Pensions Policy Institute

PPI

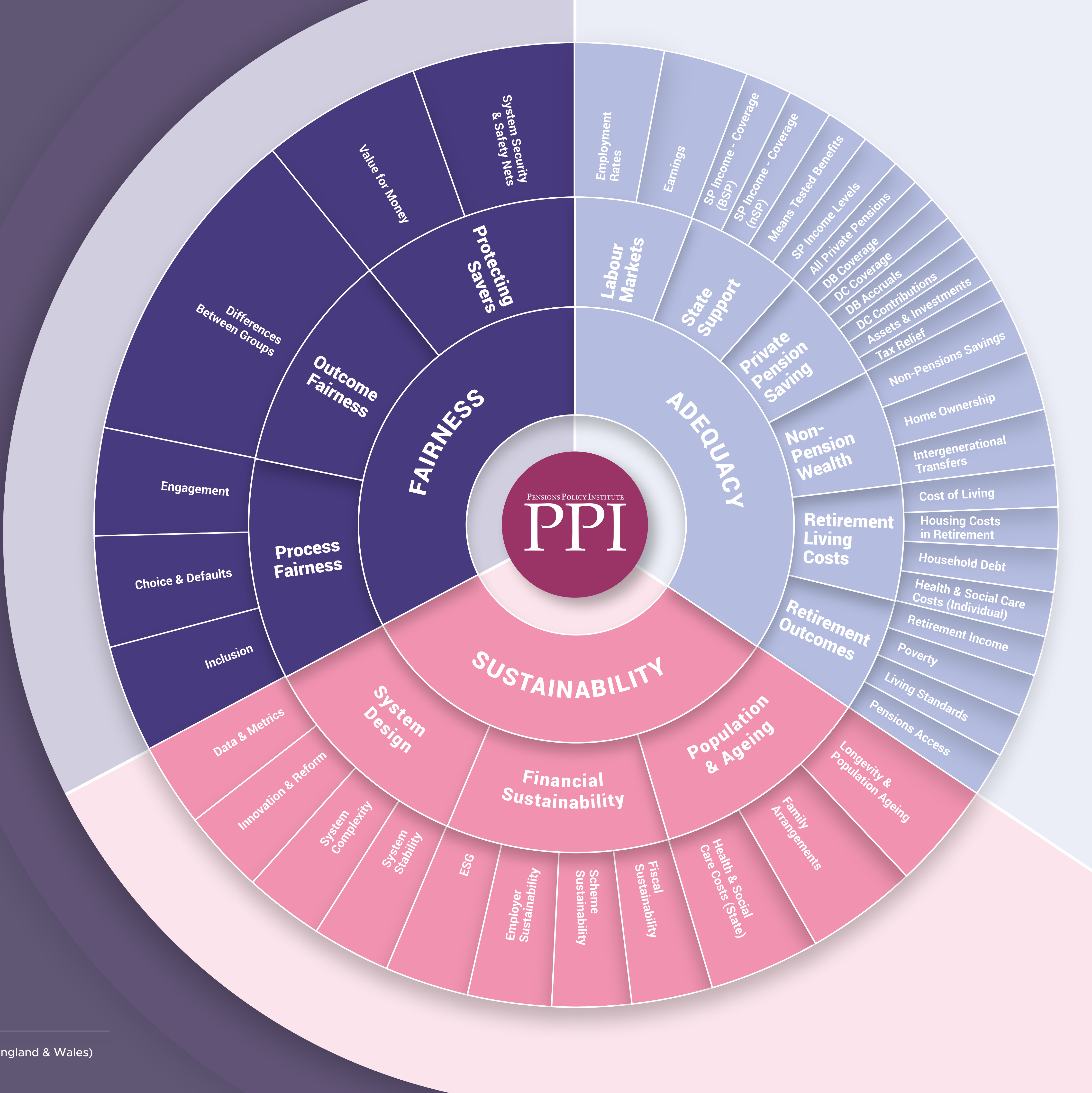
Renting in Retirement - The Fault Line Below the UK Pension System

A REPORT FROM THE PPI UK PENSIONS FRAMEWORK SERIES

in association with

AVIVA

2023 EDITION



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We have been at the forefront of shaping evidence-based pensions policy for over 20 years.

The PPI, established in 2001, is a not-for-profit educational research organisation. **We are devoted to improving retirement outcomes.** We do this by being part of the policy debate and driving industry conversations through facts and evidence.

The retirement, pensions and later life landscapes are undergoing fast-paced changes brought about by legislation, technology, and the economy. Robust, independent analysis has never been more important to shape future policy decisions. Each research report combines experience with **INDEPENDENCE** to deliver a robust and informative output, ultimately improving the retirement outcome for millions of savers.

Our **INDEPENDENCE** sets us apart – we do not lobby for any particular policy, cause or political party. We focus on the facts and evidence. Our work facilitates informed decision making by showing the likely outcomes of current policy and illuminating the trade-offs implicit in any new policy initiative.

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Better informed policies and decisions that improve later life outcomes.

We believe that better information and understanding will help lead to better policy framework and a better provision of retirement for all.

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To promote, evidence-based policies and decisions for financial provision in later life through independent research and analysis.

We aim to be the authoritative voice on policy on pensions and the financial and economic provision in later life.

Est. 2001

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As we look forward now to the next 20 years, we will continue to be the trusted source of information, analysis, and impartial feedback to those with an interest in later life issues. The scale and scope of policy change creates even more need for objective and evidence-based analysis. There is still much to do, and we look forward to meeting the challenge head on.

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OR CONTACT:

Danielle Baker

Head of Membership & External Engagement

danielle@pensionspolicyinstitute.org.uk

This report is authored by:


Anna Brain
Research Associate


Daniela Silcock
Head of Policy Research


Tim Pike
Head of Modelling


John Adams,
Senior Policy Analyst

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e: info@pensionspolicyinstitute.org.uk

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Renting in Retirement - The Fault Line Below the UK Pension System

Foreword

Michele Golunska
MD, Wealth and Advice, Aviva

All of us need the UK pensions system to be adequate, sustainable, and fair. The quality of life for millions of people depends on it now and will do for many years to come. A properly functioning system also contributes meaningfully to vibrant, resilient communities more widely.

Last year's Pension Framework report produced a fascinating snapshot of the way our system is performing. It captured the rich complexity of dependencies and trade-offs that are part and parcel of a pensions landscape undergoing rapid change.

This year's report goes a step further, revealing the full power of the Framework in practice. By exploring real world scenarios, it offers all of us a window into a possible future. It is now up to us to collectively address what we see.

Specifically, this report uncovers the significant risks arising from falling home ownership, a sharp rise in private renting and a shrinking social housing sector. Taken together, these trends, although outside the pension system per se, add up to real challenges for people approaching retirement over the next twenty years. There is now an impetus to get ready for the changes that tomorrow's retirees face, and for the generations of future retirees who will follow them.

The report is a timely reminder that all of us with a stake in these issues need to view savers and the resources available to them in the round. It also adds weight to the view that many savers still don't have the necessary knowledge, understanding and tools needed to navigate the choices that matter in the run-up to and transition into retirement. It is more important than ever that people are empowered to take informed decisions about their options and how they can maximise their income in later life.

Encouragingly, the report also shows that where experts from across the industry and beyond contribute their input and analysis, great things can happen. I'd like to pay tribute to the team at PPI and everyone whose expertise helped shape another valuable piece of work. The Framework is a living, growing project that can make a real difference to the future of our savers and our society. I'm hopeful that it can help us all generate the innovations needed now to ensure the system is still fit for the years to come.

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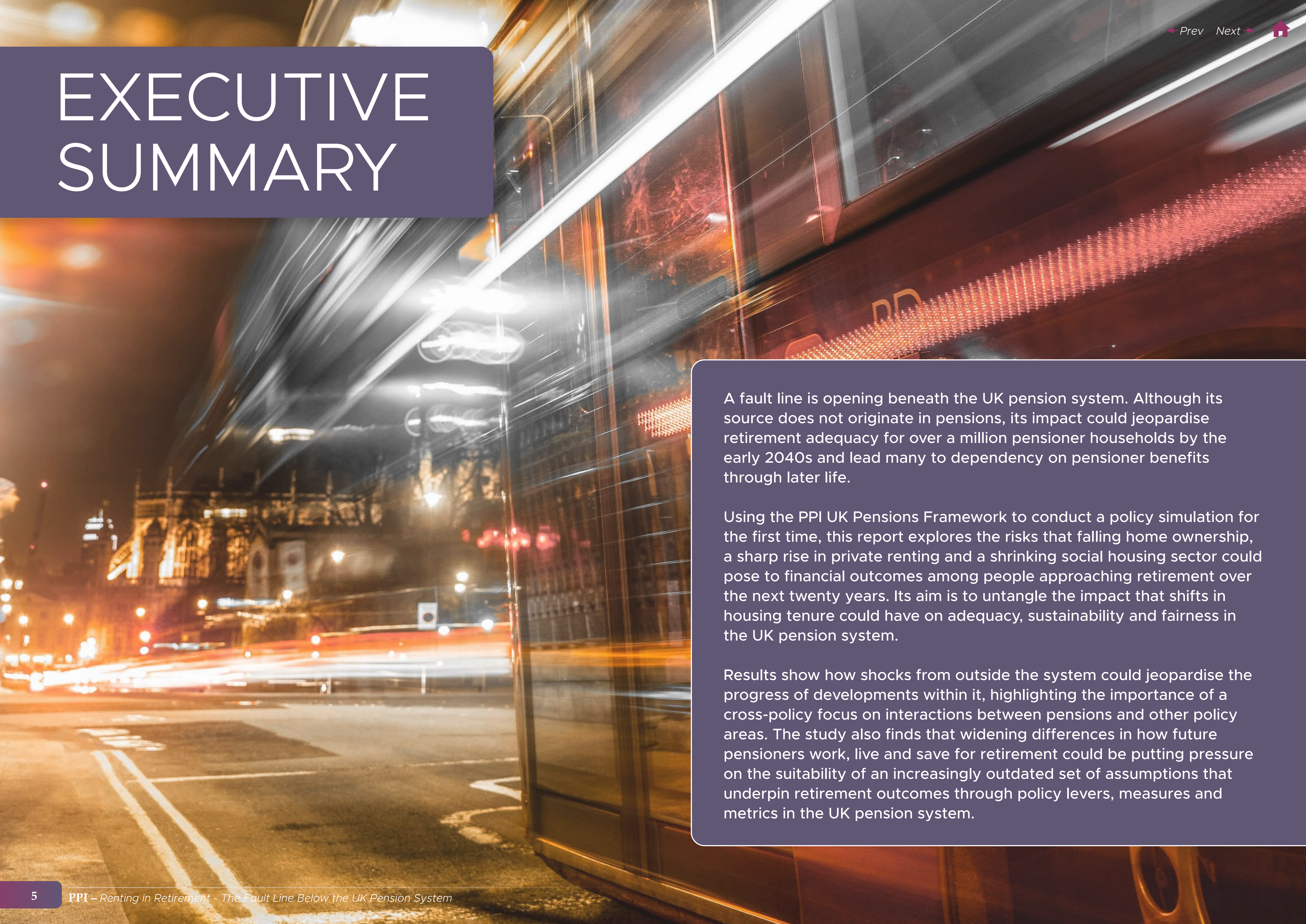


EXECUTIVE SUMMARY

A fault line is opening beneath the UK pension system. Although its source does not originate in pensions, its impact could jeopardise retirement adequacy for over a million pensioner households by the early 2040s and lead many to dependency on pensioner benefits through later life.

Using the PPI UK Pensions Framework to conduct a policy simulation for the first time, this report explores the risks that falling home ownership, a sharp rise in private renting and a shrinking social housing sector could pose to financial outcomes among people approaching retirement over the next twenty years. Its aim is to untangle the impact that shifts in housing tenure could have on adequacy, sustainability and fairness in the UK pension system.

Results show how shocks from outside the system could jeopardise the progress of developments within it, highlighting the importance of a cross-policy focus on interactions between pensions and other policy areas. The study also finds that widening differences in how future pensioners work, live and save for retirement could be putting pressure on the suitability of an increasingly outdated set of assumptions that underpin retirement outcomes through policy levers, measures and metrics in the UK pension system.

Executive Summary

Home ownership is falling across the population. For several years, policymakers have sought ways to help young first-time buyers to get on the housing ladder, but, as these households have grown older, the opportunity to own their own home for many has never materialised. For households aged 45-64 with an average of just ten years to retirement, the risk of renting through later life is fast becoming a reality. The question now, is how they might be able to afford it.

According to PPI analysis, if patterns of home ownership among today's 45-64 year olds were to persist through to retirement and all other factors were to remain equal, by 2041:

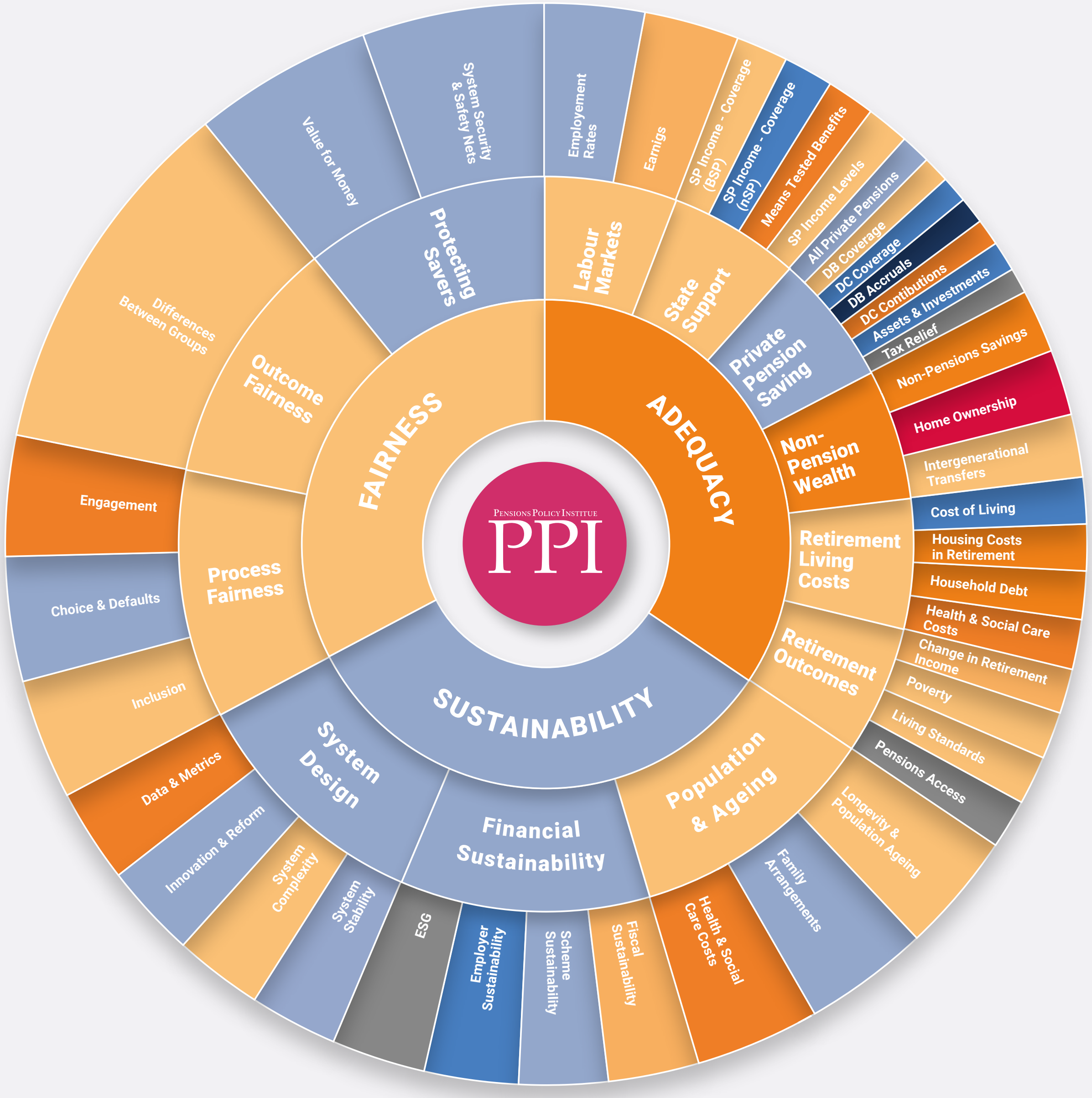
- The proportion of households who own their own home in retirement could fall from 78% to 63%, the proportion living in the private rental sector could rise from 6% to 17%, and the proportion in social housing would remain unchanged.
- The number of households renting in retirement could rise to 3.6 million, of whom 1.7 million would live in the private rented sector, around 1.2 million more than today.
- Very few renters would have adequate savings to cover both the cost of renting and cost of living through later life. A couple aged 45-64 today on median income may need to double their total assets or more if they are to privately rent even a one-bedroom flat outside London through later life.
- As many as 400,000 more households could become dependent upon income-related pensioner benefits, at a time when renewed concerns over the sustainability of the benefit system, including the freezing of the Local Housing Allowance, are prompting uncertainty over the extent to which the State might intervene to support people with living costs through later life.
- Rates of relative and absolute poverty among pensioners could rise by 2%, and an additional 170,000 households outside London could be precluded from meeting minimum living standard targets in retirement, of whom more than two thirds live on their own.
- Although there is some geographic variation in the scale of the problems, trends towards higher levels of private renting among households aged 45-64 are consistent across the country. The changes largely impact impact low-to-middle-income households, those already at greatest risk of wealth inequality and poor retirement outcomes.

To better understand the longer-term implications of falling home ownership on the UK pension system, the study uses the PPI UK Pensions Framework to simulate a "what if" scenario in which fewer pensioners reach retirement owning their own home, and more live in the private rented sector through later life. The scenario reflects trends among households aged 45-64 today.

The PPI UK Pensions Framework is a unique study of adequacy, sustainability and fairness in the UK pension system. It works by analysing 41 comprehensive, purpose-built indicators to provide a complete and compelling picture of strengths and weaknesses in the UK retirement landscape.

Executive Summary

Figure Ex.1: Results of indicator analysis from the 2023 UK Pensions Framework housing simulation



L6	Strong support for system objective
L5	Good support for system objective
L4	Some support for system objective
L3	Somewhat fails to support system objective
L2	Poor support for system objective
L1	Fails to support system objective
	Unrated in 2022 Edition due to quality of data

The scenario analysis paints a picture of stark falls in retirement adequacy, driven by pressures on long-term saving from higher living costs and lower financial assets. Together, these outcomes reflect the notion that home ownership is, in itself, a form of long-term saving. Results are set against a backdrop of complex policy interactions, at a time of unprecedented change in the UK pension system and increasingly individualised retirements.

The analysis also highlights the important notion that pensions do not operate within their own ecosystem. Rather, dependencies between pensions and other policy sectors mean that retirement outcomes are equally susceptible to risks, such as falling home ownership, that emerge from outside the pension system. These risks could undermine not only financial security in later life, but also the suitability of saving mechanisms and assumptions upon which the UK pension system is built. Of the most striking policy implications, three stand out.

A growing fracture in the relationship between pensions and housing is putting strain on the overall UK retirement income model because:

- Should housing costs increase without a proportionate rise in pension income, the result is a fracture in the relationship between two policy systems that puts people at considerable risk of poorer outcomes in later life.
- A retirement model built around renting is not intrinsically detrimental to later-life outcomes, but for such a scenario to be successful, the infrastructure of income and support must be built around that same model.
- For policymakers to tackle the widening fault, it will be important to develop a clear understanding of the difficulties that future pensioners face from housing costs, and of why renters are not setting aside more savings for later life.

Unless policymakers adjust their expectations around housing affordability and home ownership in later life, dependency on public spending among pensioners could increase, meaning that:

- The UK pension system would benefit from clear policy consensus on long-term target levels for housing tenures in retirement, the outcome of which will determine future levels of public spending along with the design of pensions and housing policy.
- It is now too late for pension saving to be a viable solution to the difficulties facing this cohort of future renters in retirement, meaning that people will need access to other financial assets or support to meet their expenses in later life.
- Public spending will inevitably play a greater role in supporting future retirees with housing costs, and will likely come down to a policy choice between subsidising affordability now (building social housing), or subsidising income later (Housing Benefit).

Assumptions, levers and metrics in UK pensions policy do not adequately reflect the changing of characteristics and circumstances of future pensioners, the holistic nature of retirement, or threats to adequacy from outside the UK pension system because:

- The impact of falling home ownership on retirement outcomes is indicative of the increasingly outdated nature of assumptions underpinning the design of the UK pension system.
- The UK pension system is placing greater emphasis on individual responsibility for retirement outcomes, at a time when individual circumstances are diverging from the assumptions embedded in policy design.
- The siloed nature of policymaking in the UK means that greater cross-policy collaboration, including greater emphasis on the importance of housing policy in retirement outcomes, will be important in managing the wide range of threats to retirement adequacy.

Executive Summary

Long-term housing tenure is typically determined before households reach the age of 45, meaning that, for this group, there is a strong degree of certainty that the trajectory towards lower home ownership in retirement cannot be reversed

Managing the transition to higher rates of renting in retirement will likely involve a combination of responses from Government, industry and individuals themselves.

For the pension system, policies associated with inertia or compulsion seem increasingly unsuitable for groups who don't own their own home because they mean that people don't save enough for later life. There is also an important question over whether they are suitable for low-income groups, among whom pension-saving could impact eligibility for retirement benefits. Along the same theme, disengagement among groups whose circumstances deviate from assumptions that underpin the pension system could more widely compromise future retirement outcomes.

For industry and employers, measures to boost returns and contributions will offer some hope to people retiring with higher housing costs in the future. With relatively little time to retirement, however, they will not solve the problems that lie ahead for most. There is also a debate to be had over the extent to which pension savings could, or more importantly should, be used to buy a home. The scenario could also mean that more people will work until later ages, unable to afford retirement and requiring greater support from their employers, as well as from a private rented sector in which just 7% of tenants are over the age of 65.

For individuals, inherited wealth could help to boost adequacy for a growing number of families, but, for most households in this group, any inheritance they receive is unlikely to be enough to get on the property ladder before retirement. This means that people will face difficult decisions in later life around where they live and how they pay for it, decisions which could impact living standards through retirement if people turn to their pension savings to cover housing costs. The research specifically highlights the risks to people living alone and the growing number of people who are separated or divorced in the private rented sector. For these people, policies that can better support sharing of pension and household wealth will be important in mitigating the impact of significant life events on outcomes in retirement.

