

What is retirement really like?

Expectations vs. reality

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Building on previous ILC-UK research from 2015



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What is retirement really like?

- Changing expectations of retirement
- Retirement realities:
 - Consumption and expenditure in old age
 - How consumers allocate their spending
 - What are people actually doing in later life?
- Delving deeper:
 - There is no such thing as the older consumer
 - What explains falling consumption across retirement?
- Conclusions and Recommendations



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Retirement expectations today

“I expect to have a leisurely retirement”

“My savings will be inadequate to fund retirement.”

“I just don’t expect to live that long.”

“I don’t want to think about health and long-term care.”

“I have not given much thought to my needs in retirement”

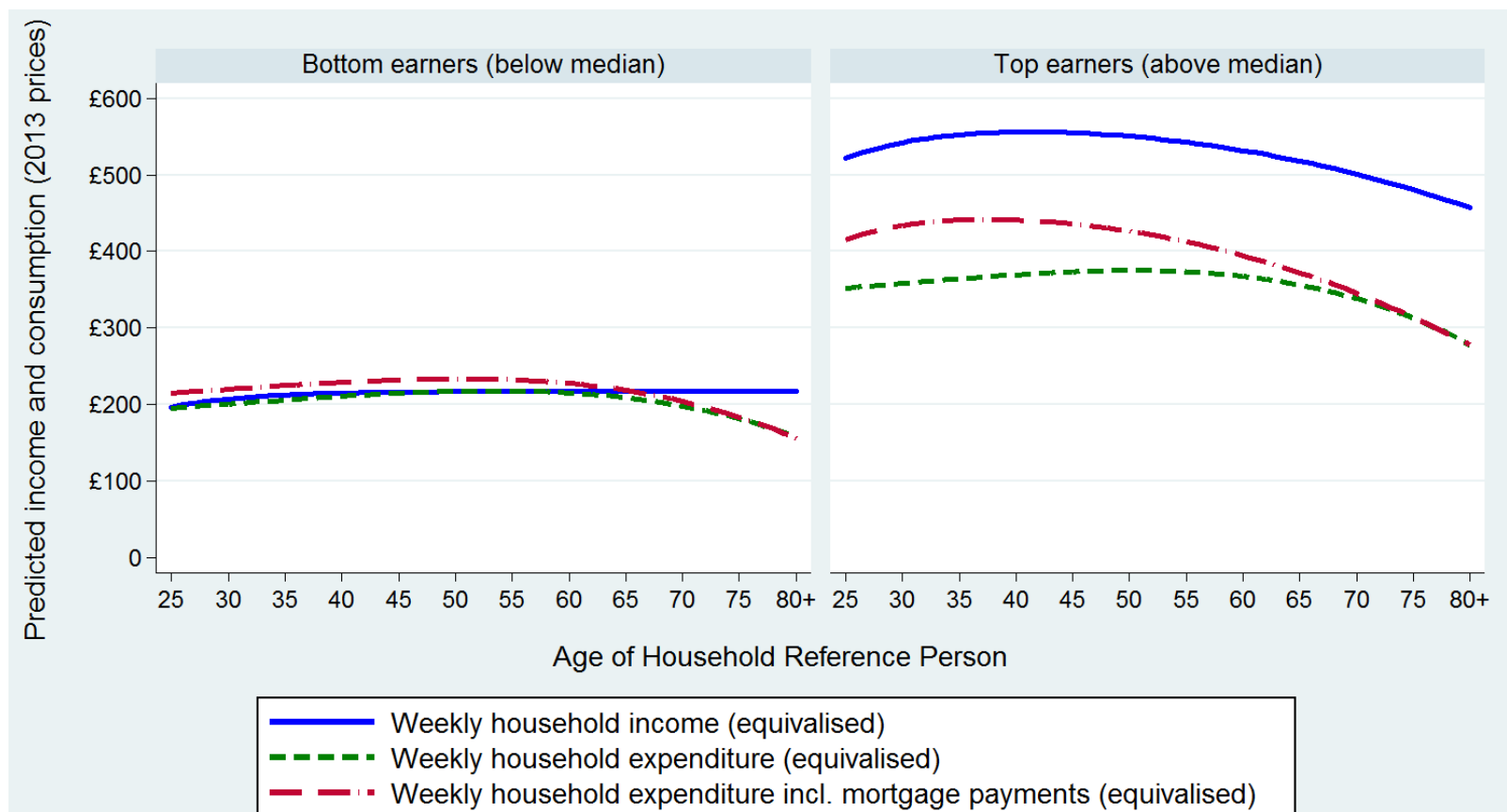
But – huge uncertainties make it difficult for us to predict the future

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- The Macroeconomic Implications of Saving in Retirement
- Conclusions and Recommendations



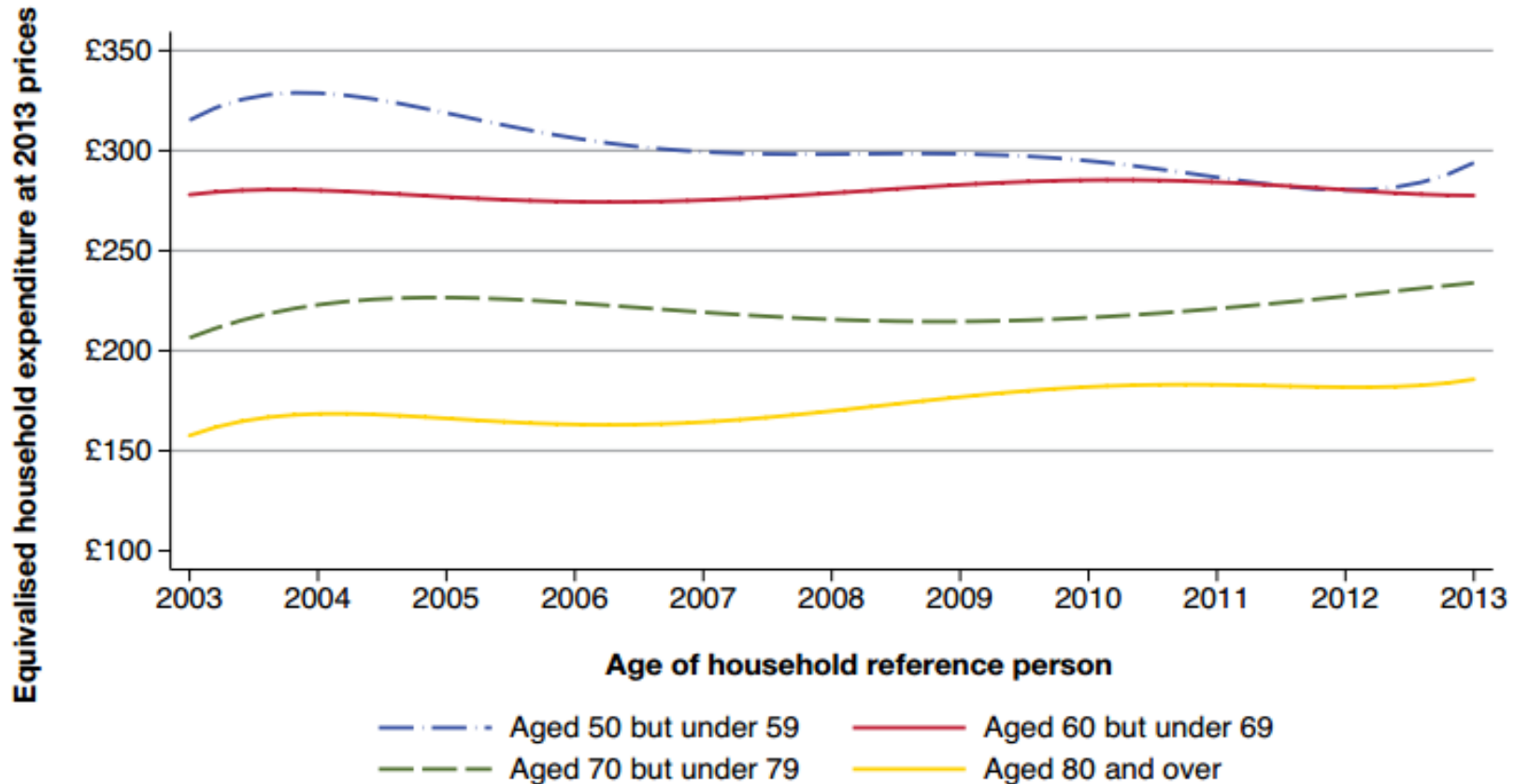
People spend progressively less as they age



