Funding the Future Life

The implications of a longer life

Pensions Policy Institute
PPI

About This Research

This project has been sponsored by a consortium of funders to explore what pensions and retirement might look like in the future in terms of wellbeing and wider social, economic and demographic trends and projections. The research presented here is the second of two reports and explores how people might fund a long and healthy life.

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Student and Young Worker Perceptions

Work & Skills

Health & Social Care

Family and Social Networks

Housing

Evolving to Fund the Future Life

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Key Research Findings

The first report in the series, *Living the Future Life*, identified three critical mind-set shifts needed to embrace the future life: moving from a three-stage life towards a multi-stage life; thinking proactively in terms of skills, health and overall wellness; and planning accordingly, for example, around career, savings, budgeting and the nature of retirement.

This second report explores key follow-on questions: What funding is required to meet the costs of the future life? What are the changing roles of different stakeholders and where are the gaps around fit-for-purpose policies and financial products?

1 If the policy and product landscape stays as it is, and young people still have a traditional approach, it may be difficult for consumers to meet the challenges of the future life

There is a disconnect between what is required to fund a longer life and current views on what will be required for a long life in the future. Survey results collected from those aged between 18 and 39 suggest that the approaches to study, careers, work, and personal finances follow a traditional, three-stage perspective on life. If there is little structured support to enable young people to make these three critical shifts and nothing changes in terms of pensions policy, savings products and tax incentives, it may be difficult for consumers to remain financially secure during a multi-stage working life and retirement.

2 There are a number of policy implications for supporting people to achieve better outcomes in the future

In terms of **responses from policymakers**, administration, tax and regulation changes might be necessary for the introduction of hybrid short-/long-term products and accessible pension savings. These could help consumers to develop savings strategies that more closely reflect a multi-stage life. Furthermore, higher contributions to workplace pensions by employees, employers and government could also help reduce risk of lower income in retirement if people have earlier access to pension savings.

The role of the State Pension as a safety net could also become more important if people do access their workplace pension savings earlier to retrain or start a business as not all consumers will achieve optimal outcomes. Some consumers will not be able to get a return on the savings they withdrew and invested in order to be resilient. Therefore they may rely more heavily on the State Pension to help fund retirement and the level of the State Pension will have a material impact on those who depend on it as their main source of income.

With regards to **responses from industry**, changes may need to take place not only in terms of pension products and new hybrid products but also with bank accounts so that the distinction between both could fade. This would be in line with a more holistic approach where withdrawing money from pension pots earlier on in life can potentially enable better individual outcomes through debt prevention, or help with training/business development.

3 For individuals, employers, and government, there will be cost areas that are more expensive, with the expanding sharing economy providing opportunity for some reduced expenditure

The cost of the future life is likely to affect individuals (e.g. education and training), employers (e.g. higher workplace pension contributions), and government (e.g. health and social-care spending). There will be opportunities to reduce expenditure as well as areas where costs might increase. For example, the cost of dealing with chronic health problems might go up over a longer life. On the other hand, expansion of the sharing economy may help families to reduce other costs such as running a car.

4 There are four potential measures that could address socio-economic inequalities around living long and healthy lives

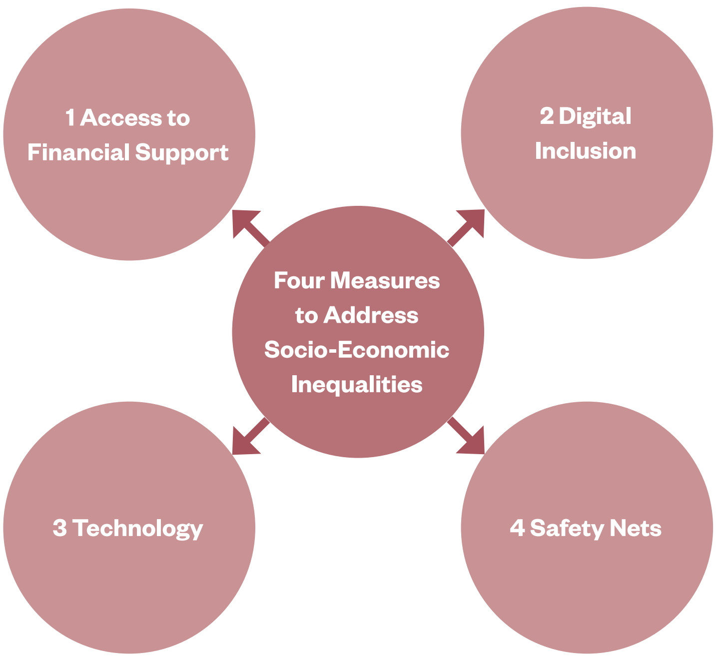
1. Access to financial support through grants and low-cost loans to cover the costs of resilient pathways like retraining, would be useful for those who do not have savings to draw on and cannot turn to family for financial support. New financial products that facilitate saving for retirement and allow withdrawal to help with more immediate financial goals such as moving from renting to buying a house (KiwiSaver in New Zealand), starting a business in light of sectoral change or unemployment (recommendation from the Institute of Directors), or to cover emergency expenses may also have a key role as part of this measure. However, withdrawing money early from pension savings could reduce income in retirement.

There are currently gaps in terms of products and policies that make this available in the UK context. The NEST Sidecar is an example of one such product and is currently in the pilot phase. There have been discussions around an accessible savings vehicle being included within automatic enrolment policy as suggested by StepChange debt charity but they are not in the stages of being realised. The take-up of these types of products, how consumers understand and use them, and any knock-on effect in terms of potential reduction in income in retirement is yet to be understood.

2. Continuing with the digital inclusion agenda and enabling participation in the sharing economy could help people both manage and save money. People may be able to save money through use of sharing platforms on items like cars and clothes. Supporting those from low-income households, particularly those that may have not been able to participate in further or higher education, to develop strong digital skills could help them access the sharing economy and make savings that could help with both immediate and long-term expenses. For example, a mother with two children that uses a car-sharing facility can save in the region of £2,000 a year on car insurance and other maintenance costs.[1]

3. In terms of **technology** and enabling the use of FinTech and online applications, these could aid long-term financial capability and money management with the bringing together of short- and long-term savings goals and engaging with the products of the future. Less-educated and lower-paid consumers might be excluded from using FinTech to manage their pension and other savings and fund a longer life in the future. This is because they may be unable to engage with new methods of communicating or digitally access new products and financial guidance.[2]

4. Safety nets will be required for sections of society that cannot cover the costs of a longer life even in the context with access to funds and strong digital skills. People at risk will need safety nets to fall back on if they are unprepared for financial difficulty, including unemployment benefit that people can claim while looking for work as well as the State Pension in retirement.



Introduction

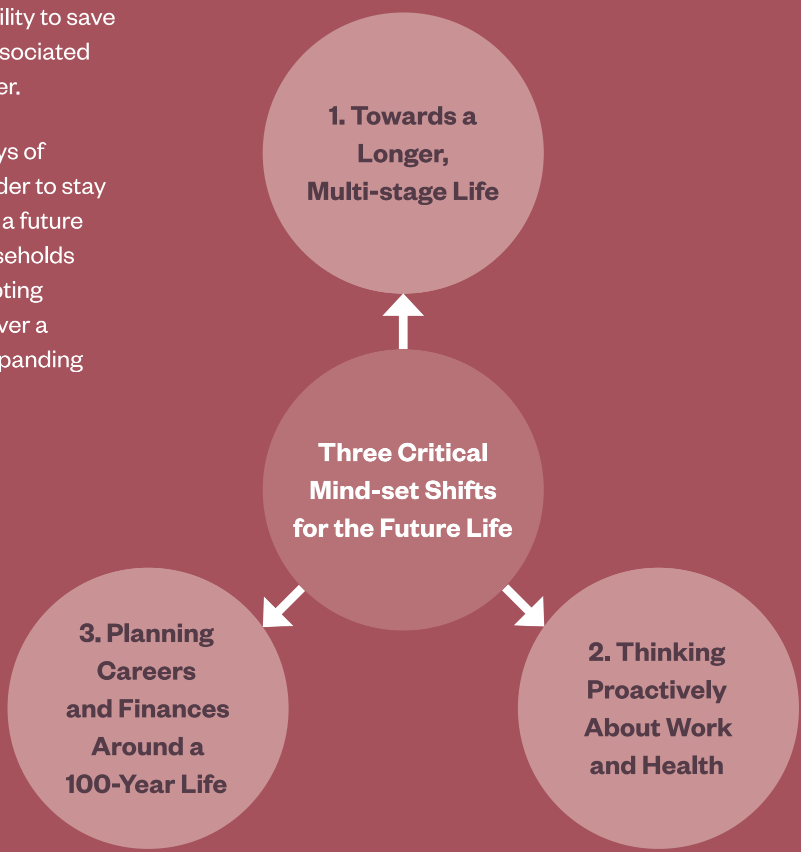
People are living longer and lives of 100 years or more will increasingly become the norm. This report is the second publication in a series of two outputs exploring what future lives might look like. The first report, **Living the Future Life**, focused on the challenges that people living to 100 years of age and beyond might face in the future in the context of technological change and a global sustainability agenda.

Findings from the first report include five key components to living a fulfilling long life.

- The first is **resilience** which involves being able to withstand fluctuation in income, but also being creative about finding and maintaining employment.
- The second component is **agility** which involves being able and willing to move into new roles, and openness to acquiring new skills.
- Prioritising health and the **prevention of illness and disease** will be more pertinent to a long life. This will involve taking a holistic view of wellness and investing time in different aspects of wellbeing. There will also be a need to invest money in prevention, treatment, and care.
- **Financial capability**, budgeting, and the ability to save throughout life will help manage the costs associated with living with long-term conditions for longer.
- The fifth component is **flexibility** to new ways of connecting and interacting with people in order to stay socially active. This is especially relevant for a future that involves reconstituted families and households made up of people who are not related, adapting housing circumstances to changing needs over a life time, and moving to where new jobs in expanding sectors are.

These components all relate to three critical shifts for the future.

1. A mind-set shift that is a move away from thinking framed around a three-stage life (study, work, retirement) towards a **multi-stage life** with breaks and overlaps between stages.
2. A greater emphasis on **thinking proactively** in terms of skills, health and overall wellness.
3. **Planning accordingly**. Financial planning will have to adjust to a 100-year life, with more thought around how long we work and what careers look like, the nature of retirement, budgeting, saving and developing resilience and agility in relation to all aspects of life.



This report explores the following questions:

1. What funding is required to meet the costs of the future life?

2. What are the changing roles of different stakeholders?

3. Where are the gaps around fit-for-purpose policies and financial products?

The report covers **student and young worker perceptions, work and skills**, **health and social care**, **family and social networks**, and **housing**. Results from the **PPI's Individual Model** showcasing different future life events are interspersed through these chapters. This is followed by a final chapter that covers **financial capability and policy implications** across the different aspects of life, **and the potential role the State, employers and individuals might play in the future.**

Student and Young Worker Perceptions

Student and Young Worker Perceptions

Key Findings

- There is a disconnect between what is required to fund a longer life and current views on what will be required for a long life in the future.
- The approaches that young people have towards study, careers, work, and personal finances follow a traditional, three-stage perspective on life.
- While students anticipate working for a number of employers, they have a fixed idea of the sector they want to work in.
- Young people may face difficulties in being flexible and open to new social and professional networks.

Analysis of two online surveys explores students' and young people's shifting attitudes and to what potential opportunities and challenges they might face in the future in relation to employment, training, wellbeing, and financial security. Two online surveys (full details in Appendix 1) were conducted as part of this research:

1. By YouGov — throughout this chapter, where percentages are quoted they refer to the quantitative YouGov survey results.
2. By the PPI with Students at a Russell Group University in London — absolute numbers and verbatim quotes relate to the qualitative student survey results.

Our first report in the series identified three critical mind-set shifts needed to embrace the future life: moving from a three-stage life towards a multi-stage life; thinking proactively in terms of skills, health and overall wellness; and planning accordingly, e.g. around career, savings, budgeting and the nature of retirement.

One of the critical mind-set shifts is from a three-stage to a multi-stage life

One of the critical shifts highlighted in the **Living the Future Life** report was a mind-set shift that is a move away from thinking framed around a three-stage life (study, work, retirement) towards a multi-stage life with breaks and overlaps between stages. Central to this is working for many different employers, retraining and working in different fields over a career. The survey respondents were asked about what they expect around numbers of employers, careers and sectors.

56% of 18 to 39 year olds feel positive about securing a job

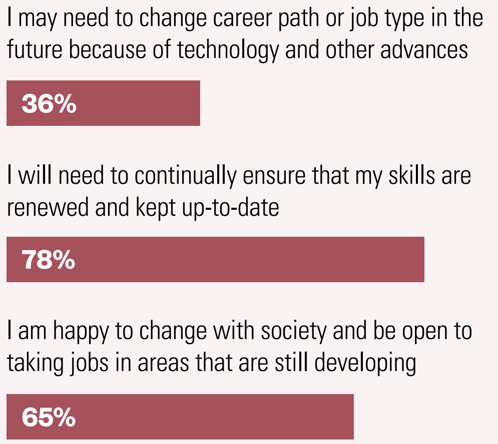
56% of people aged 18 to 39 feel positive about securing a job in the future and around a third (34%) want to have one job for the majority of their working life, defined as having a permanent job for longer than 5 years (Chart 1). Job roles are likely to change in light of technological advances and Artificial Intelligence, with some jobs at risk of becoming obsolete. Alongside this, new roles with different skills requirements are expected to be created.[4]

Job change is likely to be more common and frequent than it was for previous generations.[5] The third of the sample that want to have one job for the majority of their working life could be unprepared for the truncated, varied trajectories that their career paths might take.