For policymakers, the findings of this study emphasise the importance of a cross-policy focus on identifying and tackling challenges to adequacy, sustainability and fairness from outside the pension system, and of revisiting the suitability of interactions and assumptions inside it. For the problems that this housing scenario highlights, solutions will require collaboration from policymakers in both the pensions and housing sectors, along with the social and private rented sectors, to ensure that everyone has a meaningful choice of secure, affordable and good quality housing in later life.

To conclude, the PPI's first UK Pensions Framework simulation clearly demonstrates the need for a renewed focus on the holistic and individual nature of retirement, and of saving for retirement. By modelling the impact of patterns in housing tenure today on financial security for upcoming pensioners and identifying the characteristics of the population at risk, it marks an important step towards a better understanding of the widening fault line below the UK pension system, and how policy can respond.

Introduction

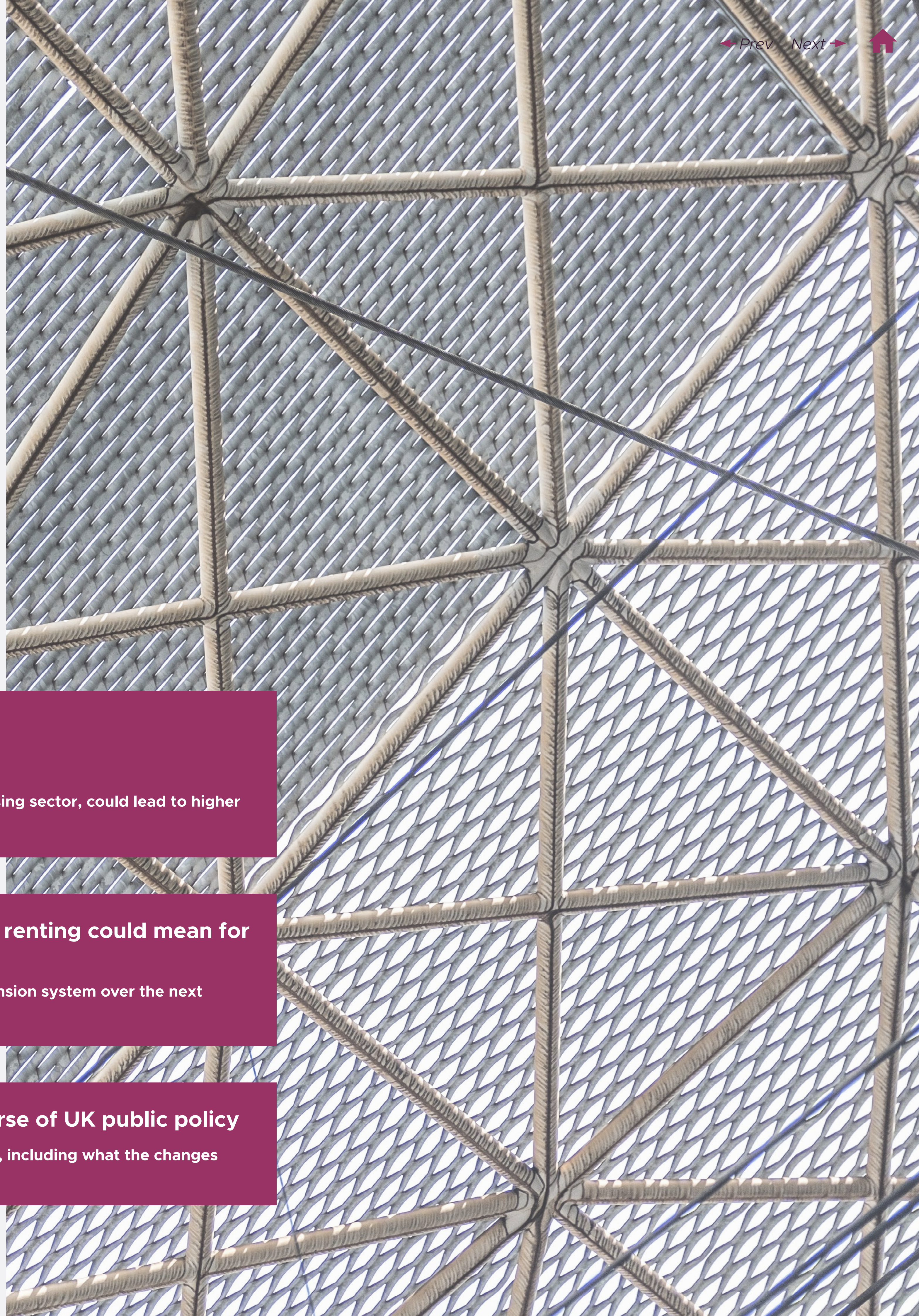
The PPI UK Pensions Framework, in association with Aviva, is a multi-year project that tracks how the UK pension system is performing against a set of core objectives, which overall determine the financial security that people have in later life.

In 2022, the Framework was used to baseline results from the first full analysis of the UK pension system, focusing on outcomes related to adequacy, sustainability and fairness. Results of the analysis, published in a report titled *"Trends, Trade-offs and Transitions in the UK pension system"*, identified the fall in home ownership among households aged 45-64 in 2020-21 as one of the fastest growing risks to future retirement outcomes.

This year, the UK Pensions Framework has been used to carry out a policy simulation for the first time. Taking their lead from the findings of the 2022 report, modellers at the PPI created a "what if" scenario that allows the potential impact of a fall in home ownership on the UK pension system to be compared to the 2022 work, in order to anticipate the risks that might lie ahead for the next cohort of pensioners.

The results were striking, quantifying not only the likely decline in adequacy that might occur, but also illustrating how a corresponding improvement in sustainability that might otherwise be expected within the ecosystem of pensions policy, does not materialise.

After describing the results of the study in Chapters One and Two, the report seeks to draw out a number of key policy implications in Chapter Three. In doing so, it brings to life the very premise of the Framework, which is that retirement outcomes are the product of a complex and lifelong web of interactions between a range of factors, including: work, home, health, family, education and relationships, and, of course, pensions.



Chapter One: Cracks Appear

How many future pensioners could be renting through retirement

Examines how falling home ownership among households aged 45-64 today, coupled with a shrinking cocial housing sector, could lead to higher numbers of pensioner households renting privately through later life, who they are and why.

Chapter Two: A Fault Line Opens – A UK Pensions Framework simulation of what renting could mean for the UK Pension System in the early 2040s

Examines how changes in housing tenure trends on adequacy, sustainability and fairness could impact the UK pension system over the next twenty years, using the UK Pension Framework's first policy simulation.

Chapter Three: Policy Tremors – How renting in retirement could change the course of UK public policy

Examines the policy implications of a future with less home ownership and more private renting through later life, including what the changes could mean for the critical assumptions that underpin good retirement outcomes under the UK pension system.

CHAPTER ONE:

Cracks Appear

How many future pensioners could be renting through retirement?

This chapter examines:

- The role of housing tenure in the UK pension system;
- The difference in housing tenure trends between retirees of today and those of tomorrow; and
- The number of pensioner households who could be living in their own home, the private rented sector, or in social housing in twenty years' time

The proportion of pensioner households renting privately through later life could rise from around one in twenty to one in six over the next twenty years, as retirement nears for a fast-growing group of people unable to get onto the housing ladder.

By 2041, there could be as many as 3.6 million households renting in retirement, 1.9 million more than there are today. Of these, 1.7 million are likely to live in the private rented sector, 1.2 million more pensioners than today. A further 1.9 million are likely to live in social housing, 700,000 more pensioners than today.

The main reason behind this change is falling home ownership. Over the past two decades, a combination of strict lending criteria, reduced mortgage availability and rapidly rising house prices have made it increasingly difficult for people to get on the housing ladder. The rise the number of households renting privately also reflects the growing difficulty people have accessing a shrinking social housing sector.

Households aged 45-64 today will soon be approaching retirement in growing numbers. However, trends mean that many more will retire without the affordable housing costs and secure tenure that they need to ensure both financial and overall wellbeing through later life. This chapter asks:

- Why housing tenure is so closely linked to retirement outcomes;
- How housing tenure differs between current and upcoming pensioner cohorts; and
- Which groups are most at risk of what could ultimately result in a fall in living standards, draw on savings, or increased dependency on income-related benefits through later life.

This report focuses specifically on households aged 45-64, those expected to retire over the next twenty years. They are important because their age means that the time to move to more affordable or secure tenure, or to save enough to offset the future cost of renting, is running out. As is the time available for policymakers to intervene.

Falling rates of home ownership are one of the fastest growing risks that today's working-age adults face to their retirement security.

For many people, the principal determinant of financial security in later life is thought to be a decent retirement income, particularly to those of us in the pensions world.

What is often forgotten however, is that under the UK pension system, the notion of a decent retirement income is predicated on a series of embedded presumptions.

These presumptions matter because they underpin our expectations around how much people need to save to be financially secure in later life. As a result, the adequacy of long-term saving is directly determined by the extent to which people can either meet the conditions assumed of them, or offset the differences by saving more. Assumptions are discussed further in Chapter Three, but cover a wide range of risk factors, including:

- How much or how long people are able to work
- The level of earnings they have through their life and as they approach retirement
- Their ability to navigate di fficult decisions around how they access their pensions in later life; and
- The likelihood that couples will marry and /or remain together through later life

Many of the assumptions underpinning the UK pension system are not only increasingly difficult to achieve, they are less and less representative of today's changing society.

In short, cracks are beginning to appear.

One of the most overlooked assumptions in the UK pension system is the notion that people will reach retirement free of costly housing expenses, and with a tenure that allows them to live securely in their home as long as they need.

Having secure and affordable housing tenure through later life is critical to retirement outcomes. In the UK, the most common way to achieve this is through home ownership or social housing.

The ability to live either rent-free or with very low housing costs means that people need lower levels of household income to cover their living expenses. It can give them greater disposable income and allows them to more easily maintain their living standards through later life.

Households whose tenure meets these criteria need to save less into their pension. They also have greater stability and agency over the conditions in which they live, and the length of time they can live there.

The population of the UK is both growing and ageing. In 2021-22, there were an estimated total of 28.4 million UK households, of whom:

30% own their home outright

35% own with a mortgage

19% rent privately

16% rent socially

Population ageing means that the number of older households in the population will grow faster than the number of working-age households, signalling that a growing share of UK housing stock will be required to meet the diverse needs of older people.

in 2002-03

- There were 24.7 million households in the UK
- 25% of all households were over the age of 65
- Equivalent to 6.2 million households

in 2021-22

- There were 28.4 million households in the UK
- 29% of all households were over the age of 65
- Equivalent to 8.3 million households

What are the risks and benefits facing people in different housing tenures in later life?

	Risks	Benefits
Owner Occupancy	• **Cost or ownership** - includes mortgage costs and interest, remortgaging costs, maintenance, home improvements and depreciation. Shared ownership still has rental costs. • **Inflexibility of tenure** - including costs associated with the risk that people need to move as their needs change in later lite. • **Uncertainty** - vulnerability to interest rates for mortgagors with limited support for shortfalls, not all retirement win be mortgage free • **Foregone income** - on capital investments	• **Income from capital** - lowers living costs in lieu of paying rent through later life • **Security of tenure** - secure, lifelong tenure includes ability to make adaptations to suit changing needs • **Source or equity** - which can be accessed to bridge income shortfalls, carry out home improvements, fund care, make transfers • **Tax privileged** - compared to saving in other asset classes, particularly with historic tax relief on mortgage interest payments
Private Renting	• **Income shortfall** - for households whose income does not cover cost ot renting and additional costs such as potential service charges through later life. Includes uncertainty over future state pension • **Fall in living standards** - or potential displacement for households who need lower thier consumption in order to meet cost or renting • **Insecurity or tenure** - Including uncertainty over market and regulatory change, housing suitability and ability to adapt home to changing needs • **Greater dependency** - on income-related benefits means that people are vulnerable to shortfalls in uprating and rental costs, greater cost to Treasury • **Lack of agency** - over areas and conditions where people live, vulnerable to poor practices or potential discrimination towards low-income households and benefit recipients	• **Flexibility of tenure** - including ability to tailor housing to personal and consumption need • **Affordability** - when moving home, costs likely to include deposits and fees, without the need to pay stamp duty • **Low maintenance** - repairs and improvement are typically responsibility of the landlord
Social Renting	• **Living conditions** - widespread variation in quality of social housing provision in respect of safety, maintenance, repairs. Regulation and inspection regimes in their infancy. • **Inflexibility of tenure** - limited scope for housing transfers. particularly between areas • **Cost of renting** - whilst low cost, may consume an increasingly large share of household income which could compromise living standards	• **Security of tenure** - stable, long-term tenancy agreements • **Affordability** - of housing costs relative to market rates in the private sector • **Low maintenance** - repairs and improvement are typically responsibility of the landlord

Among working-age households, access to both home ownership and social housing has been sharply impacted by a series of economic and policy changes which mean many more people will live in privately rented homes through later life.

Among people who will retire over the next twenty years, home ownership is 13% lower than it is among people who reached retirement age over the past twenty years.[1]

81% **The share of households aged 45-64 in England who owned their own home in 2003-04**

68% **The share of households aged 45-64 in England who owned their own home in 2020-21**

Over the past two decades, population level rates of home ownership have fallen in the UK, but they have not fallen for everyone. Among working-age groups, there has been an unprecedented fall in home ownership. Among pensioners, it has reached a record high.

Figure 1.1 shows the stark differences in housing trends between generational cohorts in England. Across the population, home ownership fell by eight percentage points from 72% in 2003-04, to 64% in 2020-21. Although small increases have been observed across the population over the past five years, they are largely explained by higher rates of owner occupancy among the growing number of households over 65. Key trends include:

- Home ownership among households over the age of 65 (those retired today) rose to a near record high of 80% in 2020-21, up nine percentage points from 71% in 2003-04; but
- Home ownership among households aged 45-64 (those retiring over the next twenty years), fell to 68% in 2020-21, down 13 percentage points from 81% in 2003-04
- The proportion of households renting privately rose by around 10 percentage points across all working-age groups, but remained relatively low and unchanged among older households
- There was a small increase in households aged 45-64 in the social rented sector, offset by a fall in social housing among younger and older cohorts. The share of households in social housing across the country has therefore remained relatively constant over the past two decades.

Households over 65 today look likely to be the last cohort to experience record high levels of home ownership, as rates fall among working-age households.

Percentage point change in housing tenure as a share of overall housing tenure by age group, households in England 2003-04 to 2020-21

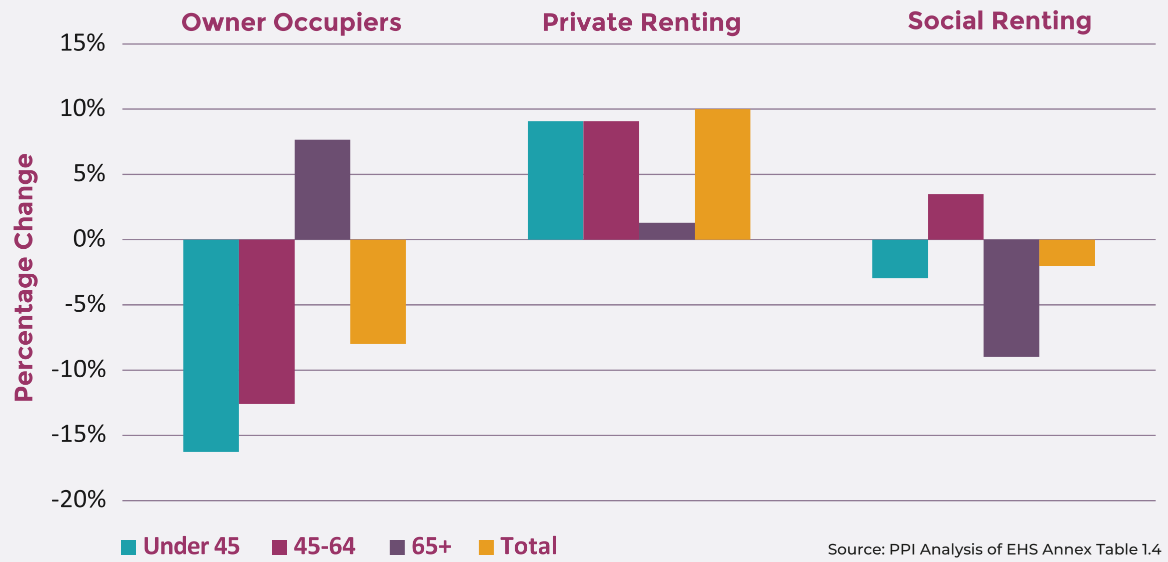


Figure 1.1

Source: PPI Analysis of EHS Annex Table 1.4

[1] English Housing Survey (2022). EHS is regarded as the most reliable source of data on housing tenure in the UK. Its ratios typically reflect those of all UK nations and for the purpose of this analysis are considered representative.

This report concentrates on the impact that falling rates of home ownership among people aged 45-64 might have on retirement outcomes in later life. This is a particularly important group in the context of policymaking, because this cohort:

- Will reach retirement in the next twenty years, meaning they have relatively little time to get on the housing ladder or make sufficient changes to retirement saving that could adequately offset the cost of renting through later life.
- Are the first cohort to experience the combination of sharp falls in both home ownership and social housing, in a pension system which is predicated on having low housing costs through later life.
- Are likely to reach retirement with lower levels of Defined Benefit (DB) pensions than older cohorts, and lower levels of Defined Contribution (DC) savings than younger cohorts, meaning they may need to cover higher living expenses with lower levels of retirement saving.

The patterns we see are not limited to people approaching retirement, and comparable trends are observed across younger generations.

Both short and longer-term interventions will be important if policymakers are to respond to the changes that lie ahead for housing and retirement, changes brought about by two continuously evolving systems which inextricably depend on each other, yet in recent years have been moving further and further apart.

Why has home ownership fallen among working-age adults?

Two key factors underpin the collapse in home ownership among working-age adults over the past twenty years; the tightening of lending conditions brought about in response to the financial crisis of 2008, and rising house prices.

Across England, house prices were around three and a half times greater in real terms (relative to the Retail Prices Index (RPI)) in 2018 than they were in 1968, and more than five times in Consumer Prices Index (CPI) terms (Miles & Munro, 2019). Between 2001-02 and 2021-22, this rise contributed to an increase in the ratio of median house prices to median earnings from 4.5% to 8.9% (Figure 1.3).

It is widely argued that, along with changes in the mix of housing provision, long-term deficits in the supply of new housing have contributed to homes being unaffordable in many places, unsuitable in others, and, in some places, both (Homes England, 2023). However, it is increasingly apparent that long-term increases in house prices have been largely driven by sensitivity to interest rates, and more specifically to the "sustained, dramatic, and consistently unexpected, decline in real interest rates as measured by the yield on medium-term index-linked gilts". (Miles & Munro, 2019, p4; Mulheirn, 2019). The objective of this report is not to explain the rise in UK house prices, but their context has important implications for the future of home ownership across the population.

Although rising prices may have triggered sharp falls in home ownership among younger households, the main reasons for lack of recovery and persistent low home ownership among working-age adults are post-crisis reforms to mortgage availability and lending criteria. As well as stricter rules around affordability, reforms included the withdrawal of high loan-to-value (LTV) lending and consequently the need for large deposits, as well as higher mortgage costs, which together led to sharp declines in the number of first-time buyers able to get on the housing ladder (ONS, 2015).

Home ownership among working-age households has fallen as first-time buyers were excluded from the property market by economic changes that had little impact on older households.

Percentage change in home ownership as a share of overall housing tenure by age group, households in England; and ratio of median house price to median gross annual (where available) workplace-based earnings, England, 2001-02 to 2021-22

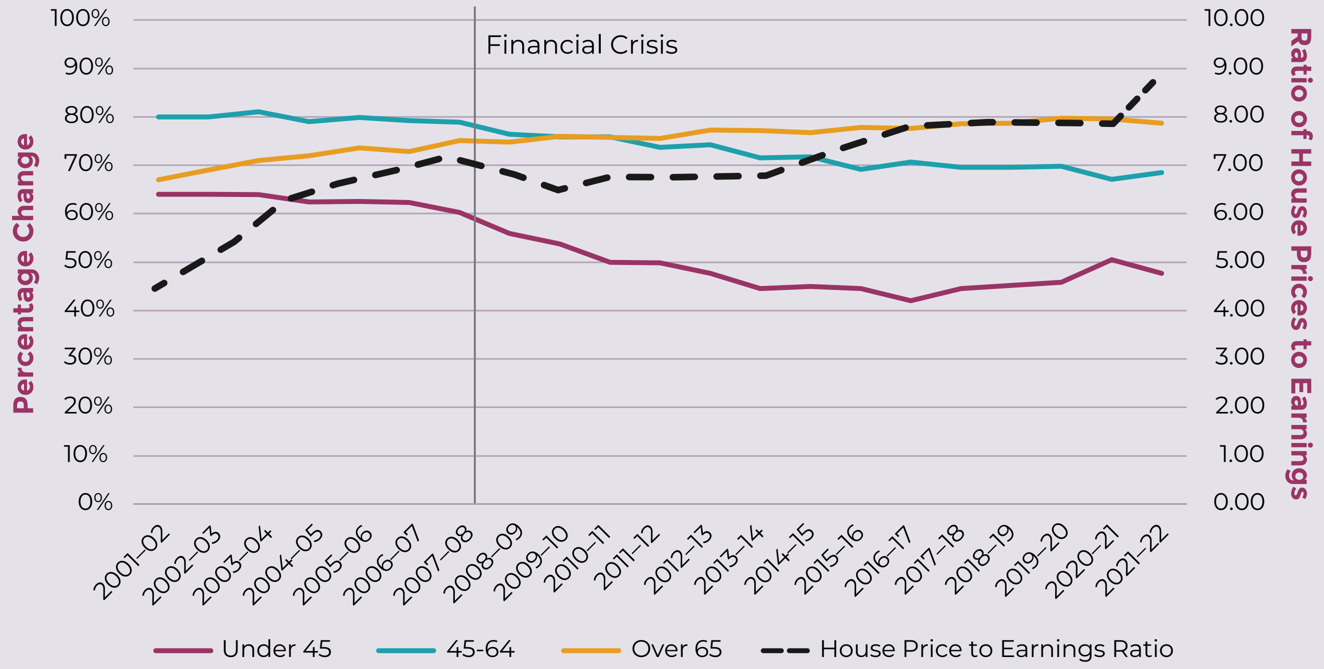


Fig 1.2

The proportion of households aged 45-64 who rent privately has almost trebled in the past twenty years, with increases almost entirely attributable to falling home ownership

Figure 1.3 provides further detail on how trends in housing tenure are diverging across different age groups, highlighting the sharp favll in home ownership among households due to retire over the next twenty years. Other trends are also important, specifically:

1. More homeowners own their own home outright among all age groups today than twenty years ago, meaning that barriers to ownership have not affected people equally.
2. A sharp rise in private renting corresponds directly with falling home ownership, and the increase at population level is almost entirely attributable to working-age groups.
3. Behind the rise in private renting is also a fall in the provision of social housing, which accounted for less than five in ten renters in 2021-22, down from more than seven in ten in 1980

Figure 1.3 Change in housing tenure among households in England by broad age bands, 2003-04 to 2021-22.[2]

Tenure Type	Owner Occupiers			Households Age 45-64			Households Age 65+			Total		
	2003–04	2020–21	Change	2003–04	2020–21	Change	2003–04	2020–21	Change	2003–04	2020–21	Change
Own Outright	4%	5%	+1%	32%	31%	-1%	65%	74%	+9%	29%	30%	+1%
Own With Mortgage	59%	43%	-16%	49%	37%	-12%	6%	4%	-2%	43%	35%	-8%
Private Renting	17%	36%	+19%	5%	14%	+9%	4%	6%	+2%	9%	19%	+10%
Social Renting	19%	16%	-3%	14%	18%	+4%	25%	16%	-9%	19%	17%	-2%
	100%	100%		100%	100%		100%	100%		100%	100%	

Significant Decline | Little or No Change | Significant Improvement

1. **The proportion of working-age households who own their home outright is unchanged, meaning that barriers to ownership have not affected people equally**

Rising levels of outright ownership across the homeowner population suggest that concerns over affordability have squeezed the UK housing market towards those with either higher incomes or higher deposits. As a result, the largest falls in home ownership are likely to have taken place among households who would otherwise have owned with a mortgage through much of their working life, typically those with lower financial assets, while higher-income households are much less impacted by changes to lending and house prices. Behind these figures:

- There is no change in the share of total households who own their own home outright across the population because, across all age groups, more homeowners own their home outright than with a mortgage, even though the overall share of households who are homeowners has fallen.
- 45% of homeowners aged 45-64 today own their home outright compared to 39% of homeowners of the same age twenty years ago.
- 10% of homeowners under 45 today own their home outright compared to 6% of homeowners of the same age years ago.
- 90% of homeowners over 65 own their home outright and this has remained largely unchanged over recent years.

