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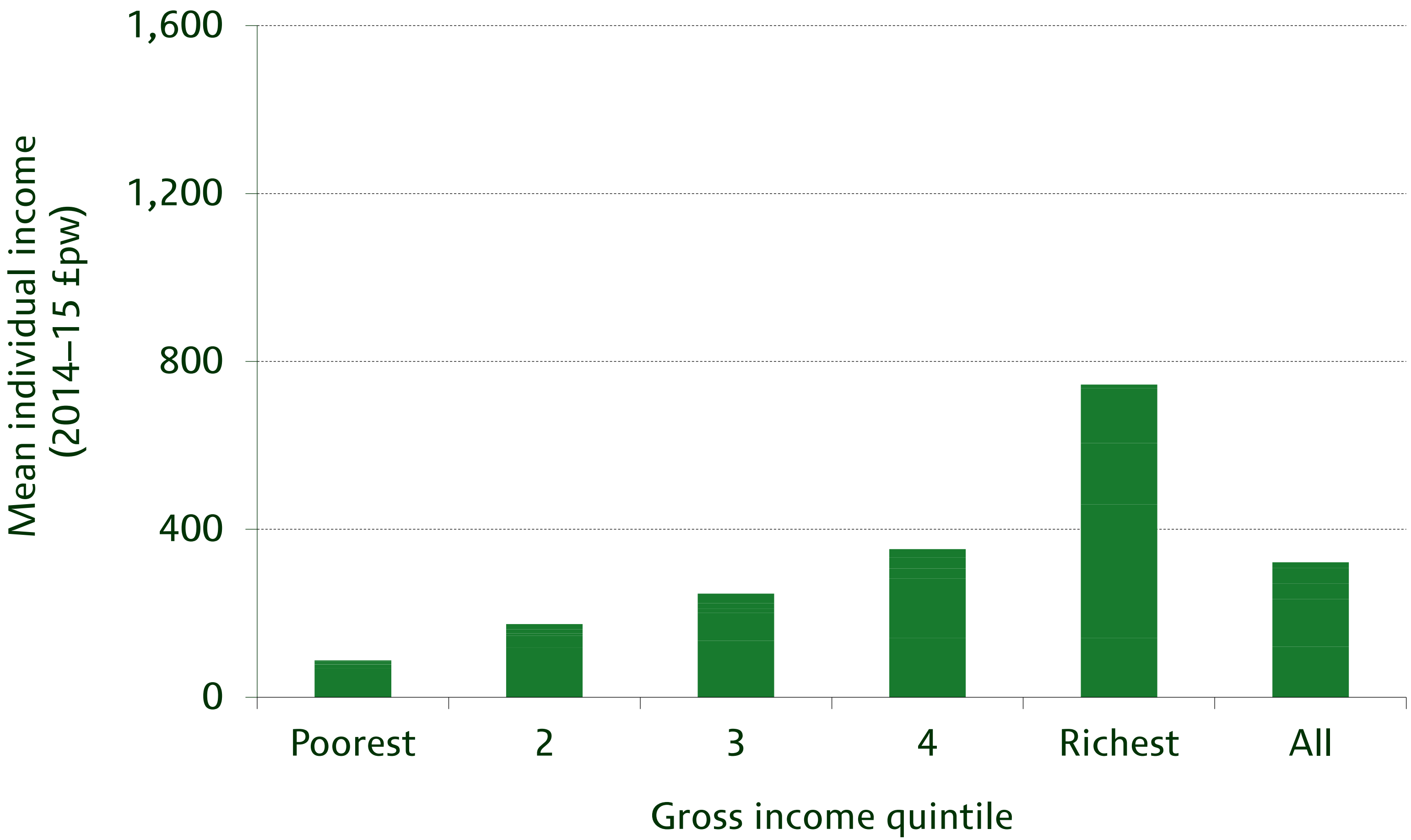
The Changing Face of Retirement

