This may explain why unemployment amongst older workers is still high, even though the service sector is now recovering since the lockdowns.

Economic crises, such as those associated with the COVID-19 lockdowns, can weaken the effects of discrimination legislation[37] and make it harder for unemployed older workers to be accepted back into the workplace.

The pervasiveness of age discrimination in employment shows itself most clearly in recruitment, and this was highlighted by our participants. Interviews were reckoned to be prone to bias and imperfect opportunities for older candidates to demonstrate their suitability. Unfortunately, the experiential knowledge of older workers can be overlooked in a qualification-orientated environment.

Work placement advisers called for greater understanding, and effort from employers to reduce age discrimination in the recruitment process. They stressed the under-recognised value of experience and skills that are built up over many years and the advantages of a multi-age workforce.

Advisers called for a combination of practical solutions to help older workers, together with a more positive narrative about the value of a mixed-age workforce. Favoured policies include more investment in training on unconscious bias, interview quotas for older workers and a national campaign by the government to create more age-inclusive workplaces.

This research into unemployment among older cohorts has shone a spotlight on their increasing levels of withdrawal from the labour market, markedly so since the start of the pandemic. As the quantitative analysis has demonstrated, lower income and withdrawal from the labour market does not inevitably lead to financial vulnerability. But the challenge society faces is to ensure that withdrawal is made on a planned basis that will not lead to financial vulnerability in years to come.

For many older workers, work cessation is forced upon them, either through unemployment or through the lack of any allowance for health and caring responsibilities. But critically, those seeking re-engagement with paid employment find it much more difficult than younger cohorts to find well-paid work. The window of opportunity for these individuals is small. The longer the unemployed older worker remains out of work, the harder it is for them to find a suitable position and the greater their risk of falling into forced retirement. For this reason, timely and targeted support is needed to meet retraining needs and to overcome systemic barriers.

[37] Neumark David and Patrick Button (2014). Did age discrimination protections help older workers weather the great recession? *Journal of Policy Analysis and Management*, 33(4):566–601.

Financial Vulnerability and the Benefits System

SMART DATA FOUNDRY

THE UNIVERSITY of EDINBURGH

In this section of the report, we examine older workers' interaction with the benefits system. We begin by discussing the increase in Universal Credit claims triggered by the COVID-19 pandemic and the challenges older new claimants experienced navigating the system. Subsequently, we highlight the disadvantages older workers in receipt of pensions or retirement savings face because of means-testing. We follow this with a detailed discussion of two aspects of housing policy that are of particular relevance to older workers: the inadequate support for homeowners, and the shortcomings in the Housing Benefit system. Finally, we report on our participants' concerns about the serious shortcomings of the Personal Independence Payments system. Key findings from this part of the research are:

- Voluntary and support organisations reported applicants' widespread lack of understanding about the benefit system, confusion about claims processes, and hardship arising from payment frequency.
- Benefit means-testing causes both short-term and long-term hardship. Older workers with pension savings, or small pensions in payment, are being denied support and run the risk of increased precarity in retirement caused by having to run down retirement savings before state pension age.
- Inadequate support for homeowners, along with a failure to cater for the differences between urban and rural elderly populations, increases the risk of homelessness, bankruptcy, and mental health problems.
- The harshest criticism from our panel of advisers' concerns the failure of the benefit system to accommodate ill-health in the aging population.

In the quantitative analysis, we identified income sources and illustrated how these change as people age. Benefits are a larger percentage of income than salary for those below state pension age in the lowest income bands (under £10,000 annual income) and provide a significant source of income in the £10,000 - £20,000 annual income band. State benefits represent a smaller component of income as people enter retirement, although benefit receipts rise again in the over 80 age groups[1].

Almost as important as the levels of income is its stability over time. A sudden fall in income can cause immediate financial vulnerability. Income fluctuations vary across sources, with regular monthly salaries and state pensions being more stable than, for example, variable hours work contracts, means-tested benefit income, and investment income.

Although individuals can cope with fluctuations in salary income, the modelling indicates that large reductions in salary increase the likelihood of financial vulnerability. We posit that the magnitude of income drops is critical because individuals largely match expenditure to income. Hence, even an individual on a relatively high income can become financially vulnerable if they experience severe income loss (for example through unemployment or ill health). Our main conclusions from the qualitative work that we now present is that the benefit system does not always provide continuity and security of income for those most in need of support. We also conclude that the welfare state is not well adapted to provide a safety net for those who were not previously experiencing financial difficulties but then suffer a dramatic loss of income.

The dominant narrative about welfare support in the United Kingdom is one of self-help and individual responsibility. For those who are in work or on average household income, financial support provided by the state (at least until the recent furlough scheme) has been downplayed[2]. It is little wonder that our research participants reported that many older workers assume that, if they face income loss through unemployment or illness, they are 'on their own' and not eligible for benefits. We heard multiple times people did not know that they were entitled to claim support or were not

[1] We surmise that the source of the benefits for the oldest age bands is attendance allowance and winter fuel payments.

[2] For example, the subliminal messaging that accompanies automatic enrolment into workplace pensions is that it is the individual's responsibility to save for retirement even although we have a state pensions system funded by national insurance contributions.

claiming at the appropriate time. This was especially prevalent amongst those with savings, who owned their own home or who had had minimal contact with the benefits system in the past.

> *We had a client, lost his job, and lived on his savings for 18 months. Because he had his own house, he didn't feel he was entitled to claim benefits and then he had a mental health crisis and ended up in hospital.*
>
> *Money Advice Charity, Durham.*
>
> *We've recently seen a couple who have been living off his pension pot in lockdown. They should have claimed Universal Credit, and he should have got help with his PIP application.*
>
> *Money Advice Charity, Leicestershire.*

The consequences of this lack of awareness are financial hardship and descent into debt. But older workers, whose first response to is to run down savings earmarked for retirement, also face increased risks of precarity in older later life.

Advisers also spoke negatively about the complexity of Universal Credit, which makes it difficult for claimants to understand their entitlement. Universal Credit is the main UK benefit. It was created in an attempt to streamline a previously over-complex benefit system. Universal Credit replaced six benefits: Child Tax Credit, Housing Benefit, Income Support, income-based Jobseekers' Allowance (JSA), income-related Employment and Support Allowance (ESA) and Working Tax Credit. Underpinning Universal Credit is a philosophy that the system needs to be simple and to have clear incentives, is to be based on means-testing, and should be as 'much like work as possible'. One aim is to incentivise behavioural change so that individuals are encouraged to take part in some form of paid employment. The means-tested element of Universal Credit aims to 'make work pay' so that those on benefits who enter work in a low-paid environment do not find that they are working for little financial benefit. There was an appealing logic in the simplification of multiple benefits into one, and Universal Credit's gestation received considerable cross-party support[3]. But the reality is far from utopian. Because of serious flaws in how Universal Credit is paid, and the conditionality built into the system, many of the most vulnerable fall into precarity.

Universal Credit can be paid to those on low incomes, the unemployed or those who cannot work, depending on personal circumstances. For a single person, the monthly standard allowance was £411.51 during the coronavirus pandemic and £324.84 from October 2021 (just under £5000 per annum) and for a couple, £596.58 a month, falling to £509.914. Rates rose again in April 2022 to £334.91 and £525.75[5], although these increases are below the current inflation rate. Additional payments are made for having children, caring responsibilities, having limited capability for work, and to cover childcare costs and rental costs. Reductions of 55p are made for every £1 of earnings and income from other benefits, such as Jobseekers Allowance, reduce the award pound for pound.

Prior to the COVID-19 pandemic, three million people were claiming Universal Credit. This number rose substantially during the pandemic, peaking at six million in March 2021[6]. Over two million people made new claims for Universal Credit in March and April 2020 alone. Although claims for Universal Credit had been much more common in younger age groups, as the pandemic progressed, there was an upward shift in the age distribution of Universal Credit claimants. By July 2021, 750,000 people between the ages of 55 and 64 were receiving Universal Credit.

Eligibility and payments are based on monthly assessments of circumstances, which include not just wages but family circumstances such as household numbers and housing costs. Dual-income households can find themselves excluded from benefits altogether if the second earner's income is used in the benefit calculation. On average, new claimants of Universal Credit saw a fall in net income of about 40% during the

[3] Millar, Jane, & Fran Bennett, (2017). Universal Credit: Assumptions, Contradictions and Virtual Reality. *Social Policy and Society*, 16(2), 169-182.

[5] GOV.UK (2022). Benefit and pension rates 2021 to 2020

[6] Office of National Statistics (2021) Universal Credit Statistics, 29 April 2013 to 8 July 2021.

crisis[7]. Recipients often wait for one or two months before receiving their first Universal Credit payment and must rely upon savings to meet expenditure.

> *We see people who were relying on two incomes and so they weren't able to get benefit help and so we found that there were married couples where one of the partners had to go for pension drawdown. You know, bringing down some pension funds to support the household.*
>
> *They were forced into that route because of one of them losing their employment and not being supported by the system. Which is quite unfair, isn't it, really?*
>
> *Debt Adviser, Salvation Army.*

Unsurprisingly, the dramatic increase in benefit claimants placed immense pressure on the DWP and those organisations that provide advice to the vulnerable. And for hundreds of thousands of new claimants, this was the first time that they had encountered the Universal Credit claims system. The cultural change that has taken place within the UK benefits system since Universal Credit was introduced should not be underestimated. As we will discuss below, newly unemployed older workers faced considerable challenges adapting to the new regime.

