Later Life Lending Report: Debt in Retirement

2020

more2life
the later life lender

A view from more2life

Dave Harris
Chief Executive Officer
at more2life

> From 2021 onwards, debt levels are expected to rise once again to a staggering £300bn by 2030.

When the clock struck on the dawn of a new decade in January this year, few could have predicted the strange and unfamiliar territory in which we would find ourselves just a few months into 2020.

Devastating bush fires in Australia, a global pandemic and international lockdowns have led to a great level of uncertainty for our families, friends and colleagues. Across the world, people have had to swiftly adapt to a new way of living, behaving and working, while dealing with the fear of job losses, economic uncertainty and societal change.

Living in the times of a global pandemic is something many of us could never have envisaged and while the long-term impact of Covid-19 has yet to be seen, it is clear from our latest Later Life Lending Report that financial concerns surrounding the funding of retirement were already high on the agenda for those aged 55 and over even before the pandemic struck.

The report, which focuses on the borrowing habits of those aged 55 and over, was conducted by the Centre for Economics and Business Research (Cebr) and is now in its fourth year. While previous reports have shown a steady increase in borrowing among this demographic, the impact of Covid-19 means that those aged 55 and over are now expected to borrow £19bn less in 2020 and 2021 compared to 2019. However, with confidence returning to the market from 2021 onwards, debt levels are expected to rise once again to a staggering £300bn by 2030 – a 42% increase on 2020.

These figures reflect the continued financial challenges that many people face during retirement, a period of time that is now longer than ever before. It also serves as a useful reminder of the importance of housing wealth-based products like equity release to help people gain greater financial freedom during their retirement years.

While the global pandemic has brought challenging times for the later life lending industry with the average customer having to self-isolate and businesses needing to make significant systems changes, the focus has remained on the customer. Indeed, we've not only seen safeguards maintained but increased as companies focus on helping customers make sustainable long-term decisions.

Figures from the Equity Release Council (ERC) released in April show that over £1bn worth of property wealth was unlocked by the over-55s in Q1 2020, a 7% increase on the same period in 2019[1]. While the picture for Q2 2020 looks very different, the numbers do illustrate a steady appetite for later life lending products.

The retirement landscape is changing. People are living longer than ever before and spending more time in retirement. Add to this rapidly depleting pension pots, increased debt levels and the spiralling cost of everyday living, now further exacerbated by the effects of a global pandemic, and it is clear that many more people may enter retirement facing a greater level of financial pressure.

As an industry, it is our duty to work together to educate, inform and provide retirees with solutions that will give them financial security and stability. It is also our duty to ensure we equip advisers with the tools and support they need to continue offering the highest-quality service to their customers.

[1] Equity Release Council: Q1 2020 equity release market statistics, (20 April 2020)

An independent view

Diane Watson
Founder of She Can Prosper

> An increasing number of women have chosen to become self-employed so they can manage the work-life balance as mothers.

Increasingly, individuals are finding themselves in straightened financial circumstances as they approach retirement.

With the State Pension age rising to 65 for women and gradually to 68 for both sexes, many now find themselves without the pension income they had hoped to rely on. This will have a massive impact on their immediate financial wellbeing as they head out of their 50s and into their early 60s as many people rely solely on this for their income in retirement. We can also expect further changes to the State Pension in due course. This is especially challenging for women given their increased life expectancy over their male counterparts. In addition, the decline in those people who are members of work-based Final Salary schemes will also impact on the over 55s' financial well-being in retirement.

This report dives into some interesting statistics and insights around the discrepancies in men and women's retirement income, with men's being around £8,500 annually higher than their female counterparts. Women often have lower earnings and pay lower national insurance contributions. They may take time off to have children and return to work on a part-time basis. Today, just 47% of women earning between £10,000 and £20,000 are saving adequately. This report brings an interesting point to light that 27% of women don't know what their partner's retirement income is which demonstrates a lack of open conversation around finances. This could leave women particularly financially vulnerable as many rely partly on their partner's income. With almost one in two marriages ending in divorce, women can find themselves financially disadvantaged at a time in their lives when they are running out of years to put this right.

Interestingly, an increasing number of women have chosen to become self-employed so they can manage the work-life balance as mothers, and they are saving less than their male cohorts. Currently, around 1.7 million women are self-employed, meaning they are not eligible for work-based auto-enrolment schemes and they are not necessarily getting on with pension planning. Finally, women are more risk averse than men and often prefer cash-based deposits which simply do not keep pace with inflation over the medium to long term. Women are also more cautious with their spending in the over 55 category, with 67% saying that their monthly expenditure never exceeds their household income.

The report investigated another vital topic for the generation and that is debt. Many people have been living beyond their means, re-mortgaging on a regular basis to extract equity to fund expenditure which has been unaffordable within their normal income. Lower interest rates and interest only mortgages mean that many of the over 55s find themselves with mortgages as they approach retirement which they have no means of repaying.

Such individuals have relied on debt via additional mortgage borrowing or credit card debt to service their expenditure. This will undoubtedly give many of them a financial headache as their pension income falls short of their usual working income.

In general, I think there are great strides to be made when it comes to fixing the financial gap between men and women. Women need to become more independent when it comes to preparing for their future. On average, women outlive men, meaning they need larger retirement funds, so being involved in financial planning and setting aside money earlier on in life is vital.

Introduction

One of the biggest long-term challenges facing the UK's ageing population is how they are going to fund their retirement. Longer life expectancies and better medical and health provision mean the average person can spend almost 30 years in retirement, more than double that of their parents[2]. This, coupled with increased longevity and the rising cost of living, has placed significant financial pressure on many retirees which impacts their wellbeing. Throw a global pandemic into the mix and many people may find themselves facing heightened financial stress in future years.

Even before the global coronavirus pandemic brought widespread change to everyone's lives, the uncertainty of Brexit, challenging and ever-changing economic and social conditions and escalating property prices had already led to an increase in the number of people approaching and entering retirement with significant levels of secured and non-secured debt.