Future incomes, wealth and poverty among older people

Andrew Hood

Gross incomes for those aged 65 to 74: 2010–11



Source: Figure 4.1

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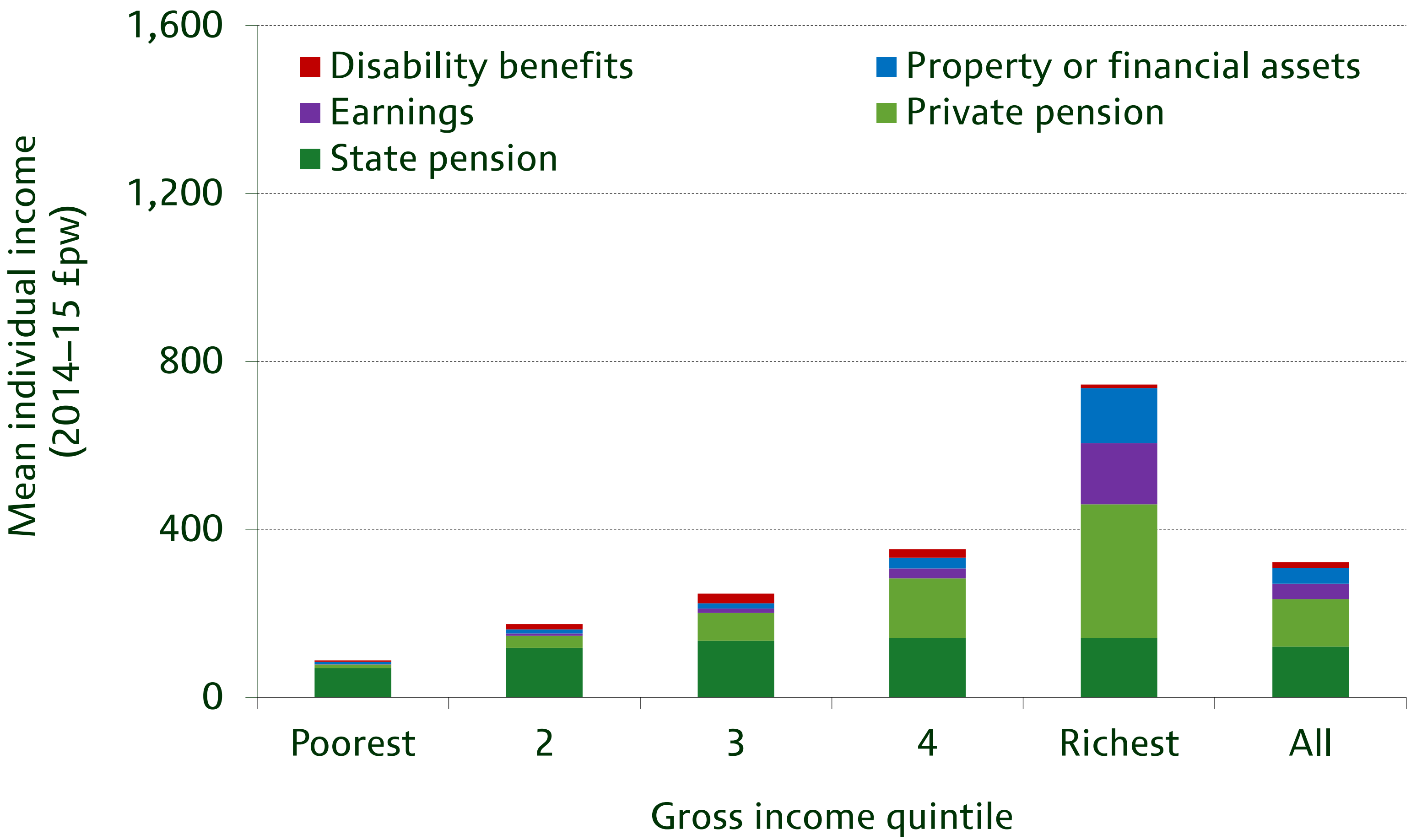
Gross incomes for those aged 65 to 74: 2010–11



Source: Figure 4.1

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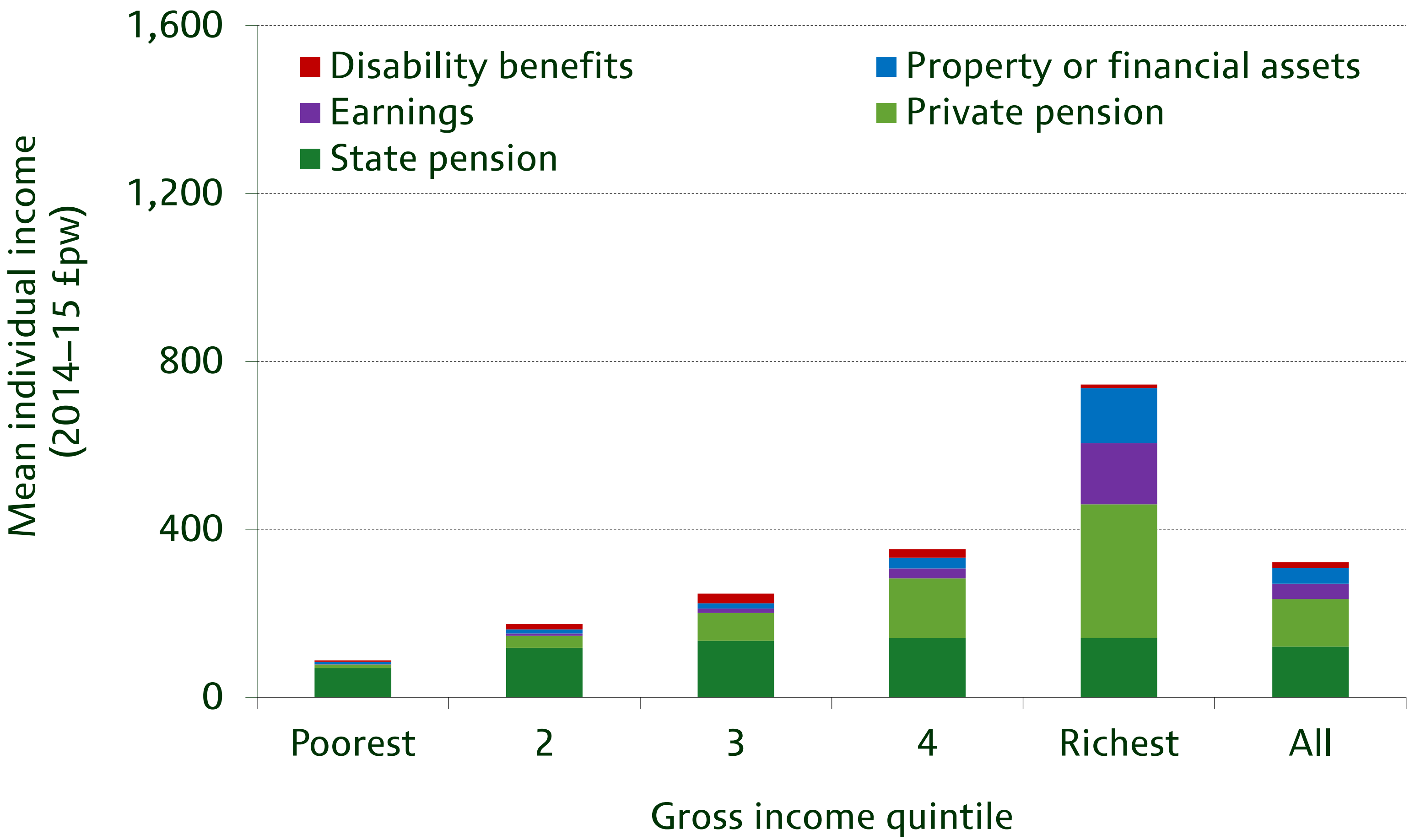
Growth in different gross income sources