Spotlight on: Mortgage Debt

Importantly, surveys do not indicate changes in the number of future pensioner households who might need to make mortgage repayments through retirement, because it is not possible to identify borrowers with terms that extend beyond State Pension age (SPa) in the data. It is also impossible to determine the extent to which households might intend to pay off outstanding debt through other means such as accessing their pension tax-free lump sum, adjusting their working patterns, potentially downsizing near retirement, or receiving an expected inheritance. However:

- Recent mortgage data has highlighted a rapid increase in later-life and longer-term borrowing, including growing demand for mortgages from those aged over 55.
- In 2021, more than half of all new mortgages were issued with terms that would end after the borrower turned 65, the first time this proportion had been reached (UK Finance, 2022).
- By the end of 2022, more than half of all first-time buyers and one third of home movers were borrowing over terms of over thirty years to mitigate the impact of high house prices, inflation and rising interest rates on mortgage affordability (UK Finance, 2023).

The potential impact of longer-term mortgage debt on later-life outcomes should be a key aspect of future research because, for a number of years in retirement, long-term mortgage costs could have similar implications for retirement income as the cost of renting. Homeowners will also require additional savings to meet the cost of other expenses such as repairs and maintenance.

[2] English Housing Survey (2022)

2. A sharp rise in private renting corresponds directly with falling home ownership, and the increase at population level is almost entirely attributable to working-age groups

Working-age households who in the past would have lived in their own home or a form of social housing, are moving into (or staying longer in) privately rented homes. Behind the figures:

- The proportion of households aged 45-64 who rent privately in England almost trebled from 5% to 14% between 2003-04 and 2020-21, and more than trebled in number to around 1.2 million.
- The trend continues among households as the proportion of households under age 45 who rent privately in England more than doubled from 17% to 36% between 2003-04 and 2020-21.
- The proportion of households over the age of 65 who rent privately in England has remained stable at around 6% since 2003-04, but almost doubled in number to around 400,000 households.
- The proportion of all households who rent privately in England almost doubled to 19% between 2003-04 and 2020-21, and more than doubled in number to 4.6 million households.

3. Behind the rise in private renting is also a fall in the provision of social housing, which accounted for less than five in ten renters in 2021-22, down from more than seven in ten in 1980 [3]

Social housing has always been critical to the UK housing system, but households aged 45-64 are the only age group among which it has risen, highlighting the economic challenges facing this cohort.

- There are now around 1.4 million fewer households in England in the social rent sector than there were in 1980, a change which, along with falling home ownership, explains much of the increase in private renting over the past two decades. [4]
- Households aged 45-64 are more likely to be in social housing than either those under age 40 or those over age 65 today. This change represents a reversal of trends from two decades ago when 45-64-year-olds were the least likely age group to be in need of social housing.
- Around 18% of households aged 45-64 live in social housing, four percentage points more than households of the same age two decades ago.
- A fall in the share of households over age 65 in social housing highlights how home ownership became more widely accessible to people across a broad range of incomes in the older cohort. The most likely explanations for this are policies designed to increase home ownership, such as Right to Buy, and the relative affordability of the housing market in the past compared to today.

Among households aged 45-64 today, risk factors for being in privately rented accommodation are comparable to households of the same age twenty years ago, but their effect is more pronounced

Households aged 45-64 renting privately in 2020-21 are more likely to be:[5]

Living alone, compared to living as a couple or with other adults (although a rented household is more likely to be multi-adult because there are more multi-adult households in the population)

Separated or divorced if they live alone, compared to those who are single or widowed, highlighting the risk that housing tenure can change over time

In low-and-middle-income groups, compared to higher-income groups on an equivalised household income basis [6]

Living in the North East, North West or South West of England, Yorkshire and the Humber, and London, compared to the East Midlands, West Midlands, East and South East of England, and Scotland

Spotlight on: Divorce and Separation

Living alone is a risk factor for many measures of poor later-life outcomes, and being divorced or separated is increasingly likely to be the reason that people live alone in retirement.

For many divorcees, and for those who previously lived as a cohabiting couple, long-term housing tenure will be influenced by the way in which wealth is shared when they separate. A lack of mechanisms for sharing pension wealth means that property wealth becomes even more important in the decisions people make. However, a sharp fall in home ownership among means that pension-sharing mechanisms could become even more important to long-term retirement outcomes, because fewer couples will have property wealth to share if they separate.

- Individuals over 65 who are separated or divorced make up a greater share of privately rented single pensioner households than twenty years ago (40% compared to 15%)
- Single pensioner households who were over 65 and divorced in 2020-21, were almost twice as likely to be renting privately as people with the same characteristics twenty years ago (14% compared to 7%). There was no change among those who were separated.
- Among households aged 45-64, there are fewer divorcees than twenty years ago and fewer divorcees across the population of single adult households, likely reflecting recent falls in marriage rates than a fall in separations.

[3] English Housing Survey (2022)
[4] English Housing Survey (2022)
[5] PPI Analysis of Family Resources Survey
[6] The ONS describes equivalised household income as "A measure which considers the number of people living in the household and their ages, acknowledging that while a household with two people in it will need more money to sustain the same living standards as one with a single person, the two-person household is unlikely to need double the income."

The proportion of 45-64-year-olds in private rented homes is rising fastest among:

- **Multi-adult households** compared to people living alone
- **People who are separated or divorced** compared to people who are single or widowed
- **Middle- to higher-income groups,** on an equivalised household income basis
- **Households from Black, Pakistani and Bangladeshi ethnic groups**
- **Regions outside London and the South-East,** particularly Wales, the North East, North West and East of England, and Yorkshire and the Humber

Spotlight on: Ethnicity

Among households over 65, the low numbers of households renting privately means that sample sizes are too small to reliably determine trends in housing tenure by ethnicity.

Although sample sizes remain relatively small among future retirees, there is a clear pattern towards increased private renting among some ethnic minority groups. Over the twenty years to 2020-21 and among households aged 45-64:

- Falling home ownership was more pronounced among households from black ethnic backgrounds than any other group. In 2020-21, just one in five households aged 45-64 and from a black ethnic background were homeowners, compared to three in five in 2000-01
- Home ownership remained unchanged among those from Indian backgrounds, but fell by around 20% among white, Pakistani, Bangladeshi and other groups.
- A corresponding effect was observed whereby households from black ethnic backgrounds made up a greater proportion of privately rented households in 2020-21 than they did in 2000-01 (one in twelve compared to one in sixty)
- Private renters made up a greater proportion of households from black ethnic backgrounds in 2020-21 than they did in 2000-01 (one in three compared to one in twenty)
- Households from both black and white backgrounds were around 30% more likely to be living in social housing than twenty years ago, but the likelihood fell among all other ethnic groups.

Compared to homeowners, households of all ages in privately rented accommodation were also:[7]

- At risk of **faster biological ageing and poor health outcomes** than those who own or live in social housing[8]
- More likely to **have low financial resilience** (47%) than owner occupiers with a mortgage (17%)
- More likely to **report difficulty affording rental costs** (26.1%) than mortgagors (6.7%)
- More likely to **have no savings** (48.1%) than owner occupiers (21.9%), but less likely than social renters (74%)
- More likely to **have high-cost credit or loans** (18%) than owner occupiers with a mortgage (9%)
- Slightly less likely to report high levels of life satisfaction (7.2%) than owner occupiers (7.8%) and slightly more likely to **report anxiety**

People aged 45-64 in households who rent privately today are...

Age

- More likely to be renting privately (13.7%) than households over 65 (6.2%), but much less likely than households under 45 (35.7%)

Household Type

- More likely to be living alone (19% of single adult households) than with other adults 2% of multi adult households), although more privately rented households are multi-adult (61.5%) than single (38.5%)
- Where multi-adult, almost three times more likely to be renting privately today than households of the same age twenty years ago
- Where living alone, almost twice as likely to be renting privately as twenty years ago
- Where living alone, more likely to be male (23% of men) than female (15% of women)
- Where living alone, are more likely to be separated or divorced than widowed or single, and more likely to be separated or divorced than twenty years ago

Income

- Most likely to be in the lower-and-middle-income quintiles on an equivalised household basis
- More likely to be in the middle-and-upper-income quartiles than twenty years age
- Where in the middle-and-upper-income quintiles, almost three times as likely to be privately renting as households of the same age twenty years ago
- Where in the first and second quintiles more than twice as likely to be renting than twenty years ago

Location

- More likely to be renting privately if they live in the North East, North West and South West of England, Yorkshire and the Humber and London than The East and West Midlands, the East and South East of England, Scotland and Wales
- Around three times more likely to be in privately rented homes than households of the same age twenty years ago in Wales, the North East, North West and East of England, Yorkshire and the Humber, and the East Midlands.
- Around twice as likely to be in privately rented homes than households of the same age twenty years ago in Scotland, the West Midlands, London, South East and South West of England.

Ethnicity

- More than twice as likely to be from Black, Pakistani and Bangladeshi groups as the average of the population
- Around seven times as likely to be from Black ethnic groups, and four times as likely to be from Pakistani and Bangladeshi ethnic groups than households of the same age twenty years ago
- Around twice aS likely to be from white, Indian and other ethnic groups as households of the same age twenty years ago
- Least likely to be of Indian heritage, the group with highest owner-occupancy rates

[7] English Housing Survey (2023); FCA (2022)
[8] Clair et al (2023)

Although trends are consistent across the UK, geographic variation highlights the considerable challenges of meeting local needs within the constraints of national trends and systems

The trend towards falling home ownership and a sharp rise in private renting is common across working-age groups from all areas of the UK.

However, there is significant regional variation in the degree of risk that future retirees face from housing costs, highlighting the importance of policies which can ensure that each area of the country has the right mix of homes and tenures. Among households aged 45-64:

Home ownership around the country

- The largest falls in home ownership occurred in South East England, Wales, and London, where owner occupancy fell by around one fifth over two decades. London had the lowest share of homeowners (58%).
- In other areas, approximately two thirds of households were homeowners, although rates were slightly higher in the East Midlands, the East and South West of England, and Northern Ireland.

Renting around the country (percentages)

- The fastest increases in private renting have been seen in North East England and Wales, where households were around three times more likely to be renting privately than two decades ago, having risen faster than any other region. In all other areas, the rate rose around twofold or more.
- The highest prevalence in private renting occurred in London (18%) and the South East (16%), along with the East of England, South West of England and Wales (15%). Scotland had the lowest level of private renting (8%), partly because households were more likely to be in social housing than other parts of the country (24%).

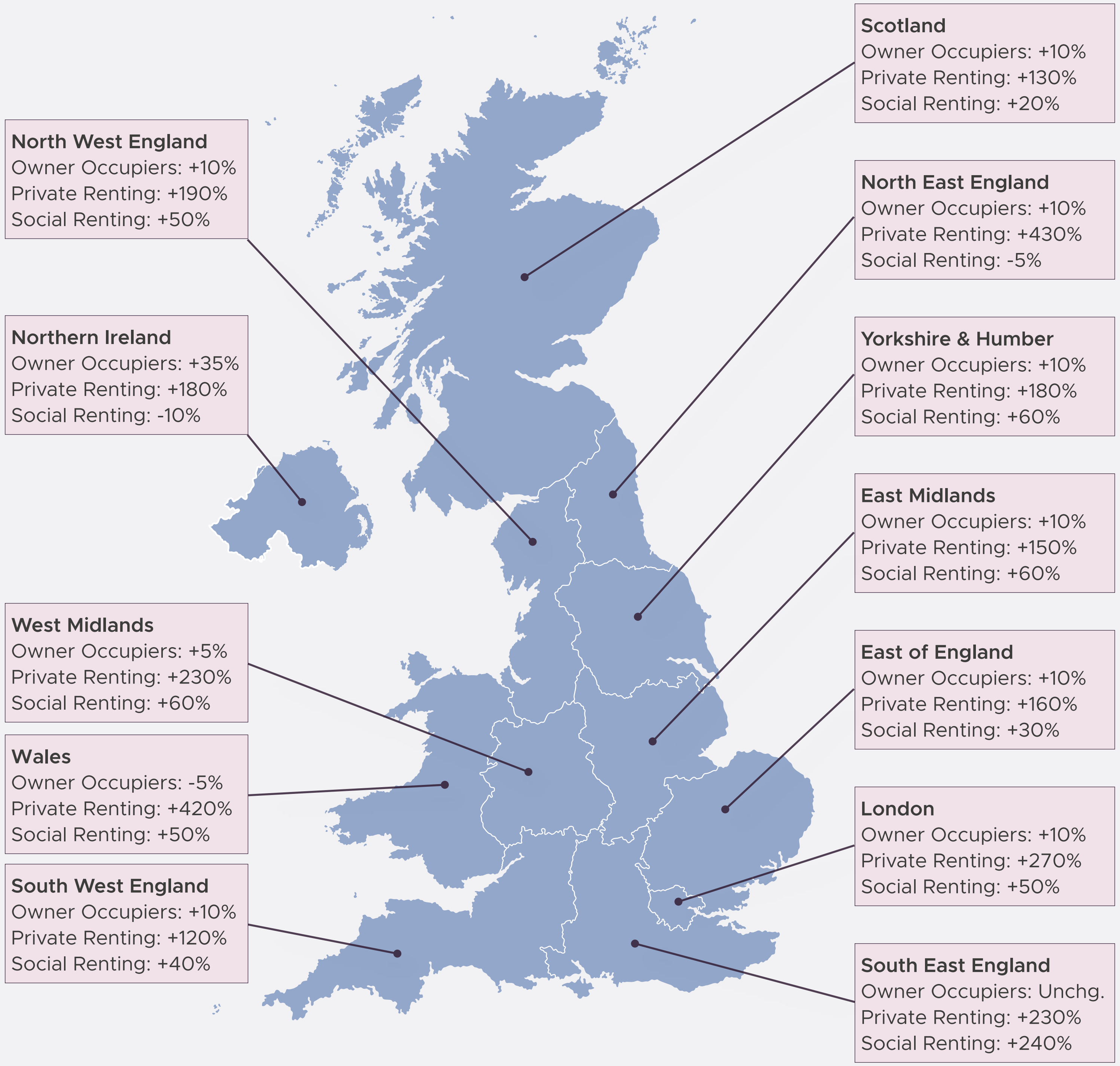
Renting around the country (absolute numbers)

- Changes in the absolute numbers of households paint an even more striking picture, reflecting growth in local populations as well as shifts in housing tenure
- In North East England and Wales, the number of privately rented households rose by more than four times in the twenty years to 2021-22, to around 63,000 and 74,000 respectively.
- Across London and the South East, a total of around 450,000 households were renting privately, around two and a half times more than twenty years ago. The rate of increase was also similar in the West Midlands.
- Across all other regions, the number of households renting privately in 2021-22 was at least double that of 2002-03, and outside London and the South East, the North West had the highest population of private tenants in this age group (160,000).

Social housing around the country

- Households aged 45-64 were the only group to see an increase in social renting, rising by around 4% to an average of 19%, but the increase is explained by sharp rises in highly populated areas offsetting falls in others.
- The share of households in social housing almost doubled in South East England, and rose faster in Wales, the North West, Yorkshire, and the West Midlands than other areas of the country.
- There was a marked fall in both the share and number of households renting socially in North East England, the area which also saw the highest increase in the share and number of households renting privately. Social Housing also fell in Northern Ireland, where home ownership remained stable at around 78% and private renting increased.

Figure 1.4 Percentage increase in the number of households aged 45-64 by tenure type and region, United Kingdom 2002-3 to 2021-22[9]



[9] Analysis of FRS data from DWP Stat-Xplore (2023)

All other factors being equal, up to 1.2 million more pensioner households could be living in privately rented homes by 2041

If housing patterns among people aged 45-64 are carried forward over the next twenty years, the share of older households in privately rented homes could almost treble from one in twenty to one in six

Figure 1.5: Pensioner households by housing tenure in the UK 2022, and projected housing tenure scenario for pensioner households in 2042, 000s and percentages [10]

Tenure Type	Pensioners 2022 (Baseline)			Projected Pensioner Scenario 2042			Projected Change (Households)		
No. of households (000s)	All Pensioner Households	Single Pensioners	Pensioner Couples	All Pensioner Households	Single Pensioners	Pensioner Couples	All Pensioner Households	Single Pensioners	Pensioner Couples
Owner Occupiers	6,314	2,504	3,815	6,242	2,614	3,628	-72	+110	-187
Private Renters	504	350	155	1,701	956	745	+1197	+606	+590
Social Renters	1,243	895	348	1,911	1,293	618	+668	+398	+270
Total	8,061	3,749	4,318	9,854	4,863	4,991	+1,789	+1,115	-187

Tenure Type	Pensioners 2022 (Baseline)			Projected Pensioner Scenario 2042			Projected Change (Households)		
Percentage	All Pensioner Households	Single Pensioners	Pensioner Couples	All Pensioner Households	Single Pensioners	Pensioner Couples	All Pensioner Households	Single Pensioners	Pensioner Couples
Owner Occupiers	78%	67%	88%	63%	54%	73%	-15%	-13%	-16%
Private Renters	6%	9%	4%	17%	20%	15%	+11%	+10%	+11%
Social Renters	15%	24%	8%	19%	27%	12%	+4%	+3%	+4%
Total	100%	100%	100%	100%	100%	100%			

PPI modelling of Family Resources Survey (FRS) data suggests that, if housing tenure trends among households aged 45-64 today were carried through to later life and all other factors remain unchanged:

- The total number of pensioner households could rise from 8 million to almost 10 million, of whom:
  - Around 6.2 million are expected to be homeowners, around the same number as today
  - Around 3.6 million are expected to be renting, either socially or privately, up by 1.9 million from around 1.7 million today
  - Around 1.7 million are expected to rent privately, up by 1.2 million from 500,000 today
  - Around 1.9 million are expected to rent socially, up by 670,000 from 1.2 million today
- The total number of pensioner households could rise from 8 million to almost 10 million, of whom:
  - Just over three in five pensioner households are expected to be homeowners, down from four in five today
  - More than one in six pensioner households are expected to rent privately, up from around one in twenty today
  - Around one in five pensioner households are expected to are expected to rent socially, up from around one in six today

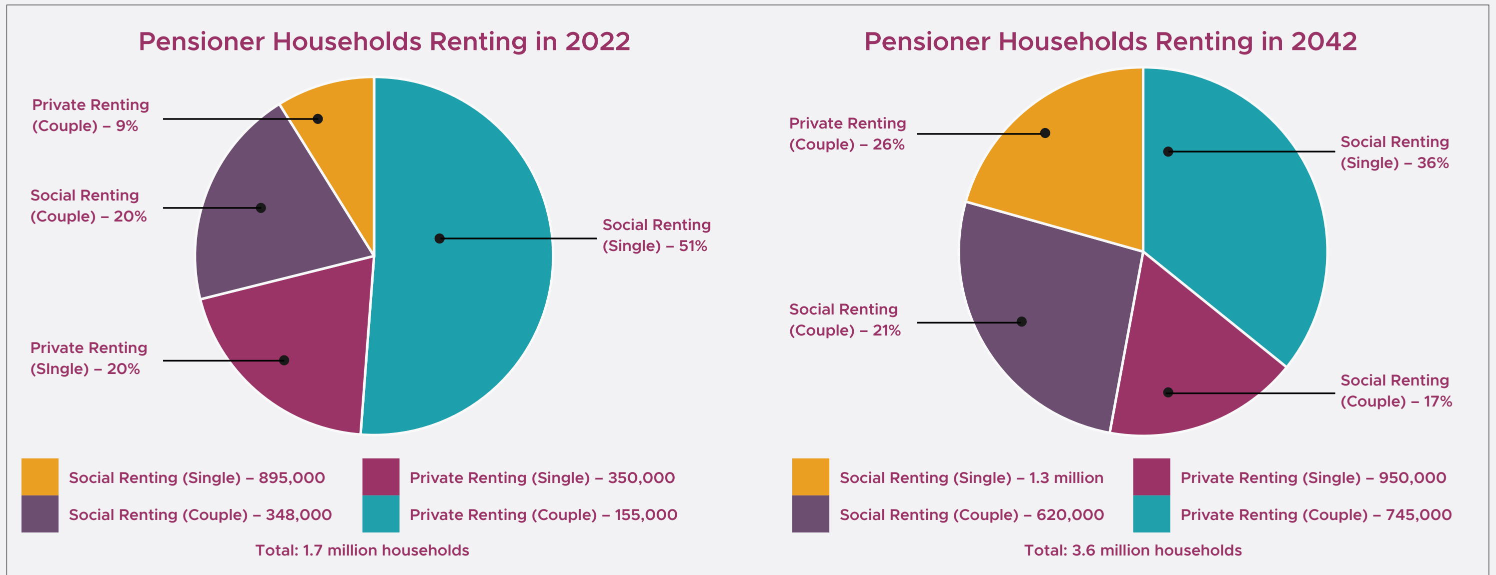
[10] PPI Analysis of Family Resources Survey

In addition to impacts on the UK pension system which are modelled in Chapter Two, the projected changes highlight a number of factors which have considerable implications for policy:

- **Population ageing** is driving considerable growth in the size of the older population. As a result, the number of households in each group would rise and increase the demand for a range of housing that is suited to the changing needs of people through later life, even if the share of the population in each tenure were to remain stable. It should be noted that there is no requirement for additional rental stock to accommodate the expected increases in renting, because projections assume that households will remain in their current tenure. Rather, the profile of tenants would change as existing renters grow older.
- **Living alone** is a key risk factor for renting privately, although rates of private renting have grown faster among couples than among single-pensioner households. As rates of private renting increase, it will be important for policymakers to better understand the circumstances under which people come to live alone and rent privately, so as to identify where mechanisms used to share wealth when couples separate could be reformed to improve retirement outcomes.
- **Social housing** is only likely to home around half of all rented pensioner households in twenty years' time, compared to more than two thirds today (Figure 1.6). The increase of 1.9 million pensioner households expected over the next twenty years is almost entirely accounted for by the rental sector. Of the increase in renting, around two thirds is accounted for by private sector renting and one third by social housing. Understanding the implications of these shifts and ensuring that that the private rented sector is able to respond appropriately to the changing demographic profile of tenants will be key to ensuring that homes are able to meet peoples' needs in later life.