The reasons behind this trend are highlighted in this year's Later Life Lending Report, which looks at the attitudes towards debt among the over-55s and examines the different financial situations men and women find themselves in during later life.

The report found that although debt levels among people aged 55 and over are expected to fall from £226 billion in 2019 to £211 billion in 2020 as a direct result of Covid-19, borrowing by the over-55 population is forecast to rise again from 2021 onwards, increasing to £300 billion by 2030.

Given the need to service this debt and the potentially high interest rates of the unsecured borrowing, this figure raises concern about the quality of life for future retirees in the UK. While naturally, over-55s need to consider carefully how and if they need to refinance this debt to improve their financial wellbeing, using housing equity can be an option to reduce the pressure on already strapped finances.

However, more needs to be done to educate and raise consumer awareness of the range of retirement planning tools, by providing easily accessible information and advice on how property wealth can help with these challenges.

Impact of coronavirus sees short-term fall in household debt

As the long-term impact of a global pandemic continues to play out, it is widely expected that the level of household debt in 2020 will be heavily impacted by the economic effects of coronavirus.

In the short term, the total amount of debt held among people aged 55 and over is forecast to fall from £226bn in 2019 to £211bn in 2020 and again to £207bn in 2021, as consumers remain cautious about future borrowing and shy away from spending money on large purchases such as cars and houses because of a reluctance to take on the associated debt.

However, as the UK economy recovers from the fallout of the coronavirus pandemic and appetite for debt returns, borrowing by the over-55 population is forecast to rise again from 2021 onwards, to £300bn by 2030. This marks a four-fold (42%) increase in the total debt held by the over-55s compared to 2020, suggesting the financial pressures facing retirees over the next decade are going to intensify significantly.

The figures also echo the sentiments of almost 70% of survey respondents who think the pandemic will not impact the amount of debt they hold.

[2]The Money Advice Service: How long will your money last in retirement?

Key findings

increase in debt levels by 2030

Borrowing by the over-55 population is forecast to fall from £226 billion in 2019 to £211 billion in 2021 before rising to £300 billion by 2030 – a 42% increase in debt levels.

£90,000

is the average mortgage for 55–64 year olds

Debt associated with a mortgage was listed as the second most common debt for those aged 55 and over, with the average household in the 55–64 year old bracket estimated to have around £90,000 outstanding on their current mortgage.

UK households aged 54–64 are estimated to amass

£94,173

of secured and unsecured debt by 2021...

...while households aged 75 and over are set to build up debt worth £58,975.

1 in 5

retirees have held credit card debt

Credit card debt remains the most common form of debt among the over-54s, with one in five (21%) retirees having held credit card debt, which they have failed to repay in full every month, in the past five years.

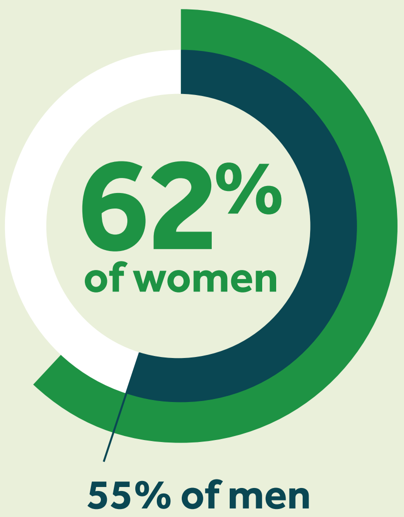
Spotlight on gender differences

Men aged 65 and over and in a relationship receive, on average, an annual retirement income

£8,460

higher than their female partner

Women in retirement tend to be more cautious when it comes to spending.



say that their monthly expenditure never exceeds their household's income...

...compared to 55% of men.

Gender differences overview

42% of men aged 54+ state that their **wealth exceeds their partners' wealth.** Compared to just 13% of women

Men aged 65 plus in a relationship have a £8,460 higher (actual or anticipated) **retirement income** than their partner. **For 54-64's** the differences is **slightly lower at £5,964**

10% fewer women than men have a **defined benefit or final salary pension scheme**

Half (50%) of men over 54 have **independent pension wealth,** compared to just 39% of women over 54

While **women (62%)** are more likely than men (55%) to say that they have not held any debt over the last five years – potentially due to their **more cautious approach to finances**

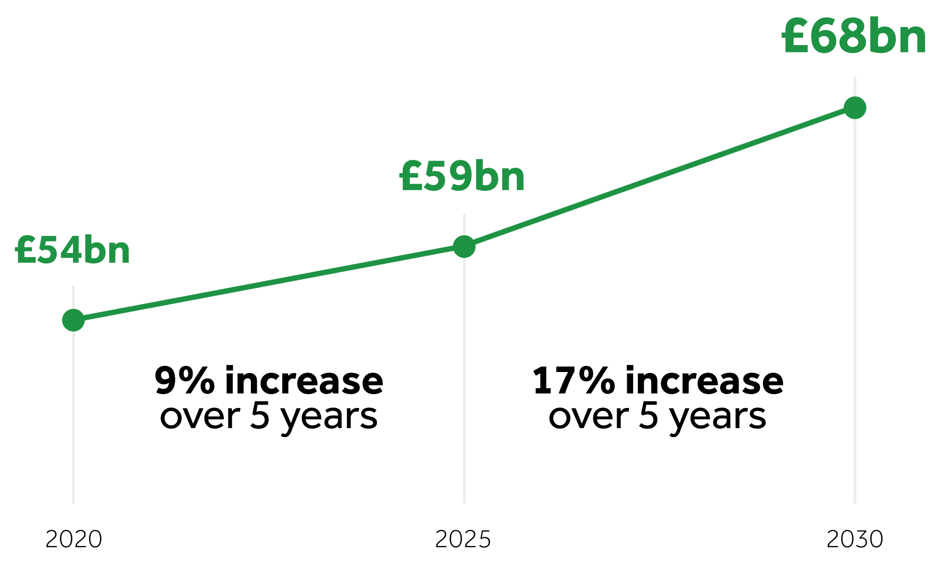
Detailed findings

One in five 54–64 year olds has **credit card debt**

Although a temporary dip in borrowing is expected as a result of the pandemic, the research found that individually, UK households aged 54–64 and who are still paying a mortgage are still estimated to amass £94,173 of debt by 2021. Similarly, households aged 75 and over with mortgages are set to build up £58,975 worth of debt during the same period.