- Dramatic projected increase in earned income among 65 to 74s
  - 8% per year between 2010–11 and 2022–23
  - more of this group in work for longer
- Strong growth in private pension income among 65 to 74s
  - 5% per year between 2010–11 and 2022–23
  - faster growth than for older ages
- Slower growth projected for state pensions and disability benefits

Gross incomes for those aged 65 to 74: 2010–11



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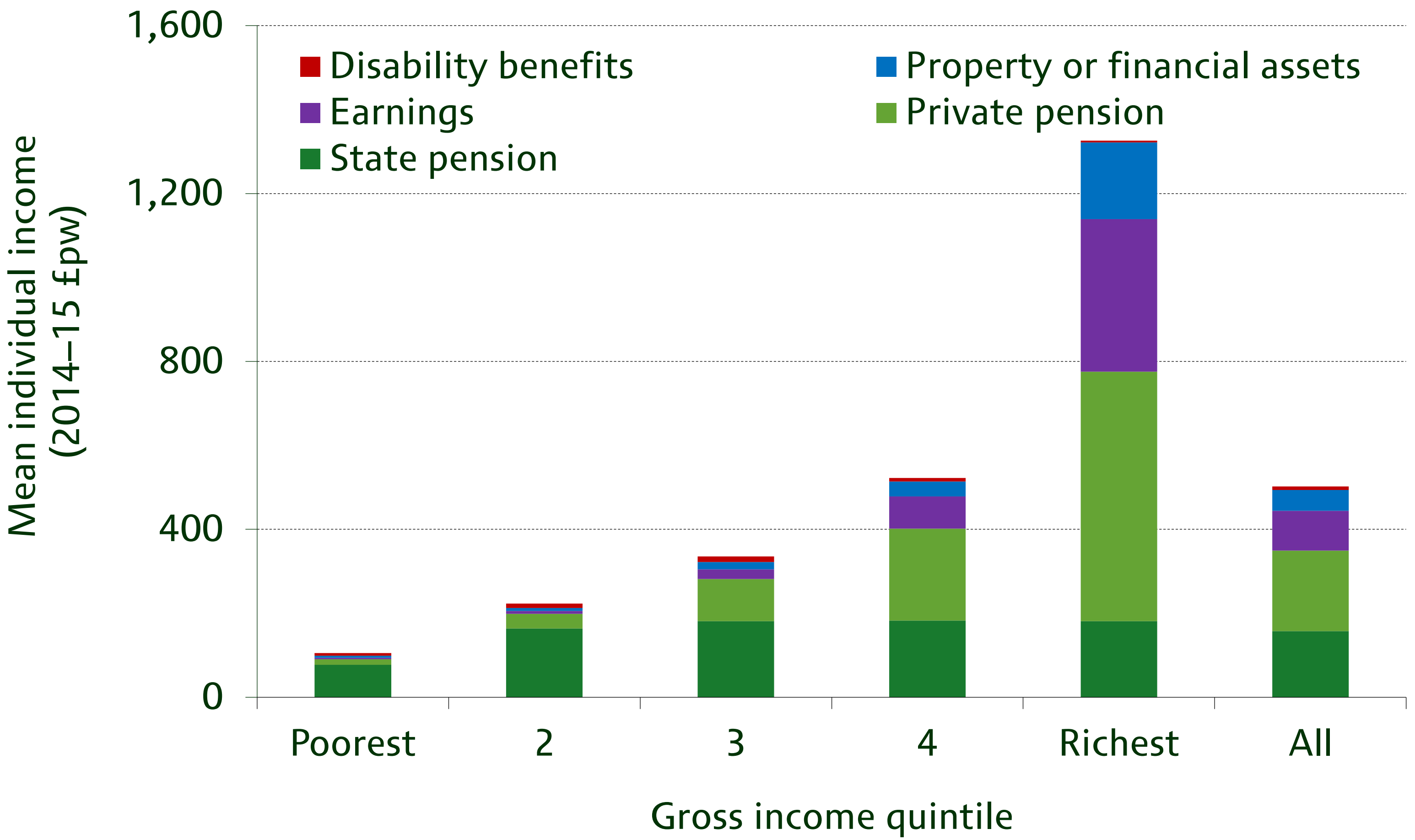
Gross incomes for those aged 65 to 74: 2022–23



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Projected changes in wealth

- Non-pension wealth for those aged 65+ is primarily made up of housing wealth rather than financial assets
- Net property wealth projected to grow as house prices rise and more older people are owner-occupiers
  - over 75% of single pensioners owner-occupiers in 2018–19 (compared to 68% in 2010–11)
- Net financial wealth to grow towards top of wealth distribution
  - Nominal increase at 75th percentile of around 5% per year