Nearly two-thirds of 18–39 year olds (65%) are happy to change with society and are open to taking jobs in areas that are still developing. Reviewing one's own skill set, repackaging skills for different employers, and acquiring new ones are all key behaviours associated with taking jobs in developing fields.[6] An overwhelming percentage of 18 to 39 year olds (78%) agree with the statement *'In order to keep a job in the future, I will need to continually ensure that my skills are renewed and kept up-to-date'*. This indicates that a large proportion of 18 to 39 year olds are aware of the importance of keeping skills up to date and its positive relationship to job security.

Chart 1

18–39 year olds that agree or strongly agree for questions related to work and skills



YouGov Survey 4 & 5 June 2018; 693 18–39 year olds.

While students anticipate working for a number of employers, they have a fixed idea of the sector they want to work in

In a sample of 57 students studying at a London university, 44 respondents were positive about securing a job in the future. 20 respondents would most like to have one job in working life. When asked to agree or disagree with the statement *'I may need to change career path or job type in the future because of technology and other advances'*, 16 students tend to agree and another 16 students tend to disagree. This may be related to the higher representation of postgraduates and life and health sciences students that are likely to be working towards vocational degrees in the sample.

If students are beginning their employment history with the mind-set that they are building towards one career path or a specific field, being able and willing to move into new roles may seem unfeasible given the amount of time and training they have already built to work in a specific field. This theme may be explained to a degree by the higher number of students in this sample studying towards vocational degrees in the Life Sciences and Medicine Faculty (17 respondents) and the Dental Institute (13 respondents): '*As it takes a long time to qualify in my field, I anticipate having a range of fixed-term contracts for quite a while before being able to access more permanent positions*'. In order for people to be more open about moving into new roles or sectors, they will need to be **agile** and confident to market and use their pre-existing skills in new settings whilst developing new ones.[7]

'As it takes a long time to qualify in my field, I anticipate having a range of fixed-term contracts for quite a while before being able to access more permanent positions'

The students in the sample are mostly aware and open to the idea that they will work for a number of employers over their careers with a view to building and learning from different employers, roles and working environments. These students do not envisage changing employers as frequently as their careers progress but view employment changes as stepping stones to more stable jobs in the long-term. Some students may be concerned that learning from different roles and moving employers from mid-life onwards may be difficult and that adapting might be more challenging as they get further along in their careers. One student responded that *'I can't imagine retraining or changing employers'.*

'I can't imagine retraining or changing employers'

When students were asked *'What do you think about the number and type of employers in your working life, whether you would change careers, take breaks and/or re-train?',* one emerging theme was that people generally had a clear idea of the sector they want to work or stay in. This is illustrated by the following quote: '*I would like to work for different employers to widen my experience but stick to the same career path*'. One of the key components to living a fulfilling life in the future is flexibility with an emphasis on being creative about finding and maintaining employment particularly in sectors that are evolving and expanding. People may struggle at finding and maintaining employment in sectors other than their own if their field of expertise shrinks.

'I would like to work for different employers to widen my experience but stick to the same career path. Unless I am no longer enjoying it'

One of the three critical mind-set shifts related to an increase in longevity is a move towards thinking proactively

One of the three major mind-set shifts highlighted in the **Living the Future Life** report is around thinking and life choices in response to a rapid increase in longevity and acting more proactively. This is in relation to health and wider life choices around mental and physical abilities, workplace skills and overall wellness. Survey respondents were asked questions to ascertain views on social and professional networks, social wellbeing, sports and leisure.

Half of the students either strongly agreed or agreed with the statement *'I am happy to change with society and be open to taking jobs in areas that are still developing (e.g. technology etc.)'*.

There may be difficulties in being flexible and open to new social and professional networks

There is a strong desire among students to be involved in community groups and charity work: '*I hope to be involved in volunteering organisations and projects that support my local community*'. There is also a desire to participate in sports which is related to health and the prevention of illness and disease, one of the five components highlighted in the **Living the Future life** report.

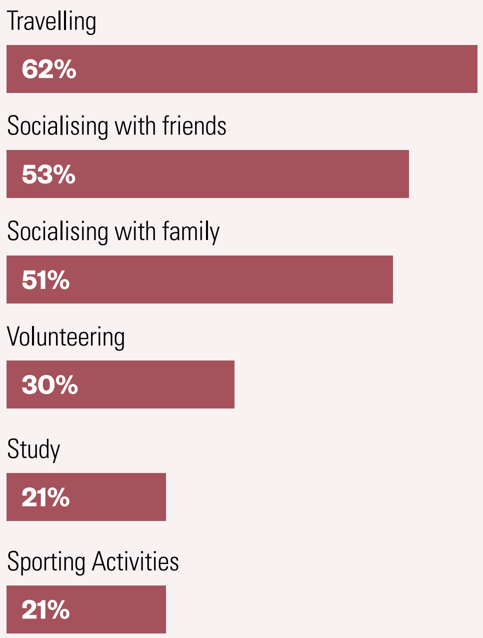
'I hope to be involved in volunteering organisations and projects that support my local community'

The results also contain a theme of turning to partners, families and friends for personal advice and support as well as people who they are connected with in terms of education, training, and professional experience: '*I want advice from family, friends and people from intellectual communities I'm part of*', '*I want to spend time with like-minded people and I met them through BSc and MA degrees*'.

Most of the advice and support respondents will seek is likely to come from relatively closed social networks with people who share mutual interests and experiences. If this trend is carried forward, it is possible that there will be difficulties in being flexible, responsive and adaptable around the challenges of the future life.

Chart 2

62% of 18–39 year olds would like to travel when they retire



YouGov Survey 4 & 5 June 2018; 693 18–39 year olds.

'I want to spend time with like-minded people and I met them through BSc and MA degrees'

It could be beneficial for people to feel that they can successfully connect to people from outside their social and professional networks and thus in this way be more flexible about their relationships. This is being addressed in the field of clinical sciences where inter-professional learning, working and networking between different practitioners (social workers, pharmacists, doctors, and nurses) is being built into formal education courses.[8]

Almost a quarter of 18 to 19 year olds disagree that being socially connected is a central aspect of having a fulfilling life

Social connection is an essential psychological need.[9] Nearly half (49%) of the 18 to 39 year olds surveyed either strongly agreed or agreed with the statement that *'being socially connected is a central aspect of having a fulfilling life in the future'*. A similar number see their main source of support and guidance in working life as a partner (50%) and 39% see the main source of support as family. The way family, community and social networks operate and are understood is changing.[10] Technology has transformed how, when, and where people connect with each other. 18–39 year olds are reported to be some of the most frequent users of smartphones and social media.

Turning to technology can lead individuals to miss out on opportunities to cultivate feelings of social connection.[11] This is one potential reason that 23% of the respondents either disagreed or strongly disagreed that being socially connected is a central aspect of having a fulfilling life. It could be that interacting with people online is more of a pre-occupation for people in this age group than having closer, face-to-face social connections with others.[12]

Travelling is the most popular activity that 18–39 year olds anticipate during retirement

The most popular activity 18 to 39 year olds associate with retirement is travelling in the UK or abroad (62%), followed by socialising with friends (53%), and socialising with family (51%) (Chart 2). There is little difference between 18 to 39 year olds and those that are older in terms of retirement aspirations. For the over-45 age group, holidays dominate future aspirations with the average household spending £41,000 from age 65 onwards throughout their retirement on holidays. This figure varies by household pensioner income and UK region. Half of this spending is specifically on foreign travel. In today's terms, those aged 65–74 spend around a quarter of their total spending on leisure.[13] Whilst the work and retirement landscape will be very different for younger people than it was for today's retirees, the 18–39 age group are still anticipating having broadly the same travel goals in retirement that retirees are enjoying and spending money on today.

A third critical shift is around adjusting financial planning in line with a longer life

A key concern is how a long and fruitful life can be funded in the future. It is difficult to plan for future care needs when many costs associated with a longer life including health and social care are largely unknown. Approaches to financial planning will likely require adjusting to a longer life. This will involve budgeting, saving and developing financial resilience. Survey respondents were asked questions about savings, housing goals and expectations, and transitioning into retirement.

Around half of those age 18–39 are at risk of not being financially resilient or financially capable

Financial resilience and financial capability are two key components of a long, and healthy life. Almost half (46%) of 18–39 year olds disagree that they will have savings to fall back on if they unexpectedly lose their job compared to 34% who agree with the statement. Those that have an unexpected change in circumstances and are not able to cover their basic costs of living might be in financial stress which can harm a person's mental and physical health.[14] A lack of sufficient short-term savings can deter long-term savings and can make individuals vulnerable to unexpected expenses.[15] There is a gap for 18–39 years old in terms of saving and budgeting which might widen further as life expectancies continue to increase over time.

59% of 18–39 year olds envisage owning their own home in the next 10 years

Home ownership is a priority among young adults. This is not just in financial terms but also in terms of social stability, which supports participation in pension saving.[16] A higher proportion of 18–39 year olds (59%) envisage having their own home in the next ten years. This is compared to 19% who envisage renting in the private sector, and 7% that expect to be living in social housing.

Affordability of home ownership in London and renting as barriers to saving are key concerns amongst students

Students are worried about the affordability of both renting in London, as well as buying a house in the capital: '*London is expensive so might move out of London to afford to buy my own home*'. Students are concerned that renting a property in London will put them at a disadvantage when it comes to being able to save for the deposit that they need to buy a property: *'I would like my own house, however building up a deposit large enough to buy in London will take many years while renting'.*

If the cost of renting or living in London means that people are unable to save enough or budget adequately to enable them to buy a property, then their ability to manage other financial challenges could also be impaired. Hence, they may not be financially resilient.

'London is expensive so might move out of London to afford to buy my own home'

The responses from the survey indicate that many students are not well placed to budget and save without financial support from family. Some students are willing to consider moving outside of London to buy a house but are faced with the dilemma of staying or leaving given that there are many employers in London. Some students would consider moving out of London to purchase a property. 35 students in the sample expect to have their own homes within 10 years. These results reflect that the students were based at a London university. House prices and labour market conditions can vary by UK region which might result in different concerns for students and young people living and working in different areas.

'I would like my own house, however building up a deposit large enough to buy in London will take many years while renting'

Some people have relied on family for support to get on the property ladder: *'I'm lucky that I was able to get on the property ladder with assistance from my parents, and have bought in an area with a stable housing market', 'Decreased housing affordability means reliance on family (for financial help)'.* Home ownership can reduce expenditure and increase disposable income in working life as well as enable the building of equity that can be drawn upon to fund later life.

'I'm lucky that I was able to get on the property ladder with assistance from my parents, and have bought in an area with a stable housing market'

'Decreased housing affordability means reliance on family'

The UK government's affordable homes agenda includes building affordable housing, improving the quality of rented housing, helping more people purchase a home, and providing housing support for vulnerable people.[17] In London, this agenda includes encouraging the building of affordable homes in inclusive communities as well as policy levers by way of financial schemes that help private renters save for a deposit to buy a home. These aims set out within the affordable homes agenda are likely to continue to be priorities for policymakers.[18]

Student Perspectives — Housing

- High cost of rent
- Difficult to save for a deposit
- Financial support from family for some
- Relocation to cheaper areas

Based on 57 responses from an online student survey.

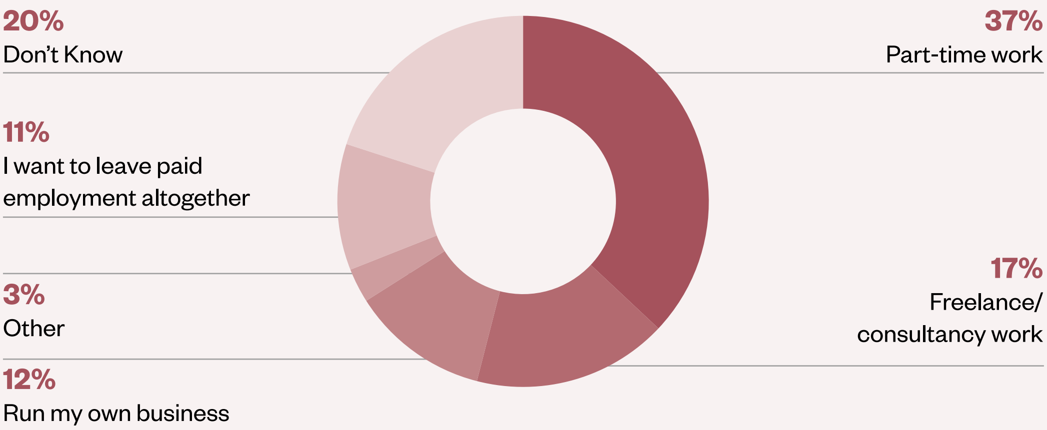
Over a third of 18–39 year olds want to work part-time to transition to retirement

Over a third (37%) of 18–39 year olds would like to work part-time when they transition to retirement and 20% do not know what they would like to be doing (Chart 3). 17% would like to be carrying out freelance work. There is a mismatch between the number of people that would like to retire flexibly and the number of people that are able to.[19] Some workers leaving employment before State Pension age may benefit from flexible working through part-time work, temporary work, or self-employment. There are barriers to moving into part-time work which also generally has the poorest job quality among the three types of flexible employment, due to the lack of stability and training opportunities for both men and women.[20]

20% of 18–39 year olds do not know how they would like to approach the retirement transition which aligns with current evidence on the barriers to visualisation in older age and engagement with planning for later life. People who visualise and make goals for the future are likely to find it easier to plan for later life. Negative views of ageing inhibit thought and anticipation of later life and can undermine incentives to financially prepare for old age.[21]

Chart 3

37% of 18–39 year olds would like to work part-time to transition into retirement



YouGov Survey 4 & 5 June 2018; 693 18–39 year olds.