The number of households renting through retirement is about to soar with many more households living in the private rented sector, of whom an increasing share are likely to be couples

Number of single and couple pensioner households in the social and private rented sectors in 2022, and the projected number of pensioner households in each tenure in 2042



Source: PPI Analysis of Family Resources Survey

How were these findings calculated?

To understand how changing housing trends could impact the next generation of retirees, those aged 45-64 in 2020-21, we use the UK Pensions Framework to simulate how retirement outcomes might change as this group reaches retirement in the next twenty years.

Figure 1.5 illustrates the results of the first step in this process, which requires an estimate of the number of households likely to reach retirement in each tenure. To calculate this, we examine how housing tenure has evolved for the most recent State pensioners over a twenty-year period since 2000/01. This group is defined as the twenty-year cohort comprising pensioners aged 65 to 84 in 2020/21, who were themselves aged 45-64 in 2000/01. We then apply an equivalent pattern of development to the housing tenure of the next pensioner cohort (those aged 45 to 64 years old in 2020/21), over the upcoming 20-year period to 2040/41. The result is an estimate of how many future pensioner households could be living in each tenure as they reach and live through retirement.

Appendix One provides further information on the methodology behind this approach. These estimates are then used to inform the second step in the simulation process, in which we model the potential impact of changes to housing tenure on retirement outcomes and the UK pension system. Some points to note include:

- Over the past twenty years, there was very little change in housing tenure as today's pensioner cohort approached retirement. This supports the notion that, for most people, long-term housing tenure is determined by the age of 45, and becomes increasingly difficult to change through working and later life. This could change in the future.
- Key developments over 20 years among today's cohort aged 65-84 that have been applied to the expected evolution of housing tenure among today's cohort aged 45-64 include:
    - Home ownership rose by less than 1%
    - Private renting rose by less than 1%
    - Social renting fell by 1.5%, mostly among couples. The fall is accounted for by the small and approximately equal rise in home ownership and private renting.
- A corresponding pattern is therefore applied to housing tenure among people aged 45-64 in order to determine their housing tenure in retirement, reflecting a small increase in private renting, and a small decrease in social housing over the next twenty years.
- All other factors and characteristics are held constant, including those relating to intergenerational transfers of wealth, stock of housing, behaviours, economic change and the supply of social housing. The extent to which outcomes could vary by other factors is discussed in Chapter Three.

CONCLUSION

In conclusion, upcoming cohorts of pensioners are much more likely than those of today to be dependent on the quality and affordability of houses provided by the private and social rented sectors, than they are on the suitability of their own home to meet their needs through later life.

This chapter has outlined how falling levels of home ownership among households aged 45-64 look set to drive a rapid increase in the number and proportion of households renting through later life, of whom more will be renting privately than ever before.

These households are not only likely to have lower disposable income and pension saving than owner occupiers through working life, but they are also likely to have higher living costs in later life that could put them at risk of income shortfall or a fall in living standards. As well as financial security, owning your own home can yield many benefits, but, in relation to ageing, the ability to maintain connections by staying in an established community or to make adaptations in response to changing health and care needs can be particularly important.

Based on patterns among past pensioner cohorts, analysis suggests that the likelihood that people will move tenure as they approach retirement is very low. Chapter Two therefore asks what these changes could mean for future retirement outcomes under the UK pension system, before Chapter Three goes on to discuss what policy makers might need to prioritise in order to respond to the changing needs of retirees in the future.

CHAPTER TWO:

A Fault Line Opens

A UK Pensions Framework simulation of what more private renting could mean for the UK Pension System in the early 2040s

The aims of this chapter are to use the UK Pensions Framework to:

- Simulate a "what if" scenario in which fewer pensioners own their own home, and more live in the private rented sector through later life
- Examine how the scenario could impact retirement outcomes and the future of adequacy, sustainability and fairness in the UK pension system
- Examine how the scenario impacts, or is impacted by, interdependencies and trade-offs within the UK pension system

The potential impact of changes to housing tenure in retirement highlight that pensions are not the only explanation, nor the only solution, for the increased risks that renters face to their wellbeing and security through later life

Chapter One examined how changes in the UK housing market have produced a rapid fall in home ownership and corresponding increase in private renting among households aged 45-64 in 2020-21, compared to households of the same age twenty years ago. It then uses these results to estimate how patterns in housing tenure might look as this cohort reaches retirement over the next twenty years.

Using the results of the PPI's first UK Pensions Framework policy simulation, this chapter explores some of the longer-term implications associated with falling rates of home ownership in the working-age population. In doing so, it considers how they could affect the objectives of adequacy, sustainability and fairness in the UK pension system, and quantifies the extent to which key metrics and components could be impacted. It finds that:

- Overlaying the results of the simulation onto the baseline analysis from 2022 shows how poor the outlook for retirement adequacy could become as more renters retire over the next twenty years.
- Retirement adequacy declines because increases to retirement living costs are not met with a corresponding increase in long-term savings.
- The housing scenario has important implications for sustainability in the UK pension system because it highlights interdependencies with other policy sectors, as well as the challenges that the system faces in supporting the changing characteristics of future pensioner cohorts.
- The distributional effect of the housing scenario could potentially compromise the fairness of outcomes under the UK pension system, because it disproportionately impacts at-risk groups

The result is a picture which clearly shows how the access people have to homes they can afford, and the decisions they make around how they live, are just as important to retirement outcomes as how much they save.

Within the UK pension system, however, there is very little provision or flexibility for the growing number of households who reach retirement with uncertainty around their future housing, and, at present, there is also a scarcity of policy proposals that could help them.

The UK Pensions Framework is an analytical instrument that can be used to track and simulate how the UK pension system is performing against a set of core objectives, which overall determine the financial security that people have in later life

The UK Pensions Framework is a study of adequacy, sustainability and fairness in the UK pension system. It works by analysing 41 comprehensive, purpose-built indicators to provide a complete and compelling picture of strengths and weaknesses in the UK retirement landscape.

The PPI UK Pensions Framework was designed with two goals in mind.

1. To develop an instrument that can present a holistic picture of how the UK pension system is working at any point in time, then repeated show how the system and its outcomes evolve over time
2. To develop the instrument in such a way that it could be used to model a series of "what if" scenarios, in order to anticipate how the system and its outcomes might be impacted in response to policy, industry or socio-economic change

In 2022, the Framework was used to conduct the first full, systemwide analysis into how the UK pension system was working. Its findings were published in a report titled "Trends, Trade-offs and Transitions in the UK pension system". The analysis looked at the extent to which the UK pension system is meeting objectives relating to adequacy, sustainability and fairness using factors that, while relating predominantly to pensions, shape retirement security as a whole. In the report, falling home ownership was identified as one of the fastest growing risks to future retirement outcomes.

> *"Home ownership among people over 65 is very high and continues to rise. However, rising property prices have led to lower levels of affordability and home ownership among all working-age groups, signalling a likely decline in support for pensions adequacy. The largest falls are observed among people who will retire in next twenty years."*
>
> **PPI UK Pensions Framework Report, 2022**

This year, the PPI has used its UK Pensions Framework to simulate the scenario under which home ownership among pensioners might fall, and private renting might rise, to reflect the rates seen among households aged 45-64 today

Using the 2022 report as its baseline, this chapter examines how strengths and weaknesses in the UK pension system might change over the next twenty years if patterns in home ownership seen among households aged 45-64 are carried through to retirement, and all other factors are held constant.

By comparing the results of the simulation against the baseline, it also highlights how retirement outcomes could be impacted by the changes and, in turn, where policy implications might necessitate responses that can help to support the changing retirement landscape.

How was the simulation carried out?

To model the impact of changing housing tenure on retirement outcomes, estimated patterns of home ownership and renting for households approaching retirement over the next twenty years (Chapter 1, Figure 1.5) were overlaid onto indicator data that describes the baseline UK pension system and its pensioner population in 2022.

Where there were differences in housing tenure, the weighting of each household was also adjusted to reflect differences in household income and structure (whether people lived on their own or with other adults) between the pensioner cohorts of today, and of the future. Under the scenario:

- Home ownership among pensioner households falls from 78% to 63%;
- The proportion of households renting privately through retirement rises from 6% to 17%; and
- The share of pensioner households in social renting is held constant, based on the assumption that access will not be expanded beyond current provision.

The result is a portrait of how retirement and pension system outcomes might change, were trends in household tenure and characteristics among pensioners today to mirror those of households aged 45-64. Alternatively, they can be read as how future outcomes might look when today's cohort of households aged 45-64 reach retirement, were all factors and characteristics to mirror those of pensioners and the system today except tenure, income and household structure.

Results could reasonably be interpreted as a "worst-case scenario"

During the simulation process, all other factors that could otherwise influence the outcomes are held constant in order to isolate the impact of housing on retirement outcomes. It is therefore reasonable to assume that some factors could be expected to mitigate some of the risks and shift the results towards a more positive (or less negative) outlook. These factors are discussed in Chapter Three, but broadly include changes to inheritance, lending markets, and the stock of social or private housing.

The 2022 PPI UK Pensions Framework report acts as the baseline for the 2023 housing simulation, having concluded that, although sustainability had improved in the UK pension system, its gains were offset by poor outcomes associated with adequacy and fairness

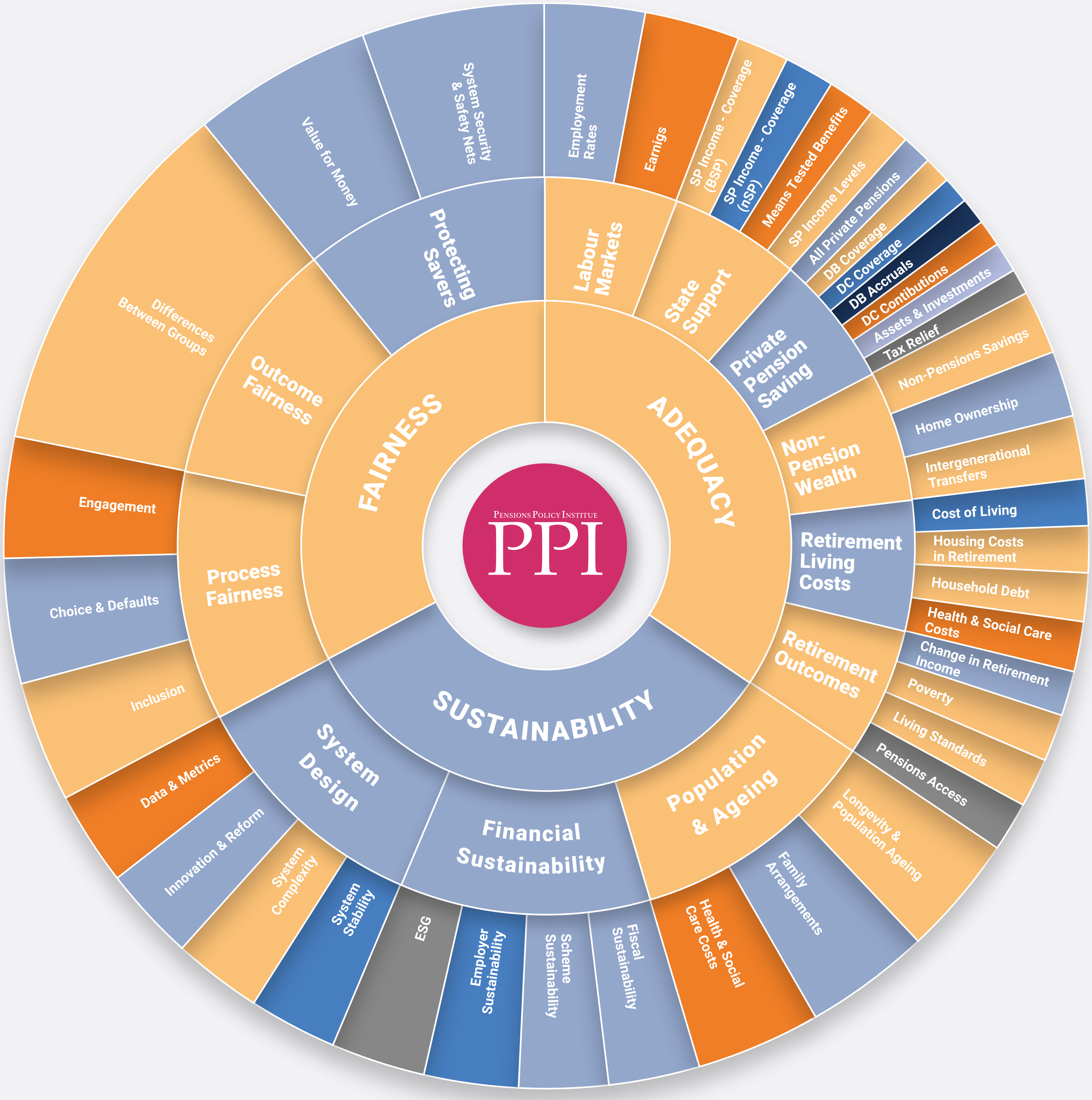
In 2022, the first full analysis of the UK pension system using the PPI UK Pensions Framework found:

“Changes designed to offset the impacts of population ageing such as the introduction of the new State Pension (nSP), increase in State Pension age (SPa), and shift to Defined Contribution (DC), are helping to improve affordability for the State and employers in the UK pension system. However, they come at a cost to individuals among whom income inequality remains high, post-retirement choices are more complex, and among whom more people are saving, but not necessarily saving adequately for retirement.”

Its results were presented on the Pensions Policy Wheel (Figure 2.1), a visualisation tool that displays and aggregates findings from all 41 Framework indicators against the system objectives they impact in a single chart. A larger version of the chart is presented in Appendix Two, along with a guide on how to interpret the results, but overall it shows how the Framework is organised around the three system objectives and three levels of analysis. Each component is then colour coded to represent the extent to which it suggests a strength or weakness in the UK pension system.

Figure 2.1: Results of indicator analysis from the 2022 UK Pensions Framework report[11]

L6	Strong support for system objective
L5	Good support for system objective
L4	Some support for system objective
L3	Somewhat fails to support system objective
L2	Poor support for system objective
L1	Fails to support system objective
	Unrated in 2022 Edition due to quality of data



[11] A larger version of this chart is presented in Appendix Two

When housing tenure patterns among households aged 45-64 are rolled forward to retirement, they produce a sharp fall in adequacy driven by the growing share of households who have been unable to get on the housing ladder

Figure 2.2 presents a different view of the policy wheel. Instead of showing the overall outcome, this time the colour coding shows the extent to which objectives of the UK pension system might improve or worsen in response to the housing scenario. The same approach will be used in future reports to show how changes in underlying socioeconomic or policy conditions are affecting the UK pension system over time.

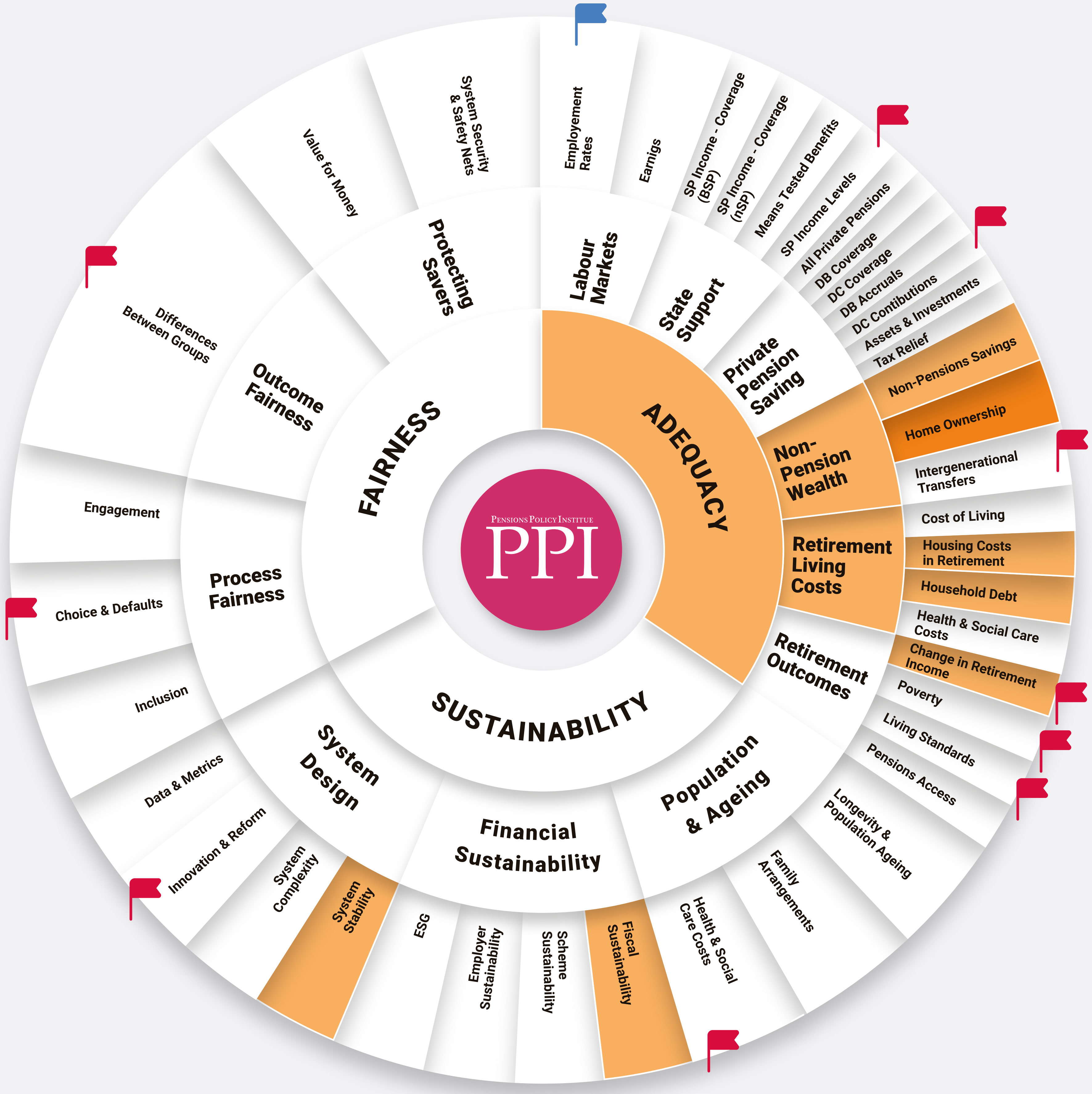
Under the scenario, changes to housing tenure in retirement would have wide-ranging impacts on the UK pension system, but would fall most heavily upon adequacy

Modelling suggests that seven pension system components are negatively impacted by changes in housing tenure, to the extent that they fall by at least one outcome level. Of these, five relate directly to measures of adequacy and two relate to measures of sustainability. In addition, the scenario was found to negatively impact several more measures, but its effect was not sufficiently significant to produce a change to the indicator outcome.

In most cases, this is not because the finding is less important. It is because the overall indicator outcome comprises multiple component measures, not all of which are impacted by changes to housing tenure. These impacts are highlighted by flags. The scenario provides no meaningful improvement in adequacy, sustainability or fairness in the UK pension system.

Figure 2.2: Changes to indicator outcomes under the housing simulation[12]

L6	Strong support for system objective
L5	Good support for system objective
L4	Some support for system objective
L3	Somewhat fails to support system objective
L2	Poor support for system objective
L1	Fails to support system objective
	Unrated in 2022 Edition due to quality of data
	Negative impact likely but outcome does not change
	Positive impact likely but outcome does not change



[12] A larger version of this chart is presented in Appendix Three

Overlaying the results of the simulation onto the baseline analysis from 2022 shows how poor the outlook for retirement adequacy could become as more renters retire over the next twenty years

Figure 2.3 shows how the UK pension system might look under the housing scenario by overlaying changes to indicator outcomes (Figure 2.2) to the baseline analysis of the pension system (Figure 2.1).