Following the impact of Covid-19 on borrowing amongst those age 65 and over, we expect debt levels to rise 9% to £59 billion by 2025 before growing by 17% to £68bn by 2030. This is obviously far lower than the £300 billion predicted for the market by 2030 and highlights the high level of debt concentrated within the 54 to 64 year old population. It also begs the question whether we will see debt rise amongst those age 65 and over in the future as fewer people are able to enter retirement debt free.

Debt level predictions for people aged 65 and over



Source: Cebr analysis, Opinion Matters survey.

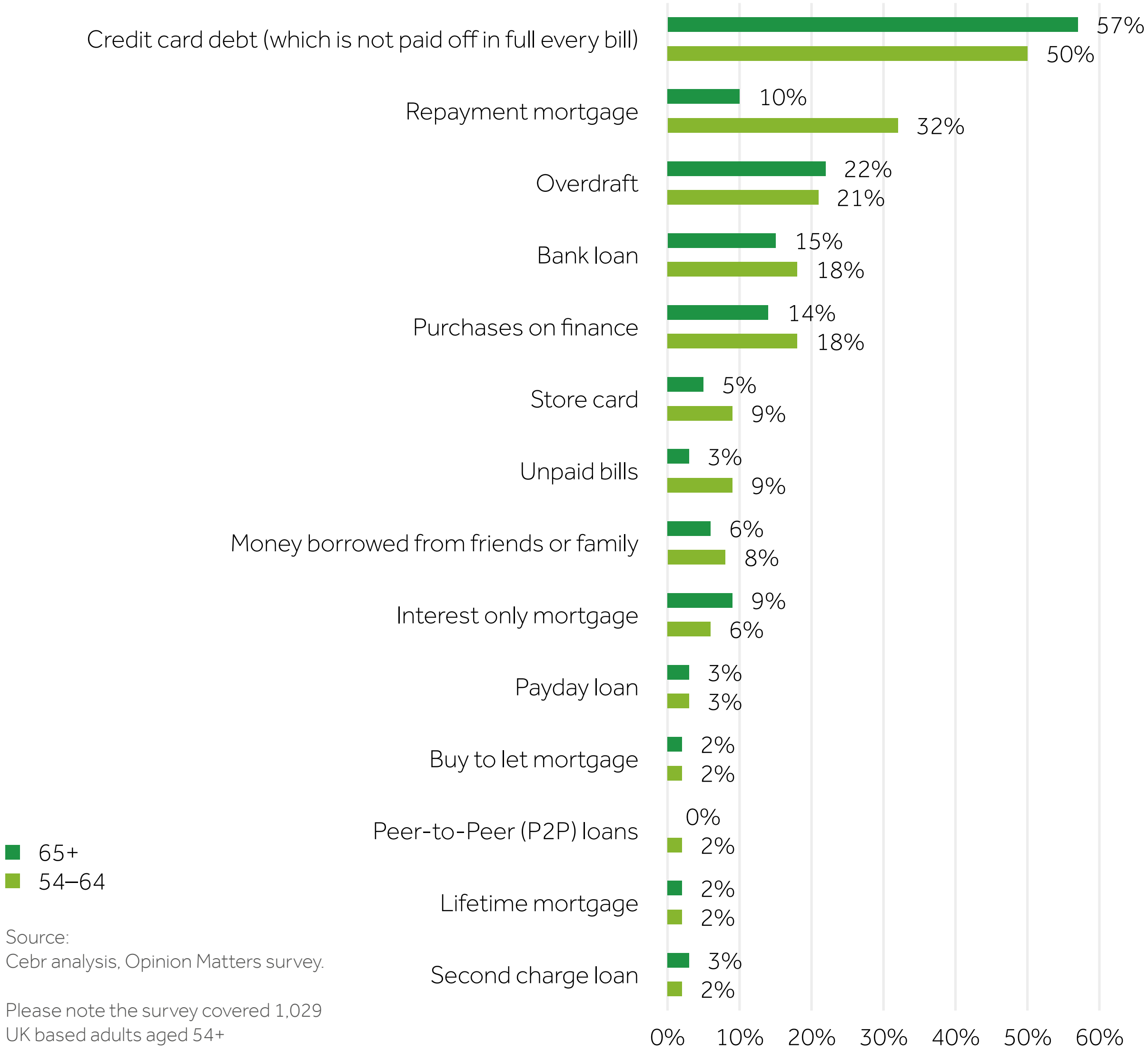
Overall, credit card debt remains the most common form of debt among the over-54s according to the report, with one in five (21%) retirees having held credit card debt in the last five years which they have not repaid in full every month, in line with last year's findings. Of those who have held debt over the past five years, 52% said they currently held credit card debt, with 50% of 54–64 year olds and 57% of those aged 65 and over saying so.

Debt associated with a mortgage was listed as the second most common debt for those aged 55 and over, the research found, with the average household in the 55–64 year old bracket estimated to have around £90,000 outstanding on their current mortgage. Older households tended to have less debt overall, with those aged over 75 having an average of around £58,400 left in mortgage repayments – down from an average of £78,000 last year – and unsecured debt of £2,800. This is compared to an average of £7,600 in unsecured debt among the 55–64 year old age bracket.

Overall, 32% of those aged 54–64 said a repayment mortgage is a type of debt they currently hold or have held in the last five years, versus 10% of those aged 65 and over. This is mainly due to the affordability rules which govern mainstream as well as later life mortgages and retirement interest-only mortgages.

Furthermore, 21% of those aged 54–64 and over who currently hold or have held debt previously said they used an overdraft facility to do so, with 22% of those aged 65 and over saying the same.

Types of debt 54 and overs hold, for those who are in debt (now or in past five years)



Source:
Cebr analysis, Opinion Matters survey.

