

Introduction

This briefing note examines the income needs of pensioners and how those needs vary during retirement; the sources which pensioners receive income from; and finally looks at whether pensioners have sufficient income to meet their needs at all stages of retirement.¹

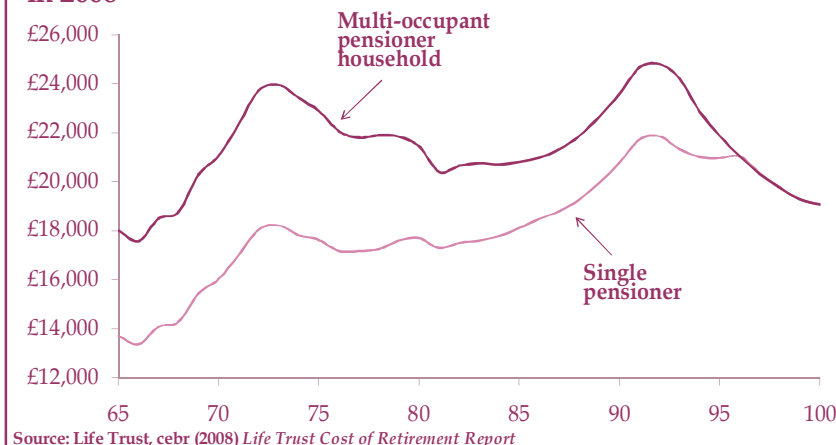
Many pensioners' incomes are likely to decline relative to the earnings of the rest of the population during the course of their retirement, yet some pensioners' needs for income may increase in later retirement as a result of key life events such as widowhood, the onset of disability or the need for long-term care. A key issue for policy makers, pensioners and their advisers is how to help people to cope with an unexpected 'second peak' in need for resources in later life, if it arises.

Calculating income needs

There are several ways to approach a calculation of the level of income people require to meet their needs in retirement. One approach is to assess the minimum level of income which households would require to meet their basic needs and achieve a minimum standard of living. Measures of the minimum income needs of pensioners tend to conclude that in 2008 single pensioners would need around £120 per week, and pensioner couples would need around £200 per week.²

Chart 1: Pensioner spending could vary during retirement as needs and preferences change

Possible annual household spending on different categories for pensioner households retiring at 65 in 2008



Source: Life Trust, cebr (2008) *Life Trust Cost of Retirement Report*

However many people feel that they need an income in retirement which provides them with a standard of living similar to the one which they were accustomed to in their working life.³ For people on median earnings, two thirds of pre-retirement income (after subtracting income tax) in retirement could allow for similar consumption levels to those experienced during working life⁴ (around £250 before housing costs, in 2008).

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

tion of their household and their health needs.

Income needs vary between households

The income needs of households vary according to their characteristics. Multi-occupant households have higher income needs than single person households, but need less income per person. Equally, whether a household is located in a rural or an urban area may affect the need for transport (urban households will generally have more access to public transport) and may impact on the price of goods that may be purchased, as households in rural areas may have less access to large discount shops than households in urban areas.

Income needs can also vary between male and female pensioners. Different spending patterns can reflect the price differences in

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some goods (for instance, women's clothing and footwear often costs more than men's) as well as differences in needs, such as the need for care, which is often higher for women.⁵

Income needs change during retirement

Needs also vary between pensioners of different ages, and are likely to change for pensioner households as they age. When people first retire they are likely to be more healthy and mobile than at later stages of retirement, and many pensioners wish to spend their first years of retirement enjoying their leisure time by eating at restaurants, attending the theatre and going on holidays.

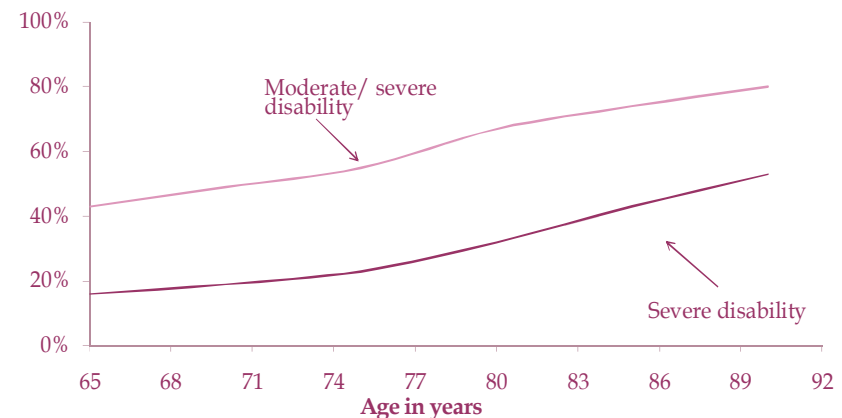
On average, 40% of total spending by people aged between 65 and 75 is on goods associated with recreation, such as hotels, transport and restaurants.⁶ Pensioner spending can drop off as people become older and less mobile, after the age of 75, and then increase again in older age as people acquire health problems and need to spend more on care, fuel, power and food. However as people reach age 95 and beyond, total spend tends to decrease as spending on items such as clothing, leisure and transport tends to drop off dramatically (Chart 1).⁷