Navigating the Benefit System

Our analysis of the banking data reveals the vulnerability of the over-55s who are dependent on benefits. From this qualitative research, we draw attention to the perverse effects of the current benefit system and the genuine hardship that is caused by systemic weakness. Ironically, the recent introduction of Universal Credit, although intended to simplify, has instead created a complexity that discourages claimants. Much has been written about the shortcomings of Universal Credit, and its inadequacies fall broadly into three categories: sanctions, payment frequency, and benefit limits. Bennet forcefully argues that the system is based on the behavioural norms of the majority rather than being shaped around the priorities and coping mechanisms developed by those living on low incomes[8]. From our research, we can add that the system does not cater to the knowledge and coping mechanisms of older workers who find themselves unemployed or unable to work full time because of declining health or caring responsibilities.

Our research highlights the inadequacy of Universal Credit in coping with income volatility and changing circumstances. This is especially problematic for those working variable hours.

> *My client was working 14 hours a week. But very flexibly on top of that. But that messes up his Universal Credit because it's always playing catch up and he never knows how much Universal Credit he is going to get. And that puts him further into debt.*
>
> *How does somebody like that become financially secure in retirement?*
>
> *Financial Advice Charity, Durham.*

A major criticism that support organisations have of the system is the delay in receiving benefits. Following a claim, the minimum wait to receive the first payment is five weeks. Advisers stressed that this delay is far too long – especially for households used to budgeting on a weekly basis. Universal Credit is paid monthly because the government hoped, inappropriately as it turns out, that the benefit should replicate the standard payments of those in full-time employment. Of course, it is not those in full-time employment who are most likely to need to claim Universal Credit, but those who find themselves faced with variable incomes. As previous research has highlighted, many claimants are paid more frequently than once a month and experience volatility in personal incomes. Another problem is that the assessment is anchored on one day

[7] Delestre Isaac, Robert Joyce, Imran Rasul and Tom Waters (2020). Income protection policy during COVID-19: evidence from bank account data. Institute for Fiscal Studies.

[8] Millar, Jane and Fran Bennet (2016). Universal Credit: assumptions, contradictions and virtual reality. *Social Policy and Society*, 16(2), 169-182

in the month, reflecting the date of the claim and not the pattern of income receipts[9].

Payment delays are relevant because of the low saving rates of many households in the UK. Around a quarter of households with income between £20,000 and £40,000 are unable to pay an unexpected but necessary expense of £850, rising to around one third of households in the £10,000-£20,000 bracket[10].

Means-testing

One obstacle that the over-55s can face when claiming Universal Credit is that they may have already taken tax-free lump sums from their pensions. A significant finding from our research is that for many older workers, the first reaction to unemployment is to cash in pensions. This makes them vulnerable to a fall into the 'capital trap' and a loss of entitlement to benefits.

> *I have encountered a number of people over 55 who are out of work whose first move financially was to cash in a pension pot, often to give themselves some breathing space.*
>
> *Citizens Advice, Perthshire.*

The Universal Credit rules treat any capital between £6000 and £16,000 as potentially providing income. Each £250, or part of £250, is counted as providing a monthly income of £4.35, whether it does or not[11]. This equates to an assumed return of over 5% per annum, an assessment that is ludicrous in the current low (albeit now rising) interest rate environment.

A second crucial point about Universal Credit is that the unit of assessment is 'the household' and a condition upon receipt of the benefit is that recipients are obligated to report changes to family members' circumstances. Changes in household composition, income, or savings can impact the viability of a claim for benefits. Benefits are also usually paid to only one member of the household, irrespective of who is responsible for expenditure or liabilities (for a critical review of the gendered implications of this policy, see Bennet 2021[12]).

Because Universal Credit is assessed at a household level, the capital trap can affect those unemployed who live in a household with someone who is living off pension savings. If retirement savings are still held in a pension wrapper, such as a workplace pension scheme or Self Invested Pension, they are not included in the assessment. But once pension savings have been liquidated and transferred to the individual, they do count. Likewise, savings held in Individual Savings Accounts (ISAs) and in Lifetime Individual Savings Accounts (LISAs) are included in the assessment. And ironically, although households are recommended to hold precautionary savings to cover at least six months of expenses, following this advice would actually exclude most households from qualifying for Universal Credit.

The Resolution Foundation reported on this in April 2020, noting the pernicious impact that the capital requirements have on those saving for a deposit on a house[13]. We can add to this the pernicious impact that the capital requirements can have on those older people with unprotected retirement savings. In June 2022 the government announced that it would commit to exempting Lifetime ISA savings from these rules in order to help people saving for a house deposit[14]. Although welcomed, this proposed amendment does little to help older people and we urge a further review of the capital rules for means-tested benefits.

[9] Thomlinson, Daniel (2018). Irregular Payments: Assessing the breadth and depth of month to month earnings volatility. Resolution Foundation.
[10] Office for National Statistics (2021). Personal and economic well-being in Great Britain.
[11] Revenuebenefits.org.uk. Revenue Benefits Capital rules. Entitlement to Universal Credit Guidance.
[12] Bennett, Fran. (2020). "How Government Sees Couples On Universal Credit: A Critical Gender Perspective". *Journal of Poverty and Social Justice*.
[13] Brewer, Mike and Karl Handscomb (2020). No work, no pay. Resolution Foundation
[14] Prime Minister's O1ffice (9 June 2022) Right to buy extension to make home ownership possible for millions more people - GOV.UK (www.gov.uk)

Policy Recommendation

We call for a review of the capital rules for means-testing benefits. The limit should be significantly increased, and the notional interest rules removed, so that those with savings from pension lump sums are not penalised.

Another perverse effect the drawing of an early pension can have is that pension income can reduce entitlement to Universal Credit.

> *People are accessing their pensions and not understanding how this can impact on their benefit entitlement and make them actually worse off.*
>
> *Pension Wise, Greater Manchester.*

Older workers below the state pension age access occupational pensions both to get income and to gain access to the tax-free lump sum. As we discuss in the Pension chapter, many individuals will have pensions that pay out from age 60. They may have been nudged into taking them with little understanding that, in some cases, these pensions can be left to accumulate and provide a higher income in later life.

> *They have then made successful claims for benefits, only to find that occupational pension payments are deducted pound for pound from a UC (Universal Credit) claim. Their total income is no higher than it would have been had they simply claimed benefits, and their pension pots could have been allowed to mature further.*
>
> *Pension Wise, Aberdeenshire.*

For others, accessing occupational pensions is a means to mortgage redemption, as most schemes allow for commutation of a lump sum. The Catch 22 here is that, although cashing in pensions risks negating what little benefit support there is, it can be necessary to meet mortgage payments because state support for homeowners is woefully inadequate.

Inadequate support for homeowners

The current benefit system provides support for renters through housing benefit but there is little support available for homeowners. An estimated 28% of owner occupiers in the 55-64 age group do not have any savings[15]. Older homeowners with an outstanding mortgage are sometimes forced to access pensions to meet mortgage liabilities but, in doing so, can find themselves excluded from Universal Credit.

Owner occupation is higher in older age groups[16], although in the decade between 2010-11 and 2020-21, there was a decrease in the proportion of owner-occupiers aged 55-64 from 79% to 70%[17]. In 2020, almost 1.1 million English households in the 55-64 age categories still held a mortgage[18]. The probability of still having an outstanding mortgage in one's 60s correlates with socio-economic position or else with having experienced financial shocks earlier in life. Divorce is one of these financial shocks and the negative consequences of divorce on homeownership are carried into later life[19]. Although the incidence of divorce for those under 50 has fallen this century, it has risen for those over 50[20]. Access to mortgage credit is critical for individuals wishing to remain a homeowner and as expected, we see higher debt levels and mortgage extension as divorcees re-establish themselves in the property market[21].

[15]Centre for Ageing Better (2022). Housing: The State of Ageing
[16]Office for National Statistics (2020). Living Longer: Changes in Housing Tenure over time.
[17] Housing | The State of Ageing 2022 | Centre for Ageing Better (ageing-better.org.uk)
[18] Statista (2020) • Age profile of tenure groups England 2020
[19] Dewilde, Caroline, and Haya Stier. (2014). Homeownership in Later Life – Does Divorce Matter? *Advances in Life Course Research* 20: 28-42.
[20]The peak age for divorce is between 45 and 49. In England & Wales in 2019, divorce rates were as follows: 55-59, 13,791, 60+ 13,921. Statistics on age are no longer collected. Source: Office for National Statistics, Divorces in England and Wales.
[21]Dewilde, Caroline, and Haya Stier. (2014). Homeownership In later life – does divorce matter?. *Advances in Life Course Research* 20: 28-42.

A 2017 report by the International Longevity Centre (ICL-UK) estimated that 400,000 people aged between 55- 59 will not have paid off their mortgage before age 65[22]. ICL-UK points out that currently, most over 65s with mortgages have higher income and pension wealth than those who have paid off their mortgages. But the situation may change in the future, with mortgage borrowers being more vulnerable in retirement. We conjecture that this may be especially true as future retirees will be more reliant on variable pension pots for income than upon regular payments from annuitised pensions.

Those who have taken longer to become homeowners are also more at risk of having an outstanding mortgage in their 60s. Since 2007, the average age of a first-time buyer in the UK has increased by six years to 34 years old[23]. Consequently, we would expect the percentage of older mortgagees to increase over time.

