

# Financial resilience in later life

June 2014



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- All those who wrote provocations for the summit events: BlackRock, Just Retirement, Mercer, the Resolution Foundation and Toynbee Hall. The provocations are available online at: [www.ageuk.org.uk/professional-resources-home/policy/consumer-issues/](http://www.ageuk.org.uk/professional-resources-home/policy/consumer-issues/)
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## Foreword by Age UK



We frequently hear from older people about the problems they face with money matters and the lack of solutions that really work for them. We set up the Financial Services Commission because we believe older people deserve better.

The Commission has focused on financial resilience because we think it is an important indicator of whether people can prepare for, and thrive, in later life. As we enter our later years it is not our finances alone, but our accumulated health and our social and financial resources, that are crucial to our standard of living and wellbeing and our ability to withstand shocks and difficulties which can otherwise derail our plans overnight.

Our rapidly ageing population places financial resilience among today's most pressing issues. By 2025, every fifth person in the UK will be aged 65 and over. This increased longevity should be celebrated but every part of society needs to adjust. It's also a huge opportunity for those in the financial services industry to provide products and services that really work for older people and enable them to become and remain resilient.

In partnership with the Chartered Insurance Institute, we've brought together industry leaders to discuss the needs and aspirations of older people. The engagement to date has been excellent, and we thank all those who've participated in the discussions. We hope that this level of interest will continue and lead to tangible actions that help people to be more financially resilient in later life. Age UK remains committed to taking forward the recommendations of the report and will continue to work with key stakeholders to deliver improvements for older people today and in future generations.

**Tom Wright CBE**  
Group Chief Executive of Age UK

## Foreword by the Chartered Insurance Institute



Creating the conditions for people to be able to secure adequate financial resilience in retirement has become one of the key public policy issues of our time.

As though retiring isn't disruptive enough, many consumers now face the daunting challenge of deciding not just the best way to convert their accumulated savings into a sustainable income, but also to consider their health and wealth issues over a 30-40 year time frame. All this while trying to understand that moving from 'full employment' to 'full retirement' is no longer a single, landmark event.

These were the challenges laid before the Financial Services Commission when it was established in the autumn of 2013, and I was delighted to join Tom Wright of Age UK in taking this forward. The importance and the topicality of these issues were highlighted by the Chancellor's Pension Reforms in his 2014 Budget, and seemed to come directly from our summit events regarding the need to improve the public's decumulation options. In other ways, Budget 2014 presented a new set of challenges as to how the financial services sector can best adapt to respond to these changes.

The Financial Services Commission's participants believe that people deserve dignity and respect in later life and that they should be provided with the support they need. The financial services industry, the regulators, and the government must develop more coherent

and practical proposals around preparing people coming into retirement. For example, developing a guidance guarantee that provides the right balance of information and direction to help people make sense of their options and consider their next steps. Equally as important is whether regulated advice itself can be made simpler, by introducing focused advice solutions that give people more certainty on specific issues and the costs involved.

As a professional body in the insurance and financial advice sector with a remit in the public interest, the Chartered Insurance Institute remains committed to being at the forefront of this debate. We believe this report can play a vital part in developing solutions to the pressing challenges which the retiring population increasingly faces.

**Dr Alexander Scott**  
Chief Executive of the Chartered Insurance Institute

# Introduction



The House of Lords Select Committee on Public Service and Demographic Change concluded that *'we are woefully under prepared'* for our ageing society. Medical advances may have helped many of us to live until our 80s and 90s but financial services have yet to catch up.

Older people are key contributors to the UK economy. People over the age of 65 spend in excess of £121 billion per year<sup>i</sup> and people aged 85 and over represent the fastest growing segment of the population.<sup>ii</sup> But along with increasing longevity and a welcome reduction in pensioner poverty, have come technological changes; greater individual responsibility; and economic uncertainty. For example, the current sustained period of low interest rates could not have been predicted.

This uncertainty is why Age UK decided to hold a Financial Services Commission and examine how the financial resilience of older people can be improved. By this, we mean the ability of an individual to weather financial challenges as they age.

The government, society and individuals all need to play their part in preparing for and maintaining a decent standard of living in later life. The financial services industry has a pivotal role to play in engaging with individuals and delivering solutions that enable people to:

- Build up and maintain their financial resilience.
- Prepare financially for later life.
- Stay financially included until the end of their lives.