Respondents do not display the resilience and responsiveness that might be necessary to address potential future challenges

About half of respondents (49%) did not feel that they would have sufficient savings to fall back on if they lost their jobs. Workers who are unequipped with skills to remain employable over a longer life and who have low levels of saving are at stark risk of not being able to meet their living costs which could lead to lower living standards and debt. Continued efforts to engage young people in saving for the short, medium and long-term, could help address the problem of young adults not saving enough for today or for later life.

Neither students nor employees are particularly open to multiple employers over their careers and there is little evidence that people appreciate the potential value of wider, inter-professional networks in relation to improved employability. Most respondents still strive for a steady, stable job for the mid- to later stages of their careers. Respondents do not display the resilience and responsiveness that might be necessary in the future.

A mind-set shift may be required for a successful future life, away from a three-stage life towards a multi-stage life. The number of fields people work in, the range of skills they develop and use, and the number of employers they may have over a lifetime may be higher in number and more varied than in previous times. The results suggest that overall this mind-set shift has not happened amongst those who will be most affected by technological and sectoral change and may be at risk of multiple periods of financial vulnerability, debt and unemployment.
There may be a role for consensus building designed by government so that education providers, employers, and employees are better positioned to face up to this new reality. Employers and other stakeholders could consider supporting people with development where they facilitate individuals to maintain a capability and competence in existing roles and prepare for responsibilities in future roles. An example of this is resilience training offered in the workplace.[22]

Work and Skills

Work and Skills

Key Messages

- Retraining can improve employability and there is potential to recover the costs of course fees and lack of salary with higher paid jobs.
- Free access to courses could be a cost-effective way of helping people to stay employable in the future.
- More employees are likely to benefit from saving on the costs of commuting to work in the future, but many low-paid employees in fields such as childcare are likely to miss out on these savings.
- Self-employed people may need support not only for business start-up costs but also to stay relevant to their target markets.

Longevity impacts all areas of life; training, skills development and work will be very different in the context of people living to 100 years of age and beyond. Career paths will be more varied and may involve changing fields of specialism more than once for many people. Earning patterns and career breaks will alter in light of rapid economic change, automation and technological development.[23]

In light of these expected changes this chapter addresses what it will cost to participate in education, find and participate in work, and train during working life, and how these can be funded. An overview of potentially higher and lower costs in the area of work and skills discussed in this chapter is outlined in Table 1.

Table 1

Higher and lower work and skills costs in the future life

Work and Skills

Potentially Higher Costs	Potentially Lower Costs
• Career breaks for further training and education including loss of income and course fees	• Increase in free online education for particular courses • Increase in availability of open digital recruitment platforms for job seekers • Reduced commuting costs with increase in remote working

There are important employment and income returns to education

A stronger educational background increases the likelihood of being in paid work, and reduces the chances of in-work poverty. The benefits of education vary by gender, social class, and ethnic group; those from particular minority groups and lower social class groups do not experience the same employment and pay benefits from education.[24]

The need to retrain or develop professionally was not as pertinent for previous generations because the pace of sectoral change and subsequent impact on job roles was not as rapid.[25] Education can improve job security and employability. Automation and the ongoing shift towards new technologies will result in many job roles changing, expanding or becoming redundant.[26] Education and training might become more important over time as people extend their working lives to cover the costs of a longer life.[27] Universities will be under pressure to re-evaluate their purpose and focus, in light of significant shifts in the future of work and the skills demands of students.[28]

There are a number of different options around sources of funding for retraining

Covering the costs of adding and developing skillsets may be challenging. The following options might be available:

- **Income:** Combining work and study at the same time can help with covering the costs of living and training. This option would require a supportive employer who allows staff to fit study in around work commitments and potentially reduce working hours. Depending on the type of study undertaken, it may not be possible to complete a course successfully whilst working.

- **Grants and loans:** Grants and bursaries are available in some sectors due to skills shortages, for example, teaching and nursing. However, these are not available in all sectors. There has been a reduction in the availability of grants for education and training purposes.

- **Family:** Some individuals may be able to turn to family for support either in terms of a gift or a loan. This would depend on having family that have disposable income to cover this cost and are willing to help. Those from low-income families are less likely to be in a position to be able to provide financial support.

- **Current savings:** If someone has saved regularly in to an accessible savings account, they may be able to use these funds to cover the costs of their course. However, many people will not be able to do this if, after covering their costs of living, they do not have any left over to save. As discussed in Chapter 1, 46% of 18–39 year olds disagree with the statement that *'I will have savings to fall back on if I unexpectedly lose my job.'* Therefore, this source of funding may not be an option for many people.

- **Accessible pension savings:** Enabling early access to pensions savings for retraining could provide a source of funding if other sources are unavailable. Only those aged 55 or more can currently access their pension savings without paying a penalty. However, over 55s who access some of their pension savings to retrain, may not be able to see the same long-term gains associated with new qualifications as they will have fewer years left in the labour market and fewer years remaining in which to make pension contributions. If future policy changes enable earlier access to pension savings for the wider population higher contributions to workplace pensions by employees, employers and government could help reduce risk of lower income.

46% of 18–39 year olds disagree with the statement that 'I will have savings to fall back on if I unexpectedly lose my job.'

Funding the Future Life: PPI Modelling

Modelling has been included in this report to illustrate what savings might be required to cover gaps and reductions in earnings due to life events that are likely to feature in a longer life in the future as identified in the **Living the Future Life** report:

- career breaks for retraining,
- adjusting to new client needs for the self-employed,
- long-term renting,
- divorce in later life, and
- multiple caring responsibilities.

The hypothetical scenarios illustrate what the financial implications of facing, or not facing, these challenges might be in terms of earned income, pensions and consumption and how trajectories might be different according to different responses to these challenges.

Consumption has been estimated from the Family Spending in UK Data Release. The data covers information on expenditure on transport, recreation, housing, food, restaurants, household goods and services, alcohol, communication, education, health and miscellaneous and other expenses. Consumption can be deemed as an indicator of standard of living, and when income changes consumption is expected to change in the longer term. The consumption levels shown in the modelling are the average consumption for an individual of the same age, relationship status and income of the relevant individual.

The analysis is intended to illustrate the potential impact that resilience and non-resilience could have on income in working life and retirement outcomes. The modelling outputs should not be considered as projections of real future outcomes. This research is forward looking and it is not possible to predict with clarity what the policy environment or shape of the economy will be in 2050 and beyond. Full details of the modelling approach can be found in Appendix 2.

Tom

Enters employment in the financial sector at age 22 after graduating at university and earns at the median level of income for men of his age in that sector. In this job he is automatically enrolled into his employer's pension scheme which has a contribution rate of 6.6% for employer contributions and 3.1% of employee contributions (in line with average pre automatic enrolment Defined Contribution (DC) pension contributions). At age 30 he loses his job. Three scenarios of his response to this job loss are modelled:

- Scenario 1 — Tom returns to university to pursue an MBA, re-trains, re-enters labour market at age 31 in the financial sector with an 80% increase in his earnings power. He is automatically enrolled into a pension in this new job, with total contributions of 8% of salary.
- Scenario 2 — Tom does not re-train, he attempts to find a job in his original job function at other employers but is unsuccessful, eventually he secures a job at age 33 and earns at the National Living Wage. He is automatically enrolled into a pension in this new job, with total contributions of 8% of salary.

  Tom retires at age 69, when he is projected to still have one third of his adult life left. He lives off his State Pension and private pension.
- Scenario 3 (explored in chapter 5) — Tom as above in scenario 1 but purchases a house in later life, his expenditure is reduced by £20 a week as a result of paying off a mortgage rather than paying rent.

For more details on this individual, please see Appendix 3.

While taking time out of work can result in living off savings in the short-term, it can potentially lead to long-term economic gains

Resilience is a key component to living a long and fruitful life. When an individual's area of expertise shrinks, one resilient 'pathway' that can be followed (scenario 1) involves embarking on a course of study that enables the learning of new skills and the development of existing skills.

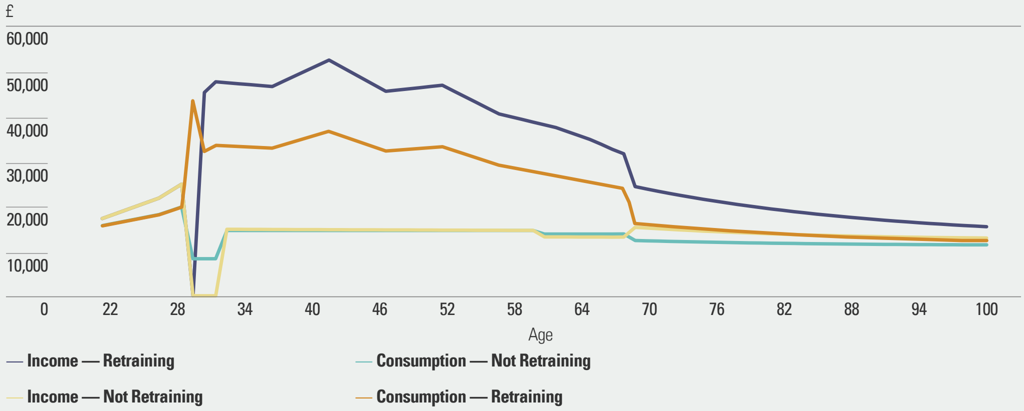
Chart 4 shows income and consumption for Tom under the assumption that after losing his job he retrains for a better job or does not retrain and takes another job in the same field. Consumption has been estimated by looking at the average consumption level of people in particular sectors and on particular incomes. Consumption can be deemed as an indicator of standard of living, and when income changes consumption is expected to change in the longer term. In scenario 1, Tom takes time out of the labour market to retrain after being made redundant. Tom earns no salary during his study, and needs to pay for the course, which leads to a year where he has to dip into savings. However, he experiences economic returns as a result of the new qualification; his new job pays him 80% higher than the median age-related earnings level for men in the financial sector. Under his retraining scenario his consumption level, and standard of living, can increase.

Tom's consumption line increases as he is able to spend more, but he is also able to save more for unexpected events and has the option of contributing more to current, long-term and pension savings.

In scenario 2, after being made redundant and experiencing a significant reduction in income, Tom's previous consumption level is almost in line with his net earnings. His spending drops considerably after his income is reduced and experiences a drop in living standards. When people have an immediate term drop in income they can struggle with adjusting consumption accordingly. This can lead to further financial issues and a higher risk of debt.[29]

Chart 4

Tom's standard of living could be lower if he does not retrain



Harry

Enters employment in the retail sector at age 22. He earns at the median level of income for men of his age in that sector. In this job he is automatically enrolled into his employer's pension scheme which has a contribution rate of 3% for employer contributions and 5% of employee contributions. At age 28 he loses his job. Two scenarios of his response to this job loss are modelled:

- Scenario 1 — Harry chooses to retrain as a plumber. He serves an apprenticeship then has his own business as a plumber. He earns at the median level for a tradesmen of his experience. He makes pension contributions of 4% of his income into a private pension scheme.
- Scenario 2 — Harry does not re-train, he secures a new job at age 28 and earns at the Living Wage. He is automatically enrolled into a pension in this new job, with total contributions of 8% of salary.

Harry retires at age 69, when he is projected to still have one third of his adult life left. He lives off his State Pension and private pension.

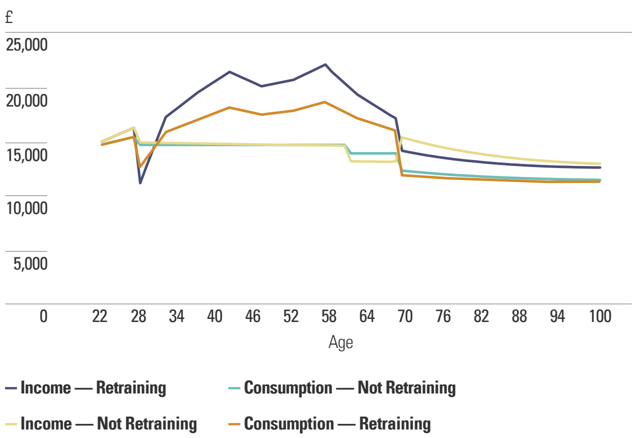
For more details on this individual, please see Appendix 3.

Different retraining paths are associated with varying levels of economic returns

An additional hypothetical individual, Harry, was modelled to reflect a scenario where a retail worker retrains in order to work as a tradesman, in this case a plumber (Chart 5). Different retraining paths can be associated with varying levels of economic return and while Harry does not see as much of an uplift in his salary upon completing his retraining as Tom does, he does get back at age 31 years to reaching the salary level he was at in retail prior to starting his retraining and goes on to exceed this. His annual take-home income reaches its peak of £22,000 at age 56. In scenario 2 where Harry does not retrain, between the ages of 28 and 60 he has close to no ability to save as his consumption is exactly in line with his income.

Chart 5

Harry re-trains to be a plumber and surpasses his previous level of income



Collaborative education could facilitate wider access to free education and open up employment and income benefits

The sharing economy involves the peer-to-peer sharing of different goods resources or services in exchange for access or money.[30] One of the domains of the sharing economy is collaborative education. This type of teaching delivered through online platforms such as **Coursera** and **edX** enable people around the world to take courses at reputed universities even if they are not enrolled as students. Both free and paid for courses are available through these platforms. This builds on the foundation laid over past decades by an institution like the Open University who currently provide around 5% of its formal course materials as free online open educational content.[31] Some of the people who seek an education through these platforms in the future may be from groups traditionally excluded from participating in education. Collaborative online education delivered as part of the sharing economy can facilitate wider access to education and open up the associated employment and income benefits needed to fund a long life.[32] For education providers, online courses that are free of financial cost can be part of a wider marketing strategy to attract students to paid courses offered by host institutes.[33]

Websites like edX provide access to free online courses.

