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INSPIRING SOCIAL CHANGE

LOW-INCOME RETIREES, FINANCIAL POSITION AND WELLBEING

Following recent government policy changes allowing people greater freedom and choice around pension savings, this research looked at the relationship between income, wealth and the experience of retirement of low-income older households.

Key points

- Different levels of (low) income around or below the government's guaranteed minimum income level for older people do not lead to different experiences of retirement.
- In contrast, levels of non-housing wealth were associated with different experiences in aspects of retirement, such as health and mental wellbeing, financial security, participation in leisure activities, and life satisfaction.
- For very low-income older households, the option to take pension savings as cash is helpful, as their experience of retirement may be more positively supported through having 'buffer' savings, rather than a small increase in income.
- Buffer savings have a crucial role in supporting the wellbeing of poorer older people, and alongside increases in the state pension the government should explore supporting policies to help these households achieve decent levels of savings.

The research
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BACKGROUND

Since April 2015, individuals aged 55 and over have been able to draw down or cash in as much of their defined contribution (DC) pension savings as they want, paying only their marginal income tax rate on withdrawals for the year they receive the money.

This change has brought renewed debate within UK pension policy on whether or not individuals should be encouraged to hold their retirement wealth as savings or receive a guaranteed pension income during retirement

This quantitative research analysed data from Wave 6 (2012–13) of the English Longitudinal Study of Ageing (ELSA), which is a longitudinal, multidisciplinary social survey of a representative sample of the English population aged 50 and older undertaken every two years.

The analysis split the sample of retired individuals in ELSA into those who had an equivalised (adjusted for household size and composition) pension income of less than £217 a week, and those with an income of more than £217 per week. This income threshold was used as it is the minimum level of income guaranteed by means-tested state support for older people – during the year the data was collected. We can therefore be confident that the low-income group in the study comprised older people around or below the government's definition of an adequate income.

The research examined the relationship between different aspects of people's experience of retirement, their level of equivalised guaranteed income, and their level of non-housing wealth. Put another way: the research looked at the low-income group of pensioner households with income of less than £217 a week, and explored what effect differences in income under this threshold have relative to differences in wealth.

'Income' comprised total guaranteed income from the state pension, private pension incomes and certain benefit payments that usually last indefinitely, such as Attendance Allowance. 'Wealth' comprised total equivalised non-housing wealth, that is excluding someone's main home, but including items such as savings accounts, ISAs and investment properties.

In looking at the relationship between level of guaranteed income and a range of retirement outcomes, the research controlled for a number of other factors. This allowed the analysis to identify the independent relationship between guaranteed income and non-housing wealth with the outcomes of interest. The control variables included factors such as age and gender, housing tenure, receipt of benefits, presence of longstanding or limiting illness, couple status, education level, whether someone has children and number of friends.

The effect of different income levels

The research found that for the low-income group with equivalised incomes of less than £217 a week, there were virtually no associations between differences in level of income and the retirement outcomes included in the analysis.

The effect of different wealth levels

In contrast, there were many statistically significant associations for the low-income group between level of non-housing wealth and their experience of retirement. Statistically significant relationships were identified in relation to:

- **health and mental wellbeing**, specifically self-rated health, whether people experience restless sleep, and feel in control of situations at home;
- **giving money to family and charity**, in particular, whether and how much money individuals had given to others, especially grandchildren;
- **financial security**, specifically, whether individuals felt able to buy their first choice of food items, have family round for a drink or meal, have an outfit to wear for social occasions, keep their home in a reasonable state of decoration, pay for transport costs, buy presents for family or friends, take the holidays they want, feeling they had too little money to spend on their needs;
- **participation in leisure activities**, including whether individuals report eating out, and whether individuals had taken a holiday in the last 12 months;
- **civic participation,** specifically, participation in community groups such as tenant associations, education groups;
- various aspects of **life satisfaction and quality**, notably, whether people: report that the conditions of their life are excellent, feel free to plan for the future, feel shortage of money stops them from doing the things they want to, enjoy the things they do and enjoy being in the company of others, look back on life with a sense of happiness, feel satisfied with the way life has turned out, feel life is full of opportunities, and feel the future looks good.

Discussion

The research suggests that among low-income pensioner households around or below the government's definition of an adequate income for older people, differences in income do not have a strong effect on their experience of retirement. In contrast, differences in level of non-housing wealth do have a significant effect on their experience of retirement.

What might explain these findings? Overall, it appears that for older people on a very low income, wealth provides a source of security and comfort that small differences in income do not. The option to take DC pension savings as cash is helpful, as their experience of retirement may be more positively supported through possession of 'buffer' savings, rather than a small increase in income.

It is important to note that some individuals in the low-income group will have had negative total wealth (i.e. debt), and some will have had negligible levels of non-housing wealth; the strong effect of non-housing wealth on the experience of retirement among low-income older people may therefore reflect the difference between having some buffer, 'rainy day' savings as opposed to being in debt or holding no savings at all.

The findings of the research suggest a number of conclusions for public policy.

Savings policy

The findings underline the crucial role of buffer savings in supporting the wellbeing of poorer older people. This in turn highlights the important role of savings policy in ensuring that as many people as possible enter retirement in possession of buffer savings, in addition to pension savings.

Various policy initiatives by government have been used to encourage savings including tax-incentivised financial products (ISAs), financial education schemes in schools and elsewhere, programmes to boost financial capability, and universal access to generic financial information in the form of the Money Advice Service (MAS).

A recent review for JRF of the role of savings, assets and wealth in tackling poverty recommended a more effective policy regime to help individuals build assets and wealth, suggesting that public policy should:

- include soft compulsion or matched funding, to encourage low-income households to open and use savings accounts;
- include products that are easy to understand and flexible across the life course;
- ensure asset and other social policies are integrated in a comprehensive framework of mutual supporting incentives.

State pension 'triple lock' and value for money in public spending

The so-called triple lock introduced by the Coalition Government in 2010 guarantees to increase the value of the basic state pension every year by inflation, average earnings or a minimum of 2.5 per cent – whichever is the higher. The triple lock has played an important role in reducing the number of older people experiencing relative income poverty.

However, although effective in reducing pensioner income poverty, the research findings suggest the triple lock may have less impact on the wellbeing and retirement outcomes of low-income pensioner households relative to the possession of 'buffer' savings.

Given the considerable costs to the Exchequer from maintaining the triple lock, these findings suggest the government should explore supporting policies to help low-income older households achieve decent levels of buffer savings. For example, this could involve measures to actively support the financial decision-making and budget management of low-income older households, such as advising households on saving from their income and managing any debts they have.

About the project

The original research design for *Income security and a good retirement* was done by James Lloyd. This analysis plan was then carried out by Dr Will Parry using data from Wave 6 of the English Longitudinal Study of Ageing.

FOR FURTHER INFORMATION

The full report **Income security and a good retirement** by Will Parry and James Lloyd is available as a free download from www.jrf.org.uk

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