Changes in health and income needs

One of the main reasons pensioners experience a change in

Chart 2: 80 per cent of older people have a moderate or severe disability by age 90

Percentage of older people with a moderate or severe disability by age



Source: IFS (2008) *Living in the 21st Century: Pensioners in England. The 2006 English Longitudinal Study of Ageing (Wave 3)*

their need for income is because of changes in their health. As people age they are more likely to acquire a disability (Chart 2).⁸

The onset of disability may often be associated with an increase in costs (for goods and services such as care, support, aids and adaptations to the home, mobility aids etc.) though acquiring a disability may also reduce costs in areas such as leisure activities and motoring expenditure.

The amount of increased income need that is associated with disability varies depending on the type of disability that an individual acquires and will generally increase as the severity level of the disability increases.

There are different approaches to measuring the costs of disability to pensioner households although there are limitations to how accu-

rate any measure can be. However, using expenditure as a guide, it is possible to consider what the costs of disability may be as a percentage of average income.⁹ Some calculations indicate that single pensioners (in 2008) could face increased costs of between around £50 to £250 per week and pensioner couples could face increased costs of between around £25 to £150 per week as a result of acquiring disabilities of low, moderate or severe levels.¹⁰

Couples often face lower costs than individual pensioners, when disabled, as they may receive unpaid care from their partner or may be able to share equipment and disability related-resources when both members have a disability.¹¹

Local Authorities can provide services such as home help and day

care or can support the funding of residential care, however this care is usually means tested so people above a certain income or asset level may be required to pay for all or part of the care which the State provides.

Pensioners may also receive extra help from family, friends and community groups once they are disabled. As help comes from many different sources it can be difficult to determine conclusively the extra cost of a disability to individual pensioner households or to the state.

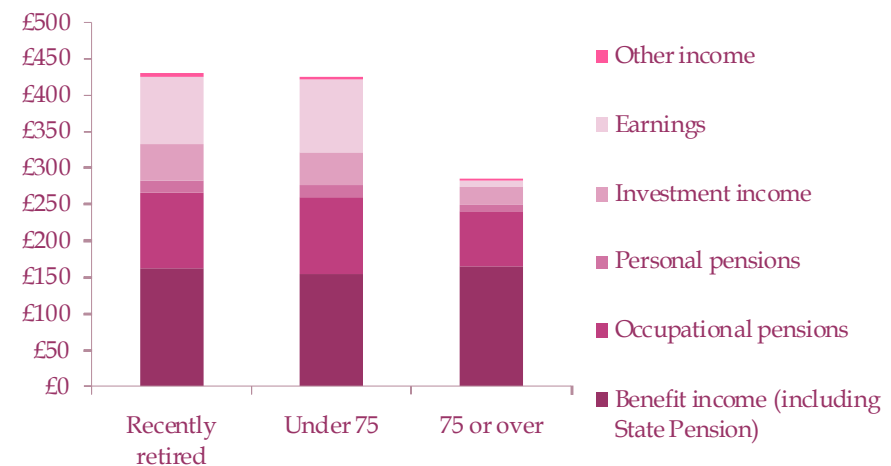
Sources of income vary between household types

After State Pension Age (SPA), people are likely to receive their income from a variety of sources including: state pension, means-tested benefits, disability and mobility related benefits, financial assets (such as savings and investments), occupational pensions, personal pensions and earnings.¹² Most pensioners receive some income from more than one of the sources listed above, however pensioners living in different household groups, and of different genders, ethnicities and ages tend to receive income in varying proportions from particular sources.

This has implications for the level of income that pensioners receive in retirement as different income sources will have various levels of income associated with them. For example,

Chart 3: As people age their income decreases from all sources except benefit income

The average income of pensioner units by age in pounds per week, 2006/07 prices



Source: Data from DWP (2008) *The Pensioners' Income Series 2006-07*

pensioners who receive the majority of their income from earnings or occupational pensions are likely to be receiving a higher overall level of income than pensioners whose main source of income is state benefits or state pension.¹³