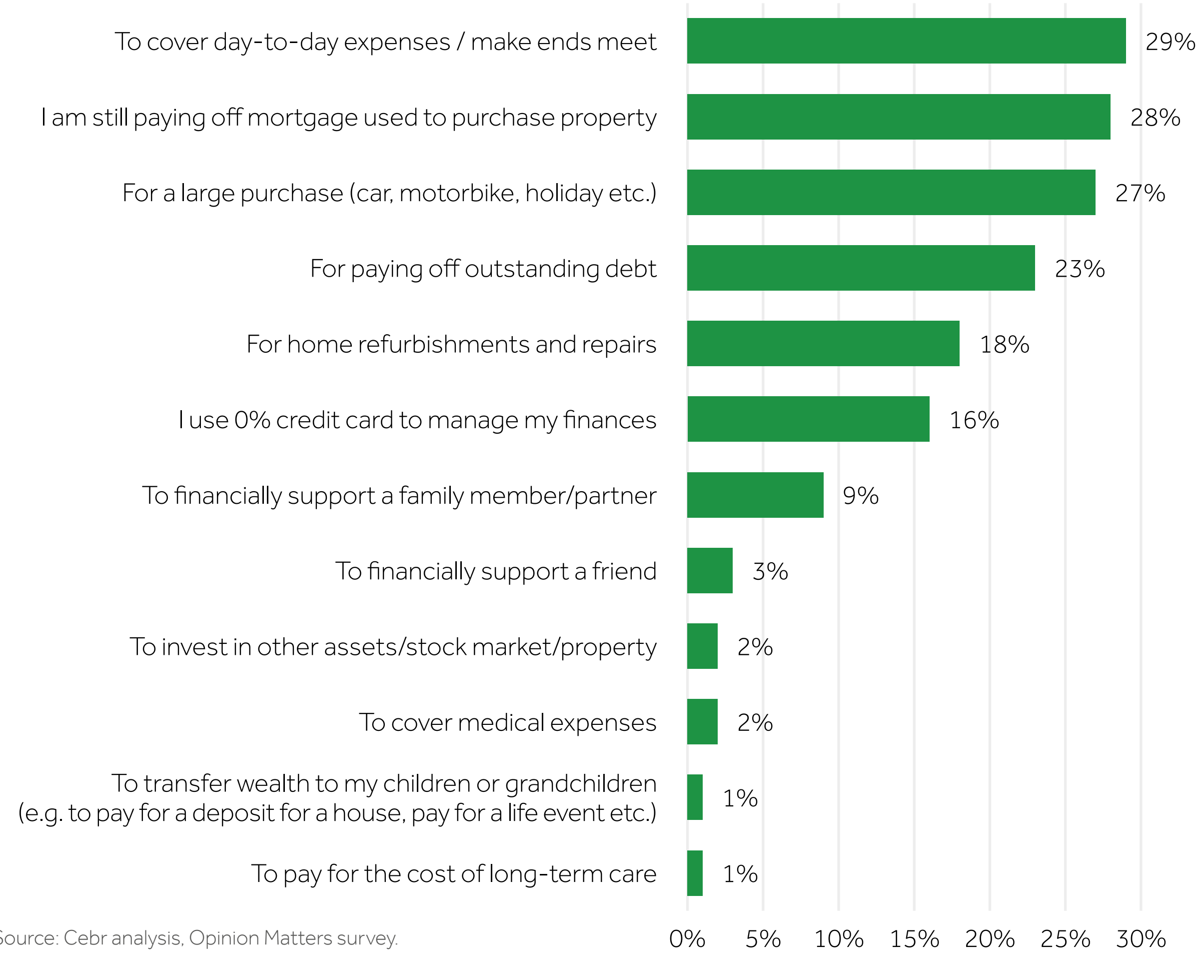
Please note the survey covered 1,029 UK based adults aged 54+

29% of retirees borrow to **cover everyday expenses**

Of the respondents who currently have debt or have held debt in the last five years, 29% said this was to cover day-to-day expenses, on par with last year's findings. Worryingly, 23% of older people who are in debt, or have been in the past five years, borrowed money in order to pay off another type of debt. Paying off a mortgage or covering a large purchase, such as a car or a holiday, was cited as a reason for having debt by 28% and 27% of retirees, respectively – this was up from 20% (mortgage) and 24% (large purchase) in last year's report. Additionally, 14% of survey respondents said a sudden financial need, such as a boiler breaking, would encourage them to take out debt, up from 12% last year.

The report suggests that many people do not have sufficient savings for such an eventuality, and would therefore have no option but to borrow to cover the repair costs. The fact that a large number of older people are borrowing money on a regular basis, particularly to pay off existing debt, is of great concern. This type of borrowing tends to be unsustainable and can lead to greater financial issues such as costly interest payments and the inability to service loans.

Reasons why people aged 54 and over borrow money



Source: Cebr analysis, Opinion Matters survey.

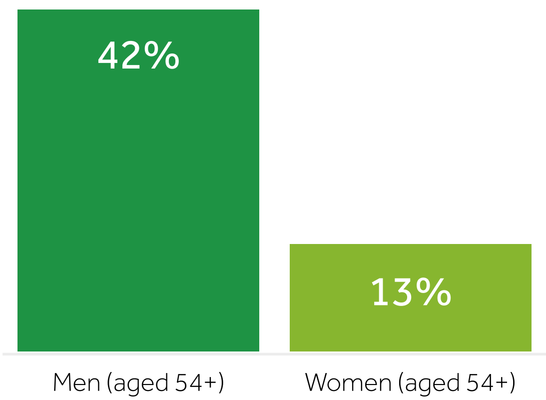
Men receive over £8k more each year in retirement than women

The difference in the levels of income between older men and women in the same household was also examined in the research, with the results further highlighting the pension wealth gap. The findings showed that 42% of men aged 54 and over in a relationship said their wealth exceeds that of their partner. This is compared to just 13% of women.