A 2013 study looked at financial vulnerability in older mortgagees and highlighted that 13 per cent of those in their late 60s with mortgages were struggling to repay them[24]. Although the majority of older mortgagees may well be in a secure position and able to meet liabilities, a small minority is not.

The government has just announced that the 1.5 million people who are in work but on housing benefit will be given the choice to use their benefit towards a mortgage[25]. The details of this proposal, which aims to increase home ownerships, are scant but we caution that there needs to be a review of the support available for people once they become homeowners. As it stands, the current policy for supporting financially vulnerable homeowners with mortgages is flawed and the benefit system does little to protect vulnerable homeowners who suffer income loss in later life.

Support for Mortgage Interest (SMI)

Policy Recommendations

We call for a review of the support available for people once they become homeowners.

The main support for homeowners with a mortgage is Support for Mortgage Interest (SMI). The eligibility criteria for SMI are strict. Homeowners must have received qualifying benefits for at least nine months. Qualifying benefits are Universal Credit, state pension credit and some legacy benefits such as income-based JSA and income related employment and support allowances. Claimants receiving Universal Credit do not receive SMI if they or their partner have any earned income. This is known as the 'zero earnings' rule. Given these strict eligibility criteria, it is astonishing that anyone actually manages to qualify for SMI.

> *He said, 'I'm not getting any housing benefit. I am going to lose my house.' And I am thinking, oh, they've got you every which way. This guy had actually had a really good job. He sold his car and that was very hard, and he couldn't get another job. Oh my God, it was terrible!*
>
> *Work Adviser, Wise Group*

The strict zero-earnings eligibility rules appear designed to minimise the number of claimants to the scheme rather than provide support for those in need. As the Building Societies Association (BSA) notes, changing the eligibility criteria of SMI would give households time to sell their property if necessary and avoid the trauma of repossession[26].

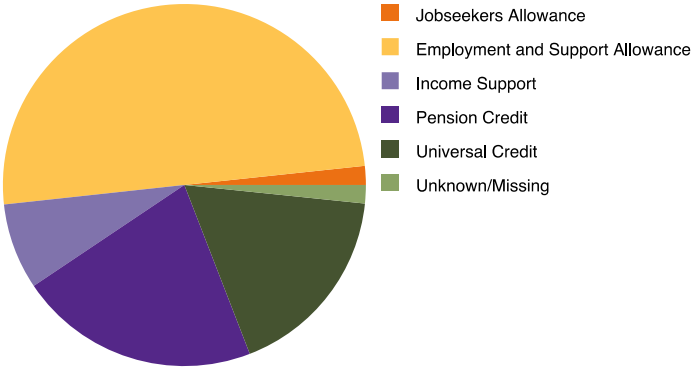
[22] Franklin Ben, Cesira Urzì Brancati and Dean Hochlaf (2017) ILC-UK-Lengthening the Ladder. The future of mortgage borrowing in older age.
[23] First-time buyer statistics: Average age to buy a house in the UK (finder.com)
[24] Finney, Andrea. D. (2013). The mortgage debt of older households and the effect of age: An analysis using the Wealth and Assets Survey 2008-10. International Longevity Centre.
[25] Prime Minister's O1ffice (9 June 2022) Right to buy extension to make home ownership possible for millions more people - GOV.UK (www.gov.uk)
[26] BSA - Press office - Press releases 17 Sep 2021

The nine-month ruling is particularly perverse because a household that has nine months of savings put aside to meet mortgage payments would likely fall foul of the capital rules for mean-tested benefits and not be eligible for Universal Credit. In June 2022, the government announced that it will be reducing the waiting time to three months and we urge that this change be brought forward as soon as possible. SMI is a loan, not a benefit as such, although it was a benefit prior to 6 April 2018. The loan is secured against the property and must be repaid when the property is disposed of, or the claimant dies and there is no partner or 'benefit unit' living in the household. Because SMI is a loan, extending the eligibility of the scheme would incur little long-term financial cost to the tax payer.

Policy Recommendations

We endorse the Building Societies Associations call for the zero-earnings rule to be removed from SMI eligibility criteria.

As of November 2021, 13,709 households had received an SMI loan payment in the previous quarter[27]. This is far fewer than the numbers who were entitled to SMI prior to 2018. For example, when the status of SMI was being changed from a benefit to a loan in 2020 the DWP contacted 102,000 recipients of SMI benefit and offered them a loan[28]. Only one quarter of those eligible accepted the loan. This is hardly surprising given the conditions attached to the loans, and the complexity involved[29]. The introduction of SMI loans adds to the barriers the vulnerable face getting financial advice. Although debt advisers can explain options, only a regulated financial adviser can recommend an SMI loan as a suitable product[30].The DWP does not identify the age of those households receiving SMI, but it does identify the qualifying benefits[31]. The most common benefit, by a long margin, is Earnings Support Allowance, indicating that illness is the main cause behind the fall of households into financial hardship and their inability to pay their mortgage. Over 3000 households in receipt of SMI are also receiving pension credit.



Households in Receipt of SMI by Eligibility Criteria

The SMI loans system is based on an assumption that the individual will return to work but, as we have discussed, the probability of an individual returning to work after a period of unemployment or ill health reduces with age. This study found evidence that vulnerable older people are accessing pensions early to repay their mortgages because the state does not provide support during periods of ill-health or unemployment. These people who cannot pay their mortgage, primarily through ill health, are facing genuine hardship.

The average weekly expenditure on a mortgage for the 50-64 age group is £52[32]. The sums that would be required to support vulnerable mortgagees are trivial compared to the £17.3 billion expenditure on housing benefit in 2021.[33] We would not expect the state to fund mortgage payments for everyone who finds themselves in financial difficulty, but the government needs to recognise the precarious position of older

[27] Gov UK (2021) Support for mortgage interest statistics May-2018 to November 2021.
[28] DWP. Conversion of support for mortgage interest SMI from a benefit into a loan. Claimant communication and loan take up.
[29] The loan is calculated on the assumption that interest is paid at 2.09% irrespective of the actual rate. The outstanding loan is subject to interest of 0.6% which is compounded.
[30] Shelter Legal England - Support for mortgage interest. Housing advice/debt and money problems/where to get help with debts.
[31] These are identified as follows JSA 230, ESA 6860, IS 1053, PC 2941, UC 2397, Unknown 225.
32 Office for National Statistics (2021) Family spending workbook 5: expenditure on housing.
[33] Statista (2022)• Housing benefit expenditure UK 2021 | Statista

mortgage holders and widen the scope and generosity of available support.

Affordable rental properties and Housing Benefit

Financial vulnerability and mortgage arrears are not always the result of a temporary imbalance of income and expenditure. Low incomes, loss of employment, relationship breakdown, escalating debt and ill-health are risk factors that make a permanent withdrawal from the housing market more likely[34]. The short-sightedness of policies that fail to support these vulnerable homeowners is especially evident when we consider what happens to them over the longer term. Some will end up in social housing, yet given the shortage of social housing, many will actually end up living in expensive private rented accommodation, with their rents subsidised by Housing Benefit[35].

Our contributors were extremely critical of UK housing policy on renting and the lack of suitable affordable rental properties. Simply put, there is a severe shortage of adequate socially owned housing, which forces people into the private rental market. Housing shortages have been extensively covered in a recent UK Government publication[36], so, we want to focus here on how rental housing, older workers, and benefits impact each other.

Housing benefit allocated through Universal Credit is paid by default to the claimant rather than to the landlord. This policy assumes that everyone receiving Housing Benefit can budget appropriately and pay their rent on time. Numerous advisers spoke about the difficulties that some clients face managing their finances and, moreover, the results of the CH modelling show that there is a behavioural dimension to financial vulnerability. One approach to minimising the risk of rent arrears occurring because of poor money management skills is to request that Housing Benefit is paid directly to the landlord. This option is widely promoted in Scotland but not in England.

Policy Recommendation

We call for the rest of the UK to adopt Scotland's approach of promoting the direct payment of Housing Benefit to landlords.

The under-occupancy penalty (or so-called bedroom tax) came in for specific criticism. The penalty imposes a cut in housing benefit if the recipient is living in a house with a spare bedroom. But the penalty applies even if there are no suitable properties for the individual to move into.

In one rural area, an adviser spoke of the lack of one-bedroomed properties suitable for older people without children. The specific problem there is a combination of limited social housing, the impact of tourism on low-cost homeownership, and a lack of transport, which limits people's options.

> *So, people's kids move out and now they've got an extra bedroom and they're hit with the bedroom tax. They want their kids to come back and visit, but they can't afford to stay in that property. But there aren't any one-bedroom places to move to. So, they can't. So, they're stuck then in these two-bedroom properties with no choice but to pay the extra money for the bedroom tax. But then also it's been their home for many years. So, you know, just to say, well, now your kids are gone, you have got to move out. It's very difficult.*
>
> *Citizens Advice, Monmouthshire.*

[34] Wood, Gavin A., Susan J. Smith, Melek Cigdem, and Rachel Ong. 2015). Life on the edge: a perspective on precarious home ownership in Australia and the UK". *International Journal of Housing Policy* 17 (2): 201-226.

[35] Joseph, Elliot, & Rachelle Earwaker(2021) Briefing: Renters on low incomes face a black hole. Joseph Rowntree Foundation

[36] Wilson, Wendy & Cassie Barnton (2022) Tackling the under-supply of housing in England - House of Commons Library (parliament.uk)

Other rural advisers spoke of older workers in tied accommodation struggling to find somewhere to live when they give up work. In some parts of the country, the limited rental housing stock is poorly insulated and inefficiently heated. Workers face the dilemma of either paying high transportation costs travelling to work or working from home and paying rising heating costs. The government needs to accept some responsibility for this. Major infrastructure projects such as HS2 and Hinkley Point[37], and urban enterprise zones, encourage an influx of skilled labour but with scant consideration at the planning stage for the knock-on effect that population inflows have on the local low-income housing market.