As part of the Commission, Age UK ran a series of summit events to engage senior leaders from the financial services industry, the government, consumer groups and regulators to discuss the key issues facing older people and money, and to develop potential solutions. The Commission was co-chaired by Tom Wright, the CEO of Age UK and Dr Alexander Scott, the CEO of the Chartered Insurance Institute. In addition to the summits, we carried out research; commissioned provocations; and consulted older people at deliberative events organised through Age UK networks.

People over the age of **65** spend in excess of **£121 billion per year<sup>i</sup>**

and people aged **85** and over represent the **fastest growing segment of the population<sup>ii</sup>**

## About the Financial Services Commission

### Summit events

Over the course of the Commission, we held three summit events, each focused on a different life stage in later life:

- Improving financial resilience for Generation R or is it too late to save?
- Maximising income in retirement.
- Life doesn't stop after 80: How do we help the older old stay in control of their finances?

Each summit event was supported by research.

### Research

To explore the diversity within the cohort of people coming up for retirement, Age UK conducted secondary data analysis, using the English Longitudinal Study on Ageing (ELSA), of a sample of 4,547 people aged between 50 and 64. We used advanced statistical techniques to cluster the individuals based on their similarities and differences to one another across a large number of variables, including wealth, health and socio-demographics. This resulted in seven clear clusters in the population, which we then used to commission further qualitative research from BritainThinks to add depth and meaning to the cluster profiles.

We commissioned the Pensions Policy Institute to produce a briefing: *The financial resilience of the recently retired*. The report explores their financial resilience to economic, health and lifestyle shocks during early retirement, and highlights some key considerations for the industry when exploring how to improve financial resilience.

We also drew heavily on *The Way We Pay*, published by Age UK in 2011, for our findings on later old age.

In addition to case studies obtained through our research, the report contains case studies of individuals who responded to our request to share their experiences of financial services in a MoneySavingExpert newsletter, and a case study from Macmillan.

### Provocations

For each summit event, we also invited provocations to stimulate discussion. These were short think pieces written by experts from: BlackRock, Just Retirement, Mercer, the Resolution Foundation and Toynbee Hall. Authors were asked to consider questions such as: How can retirement products better meet the needs of the mass market?

The research and provocations are available at: [www.ageuk.org.uk/professional-resources-home/policy/consumer-issues/](http://www.ageuk.org.uk/professional-resources-home/policy/consumer-issues/)

### Deliberative events with older people

We held three deliberative events with older people at Age UK Waverley in Surrey, Age UK Wyre Forest in Worcestershire and the Warrington Older People's Forum in Cheshire. At each group discussion, we spoke to 10–12 older people aged 50–93. We discussed:

- Saving for retirement.
- Making decisions about retirement income.
- The role of the financial services industry to help people make the most of their money throughout retirement.

The sessions provided an opportunity to speak to older people directly about their experiences, attitudes and opinions, as well as to test out some of the proposals developed by the Commission.

## Government pension reforms\*

The government radically changed the pension landscape with its Budget 2014 proposals. People retiring with a defined contribution pension will no longer be obliged to buy annuities, giving them more choice and freedom in managing their money in retirement. From April 2015, the government has proposed that everyone retiring on a defined contribution pension will be offered guidance at the point of retirement. The intention is that this 'guidance guarantee' will help them navigate their choices and decisions.

### Structure of this report

This report brings together all of the findings of the Commission and sets them in the context of the government's proposed pension reforms, announced after the final summit event.

The first half of this report summarises the emerging themes of the Commission and the second half sets out Age UK's recommendations. Recommendations specifically identified by the Commission's participants or others are set out separately from Age UK's views. Age UK was very encouraged by the level of engagement from industry and will continue to work with key industry figures to take forward these recommendations – especially as the impact of the government reforms becomes clearer.

\*Unless otherwise stated, any views expressed in this report about the pension reforms represent Age UK's views on the subject.



# Emerging themes



## Many older people lack financial resilience

The financial provision for people in later life is poor. It's a myth that the entire generation of so-called 'baby boomers' is financially prepared for retirement – our analysis suggests that up to 20 per cent show very low readiness for ageing, having little or no private pension, housing wealth nor material wealth.<sup>iii</sup> All but the most affluent face challenges. It may not be too late for this group to do something to increase their resilience, although the Commission was challenged by participants who believed that many just didn't have enough money to do things differently.