Source: author's elaboration from Living Cost and Food survey / Expenditure and Food Survey (years 2003 to 2013)
Consumption expenditure and household income deflated by RPI index at 2013 prices; OECD equivalence scale used to account for household composition;
top and bottom 1% of the distribution of consumption expenditure and household income have been trimmed to exclude outliers; data are weighted using annual weights.

Is the decline in consumption a persistent trend?

Figure 6: Weekly consumption expenditure in different age groups (2003–2013)



Source: author's calculations from Living Costs and Food Survey / Expenditure and Food Survey (years 2003 to 2013)
Top and bottom 1% of the distribution have been trimmed; data are weighted using annual weights.

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...but mind the differences: savers vs. spenders

	% Not Saving	Median Weekly Debt	% Saving	Median Weekly Savings
Aged 60 but under 65	38.9%	-£112.7	61.1%	£141.8
Aged 65 but under 70	30.1%	-£113.0	69.9%	£138.4
Aged 70 but under 75	24.5%	-£96.7	75.5%	£140.6
Aged 75 but under 80	20.2%	-£92.3	79.8%	£143.6
Aged 80 and over	14.6%	-£85.7	85.4%	£153.9
Total	22.9%	-£100.2	77.1%	£145.1

Source: author's calculations from Living Costs and Food Survey (2003-2013). Data are weighted using annual weights. Note that for these estimates the sample has been restricted to retired heads of household.

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No evidence of U shaped consumption path being “typical”

- Consumption does not dramatically rise at the start of retirement or pick up towards the end of life to meet long-term care related expenditures
- Even for the 80+ age group, only a minority (6.4% of households) are putting money towards meeting long-term care needs.

	Proportion spending on care	Average care spending (for those who spend)
50 but under 55	0.1%	£19.9
55 but under 60	0.5%	£59.1
60 but under 65	0.4%	£27.2
65 but under 70	0.6%	£32.8
70 but under 75	0.9%	£44.3
75 but under 80	2.3%	£51.3
80 and over	6.4%	£45.5

Source: author's calculations from Living Costs and Food Survey Note that care expenditures relate to residential care or home helps.

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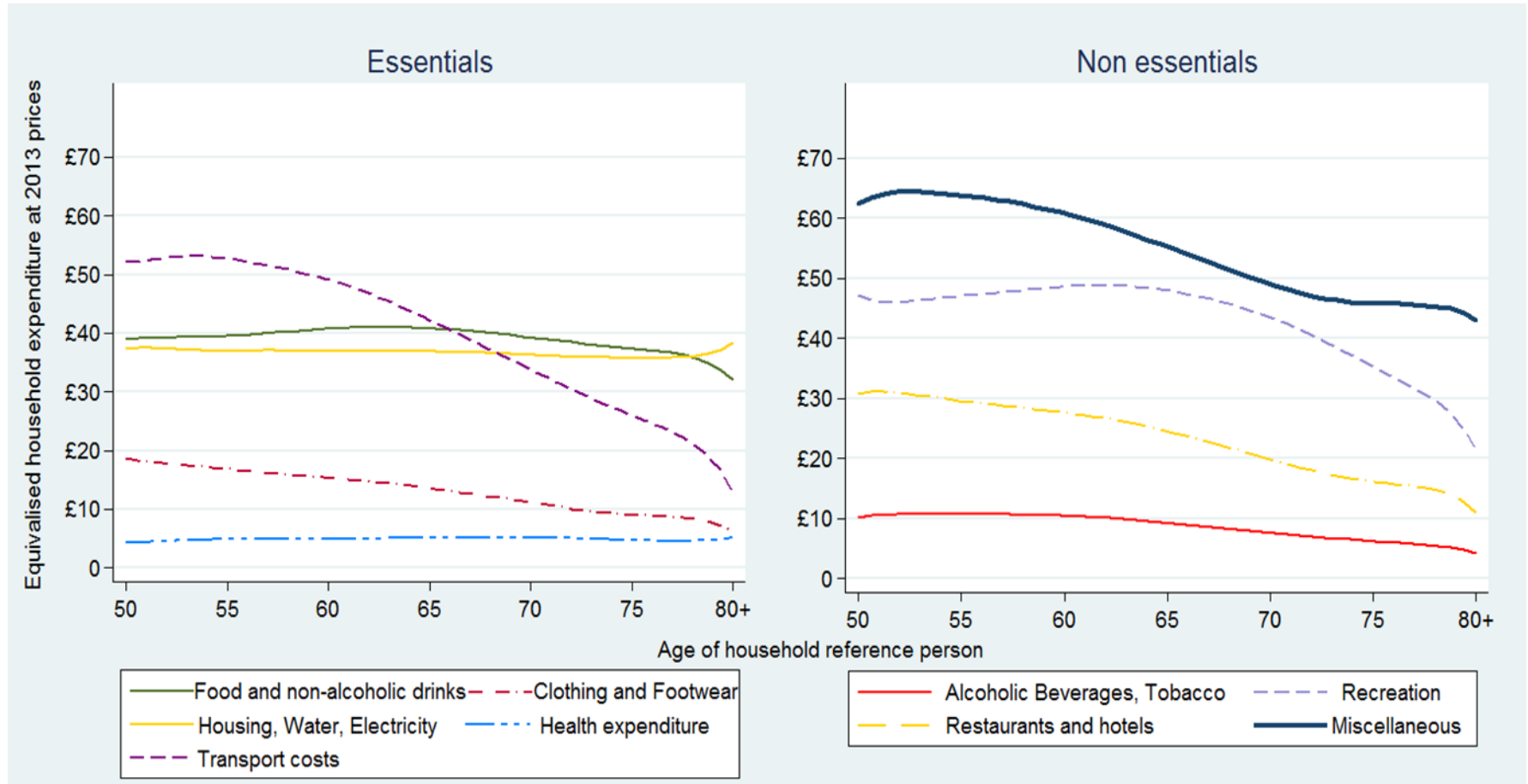