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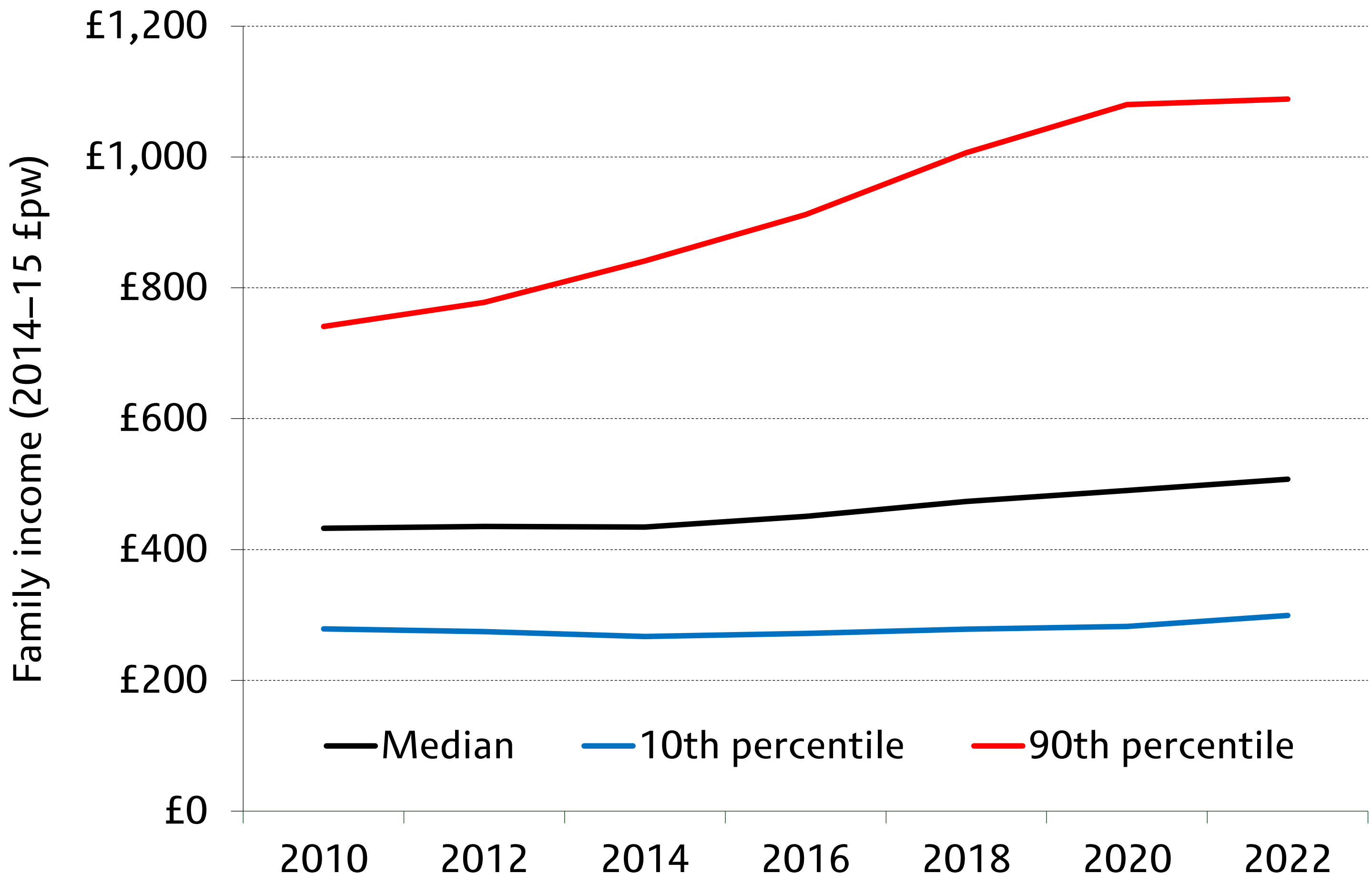
Calculating net incomes

- Given gross incomes, we can use the IFS tax and benefit model, TAXBEN, to calculate net incomes (after taxes and benefits)

- We incorporate all reforms announced by Budget 2014
  - eg. Universal Credit, transferable tax allowance for married couples

- Then use public finance defaults for uprating benefits and tax thresholds to create future tax and benefit systems