People approaching or in retirement face key decisions that will shape their future resilience – decisions that will be potentially more complex now that compulsory annuitisation is coming to an end. People aged 85 and over represent the fastest growing segment of the population but are arguably the poorest served by the financial services industry.

## Things are likely to get worse before they improve

Over the long term there is much to be positive about. Automatic enrolment is moving more and more people into pensions saving and the new single-tier state pension will provide much needed clarity around which people can save. But these initiatives have no impact on existing pensioners and the majority of those within twenty years of retirement will only be marginally affected. And increasing the State Pension Age certainly doesn't benefit people coming up to retirement in the next 15 years who haven't proactively built up enough funds for retirement or who are struggling to stay within the labour market.

## There is more to do to encourage long term savings

The advent of automatic enrolment, together with the abolition of compulsory annuitisation could significantly change the landscape, e.g. with the introduction of pensioner bonds and New Individual Savings Accounts (NISAs) with more generous allowances. After 2015, Age UK would welcome a cross-government-commissioned review into long-term savings and retirement products, to develop a more coherent policy for annuities, pensions, tax relief, NISAs and other savings products. It would also serve as an opportunity to review the impact of the reforms on industry behaviour and assess whether the reforms protect consumer interests.

## We need to plan for the whole of later life, including possible care needs

One of the Commission's key findings is that whilst retirement may follow a 'u-shaped' spending curve, individuals don't tend to plan for it and financial products and services don't necessarily cater for this pattern of spending. Generally, people tend to spend more in the early, more active years of retirement, with spending decreasing in the middle years and then increasing again with additional care and medical expenses. At the very least, everyone retiring should be encouraged to think about how their spending patterns may vary over the course of their retirement, including what they may need to contribute towards the cost of care.



### **The key problem remains – life is inherently uncertain**

Retirement can last 30 years, or even longer. As circumstances change over time, in some respects you can never stop planning ahead. But uncertainties in life, like the economy, your health, and family circumstances, mean that planning ahead becomes well-nigh impossible – particularly if you have limited resources. We need a new approach to financial services that concentrates on developing resilience. This means providing a certain level of certainty but also recognising that people may need more products at the point of need and better levels of advice and information to enable them to navigate their choices.

### **Life's uncertainties make the role of information, guidance and advice crucial**

People approaching or in retirement face key decisions that will shape their future resilience, but there is a lack of appropriate advice available, especially for those for whom the cost of regulated advice is prohibitive. Many people are not using the free information, guidance and advice that is available. Where once they may have spoken to their bank manager many now rely primarily on their friends and families.

Solutions need to include regulated financial advice as well as free, generic money advice. The proposed defined contribution guidance guarantee is part of this picture and provides an opportunity to develop a generic, sector-wide guidance proposition that could potentially be used by all players, from regulated firms to third sector organisations.

### **Joining up the retirement guidance journey**

People need accessible information, advice and guidance throughout later life. The promise of pension guidance gives us a golden

opportunity to join up the Mid-life Career Review (piloted by the Department for Business, Innovation and Skills), with guidance at the point of retirement and in later old age, e.g. to help navigate decisions about care. This should include improving access to advice, for example by referring to regulated advice where appropriate.

### **The role of the government remains critical**

The government's proposals to abolish compulsory annuitisation of pension savings demonstrate the vital role that the government plays in creating the framework for financial behaviour. Although these proposals introduce a welcome level of choice, the government also needs to continue to develop new ways of using inertia to bolster security in retirement – particularly if our resilience is reduced by low wealth, poor health or weak social networks. The encouraging start to automatic enrolment into workplace pensions shows how effective it can be to design 'defaults' that make it easy for people to take the right steps. It would be helpful for defaults also to be built into pension income products to cater for those with less interest or capability to actively manage their investments. The government also needs to ensure that the state 'offer' is clear so that people can exercise informed choice – in particular, the interaction between the new pension proposals and the care system is extremely complex and needs to be clarified.

### **Older people continue to be excluded from essential financial services**

Access to day-to-day financial products and services should be universal. Age, lack of internet access or limited mobility should not prevent people from using day-to-day banking services. The industry needs to develop a sustainable model to enable customers to access financial services.

Exclusion tends to worsen as people get older, yet those aged 85 and over represent the fastest growing segment of the population. We challenge the industry to consider whether people in later old age are an attractive segment of the market and, if not, whether the government or the Financial Conduct Authority (FCA) need to intervene to ensure that our oldest consumers are not forgotten.