Changes to the provision of student funding could facilitate access to part-time non-university based learning

Qualifications obtained through higher-level non-university study have significant economic returns for middle-aged adults. They are therefore particularly valuable in the context of reskilling in fast-changing labour markets. Government policy has been to move adult learners away from courses funded by government grants and towards courses that are loan-funded. The Advanced Learner Loan system covers the majority of non-degree awards at level 3 and above for adults over 19 years of age. Advanced Learner Loans are made on less favourable terms than those made to university students and their introduction has been associated with a significant fall in the number of higher-level sub-degree qualifications taken at non-university education providers. Developing preferential repayment terms to Advanced Learner Loans alongside greater clarity for prospective students about which loans are available for which courses could potentially make them more attractive. The take-up of these Advanced Learner Loans amongst those aged 24 and above living in London in 2015/16 was 19,620. They have the potential to improve employability and position in the labour market for those who use them to fund part-time study.[34]

A continued move towards working remotely could save more people on the costs of commuting

The cost of commuting is a proportion of the amount of money workers spend trying to perform their jobs. For those in employment, homeworking reduces employee commuting, resulting in money and time savings.[35] There is predicted to be a further shift towards low cost technologies facilitating home working through, for example, holograms and virtual meetings.[36] By working from home two days a week for a year, an average UK employee can save 50 hours of commuting time and £450 per year.[37] These savings could be put towards short-term savings goals and used as a resource to draw on during periods of unemployment.

Despite there being benefits to working from an office including access to key office equipment and resources, in-person sharing of expertise, and more reliable internet connection, commuting is a direct cost of working and technology is facilitating home working.[38]

Low-paid employees within particular sectors are less likely to be able to benefit from a reduction in the cost of commuting and the wider benefits of flexible working

Jobs that require physical presence on the premises, like those in childcare organisations and other care facilities offer reduced scope for flexibility in working practices. The need to be at a particular place of work to undertake the required tasks removes the ability to work remotely and save on commuter costs. Employees whose physical presence is required, for example child care providers, have traditionally received low pay and are currently paid less than those working in other sectors of the economy.[39] Those with low skills and on low pay may find it harder to move to other more flexible jobs.

Earlier access to pension savings could be used to fund business start-ups

Becoming self-employed is one way of dealing with sectoral change, unemployment and under-employment. Self-employment for older people can reduce earnings, but can result in slightly higher levels of household wealth because self-employment is often a wealth builder as well as a source of immediate income. Self-employed individuals may invest their revenues back into the business while growing their asset base, at the cost of giving themselves a lower income. Others may view self-employment as a source of regular, albeit lower than market value income in later life.[40]

Older people can find it difficult to start their venture without financial investment.[41] One policy option recommended by the Institute of Directors is for government to consider enabling tax-free lump sum withdrawals of up to £100,000 from private pension savings specifically for investing in a new business. Any policy which allows withdrawals from pension savings to cover non-pension costs carries with it the danger of reducing retirement income.[42] Early withdrawals could be allowed in parallel with encouraged or even mandatory higher contributions. Allowing early withdrawals might also make pension saving appear more attractive to self-employed people who generally struggle with short-term cash flow issues more than those in employment.[43] The self-employed are less likely to save into a pension and instead have wealth saved in different sets of assets that are more accessible. Female and millennial self-employed workers are at particular risk of under saving in pensions.[44]

Individual 3: Joanne

Self-employed in the social work field. Her income is 68% of the equivalent full-time employee earning at the median earning woman in social work. Joanne does not have an employer to enrol her into a pension fund, instead she contributes to a personal pension at 4% of her income. At age 35 there is a shift in her sector, reducing the demand for her particular services, she has two options which are modelled as separate scenarios:

- Scenario 1 — Joanne adjusts to the new requirements of her field. She continues to be self-employed but reacts to the change in demand of her field and is able to maintain the same relative income level.
- Scenario 2 — Joanne does not adjust her business and loses 50% of her income.

Joanne retires at age 69, living off her State Pension and personal pension income.

For more details on this individual, please see Appendix 3.

There is a need for stakeholders to consider ongoing support that enables established self-employed individuals to reflect on how their services match the needs of their clients

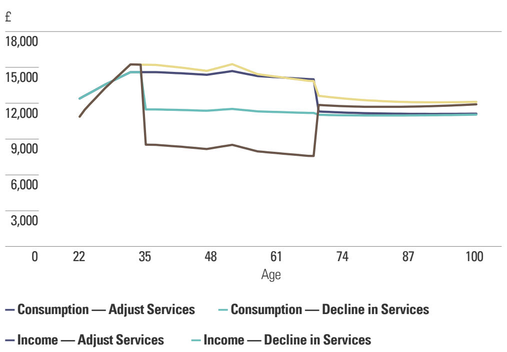
The number of individuals in the labour market that are classified as self-employed, particularly since the financial crisis, has increased from 3.8 million in 2008 to 4.6 million in 2015. Whilst this group of workers are accustomed to volatile incomes, sectoral changes are likely to be more rapid and widespread in the future.[45]

In the scenario where Joanne does not adjust her services, her lower level of income whilst working makes it very difficult to maintain her consumption level and retain her standard of living. The resulting shortfall of around £3,500 a year reduces her ability to save (Chart 6).

The requirement for self-employed people to adapt to changes in their target markets, will be more pertinent in the future.[46] Established self-employed individuals may need support in order to reflect on how their services match the needs of their clients. For those unable to adjust, there is a key role for safety nets for working people on low-incomes, including the self-employed who may be dependent on State Pension and benefits in retirement.

Chart 6

Joanne can reduce risk of reduction in income by adjusting to client needs



Digital inclusion, technology, government-administered student funding and accessible pension savings are central to meeting the costs of employment

Skills development can be funded through personal wealth, help from family, a loan or a grant. Access to government-administered student funding will continue to be a focus in the future. Part-time education undertaken by middle-aged students pays off in the labour market.[47] Availability of funding for various types of courses throughout working life will be more pertinent in the context of technological development, sectoral changes and extended working lives. If the current policy and product landscape evolves to facilitate withdrawing money from pension pots earlier on in life, this could enable a better holistic outcome if it enables the gaining of opportunities like training or building a business.

If the current policy and product landscape evolves to facilitate withdrawing money from pension pots earlier on in life, this could enable a better holistic outcome if it enables the gaining of opportunities

People are already embarking on online courses through no direct cost to them and it is expected that the availability of these courses will increase over time. If collaborative online education delivered as part of the sharing economy can facilitate wider access to education, then the digital inclusion agenda has a key role to play in opening up the associated employment and income benefits of study needed to fund a long life.[48] Digital inclusion programmes provided by local government can be effective at engaging those who have been previously excluded from education and helping them to progress to further learning.

Having core digital skills can help adults to attain their personal goals and enhance their family lives. Community based digital inclusion projects can facilitate a number of positive learning outcomes. These include in the areas of family relationships, health, employability, and personal agency. An evaluation of courses run in parallel for those on low incomes and the unemployed living in social deprived areas across the UK that were funded by the Skills Funding Agency showed that course attendees develop key digital skills that can support and strengthen different aspects of family life. Strong digital skills can help individuals use the internet to search and apply for jobs.[49]

Whilst some organisations have offered hot desking arrangements for a number of years already, organisations of the future may increasingly perceive large office spaces to be an avoidable cost.[50] Those who will have an option to work remotely will be able to save money which could go towards other expenses associated with a long life, including short-term savings (e.g. for training) or increased pension contributions. There may be other ways that employers and government can help reduce the cost of participating in work for people that may already be on low pay who cannot work remotely and subsequently cannot save on commuter costs.

Health and Social care

Health and Social care

Key Messages

- National spending on health is set to increase from £1,745 to £9,914 per head.
- Increased government spending can improve the population's health, wider well-being and quality of life, but also potentially result in a reduction in other areas of government spending.
- Climate change will increase health and social care costs at the government and individual level, with low-income households the most likely to be adversely affected.

I think that community health centres will be very important in the future and also neighbourhood organisations. I would like to be involved at a sport and leisure centre where I can have access to group classes of yoga, Pilates and swimming.

Longevity impacts all areas of life and investing time and money in health and fitness will be more pertinent in a longer life. The boundaries between health and social care are blurring, and increasingly individuals, communities, organisations and government are viewing health within a wider, more holistic view of wellbeing.

Health can impact work and social participation. Inequalities in access to quality health care extend to inequalities in healthy life expectancy. In a world where people are living longer than before, the financial implications of health inequalities built up over a life time could be more severe for the most deprived and socially disadvantaged groups.[51] The key areas that are likely to be more expensive in the future life are outlined in Table 2.

A major societal challenge is how health and social care can be funded in the context of an ageing population

With an ageing population, more care is likely to be needed over a longer life time. It is difficult to plan for future care needs when the costs are largely unknown. A key concern is how health and social care can be funded in the future in this context. A number of different suggestions have been put forward on how to fund health and social care going forward. The Commission on Funding of Care and Support was an independent body set up by government to review the funding system for care and support in England. The Commission reported that the current funding system requires reform as it is difficult to understand, is unlikely to be sustainable in the long run, and is unfair. Different recommendations for improvements in the funding system were put forward by the Commission including a cap on individuals' lifetime contributions towards their social care costs and a higher means-tested threshold above which people pay their full care costs.[52]

Table 2

Higher health and social care costs in the future life

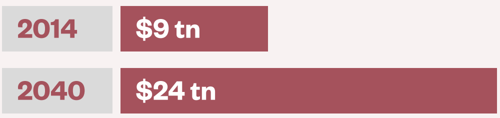
Health and Social care

- Rehabilitation, pharmaceutical and equipment costs of managing chronic diseases for longer.
- The UK's per-head health care spending could increase from £1,745 to £9,914.
- Flood related injuries and deaths, ozone related deaths, global warming and skin cancer, mental stress caused by flooding (extra cost of £1.90/household/year to the government).

Growth in GDP, government spending, and government health spending are expected to be key drivers for increases in projected global spending on health

The amount of resources available for health can affect access to health care and health outcomes. Global spending on health will increase to US$24 trillion (£19 trillion) in 2040 compared to US$9 trillion (£7 trillion) in 2014.[53] This growth is driven by increased growth in GDP, government spending, and government health spending, typically associated with population ageing. In terms of health and long-term care projections for the UK, health care spending could range from 7.8% to 16.6% of GDP in 2061. This is compared with 6.8% in 2016/17. This would potentially increase spending per head of population from £1,745 to £9,914.[54]

Global spending on health projected to increase



Higher State spending on health and social care could have the potential to improve the population's health, well-being, and quality of life[55]

If the next 50 years follow the trajectory of the past 50, then the UK could be spending nearly one-fifth of its entire wealth on the public provision of health and social care as a result of:

- Longevity,
- Population increases,
- Growth in national wealth,
- Increases in the costs of providing care, and
- Developments in innovation and medical technology.

Higher government spending on health and social care could improve the population's health, well-being, and quality of life as well as have wider positive impacts on economic activity and productivity though it would put pressure on other targets for government spending and potentially reduce funding for other services.[56]

While investing in medical technology such as artificial hip and knee replacements and insulin pumps can be expensive in the first instance, they can maximise the cost-effectiveness of health and social care services in the long-term. Medical innovations that enable individuals to continue to live fulfilling work and social lives, and prevent their early withdrawal from the labour market can contribute to reducing the burden of long-term conditions on an ageing labour force.[57]

Medical innovations that enable individuals to continue to live fulfilling work and social lives, and prevent their early withdrawal from the labour market can contribute to reducing the burden of long-term conditions on an ageing labour force.

Climate change will affect the future cost of living including costs related to health

Warmer winters are generally associated with a reduction in cold related mortality and morbidity. However, there are possible negative impacts coming from increased mortality and morbidity due to:

- Higher and more extreme temperatures,
- Direct and indirect effects of flooding,
- Changes in patterns of food-borne disease.[58]

The most measurable effect of climate change on health in economic terms is the change in temperature related mortality. Expressed as a government social welfare cost, the increase in heat related mortality is equivalent to an average net household cost of £1.40 per household per year in the 2050s. Climate change is estimated to lead to overall increase in health costs. Health costs include flood related deaths (a further £1.90 per household per year as a societal welfare cost per average household in the 2050s), flood related injuries, and ozone related deaths, cases of skin cancer and mental stress caused by flooding.[59]

The impact of climate change on household level health costs will be greater for low income households

Money can affect people's health and wellbeing.[60] Health effects have a disproportionately negative impact on low income or vulnerable households because heat and cold related mortality and morbidity is primarily an issue for:

- the elderly;
- those with existing health conditions;
- those with budget constraints on energy use; and
- those with access to low levels of social care. These groups commonly contain a higher proportion of low income households.