Affordable housing is key to avoiding financial vulnerability in later life. As the quantitative analysis demonstrated, most people become less financially vulnerable as they age, but part of the reason is that they are more likely to own their home outright and hence have lower essential and committed expenditure.

Health

Our cohort of advisers was highly critical of the failure of the benefits system to accommodate ill-health in the ageing population. Personal Independence Payment (PIP) is the main benefit for those who need help because of severe illness, disability, or a mental health condition. PIP is a non-means-tested payment. It also acts as a gateway benefit to extra money paid on top of existing benefits, council tax and road tax discounts and some travel allowances. An award of PIP may also entitle people to top-ups on other benefits such as housing benefit. Of course, not all PIP claimants are older workers and only a minority of older workers ever need to claim PIP, but, as people age, they are increasingly likely to need health-related support.
The other benefit for those who experience ill health is Employment and Support Allowance (ESA), which is initially paid at £77 a week.

To be eligible for either benefit, the claimant needs to be assessed, but the difference between ESA and PIP is that ESA is paid straight away at the initial rate and then increased if necessary. Claiming PIP, on the other hand, is a complex process and requires the claimant to put forward a case that demonstrates consistent severe ill health. Episodic and fluctuating disability is not well catered for[38] and the probability of an initially successful claim is weighted against those who cannot articulate their needs. Many vulnerable people, particularly those with mental health issues, are not receiving the support that they need.

> *Individuals with mental health issues are facing disruptive, and in some cases catastrophic, outcomes regarding their well-being.*
>
> *PIP Adviser*.

The PIP system is not designed to be immediately responsive to a health crisis, and the delays involved for those in need of financial support can be anything between six months and two years. The claimant is first assessed, and an award is either approved or denied. The support organisations we spoke to were highly critical of the award decision-making process. We heard repeatedly of vulnerable older people who had their claims incorrectly rejected.

> *If the people I support did not have someone there to fight their corner and help support their valid claims, they would often have had benefits they are entitled to withdrawn. I'm sure there are many others out there who are unable to put forward arguments or even fill in forms and are missing out on help. The knock-on effect of this can then impact on housing support and benefits and reductions in council tax, etc.*
>
> *In one case, a person I supported received an eviction notice. He subsequently tried to take his own life because he was so scared of becoming homeless.*
>
> *Mental Health Charity, Dumfries & Galloway.*

[37] Somerset West and Taunton. Hinkley Housing Strategy Appendix D Hinkley Point C Housing Strategy Phase 3

[38] Living with MS is painful but I've never felt indignity like a PIP assessment (inews.co.uk)

These issues with the PIP assessment system are well documented[39], and the DWP has been aware of them since prior to the coronavirus pandemic[40]. In 2019, the DWP began actively to contact claimants for further evidence to support appeals. But, if anything, the pandemic further disrupted the claims process. Appeals resolutions fell during the lockdowns, and, by June 2020, the time taken to revolve an appeal rose to 74 days[41].

In our analysis of the banking data, we remarked upon an anomaly that some accounts were receiving lump sum benefit payments[42]. Although we were not able to identify these categorically as PIP payments, some of the amounts were suggestive of back payments of multiple months of PIP awards. It is undoubtedly the case that some individuals find themselves financially vulnerable because they have to support themselves while waiting for awards to be paid. We find it shocking that vulnerable citizens must wait months to get the help that they are legally entitled to. But we also want to impress upon the DWP the enormous collateral costs incurred in supporting claimants through the appeals process. In 2013, welfare benefits advice and assistance were removed from the legal aid system, but the need for support has not disappeared[43]. The cost of this falls heavily on Citizens' Advice and other voluntary organisations.

Our investigation into how older workers interact with the benefit system has starkly revealed that the provision of adequate welfare support for the entire UK population cannot and should not depend on a 'one size fits all' approach. People's behaviour does not always follow the optimal path of the well-informed and financially secure idealised by government bureaucrats. Individual lives are complex and sometimes chaotic, and older workers are no exception to this. Helping the financially vulnerable maximise their income is crucial to helping them stay out of debt but the burden of providing support to do so is currently falling primarily on voluntary organisations. There is a role here for the DWP, possibly through Job Centres, to provide financial health checks for benefit recipients. Although the Gov UK website[44] does promote third-party benefit calculators, not all older workers are digitally aware or capable of interacting with these services.

> *I believe it is important for anyone on a low income to have a regular benefit entitlement check, especially when circumstances change to check that income is maximised.*
>
> *Local authority adviser, Lothian.*

The challenge is that, as we age, we have less time and capacity to bounce back from adversity and build up resources for older later life. When an older worker uses up their pension savings supplementing or compensating for a flawed benefits system, they are left with fewer assets for retirement. We need a comprehensive forward-looking benefits system that recognises that older workers, as a group, have specific support requirements. These need to be met if we want to alleviate or eliminate precarity, not just in the

[39] Pring, John (2019) Secret PIP files show one in three assessments by Capita had significant flaws – Disability News Service

[40] Work and Pensions Committee (2018), PIP and ESA assessments, Seventh Report of Session 2017-2019 (HC 829, 2018). Work and Pensions Committee, PIP and ESA assessments: claimant experiences, Fourth Report of Session 2017-19 (2018).

[41] GOV UK (2021). Personal Independence Payment statistics to April 2021

[42] We were able to identify some of these as bereavement payments.

[43] 'Social Security Benefits Appeals: Question for Ministry of Justice UIN 207160' (10 January 2019)

[44] Benefits calculators - GOV.UK (www.gov.uk)

working-age population, but amongst those of state retirement age.

Pensions

SMART DATA FOUNDRY

THE UNIVERSITY of EDINBURGH

In this section, we explore how older workers manage pensions as they approach retirement. First, we discuss the state pension, the widespread uncertainty surrounding entitlement, and the link between the pension and National Insurance contributions. We raise the issue of inequality and the failure of the system to provide a minimum income for all pensioners. Then we discuss workplace pensions, their complexity, and the challenges older workers face obtaining adequate financial advice, especially about how and when to withdraw their pensions. We end the chapter with a short discussion of the need for financial education to help people navigate toward a financially successful retirement. The major findings from this section are that:

- The public are not well informed about how much state pension they will receive or when they will receive it.
- The link between the state pension and National Insurance contributions is flawed and results in some vulnerable people missing out on a full state pension.
- Shortcomings in the benefit system result in some pensioners subsisting on very low incomes.
- There is a serious lack of knowledge about workplace pensions and how they operate.
- Those with multiple pension pots face difficulties obtaining appropriate advice.

The NatWest banking data confirmed our starting premise that many older workers receive income from a mix of salaries and pensions. Pensions play an important role in providing income stability for older workers both in and out of work and pensions are the dominant income source for all but the wealthiest in the 65-69 year age band. An older account in receipt of regular pension income is less at risk of financial vulnerability than an account on comparable (and sometimes erratic) earned income. This raises the question - are older workers also on track for a financially secure retirement?

We see from our dataset that, as committed and essential expenditure rises, so does indebtedness. As inflation has taken hold, financial challenges that might once have been apparent only at the margins have extended into the lives of the previously secure. One of the questions that the current cost-of-living crisis raises is - how will people who have built up savings for retirement respond to immediate financial pressure? The modelling identified a link between those with pension income who withdrew a lump sum, and subsequent financial vulnerability. We also want to know if older workers are cashing in their pension pots when they face financial difficulty.

We spoke to several pension advisers as part of this research. They reported that some of those most in need of financial support and guidance lack even a basic understanding of their state pension entitlement. The state pension, which was reformed in 2016, is the bedrock of the UK's pension policy and is, in theory, simple to understand. Full entitlement gives a flat rate of £185.15 per person per week. For the poorest pensioners, this is supplemented by means-tested benefits.

The state pension is not designed to replace pre-retirement earnings. Rather, it is the foundation upon which people are expected to build other savings for their retirement, primarily through enrolment in a workplace pension. The current state pension is supposed to provide a basic standard of living that takes almost all pensioners above the poverty line[1]. But a single pensioner would need an income of £10,900 for a 'minimum level' lifestyle', and this is more than the state pension. Moreover, the transitional arrangements

[1] If a household's income is less than 60 per cent of average income, they are considered to be living below the poverty line.

that have succeeded the pre-2016 rules are complex because some individuals inherit pensions from historic earnings-related schemes known variously as Graduated Retirement Benefit (GRB), State Earnings Related Pension Scheme (SERPS), and the State Second Pension (S2P)[2]. Not everyone is entitled to the full pension, especially those closest to retirement, and, crucially, many are not aware of this.

> *A lot of people don't realise that they were opted out of SERPS back in the day and that has impacted on their state pension.*
>
> *Pension Wise, East Yorkshire.*

The technical details of SERPS are beyond the scope of this report but the consequences of shifting policies are not. In 2021, fewer than half of pensioners received the full new state pension. The average weekly payment for males was £170.50, and for females, £164.74[3]. Furthermore, these averages hide disparities because some pensioners are receiving earnings-related supplements, known as 'protected payments', credited before 2016. We see this illustrated below in Figure 1. The most fortunate pensioners, those with protected pensions, receive over £40 a week more than those without.