Retirement realities: Essentials vs. non essentials

- Much of the decline in consumption is explained by falls in spending on “non-essential items” such recreation, eating out and holidays.
- “Essential items” account for an increasing proportion of the overall household budget.
 - By age 80+, over 50% of expenditure is on essential goods and services.
- There does not appear to be a post-retirement spending boom on leisure and holidays



Essentials vs. Non essentials in more detail



Source: author's elaboration from Living Cost and Food survey / Expenditure and Food Survey (years 2003 to 2013)
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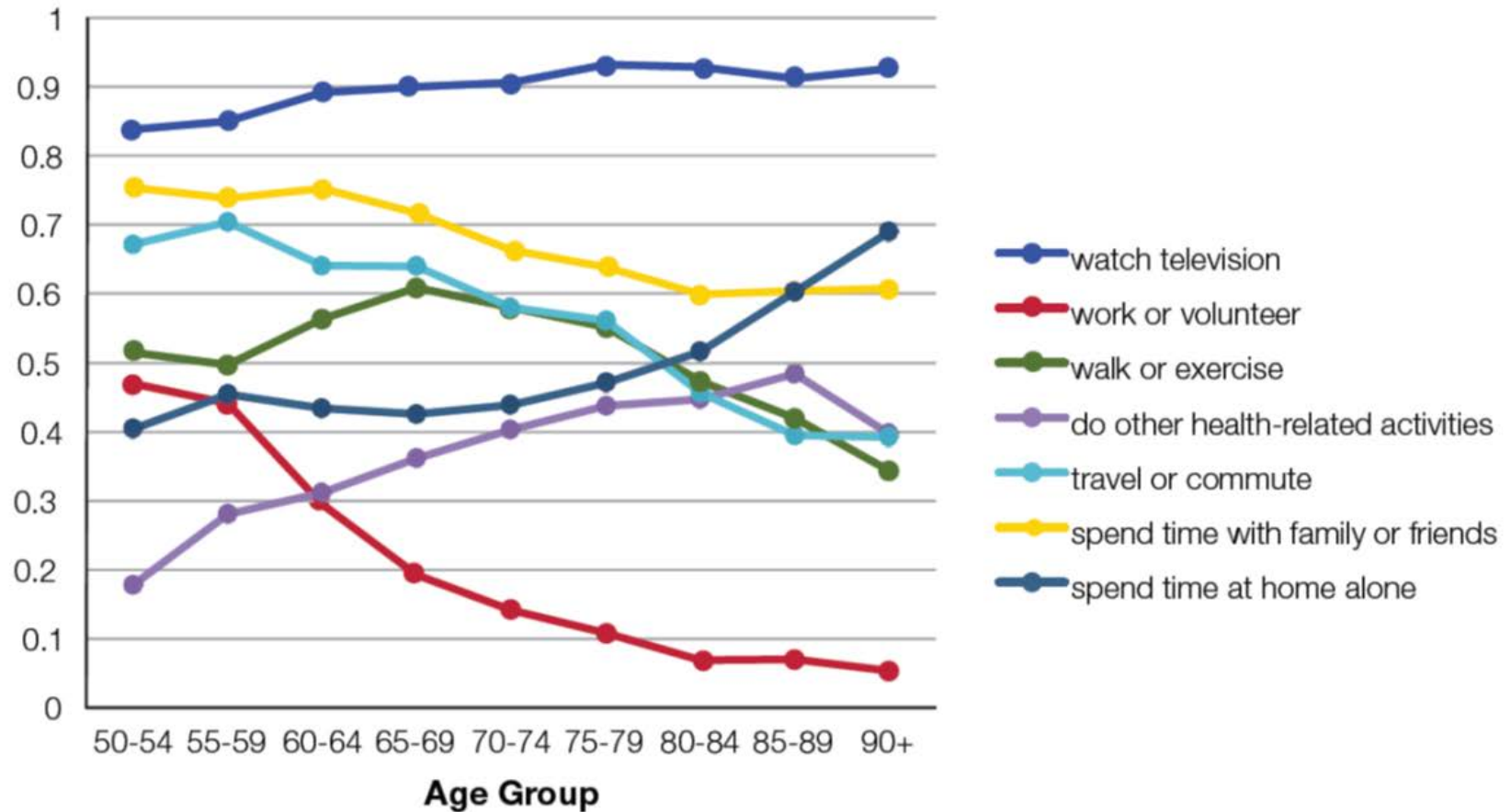
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The “reality” in later life: watching television and living alone?

Yesterday, did you...

