Highlights from the research project

Older workers, Later lives

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

August 2022

THE UNIVERSITY of EDINBURGH

SMART DATA FOUNDRY

Funded By

abrdn Financial Fairness Trust

Contents

Executive Summary

I want to congratulate all involved in creating this important and timely research report.

Industry and academia must come together to work on vital research that will create practical challenges for policymakers and regulators, as well as identify opportunities for innovation in financial services that will help serve this age group and support them through challenging times.
I'm proud of the part that Smart Data Foundry has played in bringing together research expertise from the University of Edinburgh's Business School and School of Informatics and matching that with unique access to near real-time financial data provided in a safe, deidentified form by NatWest Group, all made possible through the support of abrdn Financial Fairness Trust sponsorship.

The research set out to 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. To frame the issue, a single person needs an annual income of £10,900[1] in retirement to maintain a modest standard of living, and the full state pension of £9,627 leaves a gap of over £1,000 to fill. To fill that gap, you'd need retirement savings of around £20,000[2]. However, 20% of UK individuals aged 55-64 have negligible retirement savings.

The headlines from the research shows that older workers are, and will continue to be, hit hard by the cost-of-living crisis.
Only by access to granular level transactional financial data can we identify this looming crisis. Without it, we would be heading into dangerous territory with no warning.

Many older workers are experiencing income shocks through job losses and barriers to getting back into work. This, in turn, is forcing them to draw down lump sums from their pension pots to make ends meet, leading to a financial vulnerability in later life as they have little or no means to top up their pension pots for the future. Worryingly, the number of individuals withdrawing their entire pension in one lump sum almost doubled in the latter half of 2020[4].

The research study also uncovered a widespread lack of understanding about the benefit system and confusion about claims processes. The recommendations that this report makes are clear. The data suggests that public policy needs to provide specialist pension advice and that the benefit system needs to advise more transparently on the uptake of benefits. Providers of financial products, both established financial services organisations and new fintech's, must innovate to create new products and services to target this age group and support them through this challenging time.

Dame Julia Unwin - Chair, Smart Data Foundry

Research Methods

The Quantitative Research

Research aim
To provide a comprehensive picture of the risks of financial vulnerability amongst older workers.

The data set
Aggregated banking transactions data from a sample of NatWest Group customers. The data came from 453,604 anonymised individuals' current accounts. The financial transaction data were generated between January 2019 and December 2021.

The method
A branch of statistical modelling called Survival Analysis.

The research team
- Felipe Costa Sperb: University of Edinburgh School of Informatics
- Tiejun Ma: University of Edinburgh School of Informatics
- Harris Abdul Majid: University of Edinburgh School of Informatics
- Resul Tugay,: University of Edinburgh School of Informatics
- Michael Spencer: Smart Data Foundry

The Qualitative Research

Research aim
To understand the challenges facing financially vulnerable older workers and to explore potential solutions to ease financial distress.

The research participants
62 individuals actively involved in providing support and advice to the public. Most were front-line advisers working for voluntary organisations before and during the COVID-19 pandemic.

The method
A mix of online focus groups and interviews. conducted during 2021.

The research team
- Lynne Robertson Rose: University of Edinburgh of Business School
- Mia Dowman: Smart Data Foundry
- Marina Sanchez Garcia: Smart Data Foundry

Descriptive Statistics

Pandemic Effect: Key Findings

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.

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).

Older age bands experienced less of a 'pandemic effect' than those age 50-70. Although the median income for accounts held by those aged over 70 was lower than that of the working population, older people's incomes were generally sufficient to cover expenditure.

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.

Modelling

Financial Vulnerability: Key Findings

Adults aged 50-54 are substantially more at risk of financial vulnerability than older retired individuals. Financial vulnerability reduces with age, primarily because of greater income stability from pensions and lower spending on consumer goods and 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. Individuals who experienced an income drop of over 30% 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 retired individuals resort to withdrawing large sums from their pension pots when they are already struggling financially.

There is an almost 1:1 relationship between the proportion of expenditure allocated to cost-of-living expenses (housing, food utilities etc.) and the likelihood 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.

Remaining in Employment

Key Findings

•The risk of an older worker becoming unemployed increases with age. The employment rate amongst those aged 60-64 was particulary affected by Covid and fell by 2.0 percentage points between June 20-June 21*

•Economic inactivity rates have risen dramatically amongst the over-50s. 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.