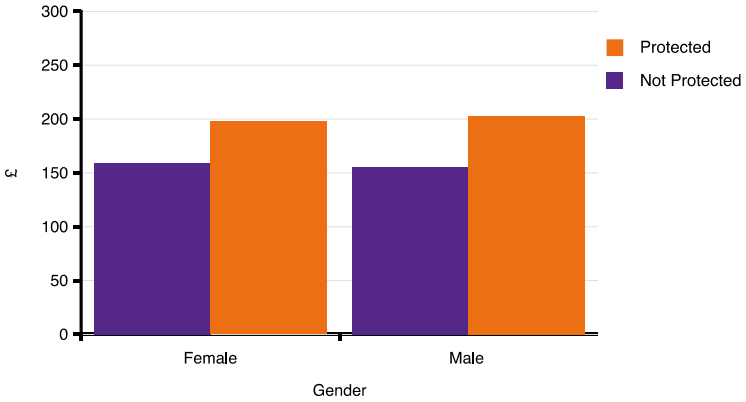


Figure 1. Average protected and unprotected state pension by gender

This is important because, if an individual is not receiving a full state pension, they will need income from other sources to support them in retirement. In most cases, this supplementary income will come from work-related pensions, but the burden may also fall upon the state, or, if it is not met, lead to unacceptably low levels of income. We refer back to our finding in chapter two, where we illustrated that the oldest and poorest pensioners have an increased reliance on benefits.

It is of little surprise, given the multiple changes to state pension entitlement over the years, that one participant reported that:

> *I come across people who don't even know how much state pension they are going to get.*
>
> *Debt Adviser, Cardiff.*

Part of the blame for this lack of understanding must lie with the DWP, who have historically neglected to keep individuals informed about their state pension entitlements. In recent years, the DWP has made efforts to increase the available information about pensions and it is now possible to receive an online forecast of state pension entitlement before retirement. Allowing digital access is a positive change and the pension forecast service is widely used. However, several of the pension advisers contributing to this research pointed out that some older workers still do not realise that they can get a forecast. Although we recognise that advisers will only see those individuals that need advice, and accordingly their perspective will be distorted, our research suggests that the lower levels of digital literacy amongst the older population is a barrier to accessing the service. A solution to this would be for the DWP to

[2] From 1961 there were various NI based earnings -related state pension schemes which provided, or aimed to provide, additional state pension to supplement the basic state pension.

[3] Gov.UK (Feb 2022) DWP benefits statistics.

be proactive and send out paper statements to all UK residents at age 60.

Policy Recommendation

We call on the DWP to issue a simple-to-understand paper statement to all UK residents at age 60 so that they can see whether they are on track to receive the full state pension.

National Insurance Contributions

Individuals gain the right to the state pension by paying National Insurance (NI) contributions and must accumulate a minimum of 10 years' worth of contributions. Employees pay NI of 13.25% on their earnings above £190 a week[4]. There is a lower earnings band between £123 and £190 per week within which, although the worker does not earn enough to pay NI contributions themselves, the state credits them on their behalf. This is called the 'lower earnings limit' (LEL). The state also credits NI for those with caring responsibilities or who are claiming Job Seekers Allowance. The danger for those working part-time in multiple jobs or on variable hours' contracts where income falls below the LEL is that they may find that they miss a few weeks' contributions in any one year and fail to obtain a full NI contribution record.

Thirty-five years' worth of contributions are needed to receive a full state pension, and those with fewer than 35 years' worth of NI contributions receive a pro rata pension. The 35-year rule applies to those who immigrate to the UK in adulthood; people who spend lengthy periods in higher education; and those with a broken employment record.

Unlike income tax, which is based upon cumulative earnings and is calculated on an annual basis, NI contributions are accumulated weekly on a 'per employment basis'. Because the NI threshold is calculated on a job-by-job basis, employees are incentivised to work in multiple part-time jobs, each of which is below the £190 threshold. An individual working in two part-time jobs earning under £190 a week in each will pay no National Insurance. Employers also pay NI on employees' earnings above £175 a week, so they too have a financial incentive to employ part-time workers. But critically, if someone has several weeks in any one year when they do not pay (or are not credited with) NI, the entire year's entitlement can be excluded from the final pension calculation. Although it is possible to pay voluntary contributions to fill contribution gaps, there are time limits for doing so. The link between NI contributions and pensions is little understood and few workers realise the ramifications of failing to accumulate the full 35 years' worth of NI contributions.

The state pension system caters well for those who are in permanent employment, or who move seamlessly from employment to receipt of unemployment benefits, or who register as having caring responsibilities, but it is clear from our research that the system penalises the very low paid, the itinerant, those who lose benefits through sanctions, and those who do not claim benefits when not working.

It is critical that people retire on a full state pension. Those with minimal or with no workplace pension need the state pension to avoid becoming financially vulnerable. Although financial vulnerability falls as people age, this is primarily

[4] DWP (2022) Rates and thresholds for employers 2022 to 2023 - GOV.UK.

because of reduced expenditure. Most pensioners spend very little on 'discretionary spending' but this means that, when faced which an increase in essential expenditure, they have little room for financial manoeuvre.

Policy Recommendation

To provide greater protection for the most vulnerable in our society, we need a reformed system in which NI contributions are cumulative over the tax year, as is the case with income tax.

We would also like to see the removal of the time limits that prevent the buy-back of missing NI contributions.

This research team, and many of our research participants, believe that the link between individual national insurance contributions and entitlement to the state pension should eventually be severed. We would like to see a flat rate universal pension based on citizenship.

The impact of pension credit changes on mixed age couples.

Several of our research participants were keen to impress upon us the vulnerability of benefit-dependent mixed-age couples, where one partner has reached state pension age, but the other partner has not.

> *Pension age benefits were always more generous, but since May 2019, pension credit cannot be claimed until the youngest also reaches pension age. This leaves Universal Credit as the alternative, and can leave some older couples living on a very low income, especially where neither can work due to ill-health.*
>
> *Citizens Advice, Dumfries & Galloway.*

Pension credit is a means-tested benefit that guarantees a minimum income for those over state retirement age. Pension Credit tops up the income of those over state retirement age to £182.60 a week for single people, (£9495 per annum) or £278.70 for couples (£14,492 pa)[5]. It helps those individuals who do not receive a full state pension by bringing their income up to an equivalent level. In essence, Pension Credit acts as a minimum income guarantee so that pensioners' income does not fall below the poverty level. Mixed-age couples, where one is over state pension age but the other is not, can find themselves with an exceptionally low income. This is because they are not entitled to claim Pension Credit and must instead claim Universal Credit. The standard monthly Universal Credit payment for a couple without children is £525.72 a month (6308pa)[6].

Prior to May 2019, mixed-aged couples could claim Pension Credit but the rules were changed.

> *This was one of those stealth moves by the Government. It just seems another way to shut the door – to stop people claiming income.*
>
> *Council Adviser, Yorkshire.*

The combined income threshold is also lower for Universal Credit than for Pension Credit, so the older partner's pension can reduce the couple's entitlement. In addition, the younger partner will also still be subject to work conditionality, even though they may be providing care for the older partner.

[5]DWP (2022) Proposed benefit and pension rates 2022 to 2023 - GOV.UK

[6] DWP (2022) Proposed benefit and pension rates 2022 to 2023 - GOV.UK

We've worked with a couple of people and your heart just goes out to them. Situation where someone is not physically able to work, or they are trying to work and care for a husband that's not very well but they can't do a pension credit claim because she is under pension credit age. It doesn't work. It just doesn't work!

Council Adviser, Yorkshire

The mixed age pension credit anomaly would not matter if the state pension was universal but, as things stand, the weakest, most financially vulnerable pensioners fall through the cracks. These rules run contrary to the idea of a minimum income guarantee. It seems morally questionable to punish pensioners because they happen to be in a relationship with someone just a few years younger than them.

We reiterate the point that we previously made, that those on very low incomes are at high risk of financial vulnerability, especially in the face of a cost-of-living crisis. We have demonstrated that the expenditure of account holders on the lowest incomes exceeds income. We have also shown that a regular, stable income is an important factor in maintaining financial stability. Providing vulnerable pensioners in a mixed-age relationship with a minimum income equivalent to the state pension is an important step in eliminating poverty in older age groups.

We conclude that, considering the hardship caused relative to the costs saved, mixed-age couples should be able to claim Pension Credit.

Policy Recommendation

We recommend that the DWP rescinds the 2019 ruling and allows mixed-age couples to claim Pension Credit.

State Pension Age

It is hardly surprising that the public are unaware of the complex rules governing accumulation of state pension entitlement, but one would at least have expected most people to know when they are eligible to receive their pension! But this is not the case. Although digitally literate people can find out their state pension age through the UK Gov website, our research confirms that, amongst the most financially vulnerable, there is widespread uncertainty about the state pension age[7].

People fail to even have a basic grasp of when they are eligible to receive it.

Citizens Advice, Renfrewshire

When most workers now in their 50s and 60s entered the labour market, men were expected, or indeed obligated, to retire at 65. Women, if they worked at all, retired at 60. This was the case for over six decades. But, in recent years, we have seen repeated changes to the state pension age, especially for women. Beginning in April 2010, women's state pension age was rapidly increased from 60 to 65 to bring it in line with the pension age for men. This increase was phased in between April 2010 and 2020. A woman born in 1951 would

[7] Crawford Rowena and Heidi Karjalainen (2020) Awareness of state pension entitlements in The *Dynamics of Ageing,* Institute of Fiscal Studies.

have received a state pension on her 62nd birthday, but a woman born in 1954 had to wait until she was 65. This dramatic change, and the Government's failure to notify women personally of the changes, have caused considerable hardship for many women born in the 1950s[8].