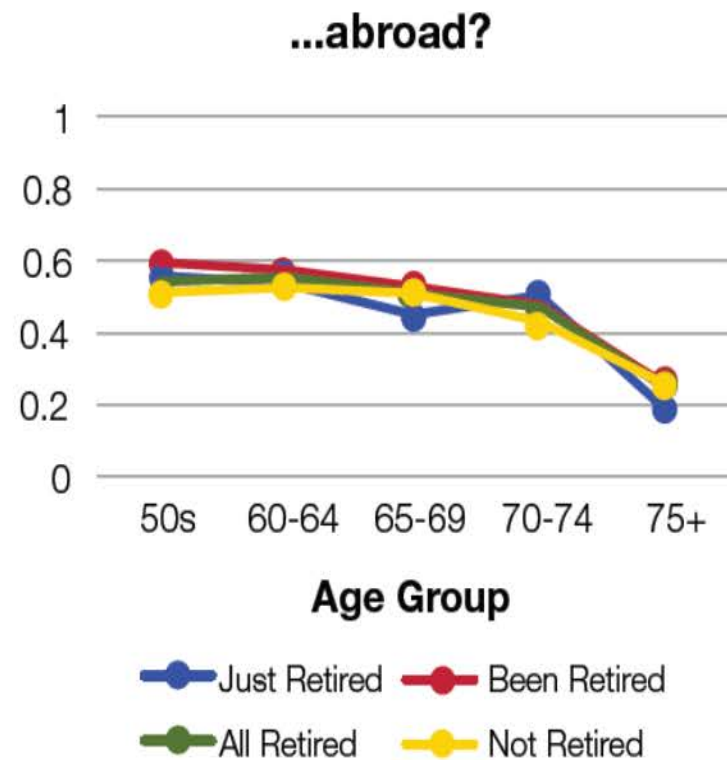
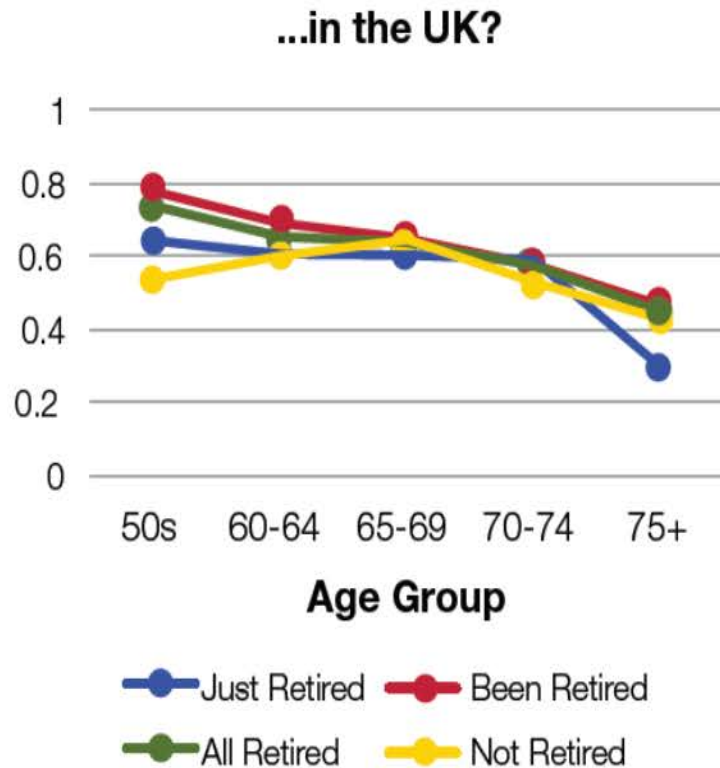


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The “reality”: holidays and retirement?

- In the past 12 months, have you taken a holiday...



Source: ELSA Waves 5 & 6 (2010/11 & 2012/13)

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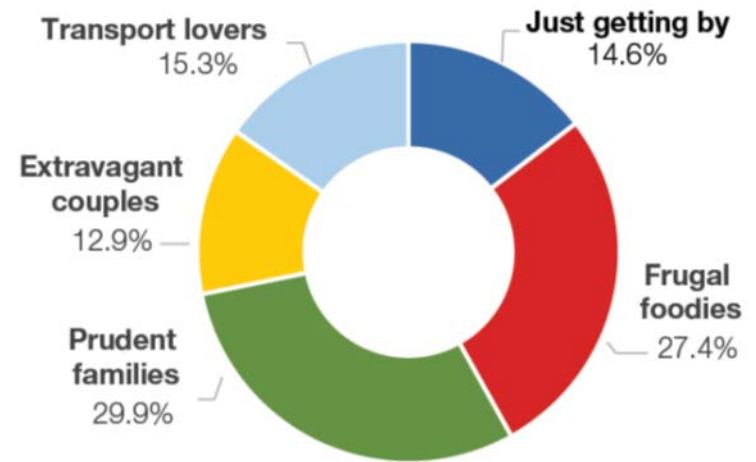
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There is no such thing as “the older consumer”

- “**Just getting by**” who spend over 45% of total expenditure on housing and bills; More likely to be single/widowed/divorced, renters.
- “**Frugal foodies**” who spend 27.5% of their total expenditure on food and drinks and over 13% on furnishing, housing equipment etc.
- “**Prudent families**” who spread their expenditure evenly on many items and save consistently as they age;
- “**Extravagant couples**” who spend nearly 40% of their total expenditure on recreational goods and services;
- “**Transport lovers**” who spend more than a third of their total expenditure (36.8%) on transport (both public and private).



Group 1: Just Getting By

Consumers in this group spend more than **45%** of their total expenditure on **housing and bills**.

Socio-demographic characteristics:

- Median age 70;
- More likely to be headed by a non-white, single, widowed or divorced person;
- More likely to be a renter, either private or social, than an outright homeowner;
- More likely to be on low income and not receiving income from investments;
- Furthermore, consumers in this group are disproportionately more likely to live in London or the North.

Issues/risks:

Older consumers belonging to this group have no family safety nets, are more likely to be renters and tend to be concentrated in London. As a result, as the group name suggests, individuals may struggle to afford day to day essential spending and cannot afford non-essential spending on recreation and holidays. Some individuals in this group are at particular risk in the event of rising rental costs or energy prices.



JGB's

Spends more than **45%** of their total expenditure on housing and bills.

Group 2: Frugal Foodies

Consumers in this group spend more than **27.5%** of their total expenditure on **food and non-alcoholic drinks**, and over **13%** on **furnishings and other household equipment** (nearly twice the average).

Socio-demographic characteristics:

- Median age 70;
- More likely to be a woman;
- More likely to be on low income, and not have private pensions or income from investments.

Issues/risks:

This group under-consume throughout their lifetime relative to all the other groups identified. Despite having a relatively low equivalised household income (£308.6 per week), they consume a lower proportion of their income than any other group. For this group, longevity insurance may be a solution, but perhaps those in this group are less aware of the options out there and end up under-consuming as a result.



FF's

Spends more than **27.5%** of their total expenditure on food and non-alcoholic drinks

Group 3: Prudent Families

Consumers in this group are consistent savers; they spread their expenditure quite evenly on all items, except for restaurants and hotels, which they seem to enjoy more than other groups.

Socio-demographic characteristics:

- Median age 61;
- More likely to be a woman, part of a couple and living in a larger household;
- Have relatively high household income, likely to have private pensions and income from investments.

Issues/risks:

“Prudent Families” are doing well. The only issue they might be facing is under-consuming, in that they could attain a higher standard of living given their means. However, consumers in this group also spend a lot more money on health than other groups do, and therefore some may be saving because they pre-empt declining health conditions. Having a larger than average family size, “Prudent Families” may also be saving in order to leave a bequest.



PF's

Are consistent savers; they spread their expenditure quite evenly on all items

Group 4: Extravagant Couples

The “Extravagant Couples” like to enjoy their life and spend nearly **40%** of their total expenditure on recreational goods and services.

Socio-demographic characteristics:

- Median age 65;
- More likely to be part of a couple, but living in a smaller household;
- High household income, having income from investments;
- More likely to own their home outright;
- More likely to live in the North of England than other groups.