Under the housing scenario, adequacy stands out as an acute risk to the UK pension system, driven by pressures on long-term saving from higher living costs and lower non-pension assets

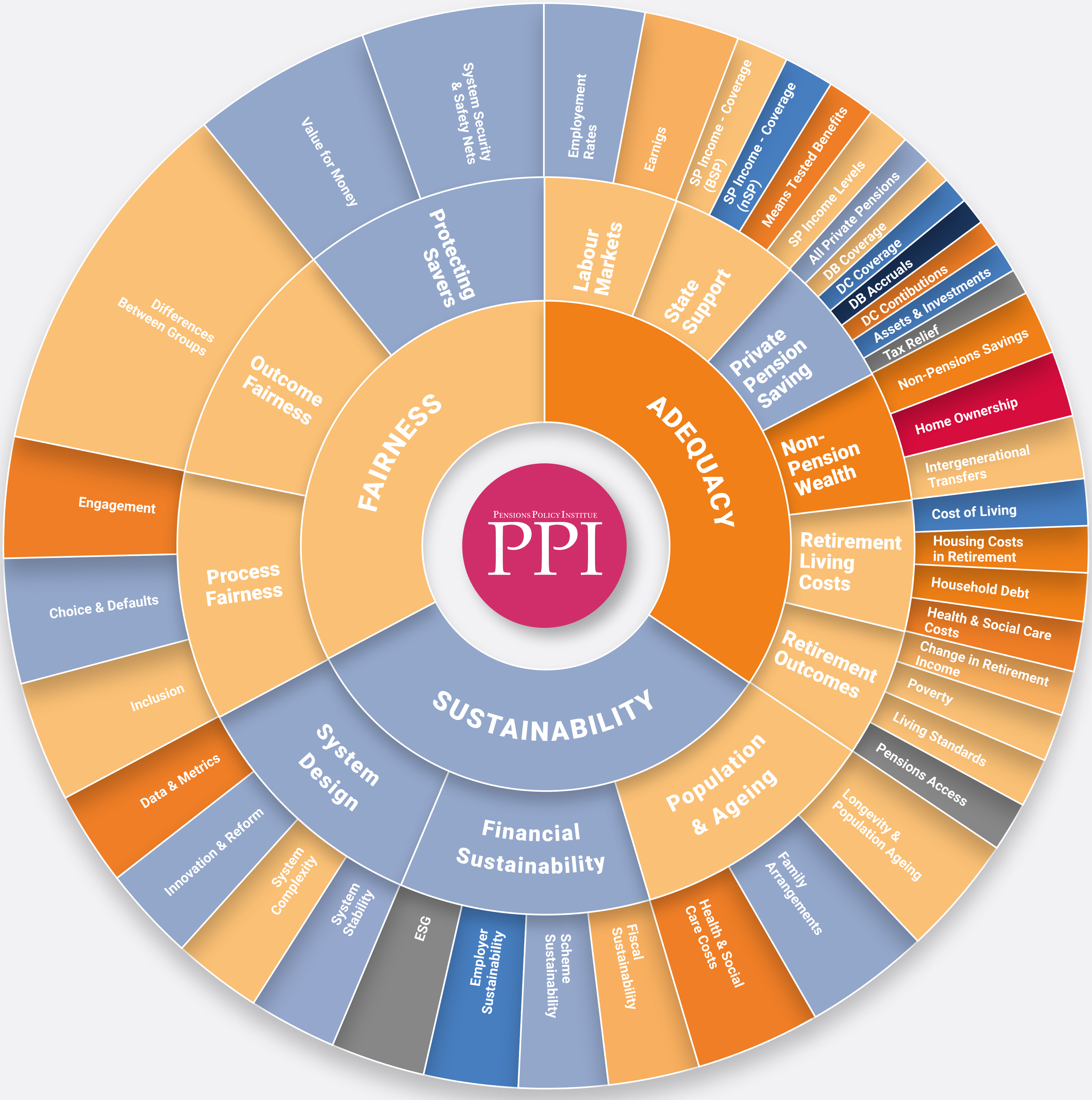
Under the baseline analysis, strengths and weaknesses were relatively moderate and evenly distributed across the UK pension system. In contrast, the housing scenario clearly demonstrates how risks that emerge from outside the pension system could undermine not just retirement outcomes, but also the suitability of saving mechanisms behind them.

One of the most striking features of the results, is the notion that pensions, visibly, do not operate within their own ecosystem. The 2022 analysis highlighted how policy trade-offs mean that a fall in pensions adequacy might typically be offset by a corresponding improvement in sustainability. Under the scenario, however, threats to sustainability could actually increase as more people become dependent on the State for safety nets and solutions that can offset the impact of housing costs on retirement income.

The policy implications of these outcomes are discussed in Chapter Three, and the remainder of this chapter outlines key findings that have contributed to results.

Figure 2.3: Full results of indicator analysis from the 2023 UK Pensions Framework housing simulation[13]

L6	Strong support for system objective
L5	Good support for system objective
L4	Some support for system objective
L3	Somewhat fails to support system objective
L2	Poor support for system objective
L1	Fails to support system objective
	Unrated in 2022 Edition due to quality of data



[13] A larger version of this chart is presented in Appendix Four

The overall retirement adequacy objective declines under the housing scenario because rising living costs are not offset by a corresponding increase in long-term saving among renters

Adequacy Objective – Falls by one level

- Although there are many ways to evaluate the quality of life people have in retirement, outcomes related to financial security are some of the most important. The simulation suggests that measures relating to adequacy would decline under the housing scenario, resulting in a poorer retirement experience for many more future pensioners than is the case among today's population.
- In all cases, the reason for this is an increase in housing costs, which is not offset by a corresponding increase in retirement income or long-term saving. This leaves a larger proportion of households at risk of lower disposable income, falling living standards, rising poverty, greater dependency on means-tested benefits and higher household debt. Employment rates are the only measure to produce a potentially positive impact for adequacy under the housing scenario.

Retirement Living Costs Group – Falls by one level

The combination of more people facing housing costs through later life, either through rent or mortgage repayments, signals a risk to adequacy and reduces the outcome for this indicator by one level.

Housing Costs Indicator – falls by one level

£8,700
The average cost of renting a one bedroom flat outside London for one year.

- **Cost:** Figure 3.2 in Chapter Three shows that pensioners outside London would need to save an average of £189,000 more in their pension pots to cover the cost of renting even a one-bedroom flat through retirement. In London, this could rise to as much as £330,000.
- **Scale:** The simulation does not make any assumptions around the extent to which rents could rise against inflation. However, the size of the population impacted and the level of housing costs that people could face are substantial, so the indicator falls by one level.

Household Debt Indicator – falls by one level

51%
Of all new homeowner mortgages issues in 2021 are due to end after the age of 65

- **Mortgage Debt:** More people in all five-year age bands from ages 45 to 64 own their home outright (compared to owning with a mortgage) than people of the same age 20 years ago. However, among those who do borrow, more people are likely to reach retirement with mortgage debt.Around half of all new homeowner mortgages issued in 2021 are due to end after the borrower reaches age 65.[14]
- **Access and Contributions:** Not only could more people enter retirement with mortgage and household debt than in the past, but longer-term adequacy outcomes could also be compromised in the event that repayments limit the amount people can contribute to long-term savings, or need to draw from pension savings, towards the end of their working life. As a result, the indicator outcome falls by one level.

[14] UK Finance (2021)

Non-Pension Wealth Indicator Group – Falls by one level

Falls in the number of households who own property as an asset are not offset by increases in non-pension wealth. Coupled with uncertainty around inheritance, this means most renters will not be able to depend on non-pension wealth to cover their living costs through retirement

Non-Pension Savings Indicator – Falls by one level

£28,900
The median non-pension wealth of multi-adult households aged 45-64 in the private rented sector

- **Renters save less:** Figure 3.1 in Chapter Three shows the average savings held by households aged 45-64 in both pension and non-pension assets. On an equivalised household income basis, the average multi-adult household who owns their own home with a mortgage has £275,000 in non-pension assets. A similar household who rents privately has just £28,900 in non-pension assets in comparison.
- **Single renters save the least:** The difference is even greater when compared to households who own their own home outright, and wider again compared to single adult households. In some cases, private renters aged 45-64 have less savings than private renters in retirement today.
- **Savings will not be enough:** Overall, saving patterns among households aged 45-64 suggest that those in the private rented sector are unlikely to accumulate the level of non-pension savings needed to cover the cost of renting through later life without turning to pension savings to pay for housing costs. There will also be fewer households for whom accessing housing capital could help to improve adequacy through later life. As a result, the indicator outcome falls by one level.

Home Ownership Indicator – Falls by two levels

- **Scale:** The scale of the falls in home ownership among upcoming pensioners is the main reason that the home ownership falls further against adequacy than any other Framework indicator. Compared to the pensioner population in the baseline scenario, home ownership falls by 20%.
- **Housing Costs:** The downgrade is also due in part to the pressure that rental costs will put on retirement income, coupled with lower levels of both pension and non-pension wealth among private renters than either those who own outright, or with a mortgage (Chapter Three).
- **Housing Capital:** It is further representative of the notion that more than one in three pensioner households will not have access to housing capital to cover the costs of a growing range of demands through later life because they do not own a home, up from one in five today. Demands include topping up retirement income, the cost of long-term care and potentially helping family through living inheritance. As a result, the indicator outcome falls by two levels.

Intergenerational Transfers Indicator – no overall change

- **Unpredictability:** Due to the uncertain nature of determining who might inherit and how much they could receive, the simulation holds constant the level of intergenerational transfers between today's pensioners, and the upcoming cohort. This means that there is no change in the extent to which transfers are deemed to support retirement adequacy.
- **Wealth Concentration:** The scenario does however highlight the risk that falling home ownership could lead to greater concentration of wealth among middle- to high-income households. This could limit the extent to which future generations could benefit from inheritance, particularly that which is accumulated in property. The scenario is therefore likely to compound future wealth inequalities.

The scenario also produced notable impacts for several other measures of adequacy, including:

Retirement Income Indicator – Falls by one level

-5%
The potential fall in median AHC retirement income

- **After Housing Costs (AHC) Income Falls:** Under the housing scenario, the rising share of households with higher housing costs through retirement could drive a fall in overall median retirement income AHC of as much as 5%.
- **Unequal impact:** The true impact of this fall is disguised by averages and would be felt differently by different groups. The high proportion of single households renting privately mean that the fall in average retirement income would be greater for single pensioners than couples, and that single male pensioners would be most heavily impacted. As a result, the overall indicator outcome falls by one level.

Poverty Indicator – negative impact but no overall change

+2%
The potential rise in relative and absolute pensioner poverty AHC

- **Poverty increases:** Lower levels of retirement income could generate an increase in both relative and absolute pensioner poverty of around two percentage points under the projected scenario. In 2021, poverty rates among pensioners were around 15%, approximately five percentage points lower than the wider population. However, this scenario would likely contribute to a reversal in recent gains.
- **Mixed metrics:** The overall indicator outcome does not change due to the weight attributed to other poverty metrics and population groups, but, for the cohort in question, impacts could be considerable. The level of pension savings held by households in each tenure, along with the expected cost of renting in retirement, are examined in Chapter Three.

Living Standards Indicator – negative impact but no overall change

- **Mixed Findings:** Overall, the scenario is not sufficiently significant at population level to alter the outcome of Living Standards analysis. Within the averages however, there is a clear picture that the greatest declines would be experienced by single pensioner households, households on low income, and those outside London. Analysis of household income showed that housing costs could contribute to a fall in the proportion of households with an average retirement income of at least 15,000 a year, from one in four to one in five of the pensioner population. Within the living standards simulation however, there are some interesting findings:

170,000
The potential rise in single pensioner households outside London who don't meet minimum RLS

6%
The potential rise in the share of pensioner households who meet the minimum RLS in London

- **Fall outside London:** As many as 5% more single pensioner households and 2% more couples outside London may no longer be able to meet at least the minimum retirement living standard (RLS) target under the scenario. In total, this means that were housing tenure to follow the simulated patterns, as many as 1.8 million pensioner households outside London would be at risk of failing to meet the minimum RLS in later life. This total includes an increase of 170,000 generated by the housing scenario.
- **Rise in London:** Although more households in London fail to meet the minimum RLS than outside London, the housing scenario increases the share of households meeting at least the minimum RLS by around 6%, thereby improving the overall living standards outlook. This unexpected change is likely explained by the finding that a high proportion of privately rented households aged 45-64 in London have considerably higher average income than those over age 65. This suggests that in some cases, though not all, renting in London may present less of an affordability challenge and more of a lifestyle choice than might otherwise be expected.
- **Moderate RLS unchanged:** Overall, there is little change in the overall share of households who are likely to meet the moderate RLS in retirement, mostly because much of the impact of the change falls on lower-income households. As a result, the moderate target is likely to be met by:
  - One in five single pensioner households
  - Just under half of all pensioner couples
  - Around one in four pensioner households overall

Means Tested Benefits Indicator – negative impact but no overall change

5 Years
The length of time for which the Local Housing Allowance has been frozen

- Local Housing Allowance LHA Freeze: The level at which housing benefits are paid has a significant impact on adequacy and the extent to which people can achieve a minimum standard of living in later life. Chapter Three describes how the value of pensioner housing benefit has been eroded by the LHA, which underpins it and has been frozen in cash terms since 2018-19. Although the scenario does not assume a change in the level at which benefits are paid, this pattern presents a clear risk to adequacy for households who may depend on it to rent through retirement.

DC Contributions Indicator – negative impact but no overall change

£130,000
The difference in average pension saving between multi-adult households aged 45-64 who rent privately, and who own with a mortgage

- **Low pension savings:** The housing scenario does not assume a change in the level at which people contribute to workplace pensions, yet the average multi-adult household aged 45-64 who rents privately has just £61,900 in pension savings compared to £199,000 among households who own with a mortgage (Chapter Three, Figure 3.1). This clearly indicates that renters are not making adequate contributions to cover the cost of renting through later life.
- **Pressure on contributions:** There is also a growing risk that people may stop contributing to a pension, or reduce any voluntary contributions, if housing costs consume a growing share of income over the years approaching retirement.

Employment Rates Indicator – positive impact but no overall change

- **Supports pension saving:** Measures of employment focus on the extent to which working patterns have a positive or negative impact on adequacy outcomes. Employment is assumed to be positive for adequacy because it allows people to accumulate both pension and non-pension savings.
- **Higher employment at older ages:** Under the housing scenario, those facing housing costs may need to continue working longer than they would otherwise choose. While it is recognised that this is not necessarily the preferred outcome for individuals and would require greater support from employers, the potential that the housing scenario could increase employment at older ages has a small positive impact on adequacy because it allows people to continue contributing to a workplace pension.

Pensions Access Indicator – negative impact but unrated in 2022

- **Poor links between access and adequacy:** Under the 2022 analysis, drawing conclusions around the extent to which pensions access was contributing to retirement adequacy was challenging because there is very little data which quantifies the relationship between the decisions people make, and the impact of these decisions on long-tern outcomes. Broadly, these decisions include choices around how and when to use a tax-free lump sum, the age at which people choose to access their pension, whether or not they choose to annuitise or enter drawdown, the number of pensions they have (including the mix of Defined Benefit (DB) and DC), and any other sources of savings or income that might be available to them.
- **Using pensions to pay for housing:** The housing simulation raises significant questions over the extent to which pension savings might be used towards housing costs in later life, either to pay off mortgage debt or to pay rent. These questions are discussed further in Chapter Three, however the greatest concern in this scenario would be the extent to which people may be required to draw on pension savings to either pay off outstanding mortgage debt or cover housing costs through later life, rather than to use their savings to maintain living standards in retirement or fulfil any other purpose for which they were intended.

The housing scenario has important implications for sustainability in the UK pension system because it highlights interdependences with other policy sectors and the challenges that the system faces in supporting the changing characteristics of future pensioner cohorts

Although the overall outlook for sustainability remains unchanged, the housing scenario signals concern for measures of sustainability within the UK pension system. They include the expected rise in the cost of means-tested benefits, the extent to which the changing needs of pensioners are reflected in the design of the system, and the impact that low home ownership could have on long-term health outcomes.

Fiscal Sustainability Indicator – Falls by one level

£420,000
The potential increase in housing benefit claims under the home ownership scenario

- **Public Spending:** A fall in home ownership and corresponding increase in renting through retirement could lead to a sharp rise in the number of households claiming income-related and Housing Benefit. As a result, it puts considerable pressure on public spending and the cost of supporting people through later life, all considerations within Fiscal Sustainability.
- **Housing Benefit:** Around one third of pensioner households renting privately, and two thirds of those in social renting currently receive Housing Benefit, and a slightly higher proportion receive income-related benefits. In comparison, only 7.5% of homeowners receive income-related benefits, and less than one percent receive benefits relating to housing.
- **Rising cost:** Were more pensioners to retire as renters, the number of households receiving income-related benefits could rise by 380,000 to 1.9 million, or 24% of the pensioner population. Of these, 1.4 million households could be eligible for Housing Benefit, an increase of around 420,000 households. Based on an average weekly payment of around £100 a week[15], the change could add as much as £2bn or 40% to the current annual cost of Housing Benefit to older people. As a result, the indicator outcome falls by one level.

System Stability Indicator – Falls by one level

- **Exacerbates undersaving:** The housing scenario poses a considerable risk to the stability of the UK pension system. It suggests that current arrangements may no longer be optimal because not only would undersaving be a problem for more people, it could potentially be a greater problem for people affected.
- **Confidence:** From an individual perspective, the scenario could also undermine the confidence people have in the UK pension system and its outcomes, particularly those on low income for whom even a relatively low level of pension savings they have could impact eligibility or reduce the level of support they receive from income-related benefits in later life.
- **Short-term response:** Although policy responses may come from inside or outside the pension system, in both cases there is a risk changes could necessitate a relatively quick policy response, which could in turn lead to trade-offs or unintended consequences for longer-term policies in the design of the system and its outcomes. As a result, the indicator outcome falls by one level.

Health and Social Care Costs Indicator – negative impact but no overall change

- **Poor health outcomes:** Links between peoples' housing circumstances and poor health outcomes are well-established, with private renting known to be a major risk factor for poor outcomes.[16] Outcomes can be driven by a variety of factors, including the quality, safety and suitability of homes that people live in (which also applies to social housing), and worries over affordability and security. As long as low rates of home ownership persist and the negative impacts of renting are not reduced, outcomes could avoidably lead to both poorer quality of life for pensioners, and greater pressure on public spending as a result of the added burden on health and care services.
- **Funding long-term care:** The ability for people to fund their own long-term care could be heavily impacted by lower rates of home ownership because fewer people would have access to the assets they need to pay for support in later life. As a result, the State may be required to step in to fund the care costs of a growing number of families without the means to pay themselves
- **Informal care:** The ability for people to either give or receive informal care in later life may be impacted by the need for people to move away from homes and communities in order to either find more affordable housing, or to find social housing in the event that local supply is limited. These decisions could both break up the support networks that allow people to live independently for longer through later life, and increase reliance on care services in the event that people need to move further away from their communities.

The distributional effect of the housing scenario could potentially compromise the fairness of outcomes under the UK pension system because low homeownership disproportionately affects at-risk groups

- **No overall change:** Although there is no change to the overall Fairness objective and its underlying groups of indicators under the housing scenario, the impact of a potential fall in home ownership would likely exacerbate differences between groups in the population.
- **But impacts at-risk groups:** Single pensioners and households on low income, among whom there is already significant income inequality compared to higher-income or multi-adult households, would be most affected. Results suggest that after housing costs, the average retirement income for a single male pensioner in a low-income group could fall by as much as 16%. In comparison, for those in the middle of the income distribution, the fall would likely be around 5% overall, with little difference between single- and multi-adult households.
- **Inequality:** The scenario may also be both driven by, and contribute to, greater levels of wealth inequality between homeowners and non-homeowners, and between generations

CONCLUSION

In conclusion, results from the UK Pensions Framework housing in retirement simulation show that a fall in home ownership among future pensioners could change the path of retirement outcomes under the UK pension system

For those who have comfortably accessed the housing ladder and for those able to pay off their mortgage before reaching retirement, these changes will have little impact. For those who have not but want to, however, the time to save more, or to make decisions that could change the scenario they face as they approach retirement, is running out.

Most importantly perhaps, the simulation illustrates how the risks that future retirees face from changes in the UK housing market did not originate in the UK pension system. It is likely therefore that the solutions will not be limited to the remit of the pension system either. Rather, the scenario illustrates how the relationship between pensions and housing is a cross-policy problem that will require cross-policy solutions if some of the risks facing future retirees are to be mitigated, and potentially even avoided among generations which follow.

[15] DWP Stat-Xplore
[16] Baker & Lester (2016); Britten, R (1934); Clair, A, Baker, E. & Kumari (2023); Dunn, J (2002); Rolfe, S, Garnham, L & Godwin, J (2020)

CHAPTER THREE:

Policy Tremors

How renting in retirement could change the course of UK public policy

This chapter examines three key policy implications of a fall in home ownership among future pensioners and finds that:

1. A growing fracture in the relationship between pensions and housing is putting strain on the overall UK retirement income model;
2. Several factors could slow the course of changes, but unless policymakers adjust their expectations around housing affordability and home ownership in later life, public spending could become the default solution to the housing crisis; and
3. Policy assumptions, levers and metrics do not adequately reflect the diversity of characteristics and circumstances among future pensioners, the holistic nature of retirement, or threats to adequacy from outside the UK pension system

The housing simulation paints a picture of stark falls in retirement adequacy, driven by differences between pensioners of today and those of tomorrow, and set against a backdrop of complex policy interactions and unprecedented change in the UK pension system

Chapters One and Two have shown how rapid declines in the proportion of households who own their own home in working life could lead to poorer outcomes in later life for a growing share of future UK pensioners.

Using the PPI UK Pensions Framework, a simulation of how this scenario might impact adequacy, sustainability and fairness in the UK pension system also finds that the implications of these changes are not limited to individuals. They also raise concerns for the extent to which the pension system might need to adapt to both rising levels of dependency among the pensioner population, and to fast-growing differences that are emerging between homeowners and non-homeowners, as well as the retirees of today and those of tomorrow.

This chapter examines the policy implications of these results by looking at what the housing scenario could mean for the UK pension system, as well as the way in which other policy systems feed into retirement outcomes, by asking:

- How much could renting add to the cost of retirement and could people afford it?
- What factors, if any, could change the course of retirement housing tenure for this age group?
- Is housing tenure indicative of wider differences between current and future pensioners, and if so, to what extent can the UK pension system support them?

The chapter concludes that changes are taking place within a complex and evolving pensions ecosystem which is inextricably linked to, but operating independently of, other policy systems. As a result, improving outcomes for future pensioners will depend on policies that focus on threats to objectives, such as adequacy, from outside the pension system, as well as opportunities inside it. Findings also suggest there is a fast-growing need to revisit the notion that good retirement outcomes are typically predicated on a series of increasingly outdated assumptions.

POLICY FINDING ONE

A growing fracture in the relationship between pensions and housing is putting strain on the whole UK retirement income model

Policy Finding One asks the question - How much could renting add to the cost of retirement and could people afford it?