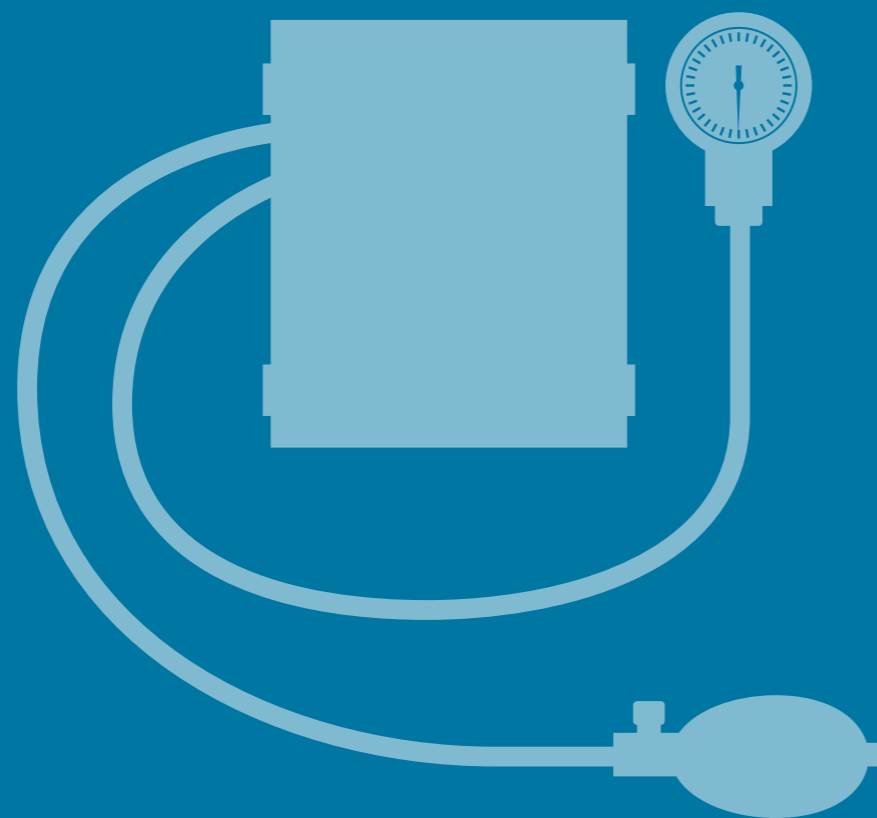
### **Building trust**

Perceptions of financial services are the culmination of individual and collective experience, built up over a lifetime. Every interaction with financial services, whether it's depositing a cheque or buying a mortgage, can strongly influence how people feel about both their bank and the industry more widely. Inclusive design and policies could create a more painless customer journey for everyone. We also seek the consistent implementation of policies and best practice. It is not enough to commit to having good customer service if this isn't the reality in every local branch and for every telephone conversation with a customer.

### **Balancing interests**

This is a period of unprecedented change which could generate innovation, competition and accelerated change in the financial services industry. It's a real opportunity to ensure that innovation is in the interests of consumers. The FCA has a mandate to promote competition in the interests of consumers and aims to put the consumer perspective at the heart of FCA decision-making. While this is welcome, the major role is with industry leaders, encouraged by government and the regulator, to ensure that the industry balances its focus on the bottom line with the best possible products and services for its customers – both today and tomorrow.

# What is financial resilience?



## What do we mean by financial resilience?

There is extensive academic research on 'resilience', which tends to be defined as flourishing despite adversity and bouncing back after difficulties.<sup>iv</sup> However, there is much less consideration of financial resilience in later life. For Age UK, it goes far beyond simply having an emergency fund available in cash to cover an unexpected bill – important though that is. For older people, it is a mixture of not just financial but also health, social and personal resources that enable older people to thrive over the entire course of their later life. To be truly resilient, you also need to have the ability to adapt your plans or change your arrangements, in response to both changing personal circumstances and wider economic conditions over which you have no control, such as periods of low interest rates.

If life was simple and predictable, there would be less need to be financially resilient, but life is rarely certain and everybody is having to make increasingly complex financial decisions. There is also a limit to the extent to which, even if you are one of life's planners, you can future proof your needs for a retirement that could last 30 or 40 years.