High income households tend to spend more on health than low income households. With more money, families are able to buy better goods and services that promote and improve health. They may experience higher taxes or health insurance in the future.[62]

Product options with different features which enable people to plan for future care costs could become more relevant in the context of reduced government spending

If the policy and product landscape stays as it is in current times, it may be very difficult for consumers to meet the challenges of covering the costs of health and social care in the future life. It is possible that in the future the boundaries between pensions and other savings products as well as long-term care starting will blur and overlap.[63] There are currently few financial products which people can use coming up to retirement to plan ahead for future care costs, though people with care needs can purchase immediate needs annuities or with life-limiting illnesses can purchase enhanced annuities which pay out at a higher rate.[64]

International Example: Singapore

The Central Provident Fund (CPF) is a publicly managed pension scheme which makes up the main formal pension provision in Singapore. At around 36% pension contributions are high relative to other countries. Scheme members can withdraw funds to cover medical expenses, house purchases and investment in education. CPF savings are distributed into three different accounts. Firstly there is an Ordinary Account which is used for pensions, buying a home, or investing in education. Secondly, there is a Special Account which is devoted to providing pension income. The third account is a Medisave account where members can withdraw funds to cover medical expenses. In contrast to high contribution rates, pension pots themselves are low. To minimise the risk of pension funds being depleted prior to retirement, the government requires that scheme members must have a minimum sum saved in their pots by age 55 in order to buy a retirement product.[65]

The government is considering introducing a Care ISA with a maximum sum that can be spent on care. Sums of money in ISAs are normally taxed when the account holder dies. However, money left over in this proposed type of product would be exempt from inheritance tax when passed on to heirs. This product is only at the initial phase and full details of all the product features and eligibility criteria are not yet published. However, early perceptions from industry experts suggest that this product might add to an already large choice of ISAs and be confusing for customers. Furthermore, there is a concern that a Care ISA would only help wealthy consumers as there are only a minority of people that leave estates sufficiently large enough to make beneficiaries liable for inheritance tax.[66]

Combining income drawdown with insurance against future care costs in a single product is another potential way of addressing a lack of financial products which people can use to plan ahead for care costs. A 'care pension' product would be an income drawdown product that adds in care insurance paid either in the form of a regular premium or a one-off lump sum amount. If government were to move towards making payments into such policies tax-free and introduce an overall cap on lifetime care costs, it is possible that some consumers could be interested in this type of product.[67]

With these conditions in place, people could potentially begin to build up protection against the risk of facing debilitating care costs in later life. Furthermore, a care pension product could be framed and branded as 'inheritance insurance'. This is because those who might face large care costs in later life could be at reduced risk of having to sell their home to cover care bills. A new care insurance market might not address all the financial risks faced by those with existing advanced care needs. However, it could help reduce the risk of facing significant care costs and additionally reduce the future call on the State to cover these costs.[68] Due to low levels of awareness and interest by consumers, demand for these types of products is currently low.

Family and Social Networks

Family and Social Networks

Key Messages

- The average annual household food bill will increase by £275 due to climate change.
- The sharing economy can enable access to savings on costs such as a family car.
- Digital skills development could help those most in need of accessing savings.
- Multi-generation households are on the rise, and enable savings on private renting and childcare for younger people as well as facilitate caring for elders.

Living a longer life will affect relationships with family members and friends.

Engaging and meaningful connections with family, friends and communities are central to good physical and mental health and wider aspects of wellbeing. Living a longer life will affect relationships with family members and friends.

The way in which people partner, re-partner, and form families is changing. More people are getting divorced in later life and fewer couples are having children. In the context of greater longevity, this has an impact on who people turn to for emotional support throughout their lifetimes, but also how caring responsibilities will fall on people and those around them. Presented here is a discussion of the costs of various aspects of family life in the future, including both higher and lower costs (Table 3).

Projected increases in food bills caused by climate change are likely to have a greater impact on low income households

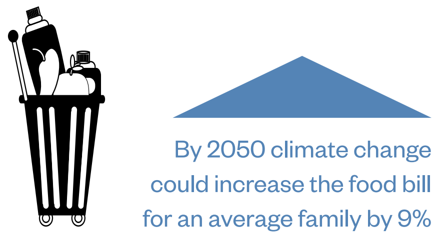
At 11% of average household expenditure, food is one of the largest expenses for any household. Food is related to agricultural production which is an especially climate sensitive sector. By 2050 climate change could increase the food bill for an average family by 9%. In terms of the cost over a year, this would equate to an additional cost of £275 per household.

Low income households spend a larger proportion of average household expenditure on food (16%), and this type of increase could have much greater negative impacts on households from these socio-economic groups.

The sharing economy can help reduce the cost of living for young people and their families

38% of 18–24 year-olds in the UK use the sharing economy as a way of reducing clutter and waste. In light of a growing demand for a more minimalist lifestyle, consumers find that sharing-based services offer better prices, more convenient access, and increased choice in the marketplace.[69] One example of this is Zipcar which offers a service which allows someone to drive cars and vans by the minute, hour or day.[70]

Food bills are projected to increase due to climate change



By 2050 climate change could increase the food bill for an average family by 9%

Table 3

Higher and lower family and social costs in the future life

Family and Social Networks	
Potentially Higher Costs	**Potentially Lower Costs**
• Increased food bills (additional £275 per household per year)	• Reduced cost of living through the sharing economy including costs of running a car (around £2000/year)

A mother with two children that uses Zipcar for dropping children to activities, family days, making trips to the supermarket, and emergency visits to ageing relatives can save on the costs of owning a car. It is possible for somebody using a service like this to save in the region of £2,000 a year on car insurance and other maintenance costs.[71]

Digital inclusion strategies alongside collaborative working between stakeholders could open up the sharing economy and enable low-income families to participate more widely in social life

By accessing the sharing economy, young families could potentially participate in aspects of social life that would otherwise be out of their reach. Low-income families could benefit greatly from an expansion in the provision of affordable goods and services available through the sharing economy.[72]

There are inequalities between people in urban and rural areas in terms of being able to access the sharing economy. Urban areas have a higher population density for both demand and supply, a pre-existing infrastructure that better suits sharing concepts and a higher population of the target population. Rural areas have a lower population density, less infrastructure, and a higher older population that are not as yet widely considered as being in the target population. More sharing economy initiatives focused on rural communities and those over age 50 could widen access to the potential benefits of participating in the sharing economy.[73]

Community based digital inclusion projects aimed at empowering adults who are socially and economically disadvantaged to develop digital skills through new stakeholder partnerships and approaches that emphasise non-pressurised learning can facilitate a number of positive learning outcomes including in the areas of family and social group relationships. Digital skills can support and strengthen different aspects of family life including managing household finances.[74]

Effective digital inclusion strategies and a collaborative approach between companies, policymakers, and civil society organisations could help address difficulties in delivering goods and services within multi-layered, complex networks, and other barriers to the sharing economy.[75]

The growing number of multigenerational households are unlikely to be on lower incomes

Multigenerational houses include those with either a grandparent present or two adult generations.[76] A household level analysis of different living arrangements between generations has shown that living with parents or grandparents increases social capital and survival for individuals in good health compared to those living on their own.[77] The proportion of multigenerational households in the UK are increasing with a 36% increase between 2009–2010 and 2013–2014. Multigenerational living can enable families to afford bigger homes. These households are not likely to be poor, are likely to have three or four bedrooms, and are most likely to be owner-occupied.[78] However, there can be equality issues within multi-generational households if some family members hold more financial power than others and resources are not shared equally.

There are a number of finance related drivers behind an increase in multi-generational households

Affordability issues are a driver for multigenerational living. Many young single adults struggle to afford independent living due to employment instability. Multigenerational living also enables young adults to save money towards purchasing a house. Some parents are able to help their children financially with allowances of £100/month to cover travel costs and other outgoings whilst their children are starting their graduate working lives on low-paid, temporary employment contracts.[80]

Individual 4: Tara

Tara works in social work from age 22 until age 69. She earns at the median level for women in social work and is a member of the Local Government Pension Scheme, a career average Defined Benefit (DB) pension scheme, throughout her working life.

Tara is modelled under the following scenarios:

- Scenario 1 — working at full-time to retirement with no breaks for caring responsibilities.
- Scenario 2 — having children and taking time off to care for them (maternity leave at age 30 for a year, then returning to work part-time at half her normal hours until age 50. Then returning to work full-time).
- Scenario 3 — leaving work at age 50 to care for parents then at age 60, when her parents move into care facilities returning to work part-time.
- Scenario 4 — a combination of caring for children and caring for parents.

Full explanations of each scenario, written results, and additional charts for each scenario can be found in Appendix 3.

An increase in the number of multigenerational households might be one way of dealing with the costs of the future life. Time out of the labour market to retrain will be more common in the context of rapid technological and sectoral changes.[81] Living with other generations could help young people save money while they retrain and/or look for jobs. Living with family can also make it easier to provide care for elders as well as enable older relatives to care for grandchildren.[82] However, not all houses are suitable for multi-generational living. Lack of privacy and personality issues can cause emotional stress for family members in these types of households.[83]

Individuals that take multiple career breaks to care for children and parents can be at most risk of an income penalty in both working life and retirement

Tara is eligible for 14 weeks of full pay during maternity leave. Her example illustrates that taking maternity leave and returning to work part-time can not only decrease income during working life, but also reduces her private pension due to the years of part-time work. Whilst having a child and working less than full-time hours to meet the demands of being a parent reduces income in working life, the number of years out of the labour market for caring for parents can be significantly higher than maternity leave (Chart 7). The chart shows that she has reduced income during maternity leave and no income during carer's leave. However, it is possible that Tara is eligible for benefits such as childcare benefit and carer's allowance which have not been included in these income estimates. Furthermore, she may have access to her partner's income and also parent's allowances and pension income, especially if she is living with them in a multi-generational household.

Chart 7

Maternity and carer's leave impacts Tara's income over a lifetime

Returning to work on a full-time basis after a decade long career break to provide care may be more difficult at 50 than a year-long break at 30. In Tara's case, there is not enough time left in working life until she retires at State Pension age to increase her income before she retires and contribute more to her private pension. Whilst many local carer services offer studying or training, there will be some carers that cannot access these due to ineligibility for support to cover the costs of courses. Individuals that take multiple breaks from the labour market in order to care for children and parents can be at most risk of an income penalty in both working life and retirement.

Organisations that support carers have information on specific benefits, grants and allowances that carers' might be eligible for.[84] There is an apparent gap in terms of supporting carers to deal with changes in financial circumstances more broadly (including a reduction or loss of income) and how they can review their budgets and spending accordingly. Addressing this gap could potentially make the shift from living on a higher income to a lower income in light of caring responsibilities easier to handle.

Multigenerational household members can be vulnerable to losing out on inheritance without clear legal arrangements

Housing wealth may not be shared equally between family members in multi-generational households. Inheritance is not discussed openly in many families but this lack of discussion can be more prevalent in multi-generational households. Family members do not always acknowledge the potential vulnerability of such informal arrangements. In some cases household members may be making significant financial contributions to the purchase or building works to a joint home despite being unnamed on the property deeds. This could leave some members without any return on their investment in the property.[85]

Individual 5: Maya

Employed consistently as a social worker through her working life, earning at median earnings for sector, age and gender (age 22+). She is a member of a DC workplace pension scheme. She gets married at age 40 to a colleague, who is a member of the same DC workplace pension scheme. They divorce at age 64.

- Scenario 1 — Maya does not remarry and remains single in retirement.
- Scenario 2 — Maya remarries at age 69 with someone age 69 who worked in the financial and insurance activities sector, earned at median earnings for sector, age and gender.

For more details on this individual, please see Appendix 3.

Financial support from partners can be integral to keeping pensioners out of material deprivation[86]

Divorce is on the increase amongst people aged 65 and over in England and Wales. The number of men divorcing aged 65 and over went up by 23% between 2005 and 2015, and the number of women of the same age divorcing increased by 38%.[87] Being single for pensioners is strongly associated with material deprivation. Divorce is associated with living on a low income in retirement. The legal costs of divorce are high and can lead to the loss of a home and a move into rented accommodation for divorcees.

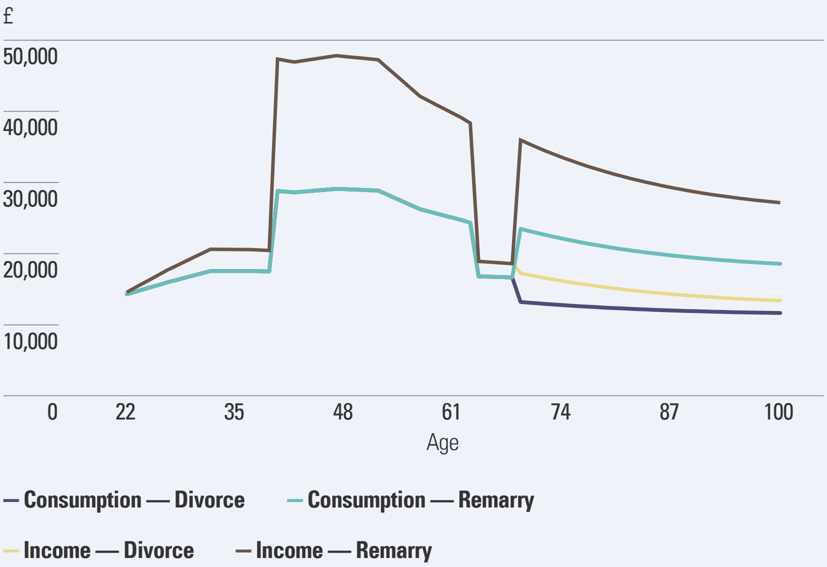
Financial support from partners and family can therefore be integral to keeping pensioners out of material deprivation. Separation dramatically impacts sources of income and is more detrimental to women than men due to inequality in private pension wealth. Divorced pensioner women are more likely to rely heavily on their State Pension income.[88]

The growing group of older people who become single in later life could be at risk of a significant reduction in disposable income

Divorce is becoming more common among older people. In scenario 1, it is assumed that Maya divorces in later life, and in Scenario 2 it is assumed she divorces and then re-partners (see Chart 8). Those that re-partner in later life can potentially see an increase in both gross and disposable household income, however, those who do not re-partner could be at risk of a significant reduction in standard of living. This is likely to be an 'at risk' group in society due to reasons such as health problems, isolation, or lack of social contact. The growing number of older people divorcing may benefit from specialist financial support to help them navigate the specific complexities of separating finances that have been combined for decades.