Subsequently, the state pension age was increased from 65 to 66 for both men and women. This rise was also phased in. Anyone born after the 6th of October 1954 would not receive a state pension until at least their 66th birthday. Following the 2014 Pensions Act, the state pension age was further raised from 66 to 67. Implementation is also gradual, with the age of entitlement increasing to 67 between 2026 and 2028. Broadly, for anyone born after 6 March 1961, the state pension age is now 67. The state pension age is due to increase to 68 from 2037 (brought forward from its previously legislated date of 2046).

> *And again, it's just a lack of awareness, really, about when it's going to be paid. A lot of people still think it's 65, and they haven't realised that it's going to be shifting.*
>
> *Pension Wise, East Yorkshire.*

Given the complexity of the phasing in rules, and the multiple changes to the state retirement age, it is little surprise that there is confusion. But, more importantly, the constant amendment of the rules creates uncertainty and a lack of trust in government's willingness to honour pension commitments.

Changes to the state retirement age matter because of the impact they have on an individual's financial wellbeing. Pushing back eligibility to the state pension does not automatically mean that the majority of older workers remain in the workforce for longer. The most recent reform led to an increase in the employment rates of 65-year-old men and women by 7.4 and 8.5 percentage points respectively, but the effects of the increased state pension age are not spread equally across society[9].

This is for several reasons. First, retirement is highly gendered - most women in their 50s and 60s entered the labour market expecting to retire at 60 and women are still more likely to withdraw from the labour market before reaching the state pension age. But even for men, there is a high probability of their leaving the labour market before being able to access the state pension. This is partly for social reasons – the age that people feel that they ought to retire is socially embedded and reflects societal norms[10]. In addition, as we discussed in the section on unemployment, there is a shortage of job opportunities for older workers.

The impact of the raised state pension age (from 65 to 66) has been greater for individuals with lower levels of education, renters, and for people living in deprived areas. Less-advantaged people are more likely to continue to have to work because of the higher state pension age. One might see this as a positive outcome, as more disadvantaged individuals are encouraged to earn and build up pension savings. But it has also led to an increase in the number of 65-year-olds reporting absence from work for health reasons and an increase in unemployment[11]. The state pension provides a higher benefit than other health and unemployment-related state benefits, so these individuals will therefore be on lower

[8] Giusta, Marina Della, and Simonetta Longhi. (2021). Stung By Pension Reforms: The unequal impact of changes in state pension age on UK women and their partners. *Labour Economics* 72: 102049.

[9] Cribb Jonathan, Carl Emmerson and Laurence O'Brien (2022) Labour market effects of the increase in the state pension age from 65 to 66 - Institute For Fiscal Studies - IFS

[10] Loretto Wendy, and Sarah Vickerstaff (2013) The domestic and gendered context for retirement. *Human Relations* 66(1):65-86.

[11] Cribb Jonathan, Carl Emmerson and Laurence O'Brien (2022) Labour market effects of the increase in the state pension age from 65 to 66. Institute for Fiscal Studies.

incomes for longer than if they had been able to retire at 65.

> *I think it is absolutely disgusting how people have been treated. They have been paying into the system since they were 15. It is so unfair. How can they expect people to work until they are nearly 70?*
>
> *Employment Adviser, Glasgow*

The significant increase in the pension age for women from age 60 has led to negative health effects and a widening in health gaps between women in different occupations [12] resulting in increased inequality between those who could and those who could not afford to retire at their preferred age[13].

> *And it's going to affect your working class. People who have worked hard. Get their pension and then are dead within two years.*
>
> *Employment Adviser, Glasgow*

Policy Recommendation

We urge flexibility in setting the age that those aged 65 and over can access their state pension.

Workers who have salary-linked occupational pensions that pay out at 65 will receive some income if they withdraw from the labour market before reaching the state pension age. But those individuals who draw primarily on market-linked pensions face the dilemma of how to fund their retirement until the state pension kicks in. The risk of falling into financial vulnerability in later life increases the longer someone has to support themselves with their savings before accessing the state pension. So, increasing the state pension age but failing to improve job opportunities for older workers leads to higher levels of poverty and increased financial vulnerability in retirement. This raises questions about how we treat our older population. If someone has paid National insurance contributions for 35 years and qualifies for a full state pension, is it fair to deny them access to it if they are in need?

Delays in receiving state pensions.

One might suppose that, once the requirement for qualification has been met, the actual payment of the state pension would work smoothly – the state has a record of the birthdate of citizens in numerous databases. But we heard several accounts from our participants of people who had not received their state pensions when they reached retirement age. Rather than paying the state pension by default, an individual must undergo a claims process several months before the first payment date. The DWP is supposed to write to everyone informing them about the claims process, but not everyone receives the letter, and some do not realise that they must make a claim. Others are not paid because they cannot find the documents they need to substantiate the claim, such as proof of divorce or a birth certificate. We were told of one long-term resident who was refused a pension because he could not obtain a birth certificate from his country of birth.

> *He was stuck. I mean completely stuck, despite the fact he worked in this country. The government was insisting that it had to see his birth certificate to give him his*

[12] Carrino, Ludovico, Glaser Karen, & Avendano Mauricio (2020). Later retirement, job strain, and health: evidence from the new state pension age in the United Kingdom. *Health economics* 29.8: 891–912.

[13] Giusta, Marina Della and Simonetta Longhi (2021) Stung by pension reforms: The unequal impact of changes in state pension age on UK women and their partners. *Labour economics* 72.

pension, even though they've been taking tax from him for 30 years.

Citizens Advice, Surrey.

Payment delays are especially problematic for those on Universal Credit because the benefit stops when a claimant reaches state pension age. There is not necessarily a seamless crossover from the benefit ending to the pension starting. The current policy demonstrates a lack of concern for individuals.

One client hasn't been able to work due to health conditions, and he applied for his pension back in April, finishing in August. And they just didn't do anything about it! The date came and went, and all his benefits stopped and for six or eight weeks, he had nothing. By the time he told us - because he was immensely proud and didn't want to admit that he was struggling - he'd got £4.00 left in his bank account and wasn't eating. I was shocked that could happen!

Christian Charity, Norfolk.

Clearly, co-ordination between government departments is lacking, and this lack of connectivity causes genuine hardship.

Policy Recommendations

The DWP needs to take a more proactive approach to paying the state pension. It should be awarded by default to all those reaching state pension age with an active work or benefits claim record.

Universal Credit payments should continue beyond state pension age until the DWP can verify that the state pension is being paid.

The complexity of workplace pensions

The advisers in this study overwhelmingly agreed that there was a lack of appropriate tailored financial advice available to help individuals navigate towards retirement. We now consider their concerns about the ongoing problem of pension complexity, the limitations of state sponsored advice, and the role of pension companies.

The key finding from this part of the research is that the free advice provided by the government-funded Pension Wise service is insufficient to meet the needs of current older workers.

It used to be a simple process: you had a pension; you took your tax-free cash and then bought an annuity from your provider.

Pension Wise, UK.

In recent years, workplace pension complexity has increased. The decline of Defined Benefit pension (DB) schemes and their replacement with Defined Contribution (DC) schemes has meant that optimal saving for retirement now requires an understanding of financial markets and longevity statistics.

Additionally, changes in legislation to allow flexibility of access to pensions have increased the burden of critical decision-making. In 2015, following several years of complex restrictive regulations governing how DC assets could be spent, the UK Government enacted Pension Freedoms. Now, over-55s can access their pension funds as a one-off sum or as partial withdrawals without needing to buy an annuity.

Our panel highlighted two areas of concern – the cost of advice from financial advisers is prohibitive for the least affluent, and the free advice provided by the state is too limited.

Although we now have the freedom of choice, to many, pensions will always remain

a mystery. It is debatable whether anyone or any particular organisation would be willing to take on the role of telling individuals exactly how they all should invest or take their pension benefits for fear of legal action.

Pension Wise, UK

Most large organisations that still offer DB schemes are in the public sector and provide some, albeit generic, guidance for their employees. But former employees who still have entitlement to an occupational pension face barriers to receiving information. Pension scheme administrators can, and do, behave in ways designed to keep themselves on the right side of the pension regulators by refusing to offer advice that might, retrospectively, be considered inappropriate.

Someone aged 60 might have a combination of DC and DB pensions and be able to access these at different ages. This adds considerable complexity to the decision-making process. Our advisers drew attention to how a lack of advice can lead to lower retirement income. For example, some DB schemes allow for later retirement, so, for instance, someone aged 60 could defer taking their pension. The scheme administrators would adjust their entitlement to reflect this and, consequently, deferment yields a higher pension. Delaying, in this case, would be advantageous for those with little pension provision, especially since pensions are taxed and included in means-tested benefit calculations. But some schemes make no, or little, actuarial adjustment and pensions not taken are forfeited. Knowing what to do in those circumstances requires tailored advice.

Our research drew attention to how it is becoming increasingly difficult for savers with smaller pension pots and legacy DB schemes to receive that tailored advice. As one of our pension advisers impressed upon us, this situation is not helped by a general distrust of the financial sector, and fears about the cost and complexity of charges for financial advice. The cost of using an independent financial advisor (IFA) is becoming prohibitive for all but the wealthiest. IFAs face increasing regulatory pressures and charge high fees, partly to cover rising indemnity insurance costs. They can be reluctant to take on pension business unless the client has a sizable market-linked pension fund. Moreover, many IFAs have withdrawn altogether from advising on DB pensions because of regulatory risk.