Issues/risks:

“Extravagant Couples” are not savers until very late in life so, despite having relatively high income for most of their lives, there is a potential risk that they could run out of money in later years. For this group, financial advice is likely to be particularly beneficial to ensure that they have the means of meeting their rather more extravagant retirement needs.



EC's

Likes to enjoy their life and spend nearly **40%** of their total expenditure on recreation.

Group 5: Transport Lovers

“Transport Lovers” spend a very large proportion, up to **36%** of their total expenditure, on transport – including the use of and other costs associated with their own vehicles.

Socio-demographic characteristics:

- Median age of 61;
- More likely to be male, part of a couple and living in an average sized household;
- High household income.
- More likely to be buying their home with the help of a mortgage than other groups.
- More likely to live in the East Midlands than other groups.

Issues/risks:

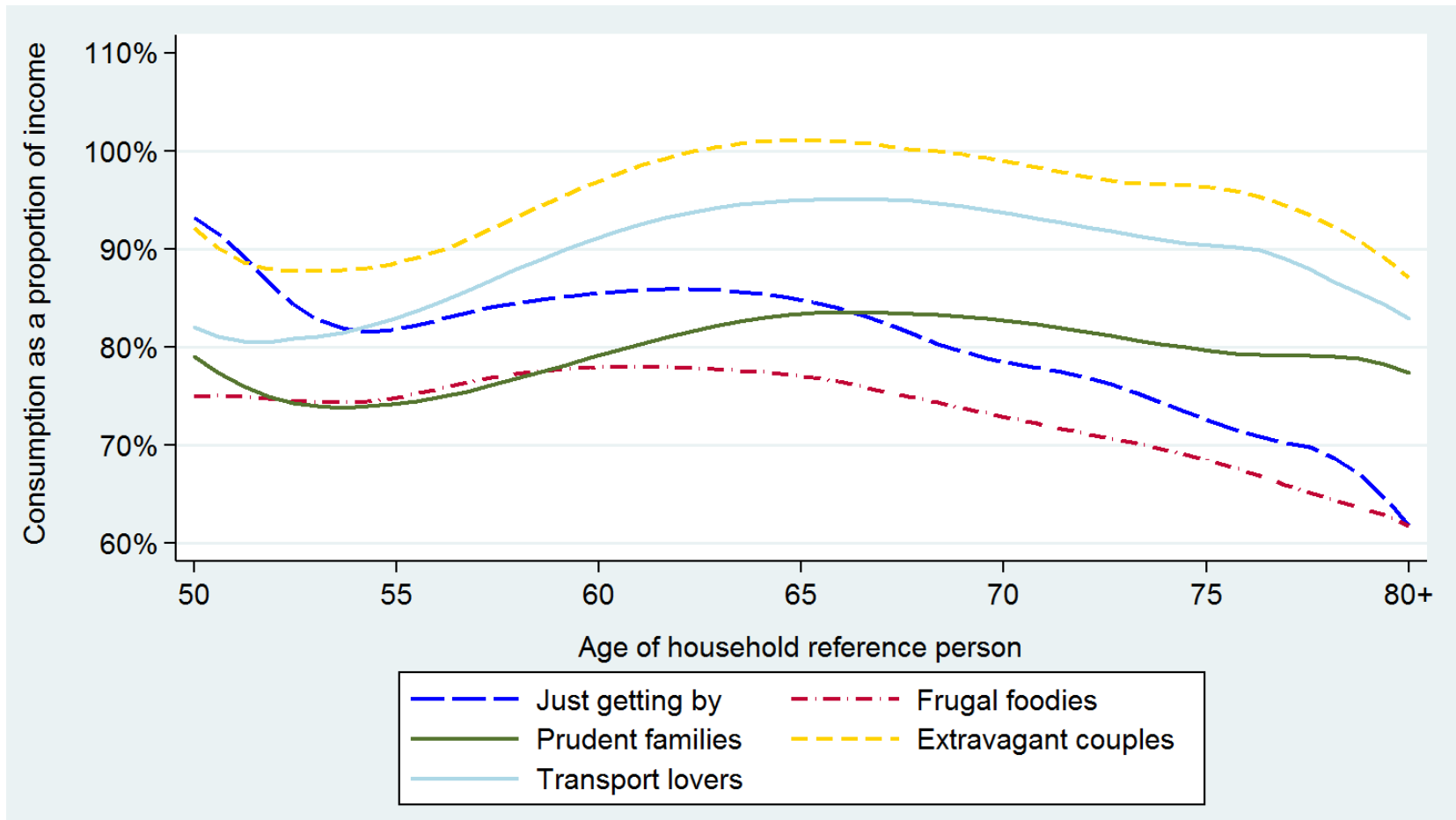
Given the amount spent on transport right across the life-course, consumers in this group are likely to be spending money on their own cars, rather than public transport which older people may get concessions on. A potential risk for them is that health problems and disability in older age might prevent them from travelling as much as they might like to the detriment of their quality of life. Despite having high income, they do not spend as much of their income as the “Extravagant Couples”, and indeed consistently save during retirement.



TL's

Spend a very large proportion, up to **36%** of their total expenditure, on transport

Common trend: all groups consume less than their income in old age



Source: author's elaboration from Living Cost and Food survey / Expenditure and Food Survey (years 2003 to 2013)
OECD equivalence scale used to account for household composition; data are weighted using annual weights.

