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Retirement income
and assets: do
pensioners have
sufficient income
to meet their
needs?

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Summary of Conclusions

While many measurements of the income needs of pensioners are focused on the minimum income a pensioner would require in order to meet their basic needs, many people feel that they would like to have a standard of living similar to the one that they experienced in their working life, in order to be satisfied with their income in retirement.

The main calculations of the minimum income required to meet basic needs tend to conclude that a single pensioner needs around £120 per week (after housing costs)¹ in 2008 earning terms, and the calculations of what income a median-earning pensioner would require to achieve an adequate standard of living in retirement (based on expectations) tend to conclude that they would require around £250 per week (before housing costs)² in 2008 earnings terms.

The level of income that a pensioner household unit requires in order to meet their needs or expectations in retirement could vary between different households. The main variations are between single and multi-occupant households and between single male and female pensioner households.

It is not possible to calculate a single level of income that would be suitable for all pensioners to meet their needs or expectations in retirement, though minimum and desired income measures can provide a useful guide. The level of income required by any pensioner may be dependent on their desired standard of living in retirement, the structure and location of their household and their health needs.

Expenditure variations across household units indicate that:

- Households with more than one person in them are more likely to spend money on goods associated with leisure activities.
- Single pensioners may have more income needs for care inside or outside the home than pensioner couples.
- Male and female pensioners have different spending patterns across categories of expenditure including personal goods and services, transport, motoring, clothing and footwear.

As well as varying across household units, income needs also vary during retirement due to a combination of needs, expectations and spending preferences.

- Pensioners tend to spend a large proportion of income on leisure and recreation in the early years of retirement (ages 65 to early 70s).

¹ It is useful to look at income after housing costs have been subtracted because it shows more clearly the income that is available for spending

² Replacement rate income tends to be calculated in before housing costs terms

- Pensioners tend to decrease spending during the middle years of retirement (around ages 75 to 85) as a result of losses in mobility.
- Spending tends to increase again around age 85 as a result of the need for health related expenditure.
- Pensioners tend to reduce spending once more around age 90 as the need for spending on health, fuel, food and housing becomes paramount but expenditure on other goods drops off as a result of either mobility, preferences or the need to conserve income.

It is possible that pensioner households who receive the average level of income for their age group could find it difficult to meet both of the spending peaks in early and later retirement as pensioners' income tends to decrease during retirement. Most of the pensioners modelled in this research see a drop in their income in later retirement as their pension income fails to keep its value in real (earnings) terms. Even higher income pensioners may not be able to meet all of their spending preferences solely from income if they aim to have a standard of living similar to that they had in their working life.

The findings from the PPI modelling undertaken for this report suggest that:

- None of the individuals modelled, even those on median to high earnings, are able to meet a replacement rate calculated to replicate working-life living standards in retirement³ solely from their pension income though they may be able to meet their replacement rates for some or all of their retirement by using their savings and/or releasing equity from their homes.
- Pensioners who earned at median to high levels during their working life and have complete (private or occupational) pension saving records, could find it easier to meet many of their needs in retirement from income alone.
- Pensioners may find it easier to maintain similar consumption levels in retirement to those they experienced in working life if they have a combination of assets and savings to use in retirement as well as income from state and private pensions.
- Pensioners may find it easier to meet changes in needs and expenditure preferences if they conserve their income during some of the years of their retirement and spend more than their average yearly income during others. They may also wish to supplement their pension income with income from assets and savings during times where greater expenditure may be needed to meet changes in needs or preferences.

³ Pensions Commission replacement rate, (Table 13), Pensions Commission (2004)

- Working part or full-time after State Pension Age can increase pensioner income which can be used to boost expenditure during the years in which it is earned, or can be saved and used later in retirement to meet changes in needs and spending preferences. Working part time after SPA can be a way to ease the transition into receiving a lower income in retirement.
- Acquiring a disability in retirement could reduce available income depending on the severity level of the disability and the level of state benefits which pensioners receive as a result of their disability. Acquiring a high severity disability in retirement could incur a very high level of costs which pensioners may not be able to afford on their own. Pensioners with one or more disabilities may need to depend on family, or receive state support in the form of Local Authority or NHS care, depending on the level of costs incurred by their disability.
- Pensioners in couples are likely to have a higher level of available income than single pensioners. Living expenses, including housing, and the costs of disability are likely to be lower per person in pensioner couples than for single pensioners. Pensioners in couples also have the possibility of benefiting from a partners higher pension entitlement.
- Pensioners who have lost a partner are likely to have a higher income than pensioners who were never partnered but have the same income and earnings history, due to receiving entitlement from their partner's state pension and possibly their private or occupational pensions.