Net family incomes: 65+ population



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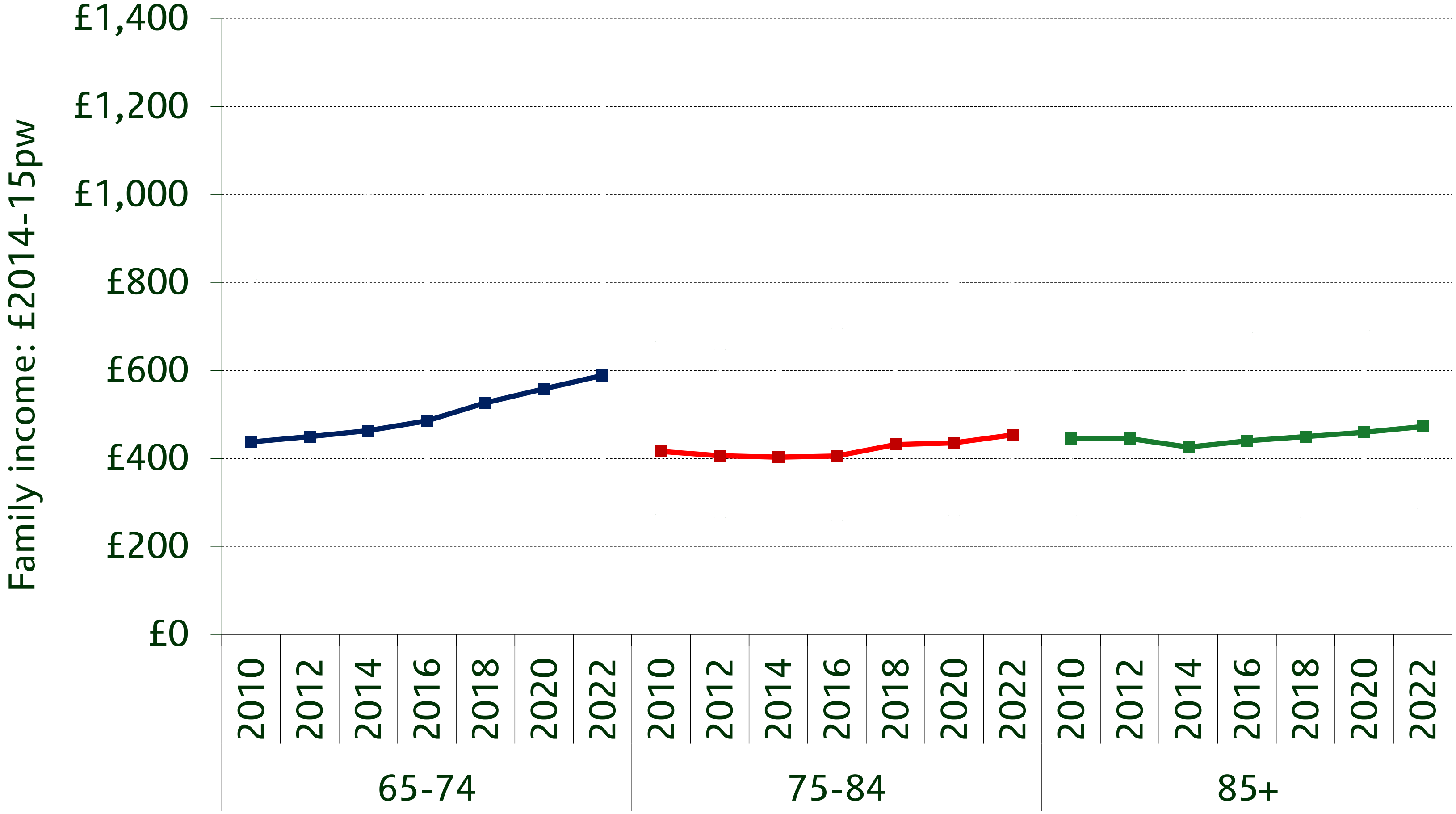
Net family income projections: 65+ population

- Slow growth in median income from 2010–11 to 2014–15, then return to average of 2% per year until 2022–23
  - compared to 2.8% per year in the 2000s
- Incomes rise by more than 3% per year towards the top of the distribution, but by less than 1% towards the bottom
  - leads to increase in income inequality among 65 and over population
  - driven by growing importance of earnings

Net family incomes by age: 65+ population



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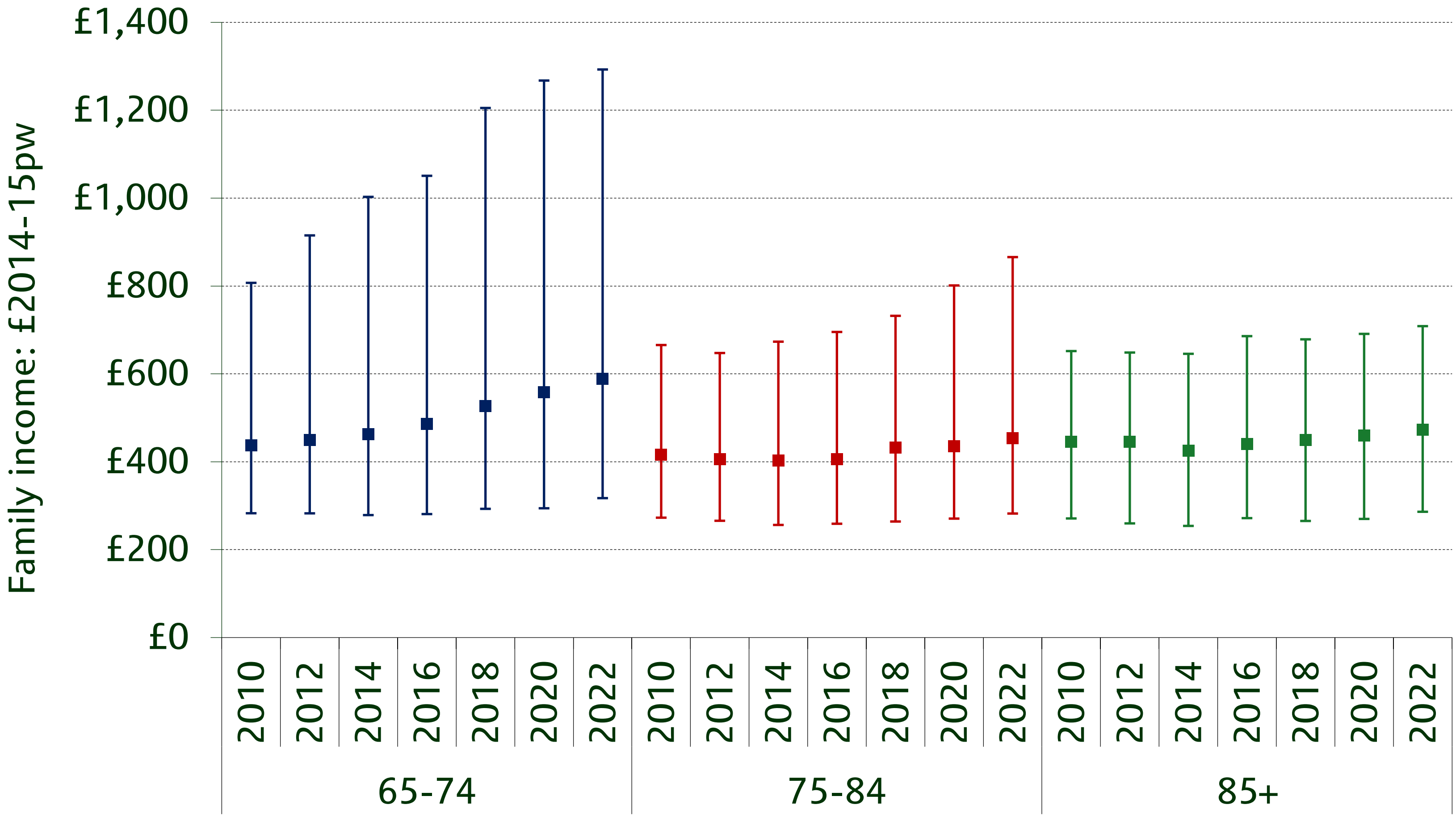
Net family incomes by age: 65+ population