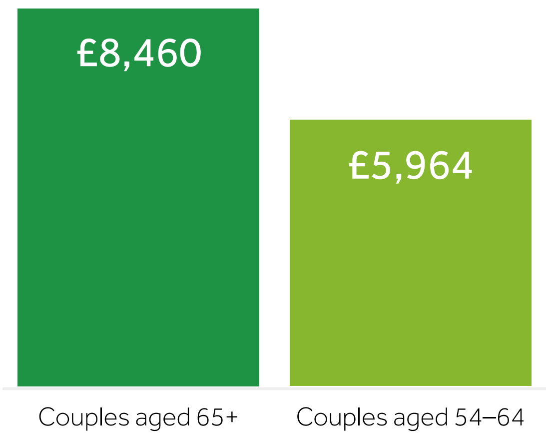
On average, men aged 65 and over and, in a relationship, received or expected to receive an annual retirement income £8,460 higher than their female partner. For couples aged between 54–64, the wealth gap is still apparent, though slightly smaller, with men reporting their actual or expected gross retirement income to be £5,964 higher than their female partner.

Further discrepancies can also be seen between those not in a relationship, with single, retired men seeing incomes around £3,750 a year higher than single, retired women. Overall, incomes of single men aged 55–64 are around £5,250 a year higher than their female counterparts, including people who are still working.

Percentage of wealth which exceeds their partners wealth



Average annual retirement income different for men when compared to their female partner



Interestingly, almost a quarter (23%) of men and a slightly higher proportion (27%) of women do not know what their partner's monthly retirement income is, suggesting that some couples do not talk openly about their finances.

While the reasons why women have lower incomes than men in retirement can be varied, they are often attributed to the fact that some women take time out of the labour market to have children or take care of older family members and as a result, end up earning less in total over their working career. This is supported by the survey findings, which show that men spend 40 years, on average, in full time employment, while the average for women was 30 years. This also means that women are likely to have less in savings than men when reaching retirement.

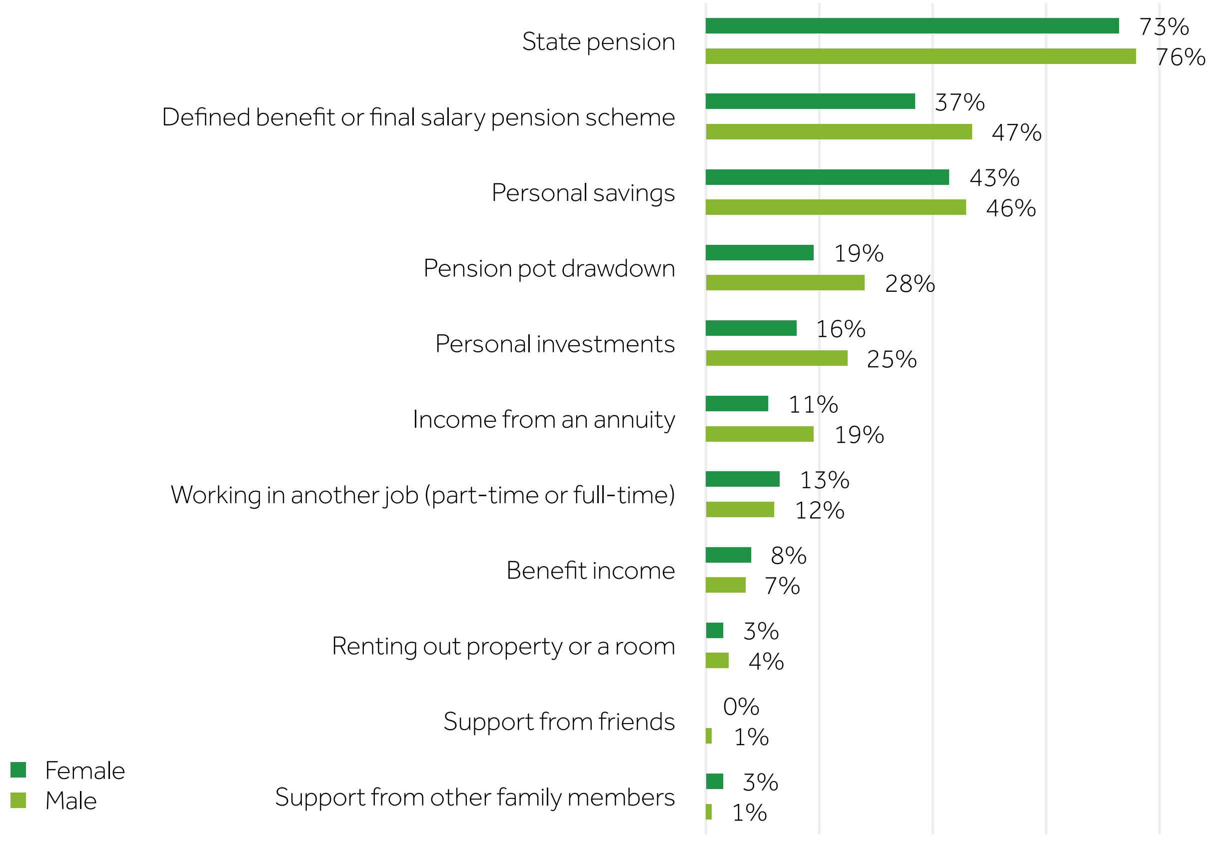
Sources of income and wealth vary for male and female retirees

When it comes to the different ways in which to fund their retirement, the state pension (75%), private pension (82%) and cash savings (45%) were cited as the main sources of income by nearly all survey respondents.

The majority of men (76%) and women (73%) confirmed that they expect to receive or do receive a state pension. This was also true at a regional level, with 75% of over-55s in England relying on their state pension as part of their retirement income, compared to 76% in Scotland and 71% in Wales.