Income sources vary across different household units, age groups, genders and ethnicities. Pensioners who are likely to be on a lower relative income (older pensioners, single pensioners, female and ethnic minority pensioners) generally receive a larger proportion of their income from state pension and state benefits than other pensioner households. Pensioners who are likely to be on a higher relative income (male pensioners, younger pensioners and pensioners in multi-occupant households) generally receive a larger proportion of their income from occupational pensions and/or earnings than

other pensioner households.¹⁴

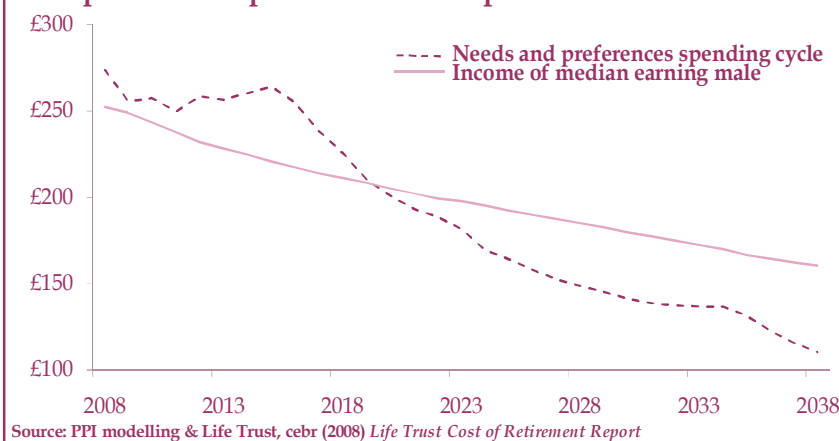
Many pensioners are likely to see a reduction in their income as they age due to a combination of being less likely to receive income from earnings, changes in household structure (e.g., from multi to single occupancy) and the way that pension income tends to decline relative to earnings over time (Chart 3).

Property and financial assets also help support retirement

As well as the direct sources of income examined above, many pensioners (73%) have property in retirement¹⁵ which can reduce day-to-day living costs, provide extra income through equity release, or be used as part of an investment portfolio generating income. However, many owner-occupiers may not be able to

Chart 4: Pensioners' income could decline in real (earnings) terms as they age

Median earning man's weekly post-tax income in 2008 earnings terms, retiring at age 65 with income from an occupational DC pension and state pension



release a sufficient amount of equity from their home to make a significant contribution to their income in retirement.

Pensioners can also receive income from sources such as the 25% tax-free lump sum that people are allowed to take from their pension fund at retirement, inheritance and other support or income provided by family, friends and community.

Sources and levels of income change during retirement

Older pensioners are more likely to be on a low income relative to the rest of the population (Chart 4) due to the fact that most sources of income for pensioners do not keep pace with the growth

in earnings in the economy as a whole. This suggests that pensioners may have trouble meeting their needs or desired levels of expenditure as they age if their needs for income increase due to disability, the onset of widowhood or the need for long term care. However, pensioners with assets such as housing or savings may be able to use these to fund increases in needs in later retirement. Pensioners on a very low income may have many of their primary needs provided for by state benefits and state support through health and social care services.

The spending cycle in chart 4 represents an average for pensioner spending. The needs of

any given pensioner may be for higher spending than depicted in this chart if, for instance, they acquire disabilities as they age.

Conclusion

Pensioners may have trouble meeting the second spending 'peak' on care and support in later retirement as their income is likely to be lower than it was in early retirement. Some pensioners might be able to meet this peak from their income, or by using other assets, savings or equity from their home, but many pensioners may be forced to rely on their family or the state for support, which may not necessarily be the solution pensioners would choose if they felt that they had other options available to them.

¹ The full report *Retirement income and assets: do pensioners have sufficient income to meet their needs in retirement?* Can be downloaded from the PPI's website. The PPI wishes to thank the sponsors of this report: Age Concern and Help the Aged, the Association of British Insurers, the Department for Work and Pensions, the Investment Management Association, J. P. Morgan Asset Management, and Prudential PLC. Further reports in this series are forthcoming.

² After housing Costs. See: relative poverty line, Pension Credit, and Joseph Rowntree Foundation (2008) *A Minimum Income Standard for Britain: what people think*

^{3,4} Pensions Commission (2004) *Pensions: Challenges and Choices. The First Report of the Pensions Commission*.

⁵ Kellard et al. (2006) *Needs and Resources in Later Life*

^{6,7} Life Trust, cebr (2008) *Life Trust Cost of Retirement Report*

⁸ The Institute for Fiscal Studies (2008) *Living in the 21st Century: Pensioners in England. The 2006 English Longitudinal Study of Ageing (Wave 3)*

^{9,10,11} Zaidi and Burchardt (2005) *Comparing Incomes When Needs Differ: Equalisation for the Extra Costs of Disability in the UK*

^{12,13,14} Department for Work and Pensions (2008) *The Pensioners' Income Series 2006-07*

¹⁵ House of Commons, 20 January 2009, Hansard, Column 1406W

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