

PPI Roundtable Write up

How could increased economic inactivity affect financial resilience among older people?



On 22 March 2023 the PPI hosted a virtual round table, sponsored by Age UK on the topic of economic inactivity among older people and the impact on their financial health. The event was attended by around 25 participants and was chaired by **Sarah Luheshi, Deputy Director of the Pensions Policy Institute**.

Sarah welcomed everyone and thanked the sponsors, Age UK. She discussed the ongoing memorandum of understanding with Age UK agreeing to *“work together with a shared focus upon later life, developing a deeper two-way relationship which strengthens foundations to achieve better informed policies and decisions that improve later life outcomes”*. She then introduced the main topic of the discussion as the growing rate of economic inactivity among older people, and how it might affect their retirement outcomes.

Sarah then introduced Danielle Baker to run through the general housekeeping announcements, then introduced the first speaker, **Daniela Silcock, Head of Research at The Pensions Policy Institute**.

Research findings from Daniela Silcock, PPI

What is economic inactivity:

Daniela introduced the subject of economic inactivity and why it is an active topic right now. She explained that economic inactivity refers to people who are not working or trying to find work. She said that in general economic inactivity may not be concerning unless people are using up their pension resources before State Pension age, leaving them with inadequate savings in retirement. She gave her aims for the event, to get a good discussion from people who have done work in the area, to answer some of the unknowns, such as why is economic inactivity increasing for older people, but more so what it means for individuals and policy.

Daniela displayed a chart showing the economic inactivity of 50 to 69 year-olds from 2006 to 2022. She noted that economic inactivity among this age group had been dropping until COVID-19 hit (from 43.5% in 2006 to 35.4% in 2020) but then started increasing, (up to 36.5% in 2022). It was expected to be a short-term issue, but people are not returning to work. Economic inactivity has increased for people in their 60s, and there is no difference between gender rates and economic class.

Daniela then looked closer at some age groups, she noted that for other age groups, such as those below age 50, and even those between age 65 to 69, economic activity has continued to fall, but not for those between 50 and 64. She noted that work done by the Institute for Fiscal Studies has found that the increase in retirement rate was greater for part-time workers than

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for full time workers, but that there doesn't seem to be a significant difference by gender or socio-economic group.

Reasons for the increase in economic inactivity:

Daniela then went on to discuss the reasons for the increase in economic inactivity. One of the main reasons is thought to be high levels of job dissatisfaction in the UK, people who stopped working in the pandemic just decided they would prefer not to return to work. Health was also noted as a factor, with many people staying out of work due to a health concern, however a lot of those people didn't leave initially due to ill health, but developed health problems while they were out of work. Limited access to support, such as flexible working or health/wellbeing support also seems to be a factor in making people unwilling to continue working. This may have led to retirement transitions being described as returning to be a cliff edge for people rather than transitioning to retirement. Daniela noted that being a homeowner, having some savings, or in some other way being more financially comfortable while they are out of work may increase the likelihood of someone leaving the workforce, however she mentioned that we don't know how that will affect their retirement if they are tapping into that wealth now, meaning it may not be available later, reducing financial resilience in retirement.

DC pots being accessed before SPa:

Daniela presented figures on the number of Defined Contribution (DC) pots being accessed for the first time and noted that 18% more DC pots were being accessed than over the previous year. She said that if more people are accessing their pots before the State Pension Age (SPa), that could have serious impact on their pension savings in retirement. A lot of people are fully withdrawing small pots, but it is not clear whether these pots are ones that people would rely on or "spare" pots, perhaps of people with other savings such as a Defined Benefit (DB) pension. She commented on the lack of data to make that distinction.

She noted that taking time out requires income to maintain a standard of living, and these are significant costs, for example around £26,000 (based on modelling by the PPI) simply to cover a Minimum Living Standard for someone who takes 2 years out of the workforce and much more for people who would wish to maintain a higher standard of living. She also highlighted that in leaving work early, people are making fewer years contributions to their pension than they would otherwise, and that these missing contributions should be considered as an opportunity cost in leaving work early. She questioned how people would be able to cover these amounts and whether they understood the level of cost of retiring early.

Daniela summarised the points raised in her presentation, then handed back to Sarah.

Sponsor's response from Chris Brooks, Age UK

Sarah introduced the second speaker, **Chris Brooks, Head of Policy at Age UK** and invited him to present his response to the research.

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Chris started by thanking the PPI and praising Daniela's presentation. He then echoed Sarah's words on the memorandum of understanding between Age UK and the PPI.

Importance of the issue:

Chris highlighted the importance of the issue of economic inactivity among older people, noting that it is an ongoing problem that has been in the news and on many people's minds over the last year. He discussed the need to understand and develop policies to get people back into work and to address how people are covering their living costs while being economically inactive and what the consequences for their later life might be.

Data on economic inactivity:

Chris noted that the data on economic inactivity on the employment side is rough, but he echoed Daniela's points on the reasons why people are economically inactive. He highlighted that it is difficult for the economy of the country if workers with skills are leaving the workforce in higher than expected numbers. He suggested that there is a need to improve flexible working and access to training although he wondered whether older workers would take up the offer.

Financial side of economic inactivity:

On the financial side, Chris discussed the funding of early retirement and what the long-term consequences are. He questioned whether Defined Contribution savings are being used as a bridge fund until they reach state pension age, noting that in that case it is not being treated as a pension. He also discussed the crossover with Defined Benefit pensions, noting that if people have DB pensions, then using a small DC as a bridging fund is perhaps not as worrying. However, he conceded that this may be wishful thinking, and wondered if there was any data to investigate this.