The research also found that more men (47%) than women (37%) draw on a defined benefit pension scheme ('final salary'), with similar levels seen again at a regional level in England (42%) and Scotland (41%). More retirees use this as a source of income in Wales (48%). Women are less likely to have pensions but are more cautious consistent savers. Indeed, fewer women (19%) use pension pot drawdown than their male counterparts (28%) but there is more parity when it comes to savings with 43% of women seeing this as a source of retirement income (46% of Men). Out of all respondents, those in Scotland (52%) were more likely to rely on personal savings than those in England (44%) or Wales (41%).

Sources of personal retirement income (current and expected), split by men and women, 54 +



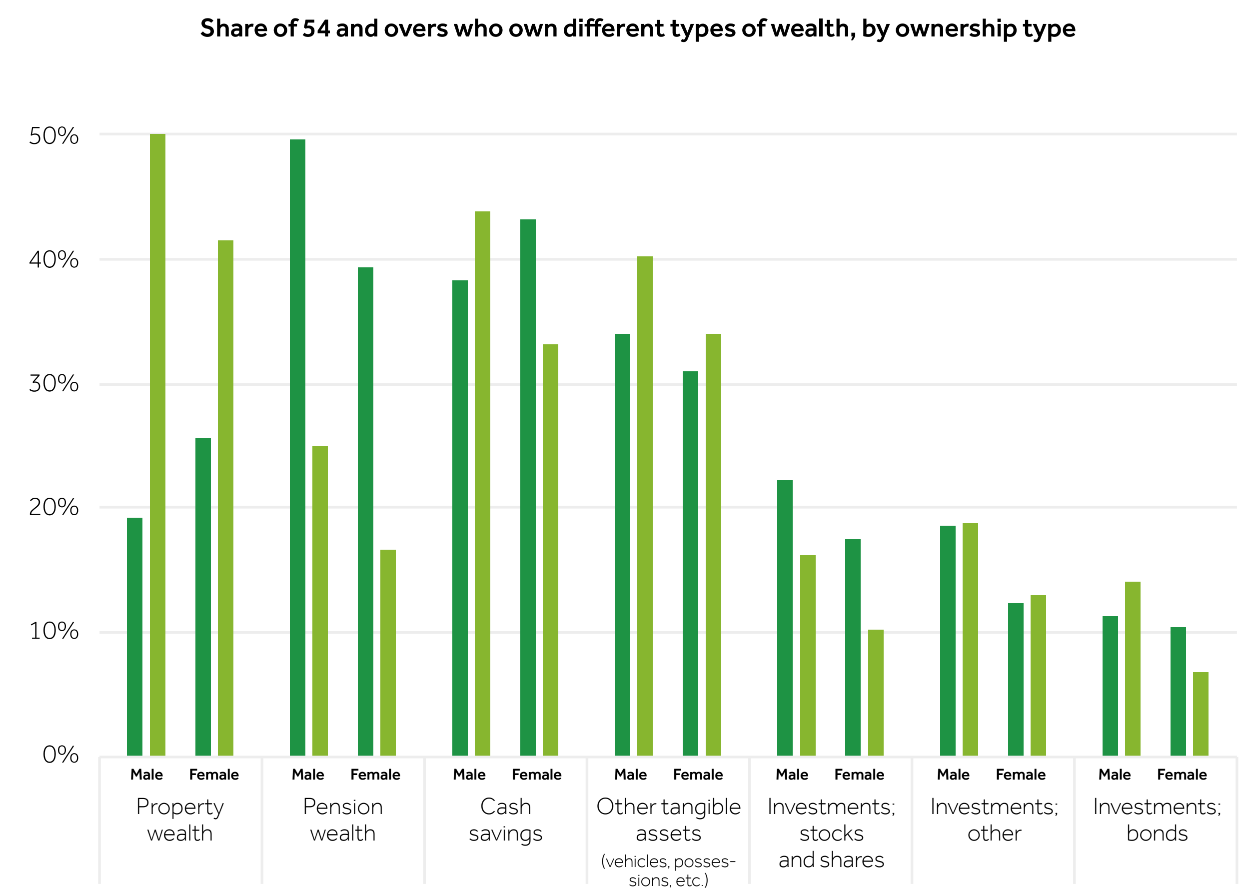
Source: Cebr analysis, Opinion Matters survey.

Of those in retirement who are in a relationship, living with their partner, married or in a civil partnership, 41% of women said their spouse or partner's income comes from a defined benefit or final salary pension scheme compared to 29% of men. Nearly half (44%) of retirees in the same category confirmed that they do not receive any income from assets they jointly own with their spouse or partner.

When asked about the assets that make up their wealth in retirement, men were more likely to have sole ownership of every type of asset (excluding cash savings and property wealth), the research found, with 50% men of men holding their own independent pension wealth compared to just 39% of women. Tangible items of high value, such as vehicles, also generally proved to be more popular among men in retirement.

Almost a third (29%) of women say that they do not own property compared to a quarter of men (25%). That said, women (26% vs. 19% – men) are also more likely to own property outright or with a loan which potentially reflects their longer life spans than men. At a regional level, more retirees living in England (47%) said they share ownership of property wealth with their spouse or partner, compared to those in Scotland (45%) and Wales (40%).

To some extent, these differences in reported gender income between men and women could be due to individuals under- or over-estimating their partner's income. Regardless, these figures show that more still needs to be done to addressing the disadvantages women face when saving for retirement during their working lives.



Source: Cebr analysis, Opinion Matters survey.

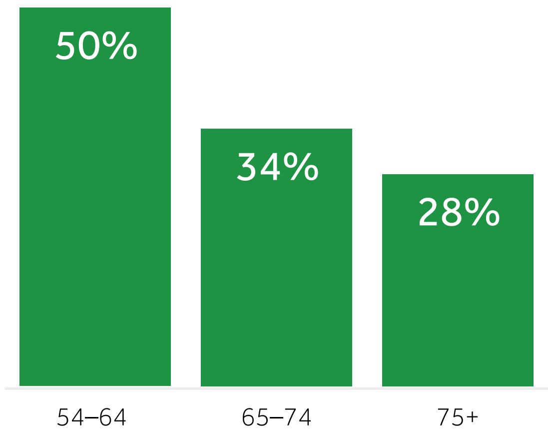
Women more cautious with **spending in retirement**

In order to understand if current retirement income levels are enough to live on, respondents were asked whether their household income ever falls short of their monthly expenses.