The consequences of failing to receive advice can be serious. The concern is that older workers will withdraw their pensions too early because they face financial pressure. Our modelling indicates that there is a link between pension lump sum withdrawal and an increased risk of financial vulnerability. This may be because the more financially vulnerable are driven to withdraw pensions early, or it may be a consequence of mismanagement of funds. We were repeatedly told by benefit advisers of cases where clients cashed pensions in at the wrong time and incurred tax liabilities as well as losing out on benefit income.

According to the FCA, the majority of smaller pension pots (those under £30,000) are fully cashed in despite the tax implications (although the first 25% is tax free, the balance is taxable).

If people are faced with getting £30,000 in their bank account today. The way it is presented it like suddenly they have won the pools!
Citizens Advice, Essex.

Another option with a pension pot is to withdraw a percentage of the pot as income. The higher the drawdown rate, the sooner the fund will be extinguished. In 2020/21 over half of the drawdowns taken by those under state pension

age were at unsustainably high rates, risking the funds running out before death[14].

> *People have taken pensions and now they are looking years ahead and thinking, I haven't actually got enough to have a decent standard of living going forward.*
>
> *Local Charity, Suffolk.*

High drawdown rates are lower in the 65-74 year age group. This suggests that people accessing their pensions after age 65 are less at risk of running out of funds than those under 65. Although we cannot directly link the financial data that we have from the NatWest Group dataset with the pension data from the FCA, it does appear that older age groups are adopting a sustainable approach to their income and expenditure. In contrast, those accessing pensions pre-state retirement age are increasing their risks of financial vulnerability in the future if they lack additional income sources in retirement. This makes it even more important that those approaching retirement receive adequate financial advice.

Pension Wise and the lack of tailored financial advice

Our research participants included several advisers who worked for Pension Wise. Pension Wise is the government's free, impartial retirement guidance service that is open to the over 50s seeking information about DC pensions. The service does not provide advice on DB schemes. Pension Wise is a welcome addition to the pension guidance space and provides a much-needed service. But although advisers praised Pension Wise, they were also critical of its limitations.

> *Pension Wise provides a good guidance service in terms of options at point of access however, the appointment content is restrictive and doesn't go far enough to tailor to individual clients' circumstances.*
>
> *Citizen's Advice, Paisley.*

Many older workers need help to make choices on how and when to access all their pensions (not just DC schemes) and need to be made aware of the implications that pension withdrawal will have on income tax, means-tested benefits, and financial security in later life. Pension Wise provides specialist pension guidance for 45-60 minutes over the phone or in person. An hour of general advice was widely acknowledged as being insufficient for all but the simplest of cases. Furthermore, the service is hamstrung by the distinction between financial advice and guidance. Another concern is the pressure that the system will come under as regulations come into force in June 2022, requiring occupational schemes to nudge savers toward Pension Wise. Without adequate funding, Pension Wise risks becoming a tick-box exercise that fails to cater adequately to savers' needs.

Policy Recommendations

Pension Wise's remit needs to be redrawn. The content needs to be expanded to cover the state pension and DB schemes.

Greater investment in Pension Wise is required to meet the anticipated demand, and the number of Pension Wise sessions available to individuals should be increased.

[14] In 2020/21 withdrawal rates were above 6% for over 50% of the funds making annual withdrawals. Source FCA Retirement Income Data 2020/21.

Another reason for expanding access to Pension Wise relates to the persistent problems of financial fraud and pension scams. Advisers spoke of the importance of face-to-face contact with clients in identifying such issues.

> *Digitalisation and pushing people to do things online - you are opening up massive holes for people to take advantage of.*
>
> *Housing Adviser, Shropshire.*
>
> *And that leaves them vulnerable because they rely on other people to use the technology for them, handing over passwords and all the rest of it.*
>
> *Citizens Advice, Surrey.*
>
> *When you are face to face with someone, you can spot patterns in people's bank statements and irregularities and can ask appropriate questions.*
>
> *Local Government Adviser, Yorkshire.*

Pension fraud aside, advisers raised concerns about other areas of financial exploitation, but pension-related scams can have a devastating impact because of the large sums of money involved and the inability to recover financially before retirement.

Complex Pension Rules

Our panel also reflected on the failure of insurance companies to address their policyholders in language that they can understand. Although insurance companies are required to mention Pension Wise on statements, every pension company formats their literature differently. As many workers have more than one pension plan, the inconsistent literature adds further to the fog of confusion. The problem is not so much a lack of information as an excess of information, much of which is dense and complex and not readily accessible to the general public.

How do we improve this situation? The government and the Financial Conduct Authority (FCA) must bear some of the responsibility because, although they are making progress towards a simplification of DC statements, this has been too long in development. Moreover, the provision of better information in communications from insurance companies would be only part of the solution. Increasing signposting that directs people to approved websites is needed because, although available, in our pension specialists' opinion, not enough people know about them. Achieving workable pension dashboard apps where individuals can find and view all their pensions in one place would be a significant step forward. The DWP is making progress on draft regulations for pension dashboards with the aim of including most pension schemes by the end of 2024. It is critical that savers are provided with an aggregated pension income illustration so that they have a complete picture of how pension pots translate into retirement income.

Another innovative suggestion was for the FCA to impose continuity across all pension providers. For example, all DB schemes literature could be printed on different-coloured paper from DC schemes. This would act as a visual identifier and aid voluntary advisers when they are trying to discern what type of pension someone has.

> *People come in with a shopping bag and say there's paperwork and you have to shift through and explain it. Sometimes people just need to know whether it's DB or DC scheme. If organisations got together and said, OK, if you have a DB scheme it is going to be on light blue paper and if you have a DC scheme everything is going to be on white paper, it would be an easy way of people knowing what kind of policy they had.*
>
> *Pension Wise, East Yorkshire.*

That said, some companies are managing better than others. Participants who had used the NEST

Policy Recommendation

DWP, Money Helper and the FCA should continue working with insurance companies to produce clear and comparable documentation.

pensions website spoke encouragingly about the clarity of documentation. We would like to see NEST's standards adopted industry wide. We also recognise that Money Helper is engaging with pension companies to produce simplified annual statements.

Automatic enrolment has rightly been heralded as an enormous success but, ironically, the default mechanism underpinning automatic enrolment has led to low levels of saver engagement and pension advisers see a need for raising engagement. Financial literacy is seen as a key component in improving the public's confidence to engage with pensions. There was a general discussion among the research participants about the lack of financial skills and participants were divided on where best to target resources. Several spoke out in favour of financial education beginning at a much earlier age to help people navigate their finances throughout their lives. However, there was concern about the relevance of pension education for younger people because of the long time frames involved. There is no quick fix for low levels of financial literacy and improving the public's skills will require a lifelong learning approach involving the state and a tailored approach from the financial sector.

On the positive side, our research participants recognised the benefits of internet connectivity in improving reach to clients. During the shutdown of face-to-face advice services because of the pandemic, many older people turned to websites and artificial intelligence systems for information and guidance. But there are shortcomings in online advice bots, which can have problems answering complex questions or helping less literate individuals. There is a need for improved AI that can provide tailored rather than general advice and much more investment and effort is required developing digital financial support aids that are user friendly and tailored for the older generation

It must be allowed that the cognitive capacity of some of our most vulnerable citizens is limited, and expecting everyone to develop high financial literacy skills is wishful thinking. Our view is that,

Policy Recommendation

Improved efforts to develop digital support aids, including benefit calculators and spending apps to enable potentially vulnerable individuals to keep track of their finances.

although financial education and better online information are important, the root cause of much unpreparedness is the complexity of the current pension system. Presently, even the building blocks of the system are not all in place – first, the Government needs to ensure that everyone receives a full state pension.

We return to our opening comments about lack of pension knowledge. Many older workers have never calculated their retirement income requirements and have never enquired what their state pension will be or how much income they will get from their pensions. We reiterate our point about the need for greater investment in Pension Wise to provide multiple opportunities for people to seek guidance on their finances as they approach state retirement age.

It is abundantly clear from our research that the difficulties people experience in understanding pensions stem from the complicated rules. The government must accept much of the responsibility for this. Saving for retirement ought to be straightforward. The confusion comes from

opaque National Insurance rules and complex pension regulations designed to counter the tax advantages for higher rate taxpayers. Multiple levels of tax relief, annual allowances, lifetime allowances and crystallisation rules bamboozle not only the public but also, sometimes, those who are trying to advise them. The government is also guilty of constantly moving the goal posts - for example, by repeatedly raising the state pension age, and the age workers can access workplace pension funds from 55 to 57. Continuous changes lower public trust and make planning for later life more difficult. Providing digital access to state pension statements and the proposed pension dashboard are steps in the right direction, but there is much more that can be achieved.

Conclusion

SMART DATA FOUNDRY

THE UNIVERSITY of EDINBURGH

This research project investigated the risk of financial vulnerability amongst the over-50s. We combined aggregated banking transaction data from over 450,000 individuals with insights from advice practitioners with practical experience supporting older workers. Our mixed-methods approach provided a valuable quantification of the extent of financial vulnerability with an exploration of some of its causes.