Chart 8

Maya's income reduces upon divorce in later life



Future wealth transfers between generations are not likely to help the wealth accumulation challenges faced by the younger generation

Around half (46%) of non-home owning 20–35 year olds have parents who also do not own their own properties and are therefore less likely to be in a position to receive family support for buying a house. Future intergenerational transfers look set to greatly increase absolute wealth gaps between young people. 20–35 year olds with their own property wealth of £200,000 or more have an average parental property wealth of £195,000 per sibling. In comparison, 20–35 year olds that are not home owners have average per-sibling parental property wealth of £85,000. The fact that people tend to partner with those who have similar inheritance expectations to their own will, at the household level, amplify these absolute gaps in individuals' future wealth transfers.[89]

There is potential for policy to support earlier intergenerational wealth transfers

Parental longevity is delaying inheritances beyond the child-rearing age to around retirement age (approximately 61 years), around 30 years after the age at which people typically start having children. As a result, it is harder to rely upon intergenerational wealth transfers to get into home ownership. Security and lower housing costs that owning a home entail are especially important when bringing up families enabling families to be in a stronger position to take risks in other areas of life like building up careers and earnings potential. Areas for consideration for policymakers include how the timing of wealth transfers can be brought forward through, for example, equity release and downsizing.[90]

Housing

Housing

Key Messages

- Those that are able to purchase a house can benefit from reduced expenditure, higher disposable income, and the building of equity they can draw on in later life.
- Many young people want to purchase a house but are likely to continue to struggle to save for a deposit.
- Future homeowners will face additional direct and indirect housing expenses as a result of changing temperatures and climate change.
- New financing solutions for home adaptations in later life could enable people to support themselves and live independently for longer.

Different considerations are being given to planning housing and local communities today than in previous decades. With more people living longer, there are issues around housing supply, flexible homes that can be adapted to changing needs, and how people use their homes within the context of new patterns of partnering, family formation and household living. Housing is also a source of income for some people and this may change with people not being able to afford to buy a house until older ages. There are higher housing costs anticipated in the future.

Table 4

Higher housing costs in the future life

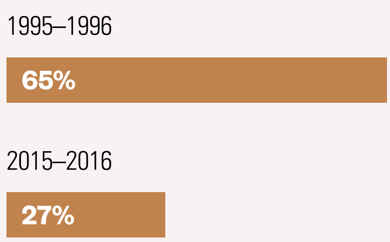
Housing
• Saving for a house deposit • Costs of flooding for residential properties (between £4 to £11 per household per year) • Home adaptations for later life

There is a continuing decline in home ownership

Young adults are significantly less likely to own a home at a given age than those born five or ten years earlier. The decrease in homeownership has been sharpest for young adults with middle incomes. 65% of those aged 25–34 in 1995–96 with incomes in the middle 20% for their age owned their own home. Twenty years later (2015/2016), the same figure was far lower at 27%. The sharp rise in house prices relative to incomes is the primary reason for the downward trend in home ownership.

Young adults from more disadvantaged backgrounds are less likely to own their home even after accounting for job type and educational background.91 If this decrease in homeownership continues, there are likely to be more people reaching retirement that are either renting property or still paying off their mortgage. This will increase their living costs and therefore the amount of income they will require to achieve an acceptable standard of living in retirement.[92]

Decrease in home ownership sharpest for young adults

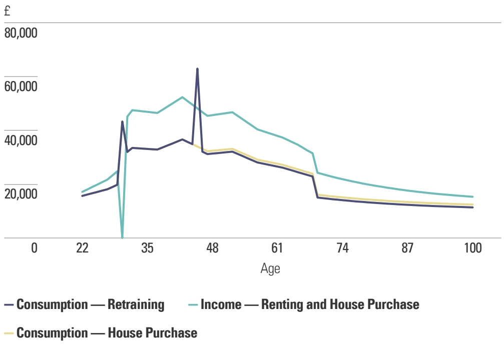


Long-term renters are not able to benefit from reduced expenditure, higher disposable income, and the building of equity

Scenario three assumes that Tom purchases a house at age 44 (Chart 9). Purchasing a house instead of renting reduces consumption by around £20 a week for Tom as he pays less towards his mortgage than he does in rent. This is evident from the chart, where there is a spike in the consumption line at the point of purchasing a house, but the same consumption line then falls below what it would be if Tom had continued renting. Whilst earned income remains unchanged from scenario 1, this scenario where Tom buys a house vs. renting illustrates that, for those who are able to bear the upfront costs of buying a house, home ownership can reduce expenditure in working life as well as enable the building of equity that can be drawn upon to fund later life.

Chart 9: Tom can have a Similar Standard of Living by Spending Less if He Owns a House

Tom's annual income and associated consumption level (for income and sector) under a scenario of renting or home ownership (2018 earnings terms)



Tom's lifetime income increases by taking more than one resilient action

Two resilient actions that Tom can take are:

1. retraining to stay more relevant to a changing job market, and
2. buying a house.

Not only can retraining increase earned income and buying a house reduces expenditure in the immediate term, they can increase total life income. This is illustrated below in Chart 10. The figures in the chart relate to earned income over a lifetime net of total consumption. These figures are quoted in present value 2018 terms. Tom's total lifetime income increases by over half a million pounds (£586,700) upon taking the 'resilient' path of re-training, and increases further after purchasing a house. The same figures are presented in Chart 11 with net income expressed as a proportion of expenditure.

Chart 10: Tom's Resilient Pathway Including Retraining and Buying A House

Total lifetime income increases by £558,500 upon taking the 'resilient' option of re-training, and increases further after purchasing a house

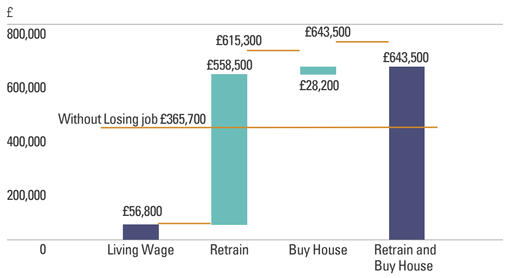
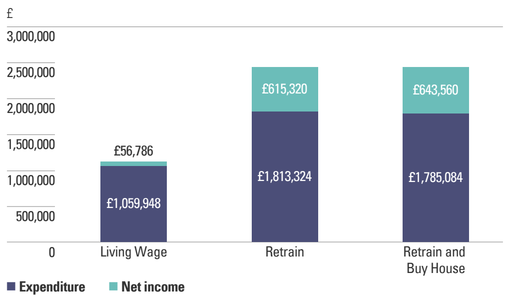


Chart 11: Tom's Resilient Pathway Including Retraining and Buying a House

Upon taking the 'resilient' option of re-training and purchasing a house, net income as a proportion of expenditure is £643,560



This increase in total life income could leave Tom in a better long-term financial position that can help him face the higher costs attached to a longer life. Following this trajectory Tom:

- sees an increase in lifetime income due to the higher labour market returns from his additional qualification,
- has a reduction in spending due to purchasing a home, and
- has an asset in the form of a house which he could potentially tap into and release equity from in later life.

It has been recognised in the wider policy community that the cost of further training and difficulties of saving for a house purchase are two key challenges that young people face. A State funded £10,000 citizen's inheritance lump sum has been suggested to help address this. This has been put forward as a restricted-use asset endowment to all young adults to support skills development and housing as well as business start-up and pension saving.[93] However, £10,000 may not be enough to put towards courses and housing, especially in London and the South East where property prices are the highest in the UK. If this policy was implemented, young people may need access to financial advice and guidance around how best to use this money to reach their short and long-term goals.

The cost of further training and difficulties of saving for a house purchase are two key challenges that young people face.

It is possible to bring together short and long-term savings goals through retirement schemes that enable early access to funds

KiwiSaver refers to pension schemes which support automatic enrolment in New Zealand. It is a voluntary, work-based savings initiative to help people with long-term saving for retirement. Individuals that have been a member of the scheme for a minimum of 3 years that are about to purchase or build their first home can withdraw their contributions, their employer contributions, any returns on investments and the member tax credits to put towards purchasing or building a first home. This is on the condition that they leave a minimum balance of NZ$1,000 in their account.[94] There may be potential for a similar system to KiwiSaver that brings together short and long-term savings goals together with early access to funds to be introduced in the UK.

Accessing retirement savings to fund the purchase of a first home is increasingly popular in New Zealand

The number of scheme members withdrawing from KiwiSaver accounts to purchase a home has increased between 2015 and 2017. 30,256 members withdrew NZ$614 million (£313 million) over 2017 to help buy their first property. This is 23.8% (NZ$118 million) (£60 million) (more than the NZ$496 million (£253 million) withdrawn in 2016, and a substantial increase on the 2015 figure (NZ$214 million) (£109 million). In 2017 the average withdrawal was just above NZ$20,000 (£10,200 million).[95]

Future homeowners will face additional direct and indirect housing expenses as a result of climate change

Climate change will increase costs for home owners through, for example, changes in temperature increasing the use of heating or air conditioning. Some costs may be less direct, for example, the increased risk of flooding leading to increased payments for home insurance, maintenance, and repair. There is estimated to be an increase in the costs of flooding for residential properties from climate change above current costs of between £4 to £11 per household per year by the 2050s.[96]

New financing solutions for home adaptations in later life could enable people to support themselves and live independently for longer

Financial institutions generally have policies against lending to older people, because of fears that people may not live long enough to pay back the full loan amount. New financing solutions for home adaptations and improvements in later life could enable people to support themselves in light of changing health and mobility needs, live independently for longer, and encourage design innovation. Despite the fact that some banks have increased their age limit for lending, an assessment of the market shows that age limits are still prevalent. Government could work directly with the financial services sector as well as regulators so that an individual's age is not a barrier to borrowing in later life. This could be done by putting regulations in place for increases in age limits to lending.[97]

Evolving to Fund the Future Life

Evolving to Fund the Future Life

Key Messages

- The distinction between saving for the short-term, long-term, and retirement saving is likely to be increasingly unclear.
- Technology could aid long-term financial capability and money management with the bringing together of different savings goals and engagement with products of the future.
- In other countries, integrated products have brought together different financial goals whilst facilitating a stronger interconnection between working life and retirement.
- Government is beginning to recognise a gap in vehicles for flexible saving.

Living for longer requires more money. At the individual level, this money can come from earning a salary for longer and saving more money. In the context of State Pension ages rising and potentially being scaled back through alternative indexation measures, and some people not being able to extend their working lives, it could be challenging to accumulate sufficient savings to fund a retirement that lasts nearly as long as a working career.[98]

Government policy could be centred on facilitating a more balanced mix of State and private pension savings

The costs of the State Pension are projected to rise due to increases in the proportion of people over State Pension age. State Pension expenditure could cost 5.9% of GDP a year by 2050.[99] Increases in life expectancy will increase the number of pensioners by 37.6%.[100] In the context of growing uncertainty around the role of the State Pension and how sustainable it is in terms of costs to government, there may be an increase in emphasis on contributing to private pensions going forward.[101] Automatic enrolment can be regarded as one step towards people having a more balanced mix of State and private pension savings when they reach retirement age.[102]

Higher workplace pension contribution rates could help people save more

Automatic enrolment policy requires employers to automatically enrol eligible jobholders into a qualifying pension scheme. A motivator for this was a response to the issue that millions of individuals in the UK were not saving enough for their retirement. Around 1.3 million employers have staged through automatic enrolment, with the consequence that workplace pension saving is becoming normalised.[103]

A workplace contribution balance made up of employer, employee, and government contributions is an illustration of a multi-stakeholder approach to pension saving. There are a number of countries where the average employer contribution is higher than in the UK. Rebalancing the ratio of employer/employee contributions (the amount employers contribute vs. the amount employees contribute) for a higher employer contribution could encourage a greater proportion of employees to continue to save in their workplace pensions.[104] The government is intending to monitor the impact of the increases in minimum contribution rates in 2018 and 2019. This will inform discussions with stakeholders about future contribution rates and improve an understanding of how costs from changes to automatic enrolment are shared between individuals, employers and taxpayers.[105]

8% of band earnings may not be a sufficient contribution level to allow people to achieve an adequate standard of living in retirement from State and private pensions alone. A median earner contributing 8% of band earnings into a pension scheme every year from age 22 until State Pension age would only have a 50% chance of achieving the same standard of living in retirement that they experienced in working life (from private and State Pension income). In many cases, people will not contribute steadily for their entire working life and would require a higher percentage of contribution to achieve a 50% likelihood of replicating working life living standards. This concern will be more pronounced in the context of longer lives and potentially longer retirements. Those with low incomes in particular may struggle with contributing to their workplace pensions, though people on low incomes will require less private pension income in order to replicate working life living standards in retirement.

A number of options to address this include:

- Increasing minimum contributions,
- Encouraging voluntary savings,
- A multi-tiered approach where contributions vary by earnings, industry and work-patterns.[106]

The introduction of the Lifetime ISA (LISA) is an example of government beginning to recognise a gap in vehicles for flexible saving

There is a recognition by government that consumers may want support in saving towards both long and short-term goals in a single savings vehicle. The concept of the Lifetime ISA (LISA) product is centred around a savings vehicle designed to encompass both long and short-term goals. The introduction of LISAs in 2016 is the primary example of this.

Consumers may want support in saving towards both long and short-term goals in a single savings vehicle.

LISA is a savings product designed to be used for saving for either a house purchase, retirement or both. It has both incentives and penalties designed to influence the saver's behaviour. The LISA is a tax efficient way to save and is an example that broadens use of tax efficient saving beyond pre-existing products centred around shorter term savings goals. Anyone between age 18-40 is eligible to open a LISA. The government pay a matching bonus of 25% of the saver's contribution. This bonus is capped at £1,000 each year and is only available on contributions made before the age of 50.

Withdrawals can be made from the age of 60, or where the funds are used for the purchase of a first house. Any other withdrawals are subject to a 5% exit charge and consumers forego the government bonus and any investment return upon it.