The survey found that women in retirement tend to be more cautious when it comes to their spending, with the majority (67%) saying that their monthly expenditure never exceeds their household's income. This is compared to 58% of men.

Half of 54-64s say that they overspend while just 34% of 65-74s and 28% of over-75s say this is an issue for them which is interesting as you might imagine that the younger age group would have more disposable income as they were still working. For those who regularly need to bridge the gap between income and expenditure, 72% of respondents aged 54 and over said they used their cash savings, while 16% said they had used a bank overdraft and 14% said they had borrowed on a credit card.

Proportion of over-54s who overspend



When your expenditure has exceeded your retirement income, how have you bridged the gap?

Options	%
Cash savings	72%
Overdraft	16%
Borrow on credit card	14%
Liquidated assets	5%
Other	5%
Borrow from family & friends	3%
Unsecured loan	1%
Loan secured against their property	1%

The findings also showed that men are more likely than women to rely on unsecured forms of borrowing when their expenditure has exceeded their income, with 15% of men aged 54 and over admitting to having borrowed on a credit card to help make ends meet compared to 12% of women. In contrast, 17% of men used their bank overdraft compared to 13% of women.

Overall, 27% of men said they spend more than their partner and 21% of women said that their partner spends more than they do, suggesting that on average, men aged 54 and over in relationships spend more than women. Similar spending habits can be seen among retired single men aged 55 and over, with the same data showing they spend £620 a month more than women.

Does your average monthly spending exceed that of your partner?

Options	Men	Women
1. Yes, my average monthly spending exceeds that of my partner	27%	17%
2. No, my partner's average monthly spending exceeds my own	13%	22%
3. No, our average monthly spending is equal	51%	52%

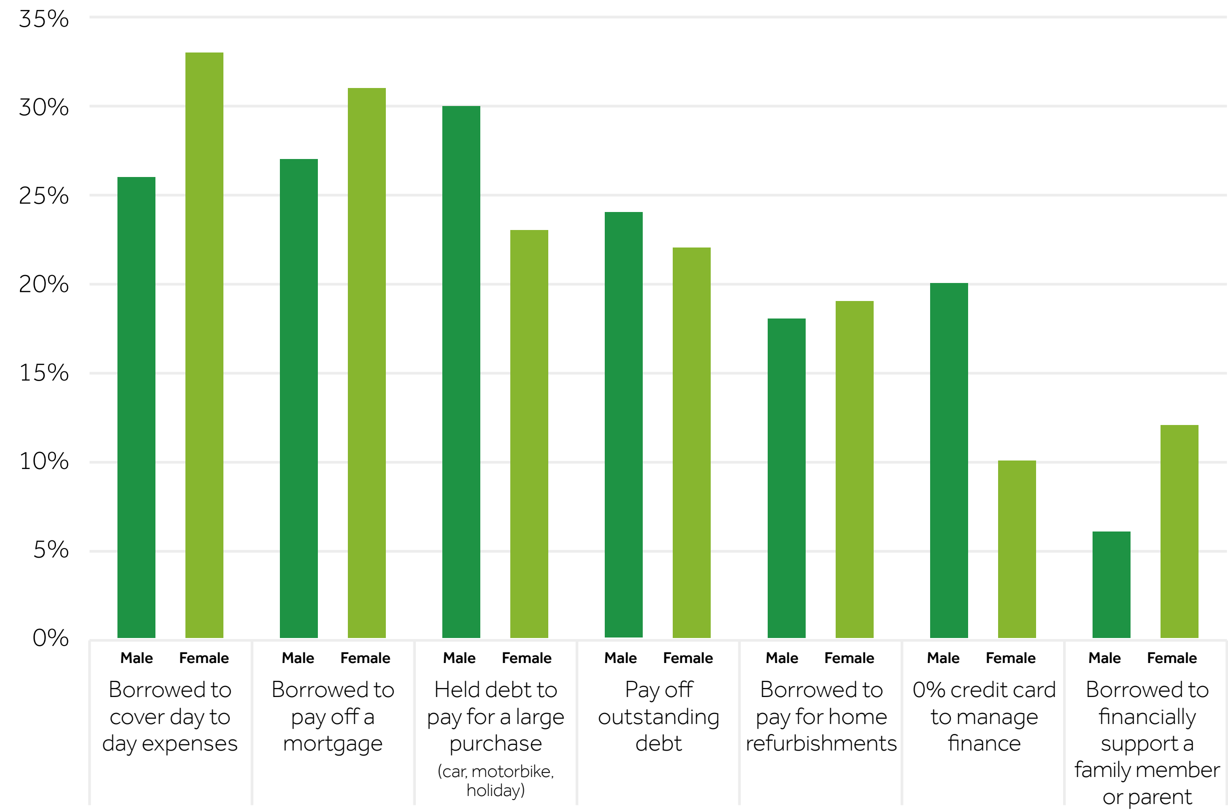
Debt levels vary between men and women

Looking more closely at the share of over-55s who are still paying off debt, the research found that while men and women are equally likely to be in debt, average monthly payments vary between the two.

Of those aged 54 and over who have been in debt over the past five years, more women (33%) than men (26%) said the reason for this was to cover day-to-day expenses. Similarly, more women (31%) than men (27%) also said that paying off a mortgage was the reason they are or have been in debt previously.

In contrast, men (30%) are more likely to take out debt to cover a big-ticket item, such as a car or a holiday, compared to 23% of women, while 20% of men said the main reason they hold or have held debt was because they use a 0% credit card to manage their finances. This is compared to 10% of women.