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- Incomes rise by more than 3% per year towards the top of the distribution, but by less than 1% towards the bottom
  - leads to increase in income inequality among 65 and over population
  - driven by growing importance of earnings
- 3% per year income growth for 65-74s from 2014–15 to 2022–23
  - compared to 1.6% per year for 75+ population
  - reversal of past trends – again explained by importance of earnings

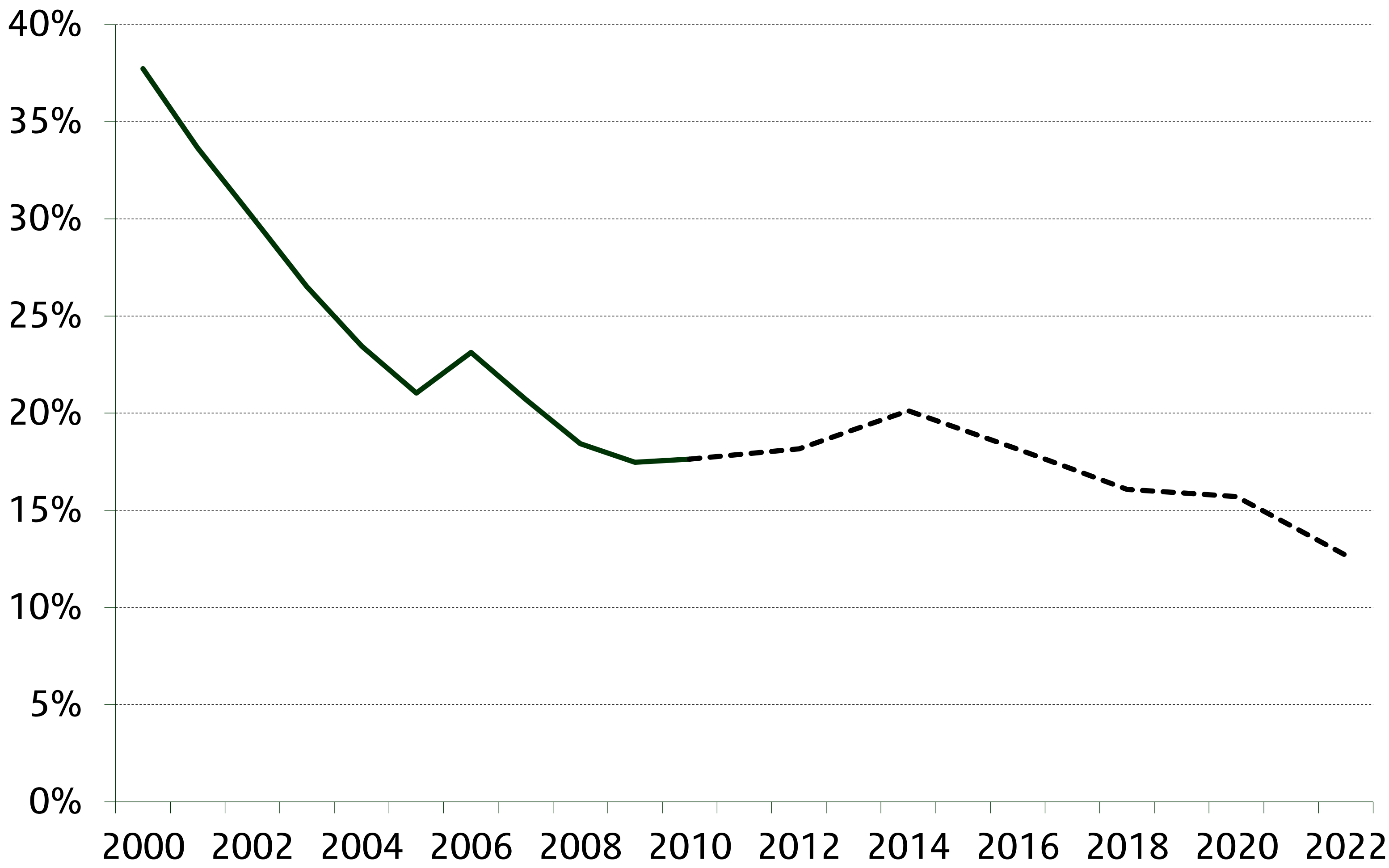
Calculating income poverty

- We project *absolute* income poverty among 65+ population
  - absolute poverty compares incomes to poverty line fixed in real terms
  - relative poverty would require projections for whole population median income