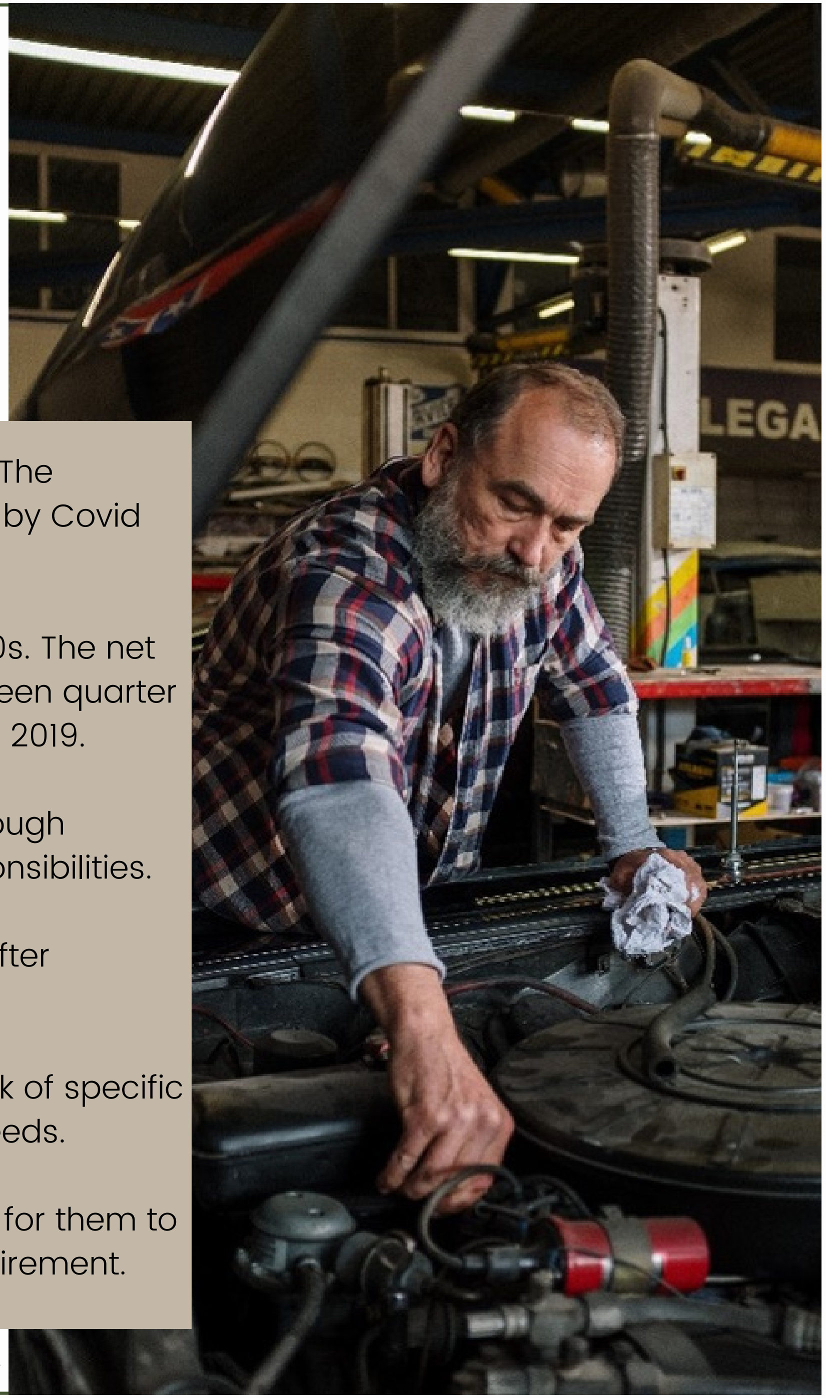
•For many older workers, work cessation is forced upon them, either through unemployment or the lack of any allowance for health and caring responsibilities.

•Older workers face multiple barriers to re-entering the labour market after unemployment

•Barriers include lack of digital skills, unavailability of flexible working, lack of specific government initiatives, ageism, psychological barriers, and retraining needs.

•The longer the unemployed 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.

*GOV.UK (Sep 21 Economic labour market status of individuals aged 50 and over. trends over time.