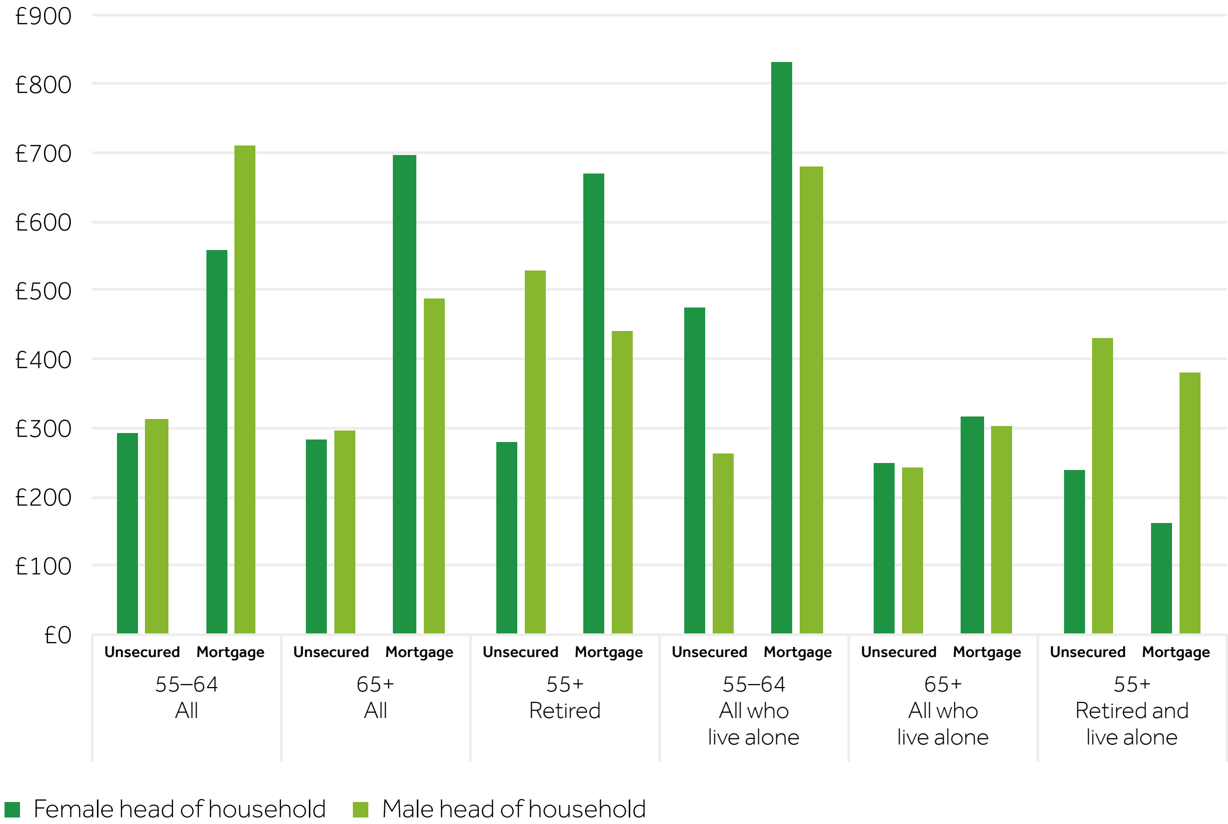
If you hold debt or have held debt in the last five years, what are your reasons for this?



Source: Cebr analysis, Opinion Matters survey.

Retired single women who are in debt pay on average £190 a month less than men in unsecured loan payments, and £220 less a month in mortgage payments. For those aged over 55 who are retired, whether they are in a relationship or not, women pay on average £248 less than men for unsecured loan repayments, but pay an average £228 more for mortgage repayments.

Average monthly unsecured and mortgage debt repayments, for people with such debt, by sex, age bracket, retirement status, and living status, 2019



Source: Cebr analysis, Opinion Matters survey.

Conclusion

The findings from this year's Later Life Lending Report paint a striking picture of life for the over-54s in the future.

Rising debt levels and lower incomes in retirement, coupled with social and environmental factors such as rising house prices and living costs, have created an environment where retiring with debt is now commonplace.

Similarly, there remains a clear disparity between the income levels of men and women in retirement, reinforcing the concerns around the gender pay gap and inequality in the workplace. While these are much broader societal issues, they need to be addressed to ensure that women do not enter their retirement years less financially prepared than men.

Whether the Covid-19 pandemic will serve to exacerbate any of these issues further remains to be seen, but while some households may see expenditure drop as a result of cancelled holidays, commutes and social events, many others will inevitably struggle to make ends meet if a recession hits the UK. For those heavily impacted, borrowing in order to survive will be inevitable; what remains unknown is how many of those will be over-54 and approaching or currently in retirement.

The research shows that debt levels among this demographic are set to increase further over the next decade, which means the later life lending industry must continue developing products that help older borrowers access their housing equity in a safe sustainable manner.

Demand for equity release products is growing and with the number of people aged 65 and over expected to reach over 8.6 million over the next 50 years[3], there will be even more demand for financial products that draw on housing wealth that can provide them with financial security in later life.

The later life lending industry is perfectly positioned to help support this demographic and to deliver sustainable financial outcomes for older people and their families, enabling them to make the most of their overall wealth and achieve greater financial freedom in retirement.

[3]Age UK: Later Life in the United Kingdom, 2019

Research methodology

This report is based on research commissioned by more2Life and carried out by Opinion Matters between 4th May 2020 and 11th May 2020, which analysed the responses of 1,029 individuals aged 54 and over. The data for this report was collated and analysed by the Centre for Economics and Business Research (Cebr), which used the Wealth and Asset Survey and the Bank of England NMG survey. Forecasts in the report are based on Cebr modelling for the number of households in the UK by age band, and average secured and unsecured debt per household over the next ten years.

References for additional research sited in this report:

1. **Equity Release Council: Q1 2020 equity release market statistics, (20 April 2020)**
   https://www.equityreleasecouncil.com/news/12319/
2. **The Money Advice Service: How long will your money last in retirement?**
   https://www.moneyadviceservice.org.uk/en/articles/how-long-will-your-money-last-in-retirement
3. **Age UK: Later Life in the United Kingdom, 2019**
   https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/later_life_uk_factsheet.pdf

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