The success of the product has been mixed so far. While LISAs represent an attractive and potentially valuable form of saving for a house, there are uncertainties around the longer terms impact they will have on retirement saving because those saving in LISAs are not eligible for employer contributions, LISAs are not subject to the same charge caps and protections as automatic enrolment pensions, and LISAs may not be invested in a way which maximises growth in the early years and then de-risks as people approach retirement. The LISA could be valuable for informing how other flexible products might be designed in the future and how they impact the effectiveness of wider policy including automatic enrolment.[107]

In other countries, new integrated products have brought together short and long-term financial goals whilst facilitating a stronger interconnection for consumers between working life and retirement

Product innovation has the potential to improve the retirement process, helping people to make better decisions and achieve more positive outcomes.[108] It is likely that the boundaries between pensions and other savings products including long-term care products will blur more in the near future and beyond.[109] The KiwiSaver scheme in New Zealand discussed earlier in Chapter 5 is an example of the bringing together of a short/ medium term financial goal (i.e. buying a property) with retirement savings.

Millions of people in the UK are now part of a new generation of retirement savers as a result of the introduction of automatic enrolment. At the same time, however, many of them have little or no money that they can access to protect them from the adverse effects of unexpected financial shocks. The aim of the integrated side-care option currently being trialled by National Employment Savings Trust (NEST) is to bring together liquid short-term savings with illiquid retirement savings rather than treating them in isolation. Alongside bringing together short and long-term financial goals, a key driver for the trial was the amount of consumer debt and lack of liquid saving amongst adults in the UK.[110]

The side-car option involves placing a percentage of automatic enrolment contributions into a liquid savings account, like a bank account, until a certain threshold is met. This would be an emergency account, built up alongside a pension, and savers would be able to make withdrawals for unexpected expenses. If money is taken out of this pot, auto-enrolment contributions are funnelled into the sidecar until it reaches the threshold. A stronger interconnection for consumers between working life (liquid savings) and retirement (illiquid savings) that can come from new integrated products could help frame short and long-term financial security as interdependent.[111] This could be more aligned to the changing needs of consumers in light of an increasingly unclear distinction between work and retirement with a move towards extended working lives and flexible, gradual retirement.[112]

In line with a hybrid approach, the Step Change debt charity have proposed that incorporating cash saving into the automatic enrolment pension system may help encourage some lower-income workers to save both for pensions and for short-term needs. However, accessing pension savings during financial emergencies in the short-term can reduce private pension income in later life. Those on the lowest incomes might not be as affected because the State Pension currently provides the majority of their retirement income, so a reduction in their private pension is not such a large reduction in their total retirement income.[113] However, those on mid-level incomes and above that are likely to rely more on private pension income might be at greater risk if they liquidise pension savings.

Current UK tax and regulation rules do not account for hybrid products or accessible pension savings

Government may need to consider whether the wider tax and regulation landscape facilitates providers to introduce hybrid short-/long-term products and accessible pension savings. Upon accessing benefits in retirement, an individual's total pension savings is tested against a Lifetime Allowance (LTA). The purpose of this is to regulate the amount of tax relief individuals get over their working life. If the value of the pension saving is above the Lifetime Allowance (£1.03 million for 2018/19), there is an additional tax of 55% if they are taken as a lump sum.[114] If pension savings were made accessible outside of the current Freedom and Choice arrangements, consideration would need to be given to whether the withdrawals are subject to the lifetime allowance limit tax rules.

Current regulation means that individuals cannot usually take money out from their pension pots before the age of 55 apart from in rare cases for example if they are seriously ill without facing a tax charge of up to 55% of the amount taken out or transferred plus further charges from their provider. If consumers were allowed to withdraw money not just in rare cases due to illness, the tax charge would need to be reviewed.[115] At retirement, consumers are able to withdraw tax-free lump sums (up to 25% of the total fund). If earlier withdrawals from pension savings were permitted, consideration would need to be given to how the 25% tax-free lump sum would be calculated.[116]

Financial capability will have a more prominent role in the context of a multi-stage life

A popular definition of financial capability is having the knowledge, skills, motivation and confidence to make financial decisions that are suited to one's individual circumstances. There are programmes that are designed to develop financial capability and are intended to help equip people to manage their personal finances in the short, medium, and long-term.[117] Engaged and informed individuals are potentially able to achieve positive outcomes using the financial products that are available to them.[118]

In the context of a multi-stage life with fluidity between study, work, and retirement, some pensions professionals argue that there is merit in developing financial capability so that culturally it becomes the norm to review and monitor short and long-term finances together. However, efforts have been made for decades and this is likely to continue to be a long-term project as it can take time to foster this type of mind-set shift to make this the cultural norm. Furthermore, it is challenging to develop measures to assess the effectiveness of long-term financial capability programmes as some behavioural change can take years to occur. In addition, it is difficult to establish what impact a particular intervention has made vs. other factors which might have had an influence in changing behaviour.[119] There will always be a requirement to consider that people with low financial capability are likely to be more dependent on other policy levers such as means tested benefits and saving defaults to avoid negative financial outcomes.[120]

Technology could aid long-term financial capability and money management with the bringing together of different savings goals and engagement with products of the future

Financial Technology (FinTech) is changing the way that the financial sector is operating. This includes the management and delivery of pensions. FinTech applications are being used to improve communication, foster consumer engagement with pensions, and make financial planning more accessible through robo-advice. Individuals are increasingly required to make complex choices about their pension finances and with the bringing together of short and long-term savings goals as well as hybrid products, it is expected that the development of innovative applications will continue in the future. Less educated and lower paid consumers might be excluded from using FinTech to manage their pension and other savings because they are unable to engage with these new methods of communicating. Continuing with the digital inclusion agenda and enabling use of FinTech as well as participation in the sharing economy could help people both manage and save money.[121]

The distinction between saving for the short-term and retirement saving is likely to continue to collapse

There is a change in the way government and providers are conceptualising money and understanding how people spend and save. The government has in some way had an influence in the collapse in the distinction between short and long-term saving through the introduction of pension freedoms and earlier access to pension pots. Providers are beginning to understand that becoming at risk of being financially vulnerable in the short-term can be a barrier to long-term and pension saving. A collaboration between different stakeholders could enable consumers to shift their mind-set and consider short, medium and long-term financial planning together. One way this could be done is through ongoing consumer engagement efforts and financial education.

There is a trade-off between encouraging saving and facilitating financial resilience

The trade-off between encouraging saving and facilitating financial resilience is especially pronounced for low income groups who may not have the ability to have a decent standard of living and also save for the short and long-term. This is related to a balance between maximising the impact of long-term saving whilst having flexibility to address short-term financial concerns. The development of the policy landscape could include a recognition of the need for consumers to invest in different ways across a new, multi-stage, multi-career working life. There are a number of different approaches to realise this including:

- Product development,
- Financial guidance,
- A combination of the above alongside wider consumer engagement efforts.

Appendix 1

Survey Methodology

Two online surveys, one with university students and another with young workers, were conducted to build on the Living the Future Life report findings. The aim of conducting the surveys was to answer the following question:

- *What will the perceived scenarios and challenges be in employment, training, wellbeing, and financial security from the viewpoint of the youngest cohorts of upcoming retirees?*

Both surveys included sections with questions on:

- *different scenarios of the future in relation to employment, training, wellbeing, financial security and social networks, and*
- *different scenarios of the future in relation to job security, career paths, housing expectations, retirement income and activities.*

Survey one:

YouGov conducted an online interview with its YouGov Plc UK panel of 800,000+ individuals who have agreed to take part in surveys. An email was sent to panellists selected at random from the base sample according to the sample definition, inviting them to take part in the survey and providing a link to the survey. The sample has been weighted and are representative of all Great British adults (aged 18+).

Fieldwork was undertaken on 4th and 5th June 2018. From the 2,025 respondent total sample population, 693 respondents represented a cross-section of the Great British population aged between 18 and 39. Of the sample 43% were male (301), and 57% were female.

Survey two:

Using the same closed questions as for the YouGov survey a second online survey was conducted with King's College London (KCL) University students but with a section for open responses. A link to the survey was posted on the KCL Research Ethics page and included in a circular email detailing studies seeking research volunteers during July 2018.

In total, 57 students responded to the survey of which;

- 33 were female and 13 male.
- 27 were postgraduates and 17 undergraduates.
- The sample was weighted to students from the Life Sciences and Medicine (17) and Dental Institute, Psychiatry, Psychology and Neuroscience faculties (13).

Appendix 2

Modelling Appendix

The areas of modelling performed in this report consider the projection of an individual using the PPI's Individual Model using a deterministic approach to economic assumptions. All results are based in current (2018) earnings terms.

Key assumptions

Except where explicitly stated in the report, the key assumptions used in the report are detailed below.

The pensions system

The pension system modelled is as currently legislated. The triple lock is assumed to be maintained.

Investment returns

The Economic Scenario Generator uses volatility derived from historical data and central rates of:

- Median equity return: 7%
- Median gilt return: 4%
- Median earnings growth: 4.3%
- Median CPI growth: 2%

These are derived from the Office for Budget Responsibility's projected figures.

Other economic assumptions

Other economic assumptions are taken from the Office for Budget Responsibility's Economic and Fiscal Outlook (for short-term assumptions) and Fiscal Sustainability Report (for long-term assumptions).

Limitations of analysis

Care should be taken when interpreting the modelling results used in this report. In particular, individuals are not considered to change their behaviour in response to investment performance. For example, if investments are performing poorly, an individual may choose to decrease their withdrawal rate and vice versa.

The Individual Model

The Individual Model is the PPI's tool for modelling illustrative individual's income during retirement. It can model income for different individuals under current policy, or look at how an individual's income would be affected by policy changes. This income includes benefits from the State Pension system and private pension arrangements, and can also include income from earnings and equity release. It is useful to see how changes in policy can affect individuals' incomes in the future.

This model can be used in conjunction with economic stochastic scenarios derived from the PPI's Economic Scenario Generator to produce stochastic output.

Key results

The key output from the model is the built-up pension wealth and entitlement over the course of the individual's work history and the post-retirement income that results from this.

The post-retirement income is presented as projected cash flows from retirement over the future lifespan of the individual. These are annual cash flows which include the following key items:

State Pension

- Reflects entitlement and the projected benefit level of State Pension components.

Private pension

- Derived from the decumulation of the pension pot, allowing for tax-free cash lump sum and the chosen decumulation style (e.g. annuity or drawdown).

Other State benefits

- Other benefits contributing to post-retirement income such as pension credit.

Tax

- Tax payable on the post-retirement income, to understand the net income available to the individual.

These cash flows are calculated as nominal amounts and restated in current earnings terms.

Outcomes are expressed in current earnings terms for two reasons; it improves the comprehension of the results and reduces the liability of either overly optimistic or cautious economic assumptions.

Application of output

The model is best used to compare outcomes between different individuals, policy options, or other scenarios. The results are best used in conjunction with an appropriate counterfactual to illustrate the variables under test.

Key data sources

The specification of a model run is based upon three areas:

1. The individual

The individual to be modelled is specified based upon an earnings and career profile. Saving behaviour for private pension accumulation is considered, as well as the behaviour at retirement.

These are generally parameterised according to the project in question, designed to create vignettes to highlight representative individuals of the groups under investigation.

Age and gender related salaries

The PPI's Individual Model projects pension accumulation using an assumed salary in working life. The salaries in this report are based on reported age, and gender, related patterns of earnings for particular sectors.

- The salary data is obtained from age, gender and sectoral analysis of employee earnings from the Labour Force Survey.

- One of the individuals modelled is a full-time self-employed woman. Her income is assumed to be at 68% of the equivalent full-time employed woman.

Expenditure

- General expenditure for all the hypothetical individuals has been estimated from the Family Spending in UK data release that is an output which comes from the Living Costs and Food Survey.

- Cost of an MBA is based on analysis of the cost of MBAs at UK universities in 2018.

2. The policy options

The policy option maps the pension framework in which the individual exists. It can accommodate the current system and alternatives derived through parameterisation. This allows flexing of the current system to consider potential policy options to assess their impact upon individuals under investigation.

This area has the scope to consider the build-up of pensions in their framework such as the auto-enrolment regulations for private pensions and the qualification for entitlement to State benefits.

The framework in retirement allows for the tax treatment and decumulation options taken by the individual as well as other sources of State benefits which influence the post-retirement outcomes for individuals.

3. Economic assumptions and scenarios

The model is capable of running with either deterministic or stochastic economic assumptions.

The deterministic assumptions used are generally taken from the Office of Budget Responsibility Economic and Fiscal Outlook to ensure consistency. They cover both historical data and future projected values. Alternatively the model can be used in conjunction with the PPI's Economic Scenario Generator to produce a distribution of outputs based upon potential future economic conditions.

Summary of modelling approach

The model projects the pension features of the individual, both in accumulation (pre-retirement) and decumulation (post-retirement) phases.

It projects the pre-retirement features of the individual through the accumulation of pension entitlement, both State benefits and occupational Defined Benefit schemes. This is done through the modelling of the career history of the individual, deriving pension contributions and entitlement from the projected earnings profile.

The entitlement to and the level of State benefits are projected such that from retirement, their contribution to the income of the individual can be calculated. Private pension income is modelled and assumes a decision about the behaviour of the individual at retirement. This allows for the chosen decumulation path of any accrued private pension wealth.

Appendix 3

Individuals Modelled

Individual 1: Tom

Tom starts working at age 22 in the financial sector, earning at the median level for a man of his age. He is saving into a Defined Contribution (DC) pension scheme with his employer at a combined contribution rate of 9.7% a year.[122] Throughout his twenties Tom has a disposable income of on average around £3,000 a year, after his consumption needs are met. His area of expertise is shrinking in demand, and at age 30 Tom is made redundant. He can try to get another job doing the same type of work he was doing or he can embark on further training. The scenarios below model possible responses to the job loss.

Scenario 1: Tom's area of expertise shrinks and he decides to study for an MBA[123]

An MBA typically costs £35,000 in 2018 earnings terms.[124] If he studies for the MBA, then he has no income for the year, but his consumption is increased by the course fees.