The Benefit Safety Net

Key Findings

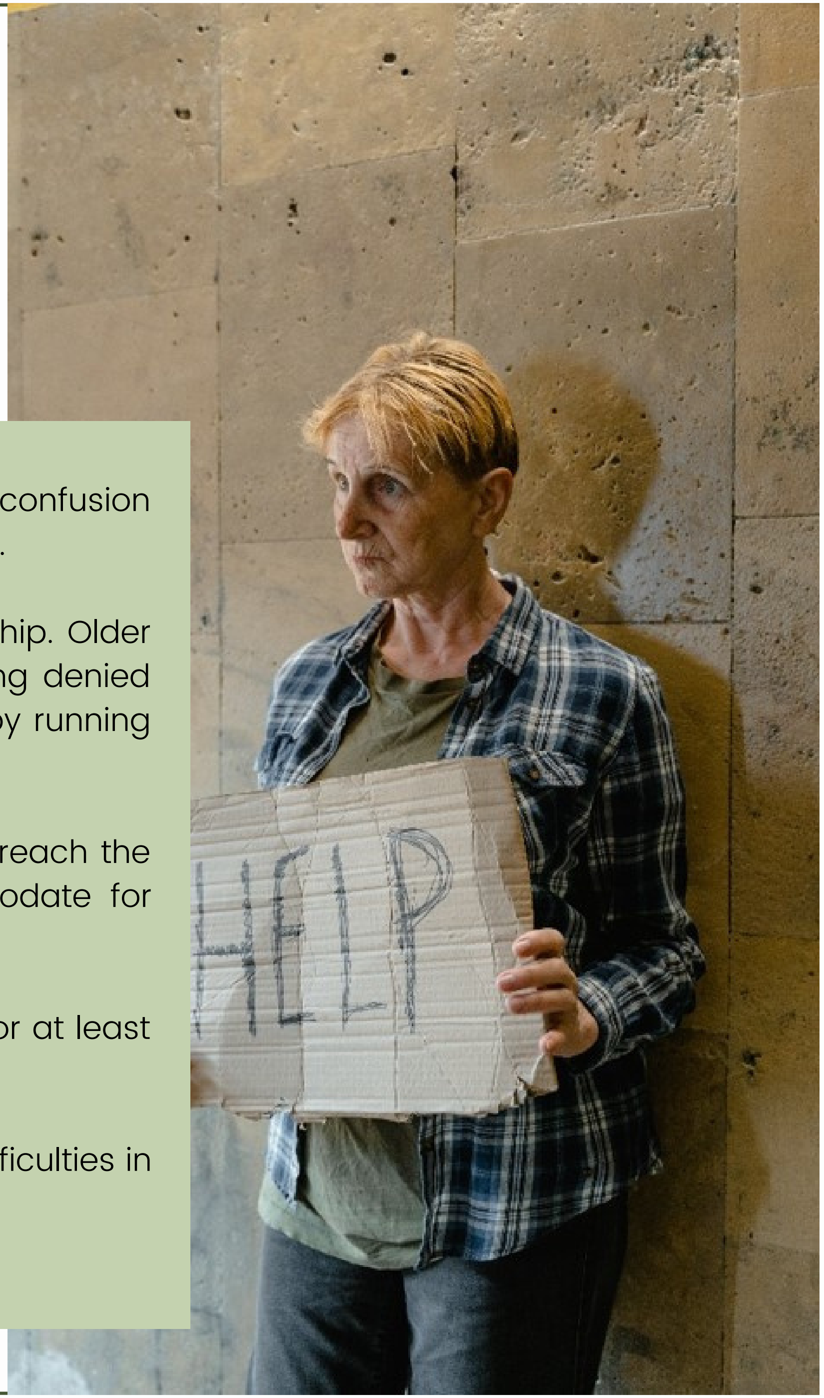
•There is wide-spread lack of understanding about the benefit system, confusion about claims processes, and hardship arising from payment frequency.

•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 running down retirement savings before state pension age.

•Many older workers will encounter some health problem before they reach the state retirement age, but the benefit system fails to fully accommodate for declining health in the aging population

•In the poorest communities, the majority will experience poor health for at least a decade before accessing their state pension.

•Lack of support for working age homeowners is leading to financial difficulties in later life.