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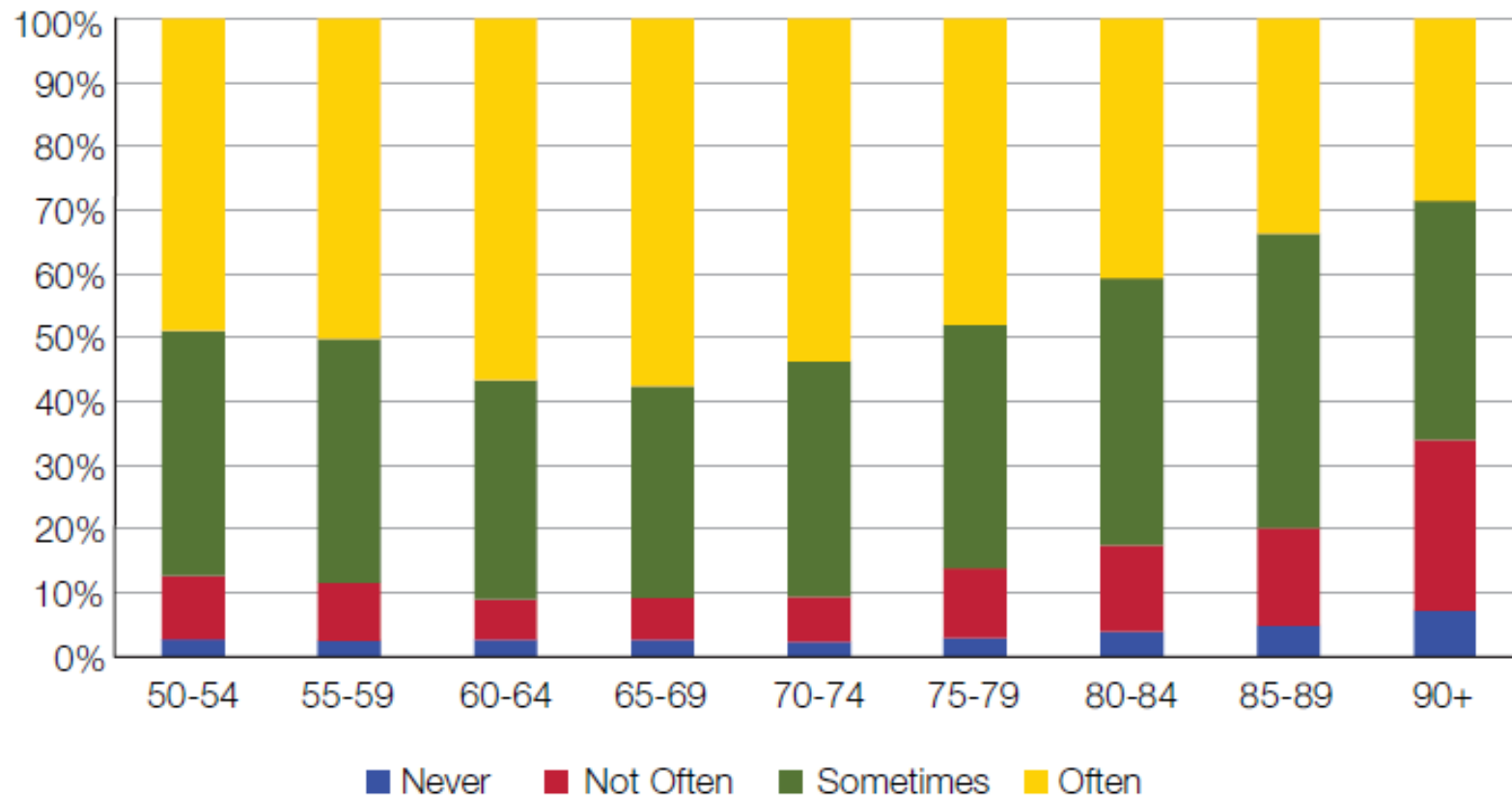


Delving deeper: What explains falling consumption during retirement?

- Are older people able to do the things they want?
- Health as an increasing barrier
- Financial constraints
- Bequest motives

Delving deeper: Are older people doing the things they want in retirement?

How often can you do the things you want to do?



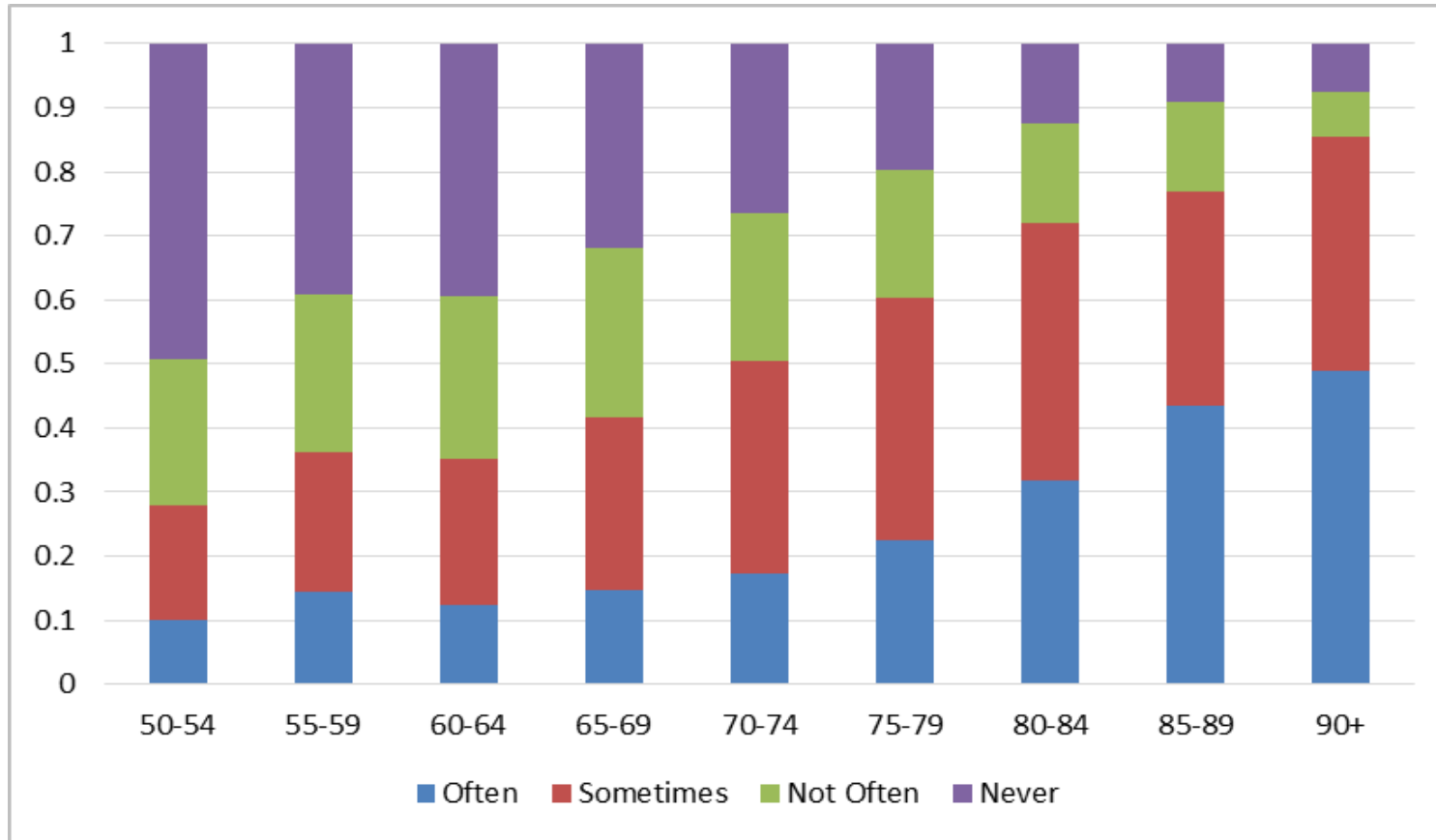
Source: ELSA Wave 6 (2012/13)

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Delving deeper: Health is a big factor

