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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

SMART DATA FOUNDRY

THE UNIVERSITY of EDINBURGH

Acknowledgements

We are incredibly thankful to NatWest Group for the supply of banking transaction data used in the quantitative analysis in this report. It would have been impossible to complete this research without their assistance.

We are indebted to all those who participated in this research, whether through taking part in the online message boards, or by agreeing to be interviewed. We have not listed your names anywhere in the report to preserve confidentiality, but we are immensely grateful and hope we have done justice to your stories. Our thanks also, to the many other individuals from voluntary organisations who informally offered their comments and encouragement throughout the project.

Our thanks are also extended to colleagues within The University of Edinburgh and Smart Data Foundry who worked on this project, including Paola Arce, Oliver Berry, Emily Elliot, Albert Menezes, Kimberley Mitchell, Nick Radcliffe, David Tracey, and Pei-Shan Yu.

Finally, this research would not have been possible without the generous funding from abrdn Financial Fairness Trust, who have supported this project as part of their mission to contribute towards strategic change that improves financial wellbeing in the UK. The Trust funds research, policy work and campaigning activities to tackle financial problems and improve living standards for people on low-to-middle incomes in the UK. It is an independent charitable foundation registered in Scotland (SC040877). Our special thanks to Rebecca Graham, who supported the project from its inception.

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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.

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