Understanding Pensions

Key Findings

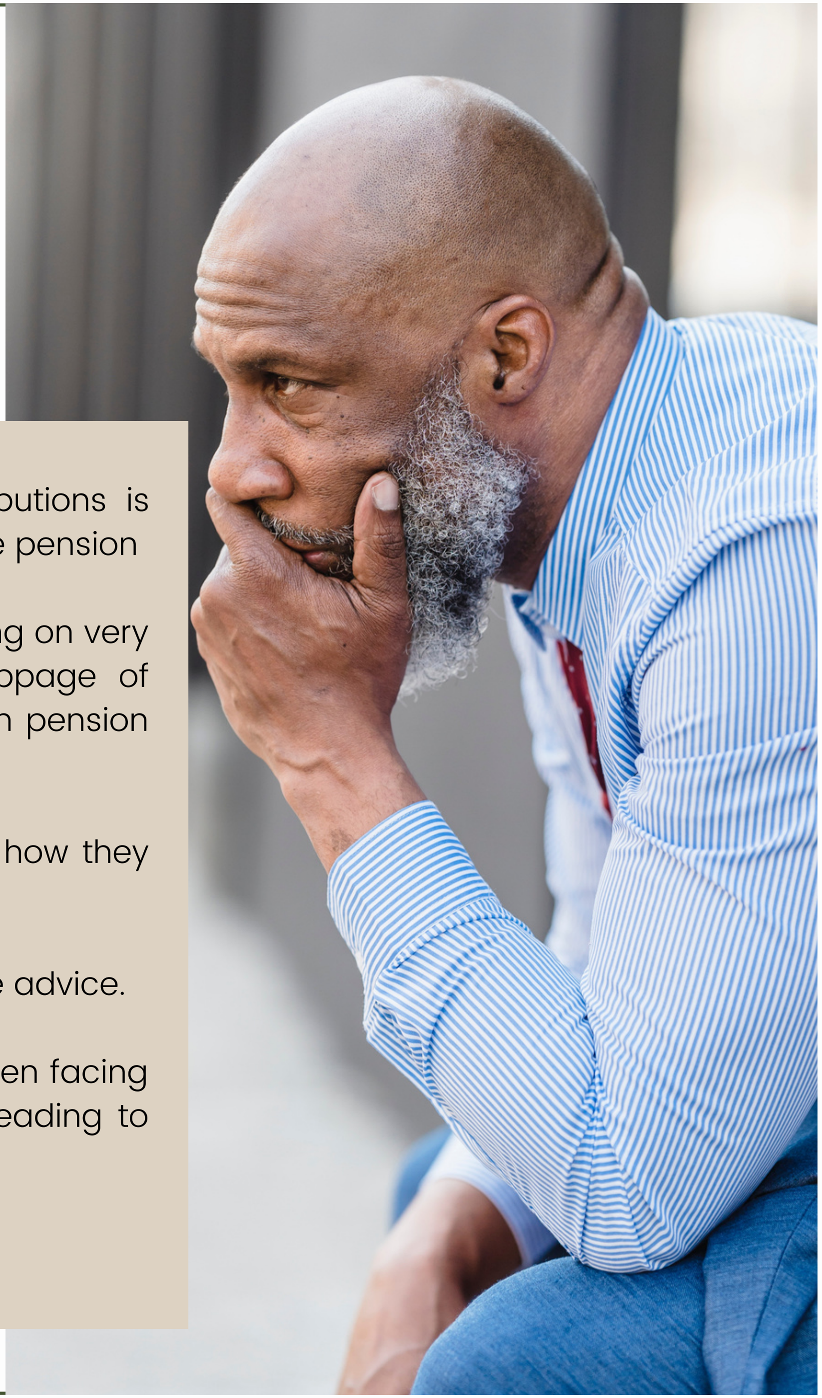
•The link between the state pension and National Insurance contributions is flawed and results in some vulnerable people missing out on a full state pension .

•Shortcomings in the benefit system result in some pensioners subsisting on very low incomes. These shortcomings include failure to align the stoppage of universal credit with the payment of the state pension, and issues with pension credit for mixed-age couples.

•There is a serious lack of knowledge about workplace pensions and how they operate.

•Those with multiple pension pots face difficulties obtaining appropriate advice.

•There is clear evidence of people withdawing pensions lump sums when facing unemployment This is negatively impacting on benefit claims and leading to lower income in retirement.



Policy Recommendations

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

To improve employment prospects for older workers, we call for a Government funded employment programme targeted at 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.

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 reduce financial hardship for homeowners on Universal Credit, we call for the DWP to reform the Support for Mortgage Relief (SMI) loan facility. The zero earnings rule should be removed.

Policy Recommendations

<u>To prevent pensioner poverty,</u> 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 of state pension age to continue receiving Universal Credit until the receipt of their state pension can be confirmed.

<u>To improve transition to retirement,</u> 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.

Acknowledgements

abrdn Financial Fairness Trust

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; we hope we have done justice to your contributions.
We also wish to thank the many other individuals who informally offered their comments and encouragement throughout the project.
Our thanks are also extended to everyone at Smart Data Foundry who worked on this project.

We sincerely thank NatWest Group for the supply of banking transaction data used in the quantitative analysis in this report.

NatWest Group

Finally, this research would not have been possible without the generous funding from abrdn Financial Fairness Trust, which has supported this project as part of its 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 gestation.