Health stops people from doing the things they want to do



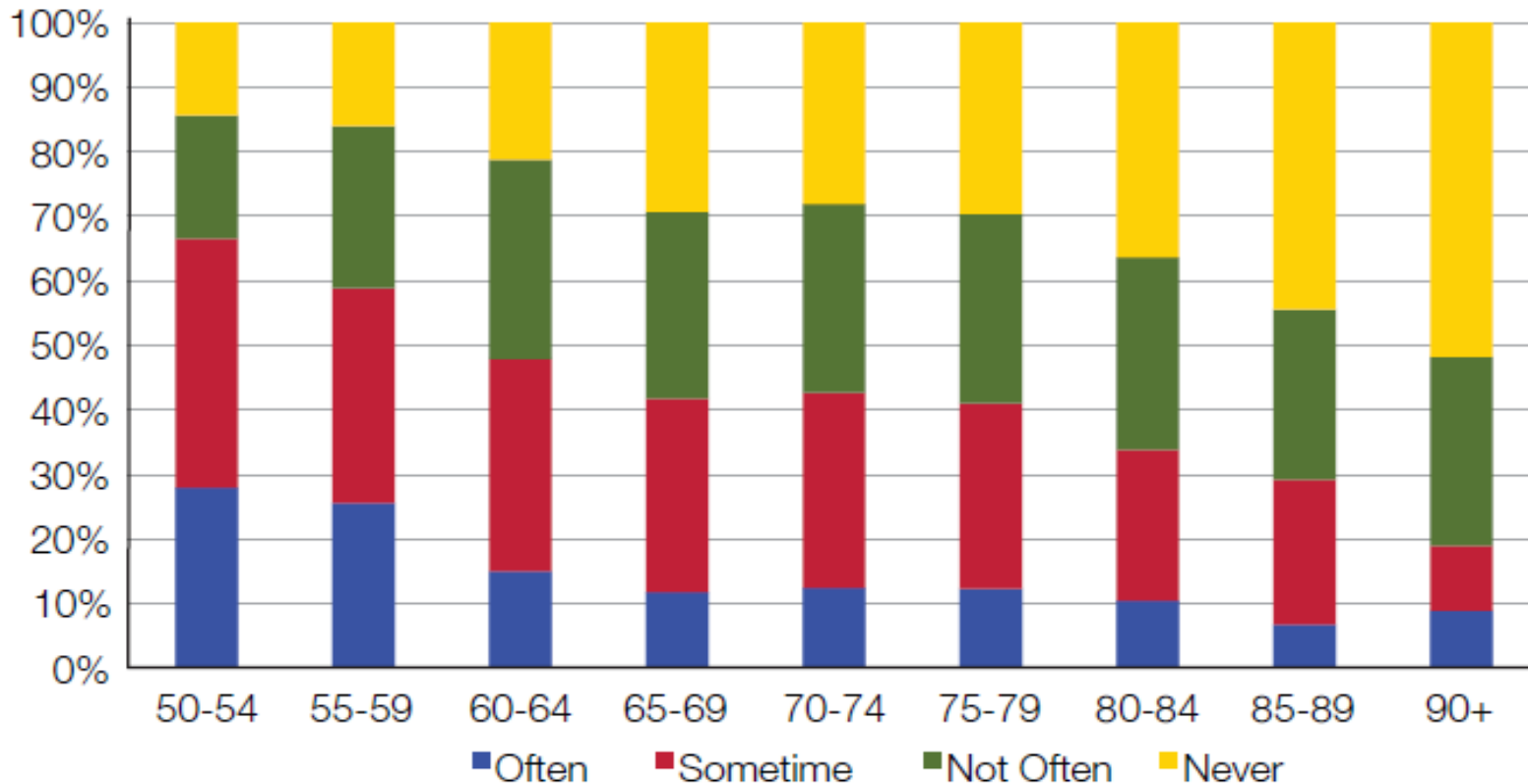
Source: ELSA Wave 6 (2012/13)

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Delving deeper: Financial constraints appear to affect older people less

How often do money shortages stop people from doing things?



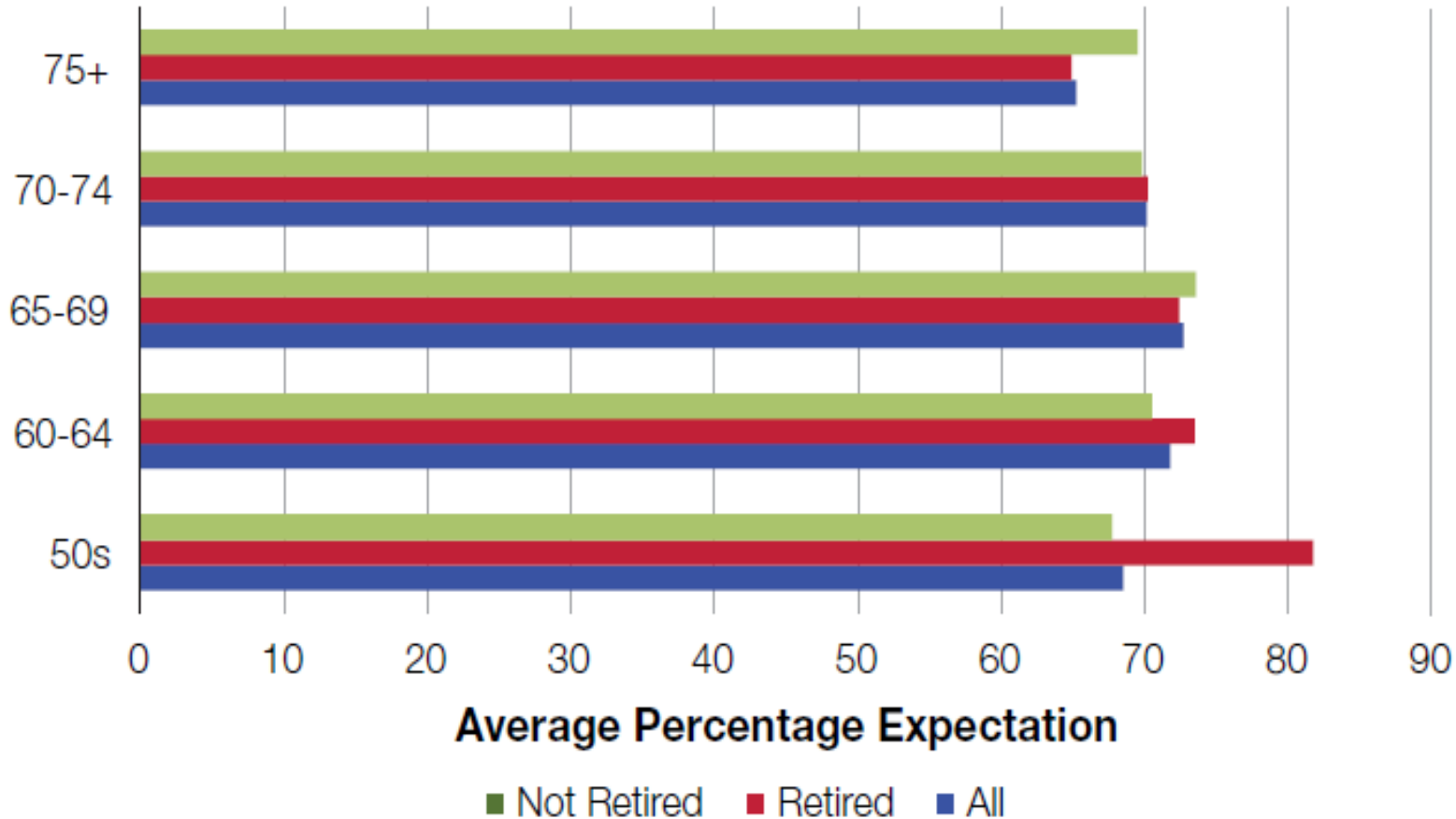
Source: ELSA Wave 6 (2012/13)