- We choose our poverty line to match official statistics
  - 17.6% poverty rate in 2010–11 among 65+ population
  - in 2010–11, poverty line is £280 for couples (£190 for single people)

- Adjust that poverty line for forecast changes in prices using CPI
  - Official statistics currently use RPI, but overstates inflation

Absolute income poverty: 65+ population

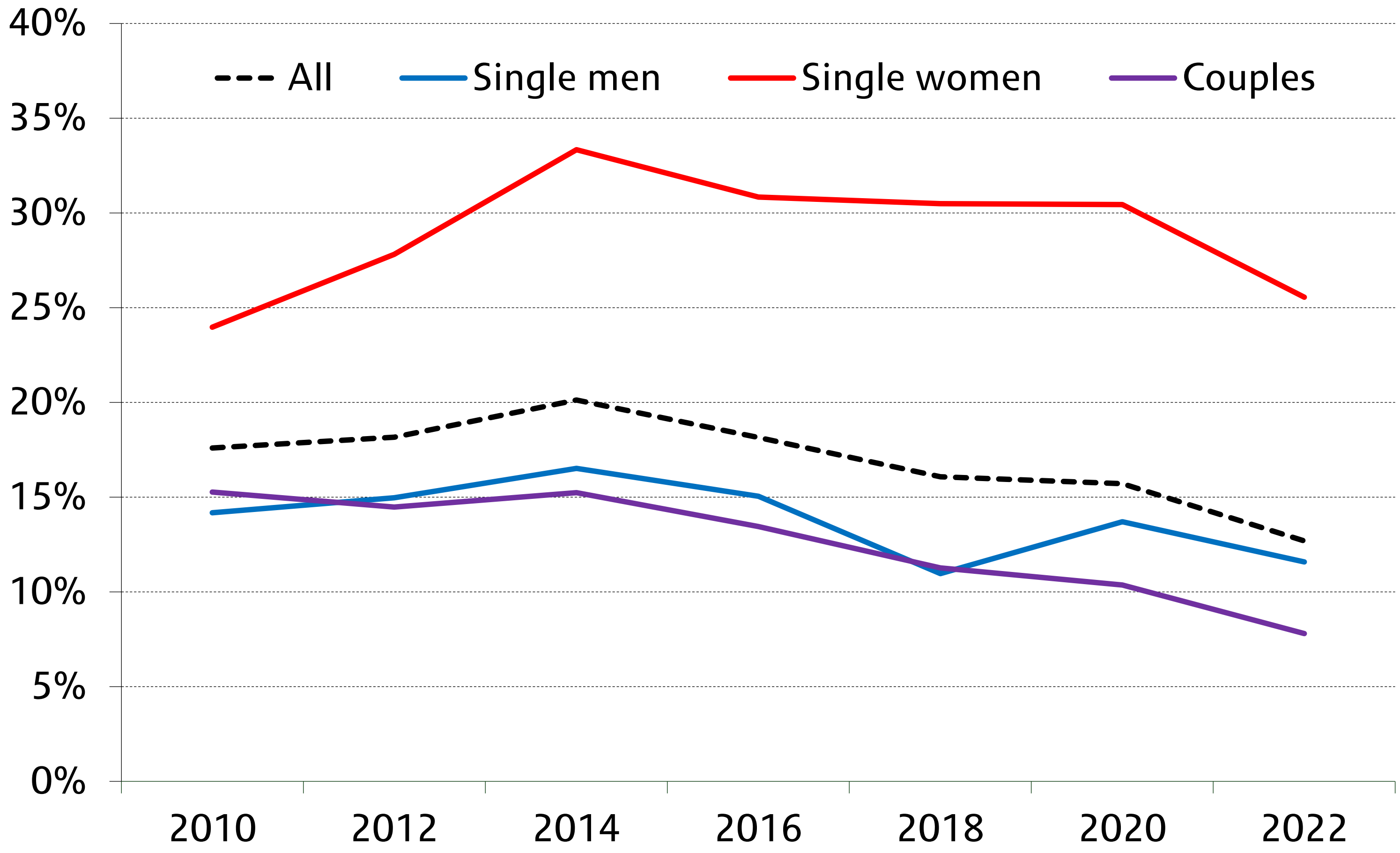


Source: Figure 5.4

Absolute income poverty projections: 65+ population

- Absolute poverty projected to fall from 20.1% in 2014–15 to 12.7% in 2022–23
  - around a third of 2000–01 level

Absolute income poverty by family type: 65+ population



Source: Figure 5.5

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Absolute income poverty projections: 65+ population

- Absolute poverty projected to fall from 20.1% in 2014–15 to 12.7% in 2022–23
  - around a third of 2000–01 level
- Particularly sharp decline in absolute poverty among couples
  - from over 15% in 2010–11 to less than 10% in 2022–23
- But poverty among single women projected to increase
  - does not reflect women falling into poverty, rather changing composition of this group

Policy reforms

1. Retain disability living allowance, rather than rolling out personal independence payments

2. Return to price indexation of the state pension (rather than continuing with the triple lock)

3. Increased flexibility around annuitisation of defined contribution (DC) pension wealth

Reform 1: retaining disability living allowance

- Does not have direct impact on incomes of 65+ population as PIP only due to replace DLA for working-age claimants
  - effect increases over time as more of those affected reach 65

- Relatively few people affected
  - only around 20% of individuals receive disability or carer's benefits