It finds that - A growing fracture in the relationship between pensions and housing is putting strain on the whole UK retirement income model, because:

- A retirement model built around renting is not intrinsically detrimental to later-life outcomes, but, for such a scenario to be successful, the infrastructure of income and support must be built around that same model.
- Should housing costs go up without a proportionate rise in pension income, the result is a fracture in the relationship between two policy systems that puts people at considerable risk of poorer outcomes in later life.
- Housing tenure can no longer be relied upon to support pension outcomes, and pension saving cannot be relied upon to cover housing costs in later life.
- There is a need for considerably greater awareness of the difficulties facing pensioners with housing costs, particularly future renters in retirement.
- The increase in private renting indicates that falling home ownership is a long-term savings problem, not simply a housing tenure problem.
- The extent to which pensions could form part of the solution to the problem is open to debate, considering that low home ownership is arguably more of a long-term savings and wealth inequality rather problem than a housing issue

A retirement model built around high levels of renting is not intrinsically detrimental to later-life outcomes, but for such a scenario to be successful, the infrastructure of income and support must be built around that same model

The UK retirement model depends on housing and pensions policy working together because it is predicated on the embedded assumption that everyone will reach retirement with secure, safe and affordable housing, either through home ownership or social housing.

Pensions and housing policy systems need to work hand in hand for people to achieve the retirement outcomes they want through later life. This means that good outcomes are dependent upon knowing the costs that lie ahead in retirement and having the right level of income to meet them.

Should housing costs go up without a proportionate rise in pension income, the result is a fracture in the relationship between two policy systems that puts people at considerable risk of poorer outcomes in later life.

In recent years, the question of housing affordability among pensioners has been largely overlooked because 94% of older households either live in their own home or in social housing, often with support from income related benefits. As a result, the link between housing and pensions has been overlooked too.

Over the next twenty years, many of the younger households who in the past were unable to get on the housing ladder will have grown into older working-age households who still don't own their own home. Many will also have lower levels of pension saving than today's older cohort, as fewer households reach retirement with Defined Benefit (DB) pensions.

Housing tenure can no longer be relied upon to support pension outcomes, and pension saving cannot be relied upon to cover housing costs through later life.

With an average of ten years until retirement, most private renters aged 45-64 have neither enough pension savings to cover their rent through later life, nor enough in other savings or assets to get on the housing ladder

To afford to rent a one-bedroom flat outside London through later life, the average couple aged 45-64 may need to double their total assets or more before reaching retirement[17]

Only households aged 45-64 with the very highest incomes are likely to have the resources necessary to pay for private rental costs through later life without compromising essential living standards. For those on lower incomes, the likelihood is extremely remote and the outlook is even worse among single-adult households. This group are more likely to rent yet have considerably less wealth than couples in the same circumstances. Among this age group:[18]

- Households who own their own home outright have the highest level of pension and non-pension wealth in all income brackets, while those in social housing have the least.
- Households with outstanding mortgage debt have considerably lower savings than those who own their home outright.
- However, they save around three times more into a pension than households with a similar level of income who rent privately, and they have at least five times more non-pension wealth.
- The average single adult household aged 45-64 and renting privately has a total of around £24,000 in total assets, of which £3,500 is in pensions.
- The average couple aged 45-64 and renting privately has a total of around £91,000 in total assets, of which £61,900 is in pensions.
- Although households aged 45-64 are expected to grow their savings as they approach retirement, there is no expectation that any one group will save at a faster rate than others, meaning that the patterns and differences in wealth accumulation seen amongst these households today are likely to follow this cohort through to later life.

Figure 3.1 The total value of pension and non-pension wealth among single- and multi-adult households aged 45-64 in the UK, 2020-21[19]

Total Median Household Value of Pensions
Single and couple households aged 45-64 by quintile points of equivalised household income

Household	Tenure	£	££	£££	££££	£££££
Single	Own Outright	£86,800	£51,300	£250,000	£262,200	£573,000
Single	Own with Mortgage	£27,000	£14,600	£52,900	£141,500	£235,700
Single	Social Housing	–	–	£9,000	£6,000	–
Single	Private Renting	–	£3,000	£3,500	£51,715	£103,000
Couple	Own Outright	£225,600	£274,000	£328,800	£650,800	£825,500
Couple	Own with Mortgage	£53,600	£117,700	£199,000	£313,000	£470,000
Couple	Social Housing	£2,900	£21,600	£67,800	£32,300	*
Couple	Private Renting	£4,500	£15,100	£61,900	*	£119,600

*Outcomes have been supressed due to small sample sizes

Total Median Household Value of Non-Pensions Wealth
Single and couple households aged 45-64 by quintile points of equivalised household income

Household	Tenure	£	££	£££	££££	£££££
Single	Own Outright	£256,900	£258,000	£228,000	£412,300	£524,000
Single	Own with Mortgage	£215,700	£133,300	£190,000	£123,500	£263,500
Single	Social Housing	£7,600	£10,900	£15,100	£15,200	£16,250
Single	Private Renting	£7,350	£15,540	£20,500	£29,800	£65,000
Couple	Own Outright	£364,200	£403,450	£423,500	£540,270	£767,800
Couple	Own with Mortgage	£228,121	£207,600	£275,000	£314,900	£508,000
Couple	Social Housing	£15,350	£25,829	£33,400	£37,900	£47,400
Couple	Private Renting	£26,500	£24,100	£28,900	£61,642	£85,100

Non-pension wealth includes value of homes, cash savings, non-pension investments and physical assets

There is a need for considerably greater awareness of the difficulties facing pensioners with housing costs, particularly future renters, in retirement

Households in the private rented sector are vulnerable to uncertainty around how much disposable income they might have after housing costs because their rents, unlike households in the social and affordable rented sectors, are not required to meet any affordability criteria.[20]

[17] PPI Analysis of FRS
[18] PPI Analysis of FRS
[19] PPI Analysis of FRS
[20] Department for Levelling Up, Housing and Communities (2023); Gov.UK (2023); Mygov.Scot (2023); Shelter (2023a) Gov.UK (2023)

Rental costs put a huge strain on retirement incomes, as studies suggest that:

- In some areas of the UK, the average cost of private renting can be equal to, or in excess of, the average expected retirement income
- Across the South of England and Scotland, median annual rental costs are equivalent to more than 80% of median expected retirement income, and more than 130% in London
- In other areas of England and Wales, the cost is around two thirds of retirement income.[21]
- Older private renters on low income are particularly vulnerable to above inflation level rises in living costs on account of the fixed nature of many retirement income sources, and generally limited levels of financial resources.
- Many private renters report significant levels of financial hardship and worries over the cost of living that have a profound impact on their mental wellbeing.[22]

In the 12 months to 2023, rental prices across the UK rose by 5.5%, with the highest increases in Wales (6.5%) and Scotland (6%).[23] These figures represent the largest annual percentage change since the data series began in 2006, highlighting the affordability challenges facing households whose income does not increase at a comparable rate.

Despite rapid increases this year, rents are generally accepted to have lagged behind most measures of household income growth by a few percentage points when the effect of compositional changes are stripped out and property rents are analysed on a like-for-like basis.

Although this implies that the affordability of private renting is largely unchanged over time, it does not suggest that private renting in retirement is easily affordable. On the contrary, PPI analysis in Figure 3.2 suggests that for households a privately rented one-bedroom flat outside London could:

- Cost pensioners around £8,700 a year
- Total up to £196,000 over the course of retirement for women, or £170,000 for men
- Rise to around £15,000 per year, or more than £300,000 through retirement for households in London

Figure 3.2 The potential cost of renting in retirement in England, 2023 and 2043

Cost of renting in retirement		Current costs (2023)			Future costs (2043)		
		Additional cost per year	Total rental cost over retirement	Additional pension pot needed	Additional cost per year	Total rental cost over retirement	Additional pension pot needed
Renting in England	Single woman (1 bed flat)	£8,700	£190,140	£189,238	£8,700	£196,562	£194,812
	Single man (1 bed flat)	£8,700	£170,624	£171,918	£8,700	£178,344	£178,742
Renting in London	Single woman (1 bed flat)	£15,312	£334,646	£333,060	£15,312	£345,949	£342,869
	Single man (1 bed flat)	£15,312	£300,298	£302,575	£15,312	£313,885	£314,587

Assumptions: Based on cost of renting 1 bedroom flat in England and in London in 2023, uprated for inflation (earnings at 3.80%). Total cost based on average life expectancy figures, investment growth 5.3%. The PPI presents figures in earnings terms, so the rental payments are discounted in line with assumed earnings growth.

Bringing together data in Figures 3.1 and 3.2, analysis suggests that for households 45-64 in 2020-21 who might need to privately rent a one-bedroom flat outside London through later life:

- Couples in the highest income quintile would have sufficient assets to cover their rent on average, but would be reliant upon the State Pension to meet non-housing living expenses through later life.
- A couple on median income would need to double their total assets and savings between now and retirement, then live on the State Pension for non-housing expenses through later life.
- The average single adult would need to save more than nine times their current level of pension and non-pension wealth, then live on the State Pension for non-housing expenses through later life.
- Even the top 20% of single adults by working life income would need to save around an extra £30,000 before retirement to cover the cost of renting, then live on the State Pension for non-housing expenses through later life.

The increase in private renting indicates that falling home ownership is a long-term savings challenge, not simply a housing challenge

The link between housing and pensions is important, because home ownership is a form of long-term saving that means people can build wealth, secure financial stability and live rent-free through later life.

Owning a home outright does not mean that people live free of housing costs through later life. Rather, it means that the capital they invest in their property provides them with an imputed income that is equivalent to the rent they would owe if they didn't own their own home.

In turn, home ownership reduces the level of income people need to maintain their living standards through retirement. It affords them higher disposable income whilst also providing greater protection against uncertainty over how their housing costs might change in the future, and how long they might live. Homeowners can also use their house as an asset to help meet expenses in retirement, or to transfer wealth to inheritors who can in turn use the proceeds to fund their own retirement.[24]

There is a strong argument that, excepting the value that security of tenure affords to homeowners, the financial costs of renting or owning a given house are broadly equal over time.[25]

Comparisons between the cost of renting and cost of owning a home are typically made by looking at how much income households in each tenure spend on their housing costs. However, homeowners face a much wider range of costs than renters over time, not all of which can be measured as a cost against household income. They include:

- The cost of interest on their mortgages (assuming that mortgage capital repayments should be considered a form of saving rather than a cost);
- Stamp duty and other fees associated with buying a home;
- Ongoing costs associated with maintenance and home improvements, which may also include costs associated with the time people spend on their home, as well as trades and services; and
- Depreciation and foregone income, the notion that an asset is not paying income that would otherwise be received from any other investment

The extent to which pension savings could form part of the solution to the problem of low home ownership is open to debate

Considering that buying a home is a way of securing financial stability that can benefit future retirement outcomes, questions over whether savers should be able to use their pension savings to purchase a primary residence are beginning to enter the policy debate.

The UK pension system imposes significant tax penalties upon monies withdrawn from pensions before the saver reaches 55 years old (57 from 2028). After this age, 25% of savings can be taken as a tax-free lump sum. This means that prospective homeowners cannot use their pension savings to fund a house purchase, but homeowners can use their tax-free lump sum to pay off or pay down outstanding mortgage debt. Around one in ten people currently uses their lump sum to do this.[26]

In countries such as the US, New Zealand, South Africa and Switzerland, pension assets can be used to purchase a home through a number of different mechanisms including early withdrawals, and loans.

Questions have long-been asked over whether such policy reforms should be considered in the UK. However, the implications of allowing people to access pension fund assets to buy their own home would be not only financial, but also political. Potential pros and cons include:

[21] Scottish Widows (2023)
[22] Independent Age (2023)
[23] ONS (2023d)
[24] Pensions Commission (2004)
[25] Mulheirn, I. (2017)
[26] FCA (2023)

Potential Pros

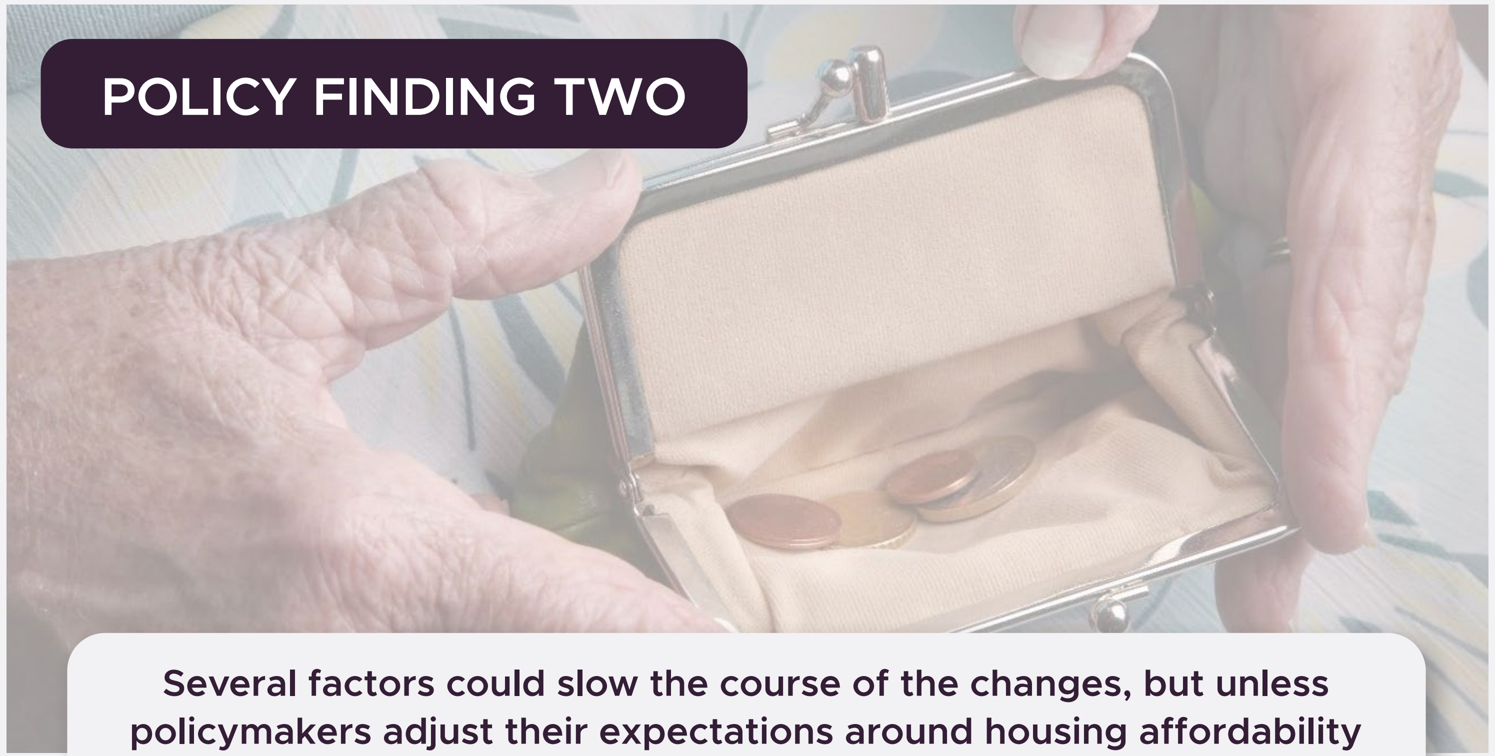
- **Faster savings growth** than saving for a deposit outside a pension because contributions are topped up by tax relief, employer contributions and tax-free returns.
- **Allows people to get on the property ladder and build wealth earlier.** Potentially protects against the risk that house prices rise faster than earnings before people can buy their own home, and allows people to manage repayment affordability through longer mortgage terms.
- **Allows lower-income households to access higher savings** than it might otherwise be possible to accumulate from disposable income.
- **May incentivise overall long-term saving,** particularly for those who are disengaged with their pension, concerned over the affordability of home ownership, or prioritise home ownership over retirement saving.
- **Allows people to use their pension saving, and its associated benefits, towards property ownership more equally.** Unlike homeowners, renters cannot use their lump sum to build property wealth through paying down a mortgage and are unlikely to be first-time buyers at age 55 or above.

Potential Cons

- **Slower retirement savings growth** at a time when undersaving is widespread, potentially increasing future dependency on pensioner benefits. Offsetting the impact of early withdrawal would require a corresponding increase in long-term pension contributions, lower expectations around living standards in later life, and / or certainty over the value of the future State Pension.
- **Significantly erodes pension adequacy** and access to funds that people might need to cover other expenses in later life such as long-term care, with uncertainty over the extent to which equity release or later life lending products might provide alternative solutions.
- **May create or widen wealth inequalities,** because fiscal incentives which help people get on the property ladder are typically of greatest benefit to those with the highest incomes. In this case, higher earners are not only more likely to purchase a home than lower earners, they also receive higher tax relief on their pension contributions than basic rate taxpayers. This means that any pension savings used towards a house purchase by a higher earner would comprise a greater share from tax relief than those used by lower earners.
- **Challenges the purpose of the pension system,** the concept of what a pension is, and what people are saving for.
- Increases demand for home ownership, which could inflate house prices.
- **Missed investment returns.** By withdrawing savings from a pension, money is no longer invested meaning that savers could miss out on potential investment gains over time compared to funding a house purchase with non-pension savings.

To tackle the growing fracture between housing and pensions policy, it will be important to:

- Address the importance of the relationship between pensions and housing, and recognise the risks that its fracture pose to the UK retirement income model.
- Reframe the problem as one of long-term savings rather than home ownership, particularly if accessing home ownership continues to be a viable option for many renters.
- Understand why renters are not setting aside more savings for later life, looking beyond the cost of rent as a share of income at wider long-term planning and savings behaviours.
- Ensure that, where pension assets could be considered as a potential solution to the problem, any new policies or mechanisms are designed with the objective of mitigating inequalities.
- Carefully consider the wider implications of any changes to pensions access to avoid the risk that policy initiatives designed to incentivise home ownership could exacerbate existing wealth inequalities.



POLICY FINDING TWO

Several factors could slow the course of the changes, but unless policymakers adjust their expectations around housing affordability and home ownership in later life, greater public spending could both directly and indirectly become a product of the housing crisis

Policy Finding Two asks the question - What factors, if any, could change the course of retirement housing tenure for this age group?

It finds that - Several factors could slow the course of the changes, but unless policymakers adjust their expectations around housing affordability and home ownership in later life, greater public spending could both directly and indirectly become a product of the housing crisis, because:

- There is a need for policy consensus on long-term target levels for housing tenures in retirement, the outcome of which will determine future levels of public spending along with the design of pensions and housing policy.
- There is little uncertainty that a large cohort of renters are approaching retirement without enough pension saving to cover their housing costs through later life, but several factors could yet change the size of the problem.
- It is now too late for pension saving to be a viable solution to the difficulties facing future renters in retirement, meaning that people will need access to other financial assets or pensioner benefits to meet their expenses in later life.
- For future pensioner cohorts, improving tenure mix and affordability of UK housing stock will arguably be more important solution to housing challenges than supply.
- Public spending will inevitably play a greater role in supporting future retirees with housing costs, and will likely come down to a policy choice between subsidising affordability now (building social housing), or subsidising income later (housing benefit).
- The indirect impacts of low home ownership could have broad consequences for public spending and other policy systems well beyond the cost of housing benefit

There is a need for policy consensus on long-term target levels for housing tenures in retirement, the outcome of which will determine future levels of public spending along with the design of pensions and housing policy

Chapter One and Figure 1.5 describe how, over the next twenty years and assuming all other factors remained constant:

- Home ownership among retirees could fall from 78% to 63%;
- The share of pensioners in privately rented homes could rise from 6% to 17%; and
- The share of households in social housing is likely to remain stable.

At present, however, there is little discussion among policymakers over the extent to which record levels of home ownership seen among pensioners today could, or even should, be targeted going forwards; or whether the falls observed among households aged 45-64 indicate an imminent correction to a lower long-term level of owner occupancy, and higher prevalence of renting through later life.

Without clear estimates of either expected or intended outcomes for housing tenure in retirement, there is a risk that Housing Benefit could become the default solution to adequacy problems brought about by sharp rises in the number of households with housing costs through retirement.

Households aged 45-64 who rent privately today have broadly three housing options available to them in later life, each of which will have considerable implications for public spending:

1. **Remain in privately rented homes up to and through retirement:** Most older households who rent privately would be unable to afford their housing costs without considerable reliance on pensioner benefits in later life (Policy Finding One), the cost of which could add as much as £2bn per year to public spending under the given scenario (Chapter Two).
2. **Transfer to social housing:** Immediate and significant public investment to increase the supply of social housing would be needed to enable widespread moves from private to socially rented homes. A net loss of over 1.5 million social housing units across the UK since 1980 means that over 1 million households are now wait-listed for social housing, and a continued lack of investment means that some families are having to accept homes that do not adequately meet their needs.[27]
3. **Find a way to buy their own home:** Low levels of income, pension and non-pension saving among today's private renters mean that this group is highly unlikely to achieve widespread rises in home ownership between now and retirement. Expanding access to home ownership would require a rapid increase in the availability of affordable housing and the potential expansion of later-life lending products.

Historical trends suggest that long-term rates of pensioner home ownership will likely settle somewhere in between the record highs of today's pensioners, and the sharp falls of those retiring over the next twenty years

Today's pensioner population is unusual because it features high rates of ownership among households across the income distribution, as opposed to the more typical concentration of home ownership among middle- to high-income groups.

Although high rates of pensioner home ownership are attributable to a number of economic factors, the record high nature of these levels are largely explained by policies designed to expand home ownership to low-income households in the 1980s and 1990s. The most notable of these policies was Right to Buy, which resulted in the sale of more than one million social housing units in England to their tenants by 1991.[28]

The effects of these policies are twofold:

1. The scale of Right to Buy was so large that it is likely to have somewhat distorted long-term levels of home ownership in retirement. It also means that policies which seek to replicate its effect on home ownership among today's low-middle income working-age households would be almost impossible to implement today.
2. The deficits in social housing provision that resulted from Right to Buy and the subsequent failure to replace social housing stock have directly contributed to the shift towards private renting among working-age households today, particularly those on low income.

There is little uncertainty that a large cohort of renters is approaching retirement without enough pension saving to cover their housing costs through later life, but three key factors could yet change the size of the problem

The housing scenario outlined in Chapters One and Two shows what could happen to retirement outcomes under the UK pension system were nothing else to change over the next twenty years

In reality, however, the complexity of issues relating both to housing and retirement mean that several variables and levers could alter the extent to which outcomes follow the results of the simulation, or the extent to which households and the public finances are prepared for the outcomes that lie ahead.

Collectively, they include the assets people have access to in later life (including inheritance), the affordability of housing, and the level of public spending committed to either pensioner benefits or investment in social housing

1. Financial Assets

2. Housing Affordability

3. Public Spending

With a strong degree of certainty, any change in these factors would not be expected to worsen the housing tenure scenario because they are unlikely to drive either a further fall in home ownership, or reduce access to social housing among existing social tenants.

With less certainty, three factors could potentially mitigate some of the risks associated with falling home ownership either by boosting retirement income adequacy, improving affordability, or providing protection against poverty.