Purpose of pension saving:

Chris also highlighted the need to consider the purpose of pension saving, which he said must be more than a bridge fund. He questioned whether the Annual Allowance (AA) or Lifetime Allowance (LA) changes, announced in the March 2023 Budget, would bring many people back into work and whether smoothing the transitions to retirement would help. He wondered if State Pension early access for a select group would stop people from tapping into DC savings, and he questioned whether some form of sidecar savings would help.

Chris then handed back to the Chair.

Round Table Discussion

The remainder of the discussion was held under the Chatham House rule and consisted of a round table discussion of many of the issues arising from the points the speakers made. Sarah started by inviting a couple of attendees who have been researching the topic to speak to kick off the discussion.

The first of these invited speakers noted that the findings on economic inactivity are consistent, and was struck by the age of early leavers. They highlighted the shift of tone from the Government before the Budget, where they were perceived as seeing the issue of one around encouraging people back to work rather than engaging in leisure activities, but in the Budget, it may have been recognised that health reasons were important drivers of people leaving work. They also noted that data is limited, and that when interviewed in subsequent rounds for a dataset, people change their minds about what they are labelled as (for example, whether retired or economically inactive due to health conditions) causing difficulty in capturing the characteristics of people who leave early. They noted that there is a clear need for people to be better informed about the impacts of leaving the workforce early, but questioned whether enough is being done to provide information to people.

The second invited speaker noted that there is no great inconsistency in the research on economic inactivity, and it echoes how paltry the data is. To illustrate how the public view their DC savings the speaker shared an anecdote about a friend who had dropped out of a job and was interesting in accessing their pension pot to use in the short term, no intention of using it as a pension. The speaker commented that his friend like many others is not in a position to understand what the impact would be on supporting himself in retirement. The speaker also noted that falling rates of home ownership are important to the discussion.

The floor was then opened up to discussion. The discussion round the virtual table covered several themes related to economic inactivity among older people and its impact on retirement outcomes.

Financial Resilience:

The discussion began with the question of how concerned we should be about economic inactivity of older people. There was concern that the subject of the anecdote who does not see his DC pot as pension saving may be a common view, and concerns that misunderstanding pension savings could lead to higher levels of pensioner poverty. There was also discussion of the significance of the issue in the long term, with the worrying scenario raised of 20 years in the future when people have used up their pension pots with no ongoing income to show for it. It was mentioned that this age group are much more likely to be living in poverty and that people who can't afford to are dropping out of work and using their DC savings to bridge the time until their State Pension age. Comment was also made on the fact that this cohort are not claiming benefits that they may be due.

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There was some thought that the most recent ONS data may be showing a reversal in the trend, that possibly there may be demographic explanations to the perceived growth in economic inactivity.

Personalised Guidance:

The speakers also discussed the need for personalised guidance to ensure that people understand and have considered the impact of the decisions being made. It was mentioned that providers may be well placed to have an interaction with the member to do this. They also discussed the importance of understanding the purpose of pension saving, which must be more than just a bridge fund.

The issue of unretirement was also discussed, with speakers wondering whether there will be a stampede back to work when reality bites for people. They also discussed the difficulty of getting people back to work if they don't want to and don't think they need to. In which case, it was suggested, the question becomes about making sure that people have access to the information that they need in order to make an informed choice.

Health:

The speakers noted that many people are leaving work due to health conditions and that the data shows that the number of people going into long-term sickness is rising rather than those who were already in long-term sickness. They also highlighted the bulge in the pipeline of health conditions, that may have gone untreated following the health service having to focus most of its attention on COVID-19, and whether this is part of what has been a contributing factor in the rise in economic inactivity.

Data and Knowledge:

The speakers highlighted the need for more data and knowledge to understand the issue better. They noted that the data available is limited, and it is challenging to assign reasons for behaviour from the data. They also discussed the need for a multidimensional approach that considers employment, health, and pensions. It was suggested that the English Longitudinal Study of Ageing (ELSA) may have some variables that could be useful in starting to grasp what people are doing with their pension and their financial resilience.

There was general agreement on the need for good data on the decisions that people are making, to support policy analysis in this area; but there was also recognition that a good dataset takes a long time and a lot of funding to build.

Cultural Factors:

The speakers also discussed the possibility of cultural pressures to leave the workforce in some communities and the subsequent need to rely on other members of the family.

Freedom and Choice:

There was discussion of the impact of the Freedom and Choice policy on early withdrawal from the workplace and whether it has caused people to make decisions that they wouldn't have made before because they had fewer options. This may be an early outcome of Freedom and Choice but could feed into longer-term outcomes of economic inactivity pre-State Pension age.

Government interventions:

There was some thought as to what the government could do in policy to tackle the economic inactivity among older people and whether the recent Budget had done anything to help. It was mentioned that the measures in the Budget don't seem to target the issues of health or changing people's attitudes about wanting to go back to work. It was also mentioned that the Government seem to have abandoned the Good Work Plan set out in 2018 which targeted job quality, including things like flexible working which is one of the things that people in this age group cite as being important in a job.

Sarah summed up the discussion highlighting the complexity of the issue and the need for a joined-up approach to understand and address economic inactivity among older people. She emphasised the need for more data and knowledge to form an evidence base. Sarah then thanked Chris and Sally of Age UK for sponsoring the work, the PPI team for producing the research, and the attendees for the discussion. She then closed the meeting.