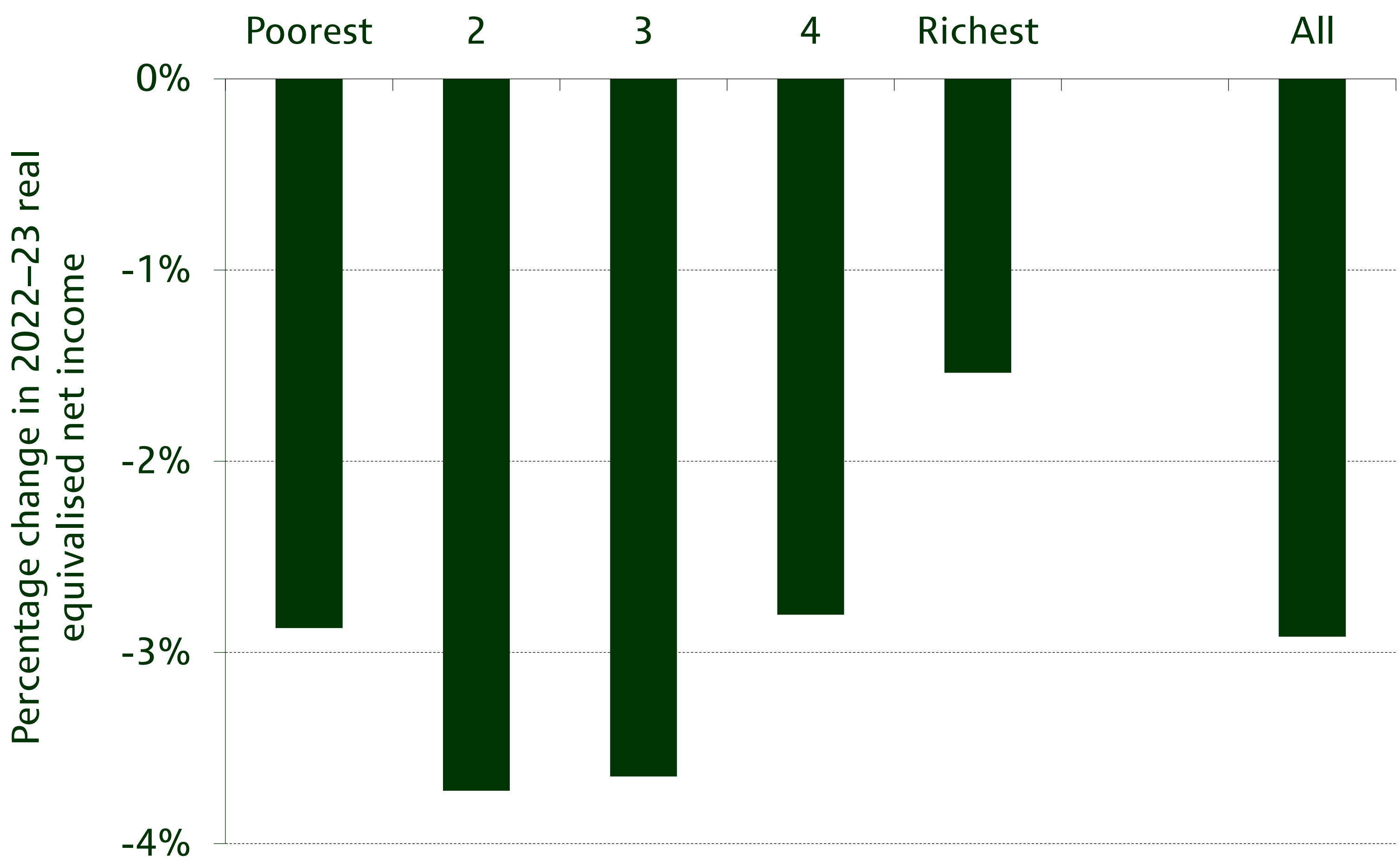
- Those affected gain £17 per week on average
  - some entitled to DLA (and not PIP)
  - some entitled to higher level of benefit under DLA

Reform 2: price indexation of state pension

- State pension spending projected to grow by 24% in real terms between 2010–11 and 2018–19
  - spending on all other benefits and tax credits to fall by 7%

- We model switch to CPI-indexation of state pension from 2016–17

Impact of price-indexing state pension from 2016–17 by income quintile, 2022–23



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Reform 2: price indexation of state pension

- State pension spending projected to grow by 24% in real terms between 2010–11 and 2018–19
  - spending on all other benefits and tax credits to fall by 7%
- We model switch to CPI-indexation of state pension from 2016–17
- Average loss of about 3% of income in 2022–23
  - losses concentrated in lower middle of income distribution
- Absolute poverty projected to be 2ppts higher as a result (at 15%)

Reform 3: not annuitising DC pension wealth

- Budget 2014 announced removal of requirement to buy an annuity with accumulated DC pension wealth from April 2015

- We model changes in income and wealth if everyone used this new freedom in full
  - ie. no one annuitises their DC pension wealth after 2014–15
  - 14% of 65 to 74s affected by 2022–23 (7% of 65+ population)

- Mean amount of unannuitised pension wealth among those affected is around £200,000 (median just under £75,000)
  - at extreme, choice between that and £200 (£75) per week of income

- Biggest proportional increases in wealth at the bottom

Conclusions

- The future looks different for women aged 65+ in particular
  - more likely to be in a couple at older ages
  - more likely to work at younger ages
  - likely to be healthier at all ages
- Incomes among those aged 65+ to rise by an average of 2% per year from 2014–15 to 2022–23
  - driven by increased income from earnings and private pensions
  - faster growth for those aged 65 to 74
- Absolute income poverty to fall from 20.1% in 2014–15 to 12.7% in 2022–23 among those aged 65+
  - poverty increasingly concentrated among single women

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