Our contention is that dividing the population into working and retired is an outdated concept. Older people below and just above the state pension age rely on a mix of incomes, including occupational pensions, savings, part-time employment, and state benefits. They can be in receipt of pensions and yet still be saving for retirement through workplace pension schemes. It is important that we understand the complex interplay between employment income and pension income because few older workers have time to recover if they fall into financial difficulties just prior to the state retirement age.

In this study, we have demonstrated that, as adults reach state pension age, they are less likely to become financially vulnerable. For the most part, the over-70s are able to adapt to lower income because they have lower committed expenditures, such as mortgage payments, and spend less on leisure. They benefit from a regular, albeit small, state pension and this provides important income stability.

But additional income over and above the state pension is crucial for maintaining an adequate standard of living. The oldest age groups will only achieve financial security if they have sufficient income to protect themselves from rising living costs. Furthermore, our study has highlighted the need for an improved safety net to support those in later old age who find their standard of living falling below the accepted minimum income threshold. Although the topic of benefit payments for those over the state pension age lies beyond the scope of our research, we reiterate our call for Pension Credit to be paid to mixed-age couples, and for a smooth transition from receipt of Universal Credit to the payment of the state pension.

The modelling in chapter 3 demonstrated that individuals' spending choices influence their risk of financial vulnerability. We noted that some of these spending behaviour risk factors were substantially lessened by the first COVID-19 related lockdown. Forced curbs on leisure consumption allowed some households to repair their balance sheets and this rare positive effect of the COVID-19 pandemic has been more apparent in older and wealthier individuals. But the finding that spending choices influence financial vulnerability does not necessarily imply that financial vulnerability is primarily behaviour-driven, or that it has little to do with wider societal problems. The pandemic led to a polarisation in the state of the financial well-being of the UK population. A minority of households will continue to suffer severe financial repercussions from the pandemic.

The risk of financial vulnerability for individuals aged between 50 and 54 is almost twice that of those currently aged between 70 and 74. This heightened risk occurs because those who are not yet retired experience higher income volatility relative to day-to-day living costs. Income shocks can have a devastating impact on financial well-being. A person suffering a large income reduction is significantly more likely to become overdrawn or to fail to maintain a current account balance sufficient to cover three months of essential expenditure. The main causes of involuntary income shock amongst older workers are unemployment, ill-health, and caring responsibilities. But, critically, those seeking re-engagement with paid employment face much greater difficulty than younger cohorts finding well-paid work. Their window of opportunity is small; the longer the unemployed older worker remains out of work, the lower are their chances of finding a suitable position, and the greater their

risk of descending into financial vulnerability. We emphasise that targeted support is needed to meet re-training needs, and that older workers need assistance from the first day of unemployment to ensure that unemployment does not turn into forced retirement.

Older workers in need of financial support struggle against shortcomings in the complex benefit and pension systems. The benefit system is poorly adapted to supporting individuals who, at the end of their working lives, are not yet drawing the state pension. Shortcomings in benefit means-testing force households to run down pension assets prior to the state retirement age, placing older workers at serious risk of future financial vulnerability. The government needs to take a close look at this issue and we emphasise two policy recommendations: the DWP needs to review the Universal Credit capital rules; and it needs to relax the eligibility criteria for SMI.

One would not usually expect a social policy framework to be so designed that favourable outcomes for the individual are dependent upon their own cognitive ability, but that is currently the situation with workplace pensions. Considerable financial skill is required by those with defined contribution pensions to navigate optimally into retirement. Most individuals are not able to make wise decisions about retirement savings unaided, but non-advised pension withdrawal is the challenge facing many of those currently approaching retirement. Our research has provided unequivocal evidence that people are making uninformed decisions about pension drawdown that are increasing their risk of financial vulnerability. The government needs to devote more resources to augmenting the scope and availability of free pension advice. Some of this investment must be directed at Pension Wise but there is a role, too, for the FCA and the financial community. We think that there is ample scope for innovative solutions to help people manage their finances as they age.

This report has focused upon the multiple challenges facing many older people as they approach state retirement age. Financial vulnerability is not an inevitable outcome for most, yet its consequences can be severe for those affected. It is to be hoped that policy makers use this report's evidence to make appropriate policy adjustments to the rules governing eligibility for state benefits, job creation schemes, and pension access.

Appendix 1

Summary of Policy Recommendations

- In recognition of the difficulties older workers experience finding suitable work, we propose that the Job Search Conditionality attached to Universal Credit should be removed for those within two years of state pension age. (P61)
- We urgently need tailored training programmes and financial support for older manual workers and the self-employed who are unfit for their current jobs and need to retrain. (P64)
- We Reiterate Ageing Better's call for greater support at work for workers experiencing minor ill health, and the NHS to focus on improved management of long-term conditions that increase the risk of labour market withdrawal. (P65)
- The NHS to focus on improved management of long-term age-related conditions that increase the risk of labour market withdrawal. (P67)
- We call for the right to flexible working from the outset to be included in all employment positions. (P67)
- We recommend that employers provide greater support for job sharing. (P67)
- We recommend that the DWP introduce an employment programme specifically targeted at older workers and allow access to Restart from the first day of unemployment. (P70)
- We call for a review of the capital rules for means-testing benefits. The limit should be significantly increased, and the notional interest rules removed, so that those with savings from pension lump sums are not penalised. (P78)
- We call for a review of the support available for homeowners.(P79)
- We endorse the Building Societies Association's call for the zero-earnings rule to be removed from SMI eligibility criteria. (P80)
- We call for the rest of the UK to adopt Scotland's approach of promoting the direct payment of Housing Benefit to landlords. (P81)
- We call on the DWP to issue a simple-to-understand paper statement to all UK residents at age 60 so that they can see whether they are on track to receive the full state pension. (P87)
- To provide greater protection for the most vulnerable in our society, we need a reformed system in which National Insurance contributions are cumulative over the tax year, as is the case with income tax. (P88)
- We would like to see the removal of the time limits that prevent the buy-back of missing NI contributions. (P88)
- We recommend that the DWP rescinds the 2019 ruling and allows mixed-age couples to claim Pension Credit. (P89)
- We urge flexibility in the age that those aged 65 can access the state pension. (P91)
- The DWP needs to take a more proactive approach to paying the state pension. It should be awarded by default to all those reaching state pension age with an active work or benefits claim record. (P92)
- Universal Credit payments should continue beyond state pension age until the DWP can verify that the state pension is being paid. (P92)

- Pension Wise's remit needs to be redrawn. The content needs to be expanded to cover the state pension and DB schemes. (P94)
- Greater investment in Pension Wise is required to meet the anticipated demand, and the number of Pension Wise sessions available to individuals should be increased. (P94)
- The DWP, MaPS and the FCA should continue working with insurance companies to produce clear, comparable documentation. (P96)
- Improved efforts to develop digital support aids, including benefit calculators and spending apps to enable potentially vulnerable individuals to keep track of their finances. (P96)

Appendix 2

List of control factors and risk factors used to estimate the change in the likelihood of a current account becoming financially vulnerable.

Control Factors

Postal Outcode	The segment of the postcode before the space (EH11, B1 etc.) from the registered address of the account. This is commonly known as the postal district.
Income sources	These variables break down bank credits ('income') into the following sources: 'salary', 'investments', 'pension', 'interest', 'benefits', and 'uncategorised'. Each of these variables are measured in £1,000's.
Economic status	This variable categorises accounts into five quantiles based on the annualised income of accounts, the bottom quintile being the accounts within the 20th percentile of lowest annualised incomes, and the highest quintile being accounts with annualised income above the 80th percentile.
Expenditure uncategorised	These variables measure expenditures, in £1,000s, that could not be classified into the categories of interest. (Other expenditure categories are treated as risk factors; see below)

Risk Factors

Age	The age of account holders, aggregated into the following bands: '50-54', '55-59', '60-64', '65-69', '70-74', '75-79', '80-84', and '85 or older'.
Gender	The sex of the customer, as held by NatWest
Income shocks	This factor identifies the accounts that have experienced income reduction as a percentage, relative to the previous quarter (i.e., a quarter on quarter change) for the following five categories: 'between 10% and 20% reduction', 'between 21% and 30% reduction', 'between 31% and 40% reduction', 'between 41% and 50% reduction', and for '51% or more reduction'.
Income volatility	This factor measures the degree of variation of an account's income over time, standardised on a quarterly basis. Because fluctuations in salary are in most part related to reductions in income, whereas fluctuations in income from other sources are indicative of increases in income, we measure income volatility in two separate ways: 'salary volatility' and 'other income volatility'.
Retirement phases	Customers were classified as 'not fully retired' where when we observed salary being the primary source of income. 'Fully retired' where we observed regular pension income and no salary, 'Planned retirement' where, within the time span of our sample we observe transition into full retirement with a final pension income of greater than

50% of salary. 'Unplanned retirement', which are individuals that within the time span of our sample transition into full retirement and pension income was less than 50% of pre-retirement salary and less than £3000 a quarter).

Pension lump sum We identify bank accounts that experienced a pension pot withdrawal when the observed pension income increased by one standard deviation relative to the pension income observed in the previous quarter.

Expenditure sources These variables break down debits ('expenditure') into the following types: 'committed', 'essential', 'quality of living', and 'discretionary'. Each of these variables are measured in £1,000's.

Spending allocations This factor measures the spending allocations as two separate categories: 'cost-of-living ratio' (which measures the proportion of total expenditures that is allocated to spending on committed and essential items), and 'leisure ratio' (which measures the proportion of total expenditures that is allocated to spending on quality-of-living and discretionary items).

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