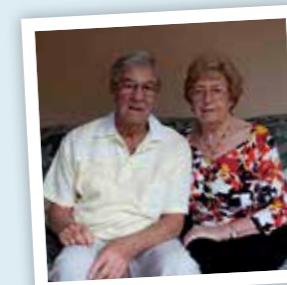
*'You can have a plan but things change it.'*

*'I don't think you have as much control over your life as you think you do.'*

**Male,  
Generation R research  
participant <sup>v</sup>**

## Why is it important?

Financial resilience is important as it helps to determine the extent to which the population is ready for ageing, at all its different stages. Older people aren't a homogenous group and what has become clear throughout the course of the Commission is the wide diversity amongst older people in terms of their health, wealth, income and experience of financial services.



*'When my husband took his private pension out, he was told we would get a pension of £100 per week but when he retired*

*we were shocked to be told that after taking out a lump sum to pay for a new roof and boiler we'd only be getting £65 a month because we hadn't increased our original monthly payments. To be fair, they had written to us on occasions to tell us to increase our payments but with three children this wasn't possible and we lived in cuckoo land thinking £100 a week was ok with us. This was nearly 8 years ago when we didn't really know how pension pots worked. Now we have more information, we're left feeling rather foolish, especially as the payments have dropped to £49 a month and my husband's asbestos health issues were never discussed.'*

**Margaret,  
MoneySavingExpert user**



Significant numbers of older people at all life stages are lacking sufficient financial resilience. Many simply haven't saved enough for retirement; some struggle with the complexities of financial decisions and others find it difficult to stay in control of their finances in later old age.

### What are the key aspects of financial resilience?

Financial resilience is a mixture of 'hard' measures, such as the overall level of wealth and health; 'softer' personal and social measures, such as attitudes and family networks to support you through difficult times. We would expect those lucky enough to enjoy high levels of wealth and excellent health to be highly resilient, but for those with less financial resources to call upon or who become ill or disabled, the following key aspects of financial resilience could become highly important:

- **Access** to information, guidance and advice.
- **Certainty** – for example, access to a defined benefit index-linked pension.
- **Adaptability** – both the ability to change your financial plans and the personal ability to live with change.
- **Realism** – for example, not being overly optimistic in terms of the returns you are likely to get or being too pessimistic about your life expectancy.

These factors may exist in tension, for example certainty and adaptability. However, your feeling of security may be enhanced if you have discretion or control over how change happens.

Whilst there is much that individuals can do to build up their savings for retirement and lead healthier lives, the central premise of the Commission's work is that the financial services industry can do more to improve other key aspects of a person's financial resilience, e.g. by providing appropriate products and services to meet the needs of older people. The state has an essential role to play in providing the certainty, the framework and, as the last resort, the safety net needed.

### What about financial capability?

Whilst we recognise the importance of improving financial capability, efforts in this direction need to be matched with an increased focus on improving the way the financial services market operates. Individual providers, the regulators and the government all have important roles to play. Good financial capability will not be enough if the financial products and services available to you simply do not meet your needs. And the more complex the decisions that have to be made, the more older people will need advice – be that generic information and guidance or fully regulated advice.

We need to recognise that for the vast majority, even if it is seen as important, the prospect of financial planning is both difficult and deeply dull. Behavioural economics tells us that the majority of people suffer from inertia and a lack of engagement.

*'I don't know how my health is going to be. Without sounding gloom and doom, till I know if I've got a future, there's no point thinking about it.'*

**Male, Generation R research participant**

Society as a whole needs to provide solutions that work around these consumer biases to improve the overall financial resilience of people in later life. In particular, the financial services industry, with the encouragement of the FCA and the government, needs to take a lead in providing products and services which go with the grain of consumer behaviour, rather than expecting people to become that mythical being, the 'perfect consumer'. Planning ahead for the next 30 to 40 years is a prospect that would challenge anybody. In trying to design for uncertainty, focusing on financial resilience might better equip people for the future.



# Approaching retirement



## Financial resilience in the decade before retirement

In the years leading up to retirement, financial resilience is largely determined by a combination of: pension wealth or other assets already accumulated; the extent to which you are able to continue to work and save, and any housing assets or debt.