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Delving deeper: high expectation of leaving bequest

Average expectation of leaving 50K or more (inc. housing)



Source: ELSA Wave 6 (2012/13)

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The emerging story...

“In other words, elderly, particularly the oldest old, may find themselves physically constrained in their consumption possibilities. At very old ages, they may even consume less than their annuity income and end up with forced savings which they had otherwise consumed if they were not constrained in their consumption possibilities.”

Borsch-Supan (the German case, 1992)

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Towards some recommendations

The need for initial flexibility but with security of income in later life

- The “pension freedoms” introduced in April 2015 have stimulated debate about what decumulation strategies might be needed to meet changing consumption needs in retirement.
- Given the reality of retirement journeys, it may make sense for financial products and services to **facilitate relatively high initial income before guaranteeing a base level of income in later life.**
- But getting balance right between flexibility and security key and will likely require guidance and advice.

The need for guidance and advice

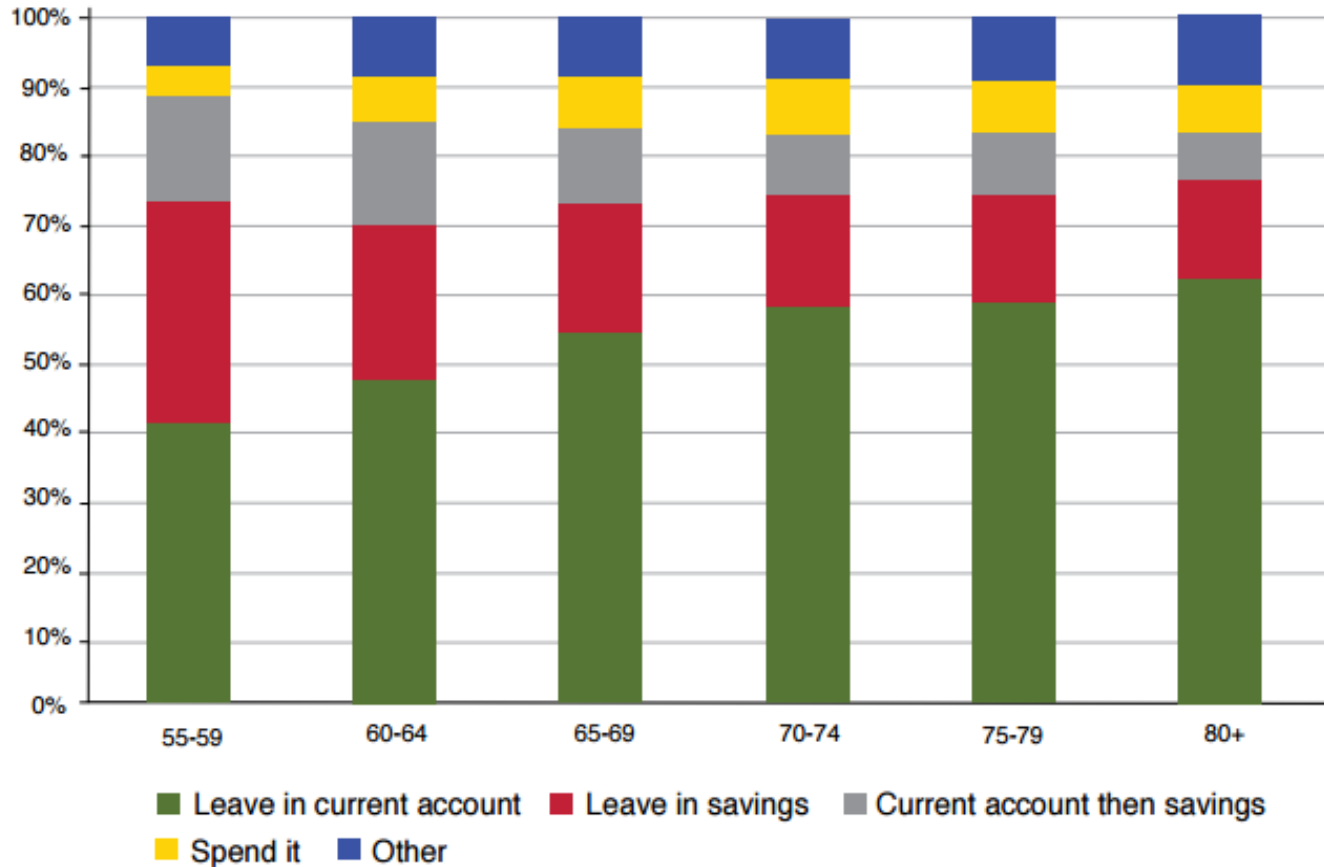
- Rules of thumb should be built into **financial guidance process**, and be supplemented by a **mid-retirement financial health check**
- **Important that the Financial Advice Market Review facilitates real change.**

A note of caution...

- While our data implies drawdown in the initial period of retirement might make sense, there are **clear risks**.
- In failing to annuitise at point of retirement, individuals might end up consuming even less of their income because they have **no certainty of income in later life**.
- And...individuals may have little appetite to take on **investment risks** after they have left the workforce.
- **Underconsumption in retirement is a concern** for countries where similar freedoms exist.

Final word...what happens to all those savings?

What older people did with the money left over?



Source: ONS Wealth and Assets Survey (2012) and author's calculations, data weighted using cross-sectional weights. Note: Other includes: purse for the next week, cash at home, give it to someone else, give it away, something else and depends on the amount

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Potential discussion points...

- Should we be looking at retirement income products that meet the “default” retirement consumption path?
- What might such products look like and what might be the consequences?
- Should we encourage older savers to put their savings in retirement into other savings vehicles and what should these vehicles look like?
- How do we ensure savings in retirement are put to better use from a macroeconomic perspective, or even facilitate greater consumption?



Many thanks

Planning
tomorrow
today

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