PENSIONS POLICY INSTITUTE

PPI

# PPI Seminar: *Retirement income and assets: do pensioners have sufficient income to meet their needs?*

The Pensions Policy Institute (PPI) held a seminar on 28 April 2009 to launch its latest report: *Retirement income and expenditure: do pensioners have sufficient income to meet their needs*. The report is the first in a series of four reports to consider the role of income and assets in supporting retirement. The series of reports is sponsored by Prudential, J. P. Morgan Asset Managment, the Department for Work and Pensions, the Association of British Insurers, the Investment Management Association, and Age Concern and Help the Aged. The Association of British Insurers hosted the seminar.

The seminar was chaired by Baroness Greengross, President of the PPI and was attended by 49 people representing a range of interests across the pensions sector.

**Daniela Silcock (Policy Researcher at PPI)** and **Chris Curry (Research Director of PPI)** gave an overview of the key findings from the report. This included:

- There are two main approaches to calculating the income needs of pensioners. One approach is to calculate the minimum income pensioners would need to maintain a minimally acceptable standard of living e.g., budget standards, the other is to determine how much income pensioners would need to maintain a standard of living that they would find acceptable.
- The level of income required by any pensioner may be dependent on their desired standard of living in retirement, their health needs and household structure.
- As well as varying across household units, income needs also vary during retirement due to a combination of needs, expectations and spending preferences.
- Changes in health can impact on pensioner's income needs, though it is difficult to determine the cost of disability that pensioner households bear as costs can be shared between household members, the state, Local Authority and NHS. Some care and support may also be provided by friends, family and community members, which could also change the implications for the level of costs which individuals and pensioner households bear.

The report used results from the modelling of hypothetical pensioner households and found that:

- It was possible for pensioners who had been on low earnings during their working life to remain above the poverty and minimum income standard lines if they claimed Pension Credit.
- Many pensioners may find it difficult to meet desired levels of expenditure during all of their retirement.
- Pensioners' income decreases throughout retirement in real (earnings) terms.
- Some pensioners who live alone may find it difficult to meet the costs of disability; however, pensioner couples may find it easier than single pensioners to cope with the costs of disability.

**Sally West (Policy Manager of at Age Concern and Help the Aged)** gave her perspective on the position that people find themselves in at retirement. She pointed out that needs vary and similar people may desire different income levels but welcomed the use of income standards as providing a guide to needs. She called for guidance for people making choices at the point of retirement e.g. whether to buy back missing national insurance years, whether to defer taking their state pension and the choices around what type of annuity to use to convert their pot of pensions savings and argued that the PPI research showed the importance for guidance throughout retirement as needs change. She said that the care system is failing older people, especially the moderately disabled, who usually do not qualify for the local Authority services. She noted the importance of Attendance Allowance but that Disability Living Allowance is not available after age 65. She said that the PPI research indicates that many with moderate or severe disability are not able to meet their disability and care needs from their resources, showing the importance of a fair settlement for social care.

**Alan Woods (Director of State Pensions, Older People & the Pensions Reform Division at the Department for Work and Pensions)** spoke of the recent decline in pensioner poverty over the last ten years. He said that the Guarantee Credit element of the pensioner credit is in line with suggested minimum income standards, but drew a distinction between minimum income/poverty and aspirations which tend to be higher. Alan noted the Government's commitment to increase Pension Credit in line with increases in average earnings; he noted that take up of Pension Credit remains an issue and the Government is piloting new ways to encourage take-up. He also pointed out that the current generation of recent retirees represent a "golden age" of pension provision but cautioned that it was not universal and could not be relied upon to last for too long. He commented on the U-shaped curve of needs in retirement noting the challenge in meeting the last stage, where resources may be required to fund disability or long term care. He spoke of the role of the society; that the state provides Attendance Allowance for disability and the increased capital disregard for Pension Credit, the work of the Government and voluntary sector in care and the Government's plans to publish a strategy for the ageing population and a Green Paper on social care in summer 2009.

**Tom Boardman (Director of Retirement Strategy & Innovation at Prudential)** spoke about the need for new insurance products in order to meet the evolving pattern of needs in retirement. He noted that the U-shaped pattern of needs was an average and that the needs of individuals may vary considerably. He contrasted the mass market, who are likely to rely on the state and housing equity, and the affluent market who have a broader set of options. He had also compiled a list of other risks such as caring for older parents, death of or care for a partner, repairs etc. He thought people may be in a better position to make informed choices when they were in older age and their income needs had become clearer.

**Questions and discussion**
There followed a question and answer session. The following points were raised by speakers or members of the audience in the discussion. They do not necessarily reflect the views of the PPI or the PPI seminar speakers.

There was discussion around why, given the U-shaped pattern of needs in retirement, the retirement income solutions tended to be linear. It was suggested that the combination of all income, including Basic State Pension, SERPS, S2P and a flat rate annuity from a pension pot, leads to a reasonable match between needs and income in the early stages of retirement. There was a bigger challenge in meeting the second peak in need. It was mentioned that people in retirement have equity in their property as a result of the rise in house prices over the past 20 years, partly brought about by younger generations paying more for houses through using their combined income and larger mortgages. This had resulted in a "windfall" increase in property equity for the elderly and therefore it could be argued that they may fairly be asked to contribute to their care through releasing some of this housing equity rather than expecting the younger generation to pay additional taxes on top of their higher mortgage payments.

The distorting effect of Attendance Allowance on the numbers of people in poverty was discussed. It was pointed out that, when calculating poverty levels, Attendance Allowance is included in income, but the effect of the cost of disability is not netted off leading to a lower reported poverty rate.

There was concern at the low take up rate of Attendance Allowance. It was suggested that the take up rate was around 40%-60%, this was contrasted with the Pension Credit take up rate of 60%-70% which itself was considered poor.

There was concern that the Minimum Income Standard is not likely to be flat in future years as the effect of the energy crisis, global climate change and changing technology requirements work through into the needs of pensioners.

There was discussion around the changing profile of families with the increasing prevalence of four generational families. It was suggested that some pensioners support younger family members for example using housing equity to help pay their grandchildren's student debt and may also still have parents themselves to care for. It was suggested that such pensioners may struggle if they become disabled having depleted their own assets.

There was discussion on whether people with pension pots should purchase flat rate or inflation proofed annuities at retirement. It was suggested that the market was segmented, that flat rate annuities often made sense for the mass market, but individuals with larger savings for retirement might do better from increasing annuities unless they are able to protect themselves from the impact of inflation through a suitable investment strategy with their non-pension assets..

There was speculation as to whether older people might live together with friends in a houseshare type environment in order to reduce costs in a similar way to the patterns demonstrated by younger people.

There was discussion around the respective roles of individuals, the state and insurance for meeting the needs associated with need for care spike in later life.  A segmentation was suggested:  with lower income groups relying more on the state, higher income groups using insurance and a greyer area for the middle income group. A policy which split the costs of care was suggested, with the first tranche of cost being covered by individuals, the second by insurance, then costs above this level falling on the Government.