Following completion of the MBA, Tom is able to find a job which pays him 80% higher than the median age-related earnings level for men in the financial sector.[125] He is automatically enrolled into the staff pension scheme which is a DC pension with combined employer and employee contributions of 8% of gross salary. During his thirties, Tom's net income is around £47,000 and his consumption is around £33,000. This reduces as he nears retirement and starts to wind down from work in his fifties and sixties to around £8,000 when he comes to retire.

Scenario 2: Tom is unable to find work in his area of expertise

In this scenario Tom does not retrain, instead he tries to find work in the same area of the financial sector that he was trained in and is unsuccessful. After three years of living on savings, he takes a job which pays at the National Living Wage (which is projected in line with the government's intention to reach £9 an hour by 2020). His income and consumption are approximately the same from the time he takes the job at National Living Wage at age 33 until he retires at 69.

Tom is assumed to work 40 hours a week at the National Living Wage. At this level during his thirties and forties he is projected to just be able to meet his consumption. In his sixties Tom reduces his working hours from 40 to 35 hours a week, this reduces his annual gross income from around £18,000 a year to around £15,700. At retirement, aged 69, he receives his State Pension and private pension, which is also at around £15,700, however his expenditure requirements are reduced, meaning that he may be better able to meet his spending requirements.

Scenario 3: Tom re-trains after losing his job and purchases a house in later life

Tom makes the same decision in Scenario 1 to retrain and finds a job on completion of the MBA. However, at age 44 Tom purchases a house instead of renting. This reduces his expenditure by £20 a week.

Individual 2: Harry

Harry starts working at age 22 in the retail sector, earning at the median level for a man of his age and job. He is saving into a DC pension scheme with his employer at a combined contribution rate of 8% a year (5% employee and 3% employer). Harry loses his job at age 28. Two scenarios of his response to the job loss are modelled:

Scenario 1: Harry re-trains and is self-employed

Harry decides at age 28 to retrain as a plumber by taking up an apprenticeship. Following successful completion of the apprenticeship, Harry is a self-employed plumber. He contributes 4% into a personal pension as per current figures that are in line with existing products available to self-employed workers. His annual take-home income reaches its peak of £22,000 at age 57. At retirement (age 69) Harry receives a State Pension and income from his DC savings, this reduces his net income from being around £17,000 to around £14,000.

Scenario 2: Harry does not re-train and secures another job

Harry remains as an employee in the retail sector throughout his working life. At first, he earns at the median level for his sector, but from age 28 he is earning at the living wage. Between the ages of 28 and 60 his expenditure is exactly in line with his income which is around £14,500 a year. He is saving into a DC pension scheme with his employer at a combined contribution rate of 8% a year (5% employee and 3% employer) throughout. At retirement (age 69) Harry receives a State Pension and income from his DC savings, this increases his income from £13,000 at age 68 to £15,000 at age 69. Harry has a higher post-retirement income in this scenario due to workplace pension contributions that are higher than he made into a personal pension plan in self-employment as per scenario 1.

Individual 3: Joanne

Joanne is a self-employed care worker from age 22 until she retires. Her income is 68% of the median income for a woman employed in the same sector in line with what self-employed people earn as a proportion of an employed person in the same sector.

Joanne does not have an employer to enrol her into a pension fund or pay contributions, but she does make personal contributions into a pension scheme at a rate of 4% of salary. In her twenties Joanne's net income is low at around £13,000 a year on average. Due to a shift in the sector, when Joanne is aged 35, the services she offers are in lower demand. She has the option of adjusting her services so that she meets the new requirements of the clients that she serves in her sector, or suffering from a 50% cut in the demand for her services.

Scenario 1: Joanne adjusts to the new requirements of the sector

Joanne is able to access support available to the self-employed to reflect on how the needs and expectations of her clients has changed over time and in what way she can adjust her services to keep them relevant and valuable in the context of sectoral change. Accessing this type of support could cost around £142 a year, and a working day spent in training to explore approaches to marketing services.[126] When she adjusts her services, Joanne does not suffer a fall in business, and continues to have an income at 68% of the median income for employed women in her sector. This is still a relatively low net income of around £14,500 a year, in 2018 earnings terms, throughout her thirties, forties and fifties. However when she starts to wind down in her early sixties the fall in her income could make maintaining her standard of living difficult. When Joanne retires at age 69 she receives a State Pension and income from her DC savings. This reduces her net income from being around £14,000 to around £12,500.

Scenario 2: Joanne faces a reduction in demand for her services

Joanne is not able to access stakeholder support and acquire new knowledge on how to keep her services relevant to her clients and subsequently does not amend her services. She then faces a fall in demand of 50%. This halves her income from 68% to 34% of the median income. This is an income of around £8,500 a year, reducing to around £7,500 a year, in 2018 earnings terms. At retirement, (age 69) Joanne receives a State Pension and income from her DC savings, this increases her net income from being around £7,500 to around £12,000 a year.

Individual 4: Tara

Tara, like Maya, works in social work from age 22 until age 69. She earns at the median level for women in that sector and is a member of the Local Government Pension Scheme (LGPS), a career average Defined Benefit (DB) pension scheme throughout her working life.

Tara is modelled under scenarios of either:

- working at full-time to retirement,
- looking after children (taking maternity leave at age 30 for a year, then returning to work part-time at half her normal hours until age 50 then returning to work full-time),
- leaving work at age 50 to care for parents then at age 60, when her parents move into care facilities, returning to work part-time,
- a combination of caring for children and caring for parents.

Scenario 1: Tara works full-time throughout

- Tara has an income at the median level for women in her sector. Her take-home pay increases from around £14,000 a year at age 22, to around £19,000 throughout her thirties to fifties, where it starts to fall, ending up at around £18,000 a year at State Pension age.
- Tara has a full State Pension and a private pension with the LGPS, combined these two pensions give her an income in retirement which may initially be higher than she was receiving while in work of around £23,000 a year initially. However the LGPS pension is uprated in line with CPI rather than earnings, so in the longer term it falls in value when considered in earnings terms. Tara's net income falls to around £21,000 by age 80, £19,300 by age 90 and £18,000 by age 100.

Scenario 2: Tara has children and takes time off to care for them

- In scenario 2 Tara starts off exactly as in scenario 1, with a take-home income of around £14,000 a year at age 22, increasing to around £18,000, but at age 30 she takes maternity leave for a year. She then returns to work part-time with take-home pay of around £12,000. Scenario 2 illustrates taking time out of the labour market to have children impacts income. She is eligible for 14 weeks of full pay during maternity leave. Taking maternity leave and returning to work part-time not only decreases income during working life, but also reduces her private pension due to the years of part-time work.

Chart A1: Maternity Leave Impacts Tara's Income During and After Maternity Leave

Tara's annual income under a scenario of being a non-carer or taking maternity leave (2018 earnings terms)

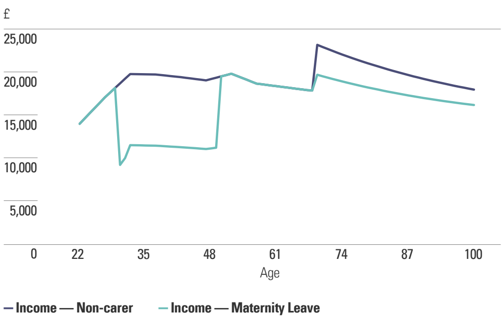
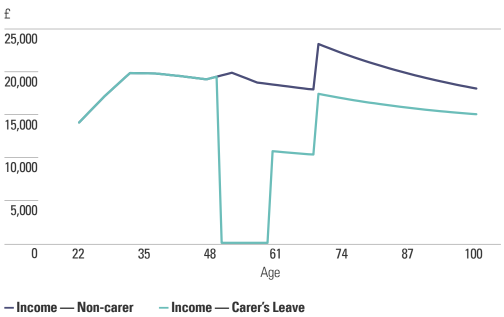


Chart A2: Caring for Parents Impacts Tara's Income During and After Carer's Leave

Tara's annual income under a scenario of being a non-carer or taking maternity leave (2018 earnings terms)



- At age 50, she returns to full-time work with take-home pay of around £19,000 a year, the same level as this stage in her career as in scenario 1. Similarly as in scenario 1 take home pay starts to fall, ending up at around £18,000 a year at State Pension age.

- In scenario 2 Tara has a full State Pension but her private pension with the LGPS is reduced due to the years of part-time pay. The combined income from these two pensions give her an after tax income in retirement which of around £19,500 a year initially, around 16% lower than under scenario 1, but still slightly higher than her income before retirement. However, as in scenario 1, the LGPS pension is uprated in line with CPI rather than earnings, so in the longer term it falls in value when considered in earnings terms. Tara's net income falls to around £18,000 by age 80, £17,000 by age 90 and £16,200 by age 100.

Scenario 3: Tara takes time off to care for her parents

- In scenario 3 Tara starts off exactly as in scenario 1, with a take-home income of around £14,000 a year at age 22, increasing to around £19,000, but at age 50 she leaves work to care for her parents for 10 years. At age 60 when her parents move into care 24 hour care facilities, she returns to work part-time with a take home pay of around £10,500 until she reaches State Pension age.

- In scenario 3 Tara has a full State Pension but her private pension with the LGPS is reduced due to the years of caring and thereafter working part-time. The combined income from these two pensions give her an after tax income in retirement of around £17,500 a year initially, around 25% lower than in scenario one where she worked full-time throughout, slightly lower than a full-time take-home pay would have been just before retirement. However, as in scenario 1, the LGPS pension is uprated in line with CPI rather than earnings, so in the longer term it falls in value when considered in earnings terms. Tara's net income falls to around £16,400 by age 80, £15,600 by age 90 and £15,000 by age 100.

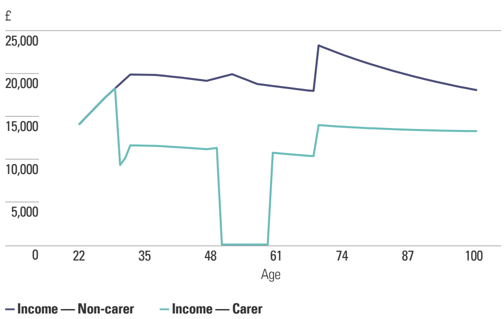
Scenario 4: Tara cares for children and takes time off to care for her parents

- Scenario 4 is a combination of scenarios 2 and 3. Tara starts off exactly as in scenario 1, with a take-home income of around £14,000 a year at age 22, increasing to around £19,000. But at age 30 she takes maternity leave for a year. At statutory maternity leave level, her income is £7,300 for the year. She then returns to work part-time with take-home pay of around £11,500.

- At age 50 she leaves work to care for her parents for 10 years. Then at age 60 when her parents move into residential care, she returns to work part-time with a take home pay of around £10,500 until she reaches State Pension age.

Chart A3: Maternity and Carer's Leave Impacts Tara's Income Over a Lifetime

Tara's annual income under a scenario of being a non-carer or being a carer (2018 earnings terms)



- In scenario 4 Tara has a full State Pension but her private pension with the LGPS is reduced due to the years of caring and thereafter working part-time. The combined income from these two pensions give her an after-tax income in retirement of around £13,800 a year initially, around 41% lower than in scenario one where she worked full-time throughout, slightly lower than a full-time take-home pay would have been just before retirement. However, as in scenario 1, the LGPS pension is uprated in line with CPI rather than earnings, so in the longer term it falls in value when considered in earnings terms. Tara's net income falls to around £13,400 by age 80, £13,300 by age 90 and £13,200 by age 100.

Individual 5: Maya

Maya works in social work for a private company from age 22 until age 69. She earns at the median level for women in that sector. Throughout her 20s and 30s, Maya has low levels of disposable income, of around £3,000 a year in 2018 earnings terms, after her expenditure needs are met.

Scenario 1: Maya divorces at 64 and remains single

At age 40 Maya marries Gavin, a colleague who earns at the median level for men in the sector. Both Maya and Gavin make contributions to their DC workplace pension with a 9% pension contribution (6% employer/3% employee). At the point of marriage the household income increases. Net income increases from around £20,000 to around £47,000. Expenditure is also expected to increase, but not to the same extent, leading to an increase in disposable income, from around £3,000 a year to around £18,000.

- At age 63, prior to their divorce, Maya and Gavin are both still employed but are winding down their employment; their income is lower than at the peak of their employment. Their net household income is £38,000. They divorce at age 64.

- At age 69 when Maya retires, she receives a full new State Pension and a workplace DC pension, comprising the pension she saved for herself before she got married, and a pension amount of 50% of her accrued pension and 50% of Gavin's accrued pension at the time of their divorce (as allocated during the divorce proceedings) for the time during which they were married, giving her a net retirement income of around £17,000.

Scenario 2: Maya divorces at 64 and re-partners at 69

- Maya meets Mark following her divorce from Gavin. Mark was employed in the financial sector, earning at median level for a man in that sector, he was a member of a DC pension scheme into which he and his employer contributed a total of 8% of salary each year. They get married at age 69. Maya's household disposable income increases from around £4,000 to around £12,000 a year in 2018 earnings terms.

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Funding the Future Life

The implications of a longer life

TRADITIONAL

- Three-stage life
- Nuclear family
- Home ownership in young adult life
- State-funded Health and Social Care
- Primary job
- Leaving employment near SPA
- Few career changes
- Retirement as a single event

EMERGING/FUTURE

- Multi-stage life
- New household/family structures
- Sustainable housing for all age groups
- Resources to supplement state-funded care
- Portfolio careers
- Extended working lives
- Multiple career transitions
- Gradual, flexible retirement

Sometimes hidden behind the stories of a digital revolution is something even bigger, and much more personal for each us: it's about how long we will all live.

Discover how the future life will impact:

- Student and Young Worker Perceptions
- Work & Skills
- Health & Social Care
- Family & Social Relationships
- Housing
- Evolving to Fund the Future Life

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