1. Financial Assets

Although it is likely too late for pension saving to be a viable solution to renting in retirement, access to other financial assets could make a difference

Considering that falling home ownership is more indicative of problems around undersaving than of housing tenure (Policy Finding 1), it is clear that in its current form, the pension system alone cannot support the needs of renters reaching retirement over the next twenty years.

Outside of the pension system, inheritance is considered the single most likely factor to increase financial assets, but, although it could make a difference to adequacy, it is unlikely to fully offset the cost of renting or reverse the fall in home ownership among households aged 45-64

- The anticipated flow of intergenerational wealth transfers from today's pensioners to younger generations could mitigate a considerable level of adequacy risk for households with housing costs when they approach retirement. However, there is uncertainty over who will inherit, when they will inherit, or how much they will inherit, meaning that inheritance cannot be relied upon by either households or policymakers as a solution to the challenges ahead.

[27] Shelter (2023)
[28] ONS (2015)

- High rates of both first and additional home ownership among today's older cohorts mean that around 78% of the UK's £7 trillion net privately held housing wealth is held by people over 50, and around £2.6 trillion as equity by owner occupiers over 65.[29] Even though inherited wealth is increasing with each generation, its effect on housing home ownership among households aged 45-64 may be limited because:
  - The largest sums of inheritance are likely to pass to existing homeowners;
  - Inheritance may be divided between several family members, meaning that the sums in question are more likely to disrupt wealth than disrupt tenure status; and
  - There are growing calls on housing capital to fund other retirement expenses, such as topping up pension income, or paying for long-term care, which could overall reduce the level available to pass on. In short, the capital can only be spent once.
- Increasingly, people are choosing to transfer wealth during their lifetime by releasing capital from assets either through downsizing, equity release, or accessing a pension. The extent to which this could make a difference to households aged 45-64 today would depend on the older generation and key considerations include:
  - The level of capital that people can access through downsizing is dependent upon the value of the home. Only those with higher value properties and lower cost housing options would be able to release sufficient equity to meaningfully pass on or cover other costs in later life. In some parts of the country, the value of people's homes may not even be sufficient to allow them access to purpose-built retirement homes.
  - One in ten people who have accessed their pension lump sum have shared their money with family, as have one in six people who accessed capital through equity release.[30] Arguably, these transfers can lead to better outcomes for inheritors than later inheritance because they can help people access home ownership at an earlier age, but the volume and level of these transfers is again unpredictable.

2. Housing Affordability

For future pensioner cohorts, the tenure mix and affordability of UK housing stock will arguably be more important to retirement outcomes than increasing supply

Policies that expand access to home ownership by improving affordability for low- to middle-income first-time buyers are one of the most effective ways of mitigating against the risks associated with renting in retirement. However, very few of the solutions directed at younger age groups will be suitable for households of older working age because they will have fewer years over which to spread their loan repayments.

As successive groups of aspiring first-time buyers have failed to get on the housing ladder, a policy gap has emerged around affordable housing solutions for older working-age households, leaving many with little agency over the tenure in which they live and the costs they face through later life.

Filling this gap and the public spending implications that accompany it will require policies that target not only home ownership, but also secure, high-quality and affordable rental accommodation that can meet the changing needs of people through later life.

Home Ownership and Affordability

- **Increasing Supply**
  - Increased housing supply is typically seen as a lever for lowering house prices, which in turn can improve affordability and help to extend home ownership to lower income groups. Although there is evidence that increased housing supply can put downward pressure on long-term house prices, the rate of change is usually slow, meaning that short-term effects are relatively limited and highly localised.[31] Without the use of non-market mechanisms or a focus on providing the right mix of tenure, the effects of increased supply would therefore be of little material benefit to rented households approaching retirement in the near future.
  - Programmes to increase housing supply are under way across the country, many of which are backed by long-term strategy frameworks which aim to develop plans to ensure that places have the right mix of homes and tenures to meet local need. However, rapid changes in housing tenure have led in many cases to homes becoming unaffordable in many places, unsuitable in others, and in some places both.[32]
- **Shared Ownership**
  - Shared ownership allows households to buy a share of a property while paying rent for the remaining share to a landlord such as housing associations, local councils and other organisations. Despite having considerable potential to provide a route to secure and affordable housing, under current arrangements it is unlikely that a large share of households aged 45-64 can benefit from shared-ownership, because:
    - Most people do not fully staircase up to the maximum value of the property meaning that rental costs will continue throughout their tenure and in the case of the 45-64-year-old cohort, through retirement. Depending on arrangements, they may also bear the cost of maintenance and repairs, as well as ground rent and service charges.
    - Despite its growing popularity, less than 1% of all households are in shared-ownership schemes, meaning that the model is unlikely to provide a widescale solution to the housing challenges facing future retirees. Barriers to extending shared ownership more widely include investment viability, complexity of tenure, affordability, mortgage availability (particularly for those with a bad credit rating), limited demand in some areas, and difficulty with reselling.[33]
- **Affordable Housing**
  - Affordable Housing is a broad term used to describe a number of Government schemes under which properties are offered at below market value, either for sale or rent. As well as shared ownership and social housing, they include Rent to Buy and Intermediate Rent.
  - As with shared ownership, supply of these homes is relatively low and demand is high, but perhaps the most challenging aspect of these housing solutions for the cohort in question is the notion that schemes are intermediate in nature. With the broader objective being to help lower-income households, typically those under 45, to achieve secure long-term housing tenure and affordable costs, it is yet to be determined if these schemes can meet the long-term needs of many of today's older workers before they reach retirement.

Private Renting and Affordability

- **Supply**
  - The combined effect of changing demographics, falling home ownership and social housing shortfalls mean that the private rented sector has an increasingly important role to play in the UK retirement and housing systems. Developing suitable solutions for older people as demand grows will require a collaborative approach between policymakers and the private rented sector to ensure that homes are not just available and affordable, but that they are also good quality and able to meet the changing needs of older people through later life
  - A combination of balance sheet pressures and regulatory reforms are prompting some landlords to exit the private rented sector over uncertainty around future policy changes and the long-term viability of investments. As demand for private renting through later life increases however, there is an urgent need for policies which can help to sustain the supply of privately rented homes by giving assurances over the affordability and viability of rents to both tenants and landlords alike, whilst also ensuring that tenures are secure, safe and affordable for tenants.
- **Demand**
  - Currently, only around 7% of private renters are retired.[34] This means that the private rented sector will need to adjust to hosting a larger and more diverse population of older tenants, many of whom will have different needs to those of younger tenants. As well as increasing the supply of suitable properties, landlords may require support to understand the opportunities and benefits associated with older tenants, as well as how to respond to the changing needs around accessibility and adaptation that tenants might have over time.

[29] Savills (2023)
[30] FCA (2023)
[31] Gleeson, J. (2023)
[32] Homes England (2023)
[33] Cromarty, H. & Barton, C. (2021)
[34] English Housing Survey (2022)

- For older people, choice may be limited by concerns over the extent to which income streams, such as those from DB pensions and pensioner benefits, will go up in line with the cost of renting, along with complexities around seeking insurance and guarantors for older tenants, which could together limit the choice of homes available to renters in retirement.
- In the UK, few mechanisms allow the Government to moderate the affordability of private renting, meaning that social housing remains the only viable way to provide access to lower rents for low-income households. In other countries, measures such as rent controls are widely used in return for the security of long-term tenures, but any potential Government intervention in UK private markets is a political decision which could have consequences for both the tenants and landlords

3. Public Spending

Public spending will inevitably play a greater role in supporting future retirees with housing costs, but will likely necessitate a policy choice between subsidising affordability now, or subsidising income later

Given that the challenges to retirement adequacy facing households aged 45-64 who rent privately today are unlikely to be solved by either private saving or measures to increase home ownership, renters will require solutions that either improve the affordability of housing costs they face through later life, or boost the income that they have to pay for them.

In the absence of Government interventions into either the private rental or residential property markets, solutions to tackle adequacy among future retired renters will be a policy decision, but could come down to a choice between:

1. Extending access to social housing (subsidising affordability); or
2. Extending access to Housing Benefit (subsidising income), whilst also considering:

Subsidising Affordability (Social Housing)

Social housing offers more affordable housing costs and more secure long-term tenancies than the private rented sector, which can result in better rights and more control over homes.

It can also reduce future public spending liabilities because the level of Housing Benefit required to support social housing tenants is considerably lower than benefits required to support households in the private sector.

The UK does not have enough social housing to meaningfully reduce the number of households expected to retire in the private rented sector over the next twenty years.

Over the past three decades, a net loss of social housing stock, coupled with continued underinvestment, means that both the quality and availability of social housing have declined. As a result, the share of renters in social housing is shrinking every year, meaning that a growing share of tenants are not only paying higher levels of rent, but are at risk of becoming dependent upon Housing Benefit in later life.

Increasing social housing, or developing an alternative solution to affordable renting, is one of the few reforms that the Government can use to reduce the burden that the cost of pensioner Housing Benefit could place on future public finances

Building a widescale social housing programme would require a considerable amount of capital in the short term. However, the costs of expanding access to social housing or comparable schemes could yield significant long-term savings by lowering future benefit liabilities and providing people with secure, long-term housing tenure.

Subsidising Income (Housing Benefit)

If nothing is done to tackle the combined rise in private renting, fall in long-term saving and social housing deficit seen among working-age households today, Housing Benefit could become the last resort for households facing housing costs through later life

Although measures to moderate the cost of private rental markets are widely used to maintain affordability in other countries, Housing Benefit is the only lever available to support UK households unable to cover the cost of renting through working or later life.

The extent to which the State might intervene to support pensioners with housing costs through later life will depend on the number of people affected, and the extent to which the cost of pensioner benefits is deemed to be a long-term sustainability risk to public finances.

The housing scenario suggests that:

- A total of up to 1.4 million pensioner households could be eligible for Housing Benefit, and 1.9 million could be eligible for some form of income related benefit
- Includes an increase of 420,000 households compared to baseline analysis
- The share of pensioner households eligible for Housing Benefit could rise to 17% from 12%

Although Housing Benefit as a safety net is universally available to everyone who meets its qualifying criteria, the Government uses two levers to adjust the cost of benefits, both of which have considerable adequacy implications for renters in later life.

- **Eligibility**
  - **Eligibility criteria mean that low-income households who have saved into a private pension could miss out on entitlement to Housing Benefit** because their savings exceed qualifying thresholds. Although the full new State Pension (nSP) is set above the qualifying threshold for pension credit, the income-related pensioner benefit, many pensioners who rent in retirement will become eligible for Housing Benefit at some point. Those who have other income and savings, including pension savings, may be eligible for a reduced amount of Housing Benefit, even though many will have been unaware of the implications at the time of saving.
  - **Pension savings that have been accessed and are in an annuity, drawdown account or bank account, will count in the means test for Housing Benefit.** As a result, people who have saved into a private pension, and claim housing benefit, could end up with a similar level of disposable income in retirement as had they not saved, because their benefit entitlement may be reduced by the amount of their private pension income.
  - **As a result, those who save into a private pension, and are eligible for housing benefit in retirement, may have a lower standard of living in working life than necessary, with little to no financial benefit in retirement.** Furthermore, those who save into a private pension and are eligible for Housing Benefit will have a lower level of disposable income than those who saved into a private pension but are not eligible for Housing Benefit.
  - **Excluding private pension income (up to a certain level) from the Housing Benefit means test could offer one way to reform the system,** so that it better suits a larger proportion of renters in retirement and reduces the risk of introducing disincentives to saving. Raising the income threshold above which Housing Benefit is not payable in retirement is also an alternative.
- **Adequacy**
  - **The freezing of the local housing allowance (which determines the level of payments) is one of the biggest threats to adequacy for current and future renters.** Maximum levels of Housing Benefit are set by the Local Housing Allowance (LHA), designed to ensure that people are able to afford the cheapest 30% of homes in the local area. Since 2020, however, the LHA has been frozen in cash terms at rents based on figures from 2018-19.
  - **The proportion of new private rental properties affordable to homes on Housing Benefit or Universal Credit has fallen from 23% to just 5%.**[35] As LHA rates have been frozen, private rents have risen rapidly to some of their highest recorded levels. This means that, even for households on the lowest income, the cost of renting is rising faster than the income they have to live on.

[35] IFS (2023)

- Indexation mechanisms, such as the triple lock, are prompting growing concern over the cost of pensioner benefits, and the sustainability of maintaining them for pensioners of today and the future. As a consequence, there may be limitations in the extent to which the State is either willing or able to provide support through benefits for pensioners whose household income falls below minimum thresholds on account of their housing position.

The indirect impacts of low home ownership could have consequences for public spending and other policy systems well beyond the cost of Housing Benefit

Having a secure and affordable home is linked to more than just financial security, it is also linked to physical and mental health outcomes as well as numerous other measures of wellbeing. Chapter Two (Health and Care Costs Indicator) describes the well-established link between housing circumstances and health, and specifically the notion that private renting leads to poorer health outcomes than any other tenure.

These links highlight the broader implications that falling home ownership could have for public spending. Not only could it increase the burden on healthcare services, but the ability for people to fund their own long-term care could be heavily impacted because fewer people would have access to the assets they need to pay for support in later life.

KEY TAKEAWAYS

- As successive groups of aspiring first-time buyers have failed to get on the housing ladder, a policy gap has emerged around a meaningful choice of affordable housing solutions for low-income households aged 45-64. This has left many with little agency over the tenure in which they live and the costs they face through later life.
- Inheritance could make an important difference to future adequacy, but uncertainty around its distribution means that it is unlikely to fully offset the cost of renting, or reverse the fall in home ownership for future retirees.
- If nothing is done to tackle the combined social housing deficit, rise in private renting and fall in long-term savings seen among working-age households today, Housing Benefit could become the default solution to paying for housing costs through later life.
- Housing Benefit reforms will be crucial to retirement outcomes because, under current rules, low-income households could miss out on entitlement to Housing Benefit because they have pension savings, and the freezing of the LHA is one of the biggest threats to adequacy for current and future renters.
- The private rented sector has an increasingly important role to play in the UK housing system, and growing demand will necessitate a collaborative approach to ensure that homes are not just available and affordable, but that they are also good quality and able to meet the changing needs of older people through later life.

POLICY FINDING THREE

Assumptions, levers and metrics in UK pensions policy do not adequately reflect the diversity of characteristics and conditions among future pensioners, the holistic nature of retirement, or threats to adequacy from outside the UK pension system

Policy Finding Three asks - Is housing tenure indicative of wider differences between current and future pensioners, and, if so, to what extent can the UK pension system support them?

It finds that - Assumptions, levers and metrics in UK pensions policy do not adequately reflect the diversity of characteristics and conditions among future pensioners, the holistic nature of retirement, or threats to adequacy from outside the UK pension system, because:

- The impact of falling home ownership on retirement outcomes is indicative of the risk that assumptions underpinning the design of the UK pension system are becoming increasingly outdated.
- The UK pension system is placing greater emphasis on individual responsibility for retirement outcomes, at a time when individual characteristics are diverging from the assumptions embedded in policy design.
- The siloed nature of policymaking in the UK means that threats to retirement adequacy from outside the pension system will be difficult for policymakers to manage.

The impact of falling home ownership on future retirement outcomes is indicative of the risk that assumptions underpinning the design of the UK pension system are becoming increasingly outdated

In the UK pension system, good retirement outcomes are predicated on a number of assumptions which include, amongst others, the expectation that people will reach retirement with secure housing tenure and affordable housing costs

In recent years, several important commissions and reports have sought to identify mechanisms that can help to support and measure the adequacy of retirement saving in the UK.[36] Together, these works have contributed to the design and ongoing evaluation of various key components of the UK pension system, particularly those which have accompanied major changes such as the withdrawal of Defined Benefit (DB) and expansion of Defined Contribution (DC) pensions. Amongst others, they include automatic enrolment, minimum workplace pension contribution rates, and the level at which the State Pension and other benefits are paid.

Many of these changes, and the policies behind them, have evolved over a period of time in which home ownership among pensioner households had either reached, or had been expected to reach, record high levels.[37] As a result, three broadly common assumptions underpin much of the development around pensions policy and analysis:

1. People "would not have ongoing direct housing costs (rent or mortgage) in retirement"; because:[38]
2. Home ownership is "assumed to continue at similar levels in retirement to existing levels [just under 80%]"; and[39]
3. For those on low income, access to social housing and Housing Benefit means that there is "no difference in required savings between homeowners and renters".[40]

Together, these assumptions have contributed to the notion that several key policy levers and metrics in the UK pension system are broadly designed to support and measure the accumulation and adequacy of retirement income after housing costs (AHC), rather than before housing costs (BHC). Amongst others they include:

- Minimum automatic enrolment contribution rates
- The level at which the State Pension is paid
- The Pensions Commission replacement rates
- The Pensions and Lifetime Savings Association (PLSA) Retirement Living Standard (RLS) targets.

Some policy mechanisms may be increasingly unsuitable for the growing number of households in the private rented sector, meaning that many could face considerable risks to adequacy should their housing costs be higher than expected in later life

That is not to say, however, that the risk that higher housing costs could lead to poorer retirement outcomes has not been highlighted. On the contrary, housing assumptions are noted as being overly generous across pensions policy and analysis, and the risk that rising housing costs could lead to more widespread undersaving on account of the need for higher replacement rates is emphasised throughout.

In a system which is increasingly predicated on defaults and characterised by low engagement however, there is a danger that awareness of the risks might come too late.

Renters, and low-income households more broadly, are likely to need greater support in the form of engagement or product pathways to plan for retirement income that factors future housing costs into how much they are saving for later life.

There is also a danger that circumstances change unexpectedly, resulting in considerably more uncertainty over what outcomes might look like in later life. In the case of housing, one of the most common reasons for a change in circumstances is separation or divorce, which in many cases can result in either one or both partners losing the security of owning their own home.

Other key assumptions which underpin retirement adequacy, yet may necessitate greater awareness or engagement from savers with different characteristics, include:

- **Working Patterns:** People are increasingly less likely to have steady, lifelong working patterns with linear earnings growth that can support continuous pension saving. Currently, several key metrics are based around this assumption, such as the notion of Replacement Rates that benchmark retirement adequacy to earnings just before retirement. As State Pension age (Spa) increases, more people are moving to part-time or alternative employment arrangements as they approach retirement, meaning that their earnings at that time may no longer be representative of their needs through later life.
- **Family Arrangements:** Chapter One highlights the rise in individuals who are divorced or separated living in the private rented sector. As home ownership falls, mechanisms that can help people to share pension wealth as well as property wealth when they separate will be important in mitigating the risks to financial security in later life.
- **Workplace Pensions:** If greater dependency on income-related benefits is likely to be a long-term product of falling home ownership, it may be necessary to review the extent to which workplace pension saving is right for everyone given the relationship between savings and eligibility.

At the same time as individual characteristics are diverging from the assumptions embedded in policy design, the UK pension system is placing greater emphasis on individual responsibility for retirement outcomes

The extent to which assumptions are representative of individuals is important because, in recent years, the UK pension system has transitioned rapidly from a system defined by pooled risk, paternalism and lifelong retirement income, to one dominated by defaults and decisions that place the responsibility for retirement risk firmly upon the shoulders of individuals.

The accumulation phase of pension saving is increasingly governed by a growing series of defaults to direct people towards saving behaviours that are considered optimal under a given set of assumptions

Where individuals fail to meet the conditions assumed of them, however, the result is a scenario under which defaults could produce inadequate outcomes in some cases and potentially detrimental outcomes in others.

In the case of housing, most households in the private rented sector will approach retirement without the funds needed to cover their rent through later life. For some, however, there is also reason to question whether voluntarily saving into a pension was a better option than trying to get on the housing ladder, or whether their living standards could have been better had their pension saving not negated their eligibility for means-tested benefits in later life.

Falling home ownership highlights the potential dangers of relying on inertia to both individuals and public finances, as well as the importance of ensuring that people are aware of embedded policy assumptions and can adjust their savings behaviour accordingly

Unlike the accumulation phase, decumulation is typically governed by a series of complex decisions that require people to consider how their pension savings can be best used to meet their needs through retirement. For many people, however, this is the stage at which the impact of long-term savings behaviours and the individualised nature of retirement risk come to light.

Options available to households facing the prospect of housing costs through later life will depend on the type of pension savings they have. At a time when a key focus of pensions policy is narrowing the inequality between DB and DC savers, a rise in renting through later life risks exacerbating the difference between the two groups, because DC savers typically have lower retirement income over the course of retirement, and therefore lower means by which to cover their housing costs, than those with DB benefits.

[36] Works include the reports and recommendations of the Pensions Commission, the Minimum Income Standard (MIS) developed by the Joseph Rowntree Foundation (JRF), and the Retirement Living Standard (RLS) targets developed by the PLSA as well as ongoing analysis by the Department of Work and Pensions (DWP).
[37] Pensions Commission (2004); DWP (2023)
[38] PLSA (2019), p.11
[39] ONS (2023a); Pensions Commission (2004), p. 186
[40] Pensions Commission (2004), p.159; Joseph Rowntree Foundation (2022)

Increases in the cost of housing, both for homeowners and renters, in working and later life, could prompt changes in behaviours and increase the share of households accessing cash lump sums to either pay off outstanding capital or cover rent, which could, in turn, reduce the longer-term adequacy of their retirement income

Among people who bought an annuity or partially encashed a DC pension in the last four years, 50% saved or invested at least some of their money, 24% saved or invested all or it, and 16% put their money into their current account or cash savings. One in ten used it to pay off a mortgage, either in part or in full, and 24% used it to carry out home repair and improvements.[41] Within current data, it is not possible to identify the extent to which these choices may have benefited long-term adequacy or otherwise.

However, for households on low-income, the way in which they access their pensions could also affect their eligibility for means-tested benefits, specifically Housing Benefit. It will therefore be particularly important for people to understand the implications of decisions they make around how to cover their housing costs, taking into account the extent to which it could impact adequacy later in retirement.

The siloed nature of policymaking in the UK means that threats to retirement adequacy from outside the pension system will be difficult for policymakers to manage

Assumptions around housing and other factors that underpin policies across the UK pension system fall outside the remit of pensions policy, meaning that any deviation from expectations could jeopardise the overall effectiveness of the pension system as well as measures designed to improve it.

Since 2000, there have been 23 Housing Ministers in the UK, including 15 since 2010 and six over the past two years. Over the same period, there have been 15 Pensions Ministers, although the office has benefited from considerably more stability in recent years thanks to the long tenures of Sir Steve Webb and Guy Opperman.

With distinct remits, competing priorities and objectives, and typically short ministerial tenures, however, coupled with an environment of near record high pensioner home ownership, it is not difficult to understand why measures to tackle the future pensioner housing crisis before it could arrive have not been high on either policy agenda.

Across pensions, housing and its associated costs through later life, play very little part in policy discourse despite the clear link with adequacy and retirement outcomes

Many of the initiatives and proposals in current pensions policy are focused on measures that could help to mitigate undersaving and lead to better pension adequacy by addressing the inequality in pension outcomes that has risen since the decline of DB and emergence of DC schemes.

With current pensions policy focused on boosting retirement income, however, there is relatively little focus on how people can be supported towards lower living costs in later life

Improving retirement adequacy can be achieved by increasing retirement saving in working life, or by reducing expenditure in later life, ideally whilst maintaining a familiar standard of living throughout both stages.

Where measures are required to offset the cost of higher housing costs for individuals, however, cross-policy solutions and responses that originate outside the pension system may be necessary if the risk to sustainability that is typically associated with improving adequacy on account of policy trade-offs within the pension system is to be avoided.

Overall, however, very few policies reflect the relationship between pensions and housing, and there are limitations in the extent to which either policy system can independently respond to the challenges ahead.

KEY TAKEAWAYS

- Some policy mechanisms may be increasingly unsuitable for the growing number of households in the private rented sector, meaning that many could face considerable risks to adequacy should their housing costs be higher than expected in later life.
- Assumptions underpinning key components of the UK pensions system may no longer adequately reflect the diversity in housing and other circumstances of future pensioners. As a result, policies associated with inertia or compulsion are unlikely to be suitable for this growing group of retirees, and solutions will be required to counter disengagement that could compromise future retirement outcomes.
- Renters are likely to need greater support in the form of engagement or product pathways to plan for retirement income that factors future housing costs into how much they are saving for later life.
- Assumptions around housing and other factors that underpin policies across the UK pension system fall outside the remit of pensions policy, meaning that any deviation from expectations could jeopardise the overall effectiveness of the pension system, as well as measures designed to improve it.
- Overall, very few policies reflect the relationship between pensions and housing, and there are limitations in the extent to which either policy system can independently respond to the challenges ahead.

[41] FCA (2022)

Appendices

Appendix One: PPI UK Pensions Framework Modelling appendix

Introduction

This year, in the Framework report, the plan is to analyse the impact of the changing levels of home ownership and rental accommodation seen among current young people.

The Framework uses Indicators, which are scores based on data that apply to certain measures of fairness, adequacy, and sustainability. The aim of the report is to investigate how a change in the level of home ownership impacts outcomes in retirement, including income, standard of living, the relative size of groups with different levels of housing tenure, and how those group sizes may affect policy development in the future, including State benefits and means-tested benefits.

Approach

Existing Framework Indicators that are impacted by changes in the level of home ownership were identified. The initial idea was to project the current population forward, so that younger people without home ownership become the pensioner population, and their incomes and expenditures are projected to enable the analysis to be performed and revised Indicators to be created. However, this approach requires building a large microsimulation model, which would produce results inconsistent with the other Framework Indicators which are all based on contemporary data rather than projections.

Instead, the accepted approach was to consider a "what if" alternative reality scenario where the current cohort of people over age 65 have the homeownership profile of the current 45-64-year-old cohort. This maintains consistency with other Framework Indicators and requires fewer assumptions, as it can be achieved by adjusting the weights in the data analysis.

The what-if scenario involves creating adjustment factors to apply to the weights in survey data. These factors will model the impact of a change in home ownership on the Indicator item in question, be consistent in assumptions and construction across the exercise, and apply to the data behind the Framework Indicators, allowing revised Indicators to be calculated.

Modelling decisions and assumptions

In carrying out the analysis we make a number of decisions and assumptions to maintain consistency with previous work on the Framework and to ensure that we are only addressing the impact of a change in home ownership. These include:

To keep data same as in previous Framework for consistency. It was determined that the Family Resources Survey (FRS) was the most appropriate data source as it is a large and robust study that has been produced for over 20 years, allowing for the required comparison of tenure rates. It was also the data source of much of the analysis in the Framework Indicators, ensuring consistency with existing results.

Rates of social housing rentals are not adjusted. This is assuming that the stock of social housing is not changed from the real world in our "what if" scenario. With no change to social housing, the entire increase in rentals falls on the private rentals market.

Only housing tenure is specifically changed. There are no specific changes to anything else in the data. Changes that emerge are as a result of changing the housing tenure rather than a direct adjustment of any other factor.

Government is not assumed to have taken any action to reflect the different home ownership rates. We do not assume any different rates or policies for the "what if" scenario than those that exist in the real world. For example, no change to eligibility to means-tested benefits is assumed. In addition, no increase or reduction in Housing Benefit, or any change in any other benefit to address possible higher costs of Housing Benefit with a higher proportion of renters in retirement, is assumed.

Modelling steps

The modelling work involved the following steps:

Develop the factor calculation approach:

The next step is to develop the factor calculation approach. This involves determining the data to use, and the most appropriate method, for constructing the adjustment factors, as well as ensuring that the assumptions and construction are consistent across the Framework.

The method was to adjust the weights in the dataset, which are a measure of how representative each respondent is of the population as a whole. The dataset contains responses from people who answered the questionnaire, each individual is given a weight, and the weights are used to gross up the individual responses to give statistics at the population level. Reducing the weights applied to homeowners and increasing the weights applied to renters will amplify the responses of renters and dampen those of homeowners, simulating the "what if" change to the population. But we needed to calculate adjustment factors to apply to the existing weights, such that we ended up with a rate of homeownership that simulates that of the current 45-64-year-olds at retirement.

To do this we examined the housing tenure of the current 45-64-year-old cohort and the current over 65 cohort 20 years ago, when they were approximately the same age as the current 45-64 cohort. We then calculate adjustment factors for home ownership as the ratio of:

$$\text{f.1 Adjustment factor (homeowner)} = \frac{\text{(age 44 to 64 proportion of homeowners in 2021)}}{\text{(age 44 to 64 proportion of homeowners in 2021)}}$$

And for renters

$$\text{f.2 Adjustment factor (renter)} = \frac{\text{(age 44 to 64 proportion of renters in 2021)}}{\text{(age 45 to 64 proportion of renters in 2001)}}$$

This approach would produce two factors, one homeowner factor that would be applied to the weighting in the dataset to all homeowners and one to apply to all renters. This would keep the overall number of grossed up number of people the same but would shift the balance of homeowners to renters.

However, only calculating two factors is very simplistic and assumes that the different rate of homeownership was constant throughout the income distribution and for different household compositions. To allow for a greater granularity we split the data by single- and multi-adult households and income quintiles. We then calculated factors using the formulae f.1 and f.2 for each combination of household composition and income quintile, resulting in a matrix of adjustment factors.

In calculating the factors, we adjusted the rental factors to ensure that the incidence of social renting is not increased, only private renting. This is in line with our assumption that there is no Government intervention in our "what-if" scenario, such as any expansion of social housing.

Apply impact factors to the data behind the Framework Indicators:

Finally, the impact factors were applied to the data behind the Framework Indicators, allowing revised Indicators to be calculated. This adjustment factor is applicable by identifying their household composition, position in the income quintile and their housing tenure. Once the correct adjustment factor is identified it is multiplied by the respondent's data weighting, shifting the makeup of the dataset to match the scenario tenure rates.

Using the rebalanced dataset has the effect of amplifying private renters, dampening homeowners and leaving social renters unaffected. Recalculating Framework Indicators with the revised dataset has the effect of revealing how other elements change in the current pensioner generation if homeownership rates were different, to reveal the effect of home ownership on the outcomes for pensioners under the Pensions Framework.

Appendix Two: The Pensions Policy Wheel, populated with results from the 2022 UK Pensions Framework report

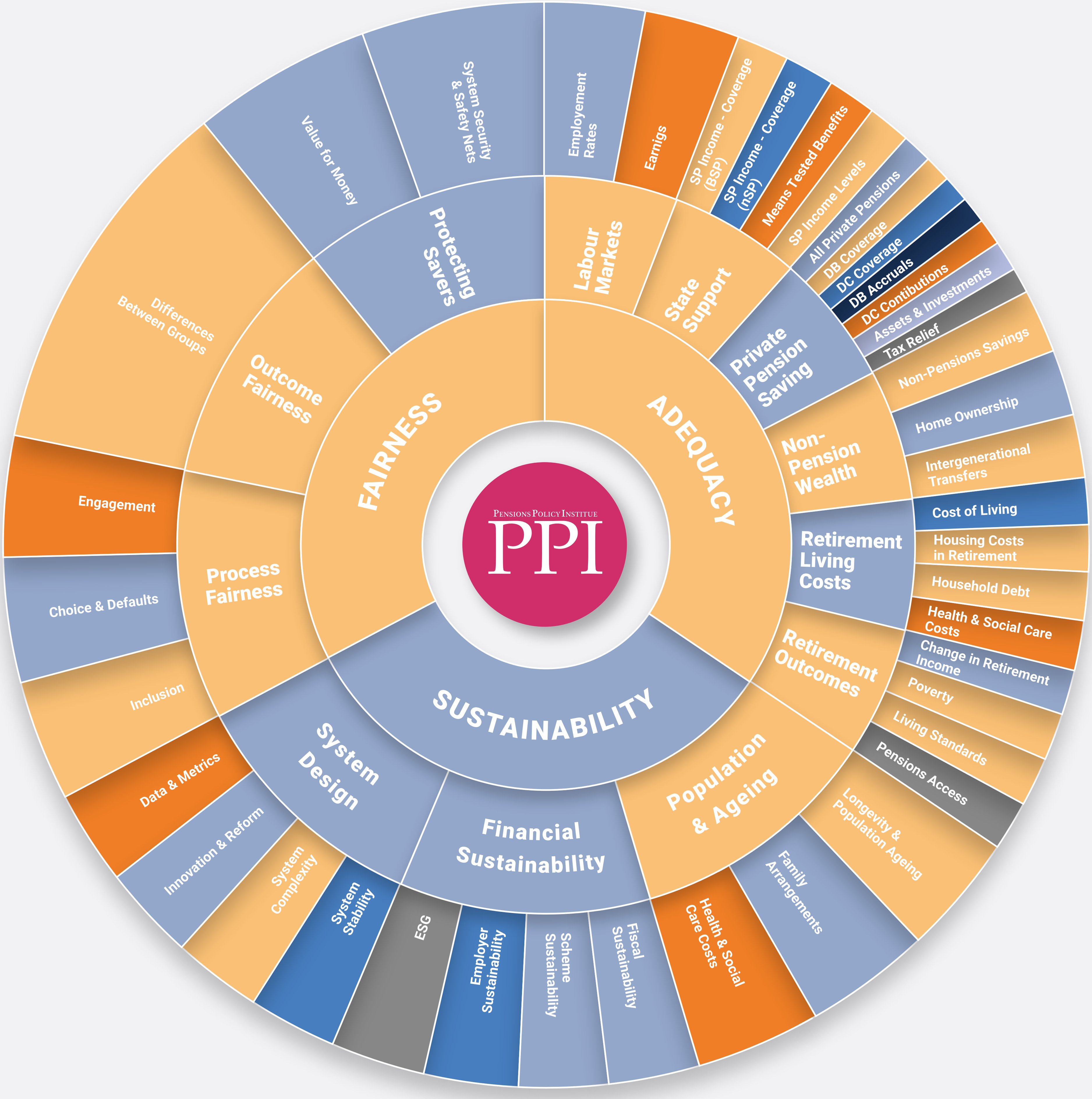
What is the PPI Pensions Policy Wheel and how does it work?

The PPI Pensions Policy Wheel is a visualisation tool that summarises and aggregates findings from 41 system Indicators in the UK Pensions Framework, in a single chart (Figure 2.1). Its aim is to illustrate trends, strengths, vulnerabilities and risks in the pension system, how they relate to each other, and how they impact adequacy, sustainability and fairness as pension system objectives that shape the overall financial security people have in later life. The PPI Pensions Policy Wheel is organised around the three system objectives, and three levels of analysis.

- The outer ring shows results from individual Indicators. Each Indicator comprises detailed, in-depth analysis of data selected by the PPI, and is scored and validated against a set of PPI principles to classify the extent to which it supports its relevant system objective. Classifications take account of both point-in-time outcomes such as poverty rates, as well as longer-term trends in factors such as earnings or population ageing, to develop a picture of how the system is working for pensioners of today, and those of tomorrow.
- The middle ring then groups and aggregates Indicator findings into 12 core components of the pension system, before matching system components to their relevant objective in the inside ring.
- The inside ring contains the three system objectives of adequacy, sustainability and fairness, and their classification provides a high-level, aggregate overview of how the system is performing in relation to each.

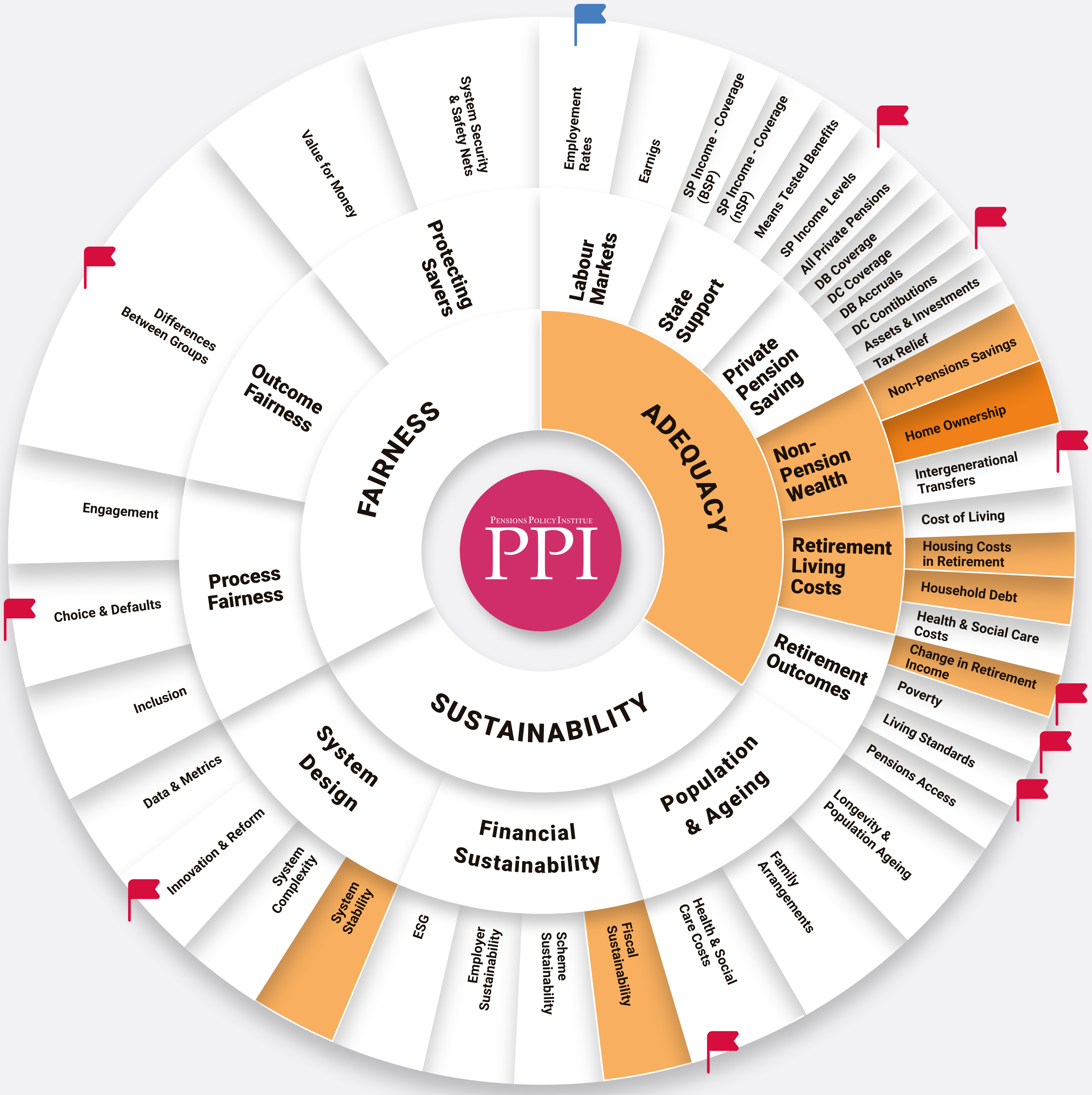
For example, Employment Rates and Earnings Indicators relate to changes in Labour Market conditions which, in turn, relate to Adequacy because they can affect how much people save in working life. In some cases, it was not possible to classify Indicator outcomes due to gaps in data and metrics which could potentially compromise the validity of results. The size of each Framework component is not intended to reflect the relative importance or weight of its content because the pension system is recognised to have multiple ongoing objectives, not all of which can be fully achieved at the same time. The weight given to each objective will change over time according to socioeconomic circumstances, as well as societal norms. Full details on the design of the Framework can be found in the 2021 PPI UK Pensions Framework Design Series.

Appendix Two: 2022 Wheel



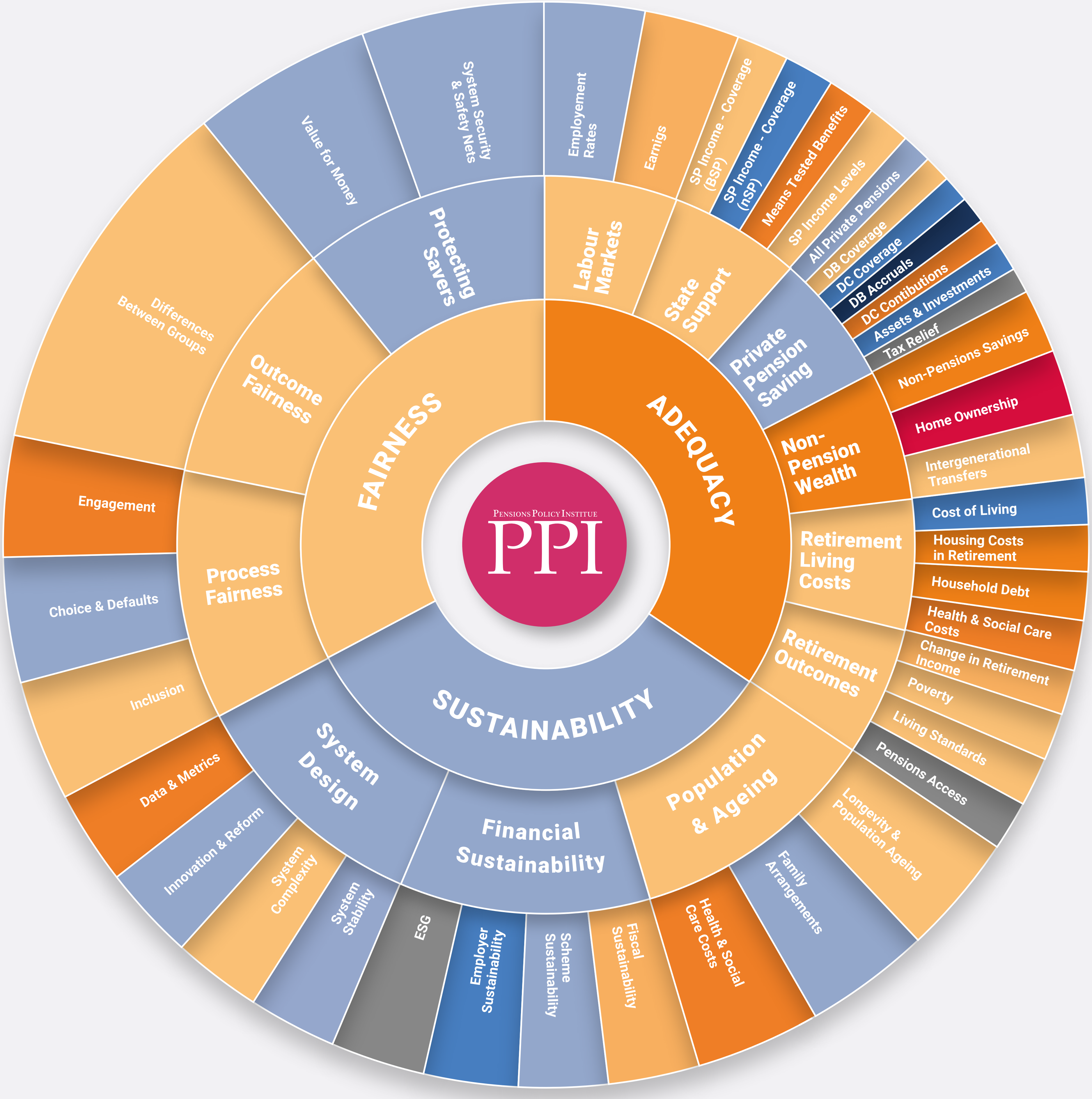
L6	Strong support for system objective
L5	Good support for system objective
L4	Some support for system objective
L3	Somewhat fails to support system objective
L2	Poor support for system objective
L1	Fails to support system objective
	Unrated in 2022 Edition due to quality of data

Appendix Three: The Pensions Policy Wheel, populated with changes driven by the 2023 UK Pensions Framework Housing Simulation



L6	Strong support for system objective
L5	Good support for system objective
L4	Some support for system objective
L3	Somewhat fails to support system objective
L2	Poor support for system objective
L1	Fails to support system objective
	Unrated in 2022 Edition due to quality of data
(red flag)	**Negative** impact likely but outcome does not change
(blue flag)	**Positive** impact likely but outcome does not change

Appendix Four: The Pensions Policy Wheel, populated with full results from the 2023 UK Pensions Framework Housing Simulation, in which the results of the "what-if" scenario analysis are overlaid to the baseline analysis of the UK pension system



L6	Strong support for system objective
L5	Good support for system objective
L4	Some support for system objective
L3	Somewhat fails to support system objective
L2	Poor support for system objective
L1	Fails to support system objective
	Unrated in 2022 Edition due to quality of data

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Tim Pike
Elizabeth Rapoport
John Reynolds
Daniela Silcock
Nike Trost
Sir Steve Webb
Sarah Webster
Lynda Whitney

Editing decisions remained with the author who takes responsibility for any remaining errors or omissions.

Contact: Chris Curry, Director
Telephone: 020 7848 3744
Email: info@pensionspolicyinstitute.org.uk

Pensions Policy Institute
King's College London
Virginia Woolf Building
1st Floor, 22 Kingsway
London WC2B 6LE

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All enquiries regarding the Pensions Policy Institute's activities should be addressed to Chris Curry, Director at:
Pensions Policy Institute, King's College London, Virginia Woolf Building,
1st floor 22 Kingsway, London WC2B 6LE

t: 020 7848 3744
e: info@pensionspolicyinstitute.org.uk
w: www.pensionspolicyinstitute.org.uk

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