Report after report has highlighted the lack of planning for retirement – one recent press release claimed that the average Briton spends more time planning their next holiday than planning their retirement.<sup>vi</sup> Even amongst the over 55s, an estimated 28 per cent have not had a conversation with their spouse or family about their retirement finances.<sup>vii</sup> Two-fifths of current retirees say they did not prepare adequately, and only a third realised this before retirement, while more than two-fifths do not think they will ever make up this shortfall.<sup>viii</sup>

This is often put down to inertia and in response the UK constructed a whole pensions system that works around this consumer bias. The Resolution Foundation challenged the Commission, at its first summit event, with the question: For those in the decade leading up to retirement, is a reluctance to save really due to inertia or is this generation struggling to keep up with their everyday finances, with no real capacity to look further ahead?<sup>ix</sup>

## Generation R – exploding the myth of the baby boomer

The Commission began its deliberations by considering the group of people born between 1946 and 1964, often labelled the UK's 'Baby Boomers'. Age UK chooses to refer to this group as Generation R, the 'R' representing risk, resilience and readiness for ageing. We conducted statistical analysis, based on the English Longitudinal Survey of Ageing (ELSA),

together with some accompanying qualitative research by BritainThinks to investigate just how ready for ageing this cohort are.<sup>x</sup>

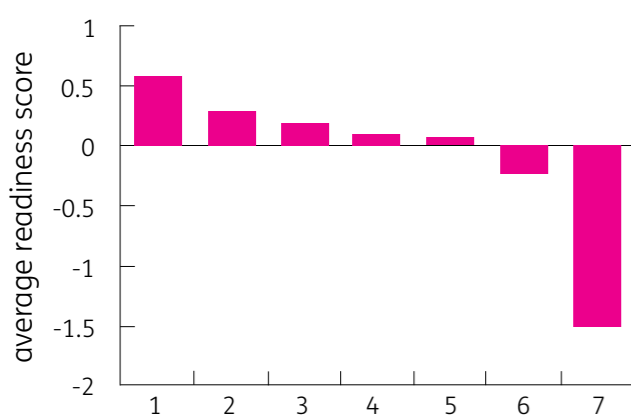
We know that household wealth is highest for people in the 55 to 64 age group. In 2006–2008, median wealth in Great Britain was around £205,000, whereas it was £416,000 for the 55 to 64 age group. However, this average figure masks a very wide variation – the top 10 per cent of households aged 55 to 64 had more than £1.3 million, while the bottom ten per cent had wealth of less than £28,000 (including personal possessions, such as a car or furniture).<sup>xi</sup>

This was confirmed by Age UK's analysis, which found seven distinct clusters of people and a wide variation in terms of the extent to which they could be considered 'ready for ageing'. This looks beyond pension wealth to consider income, other assets, health, and disability – all factors that we know affect the ability to cope financially with ups and downs in retirement. Factor analysis showed that, when taking these aspects into consideration, pension wealth was by no means the most important indicator for our index, in fact it has roughly one third of the effect of housing or material wealth.

The top 10% of households aged 55 to 64 had more than £1.3 million of wealth, while the bottom 10% had wealth of less than £28,000 (including personal possessions, such as a car or furniture).<sup>xi</sup>

The chart below shows the relative ‘readiness’ score for each of the seven clusters, which we have numbered 1–7, with 7 being the least ready for ageing. Clusters 6 and 7 (comprising 20 per cent of the population) show very low readiness for ageing, and the most ‘ready for ageing’ cluster, Cluster 1, is more than twice as resilient as Cluster 2.<sup>xii</sup>

**Chart One – Generation R’s readiness for ageing scores**



Source: *Generation R: risk, resilience, readiness for ageing?* (Age UK, 2014)

So, the picture is in reality much more nuanced than the ‘baby boomer’ headlines would have us believe, with all but the most affluent facing challenges in becoming ready for ageing.



*‘You’re coming to the end of your work life and you’ve got a lot more responsibility. Grandchildren, children. Your children might be struggling and you can’t help but get involved. I think we’re going to struggle because we don’t have the same pensions. And our parents didn’t have to look after us the way we have to look after our children.’*

**Male,  
Generation R research participant**

In terms of pension saving, some are looking forward to drawing a good, defined benefit occupational pension but others have had little opportunity to build up private pensions. Around a fifth of men and two-fifths of women aged 55 to 64 have no private pension entitlement at all. Of those with private pensions in this age group, men with defined benefit pensions wealth (a median of £235,800) have almost double that of women (a median of £139,100), and men (a median of £23,000) with defined contribution pension funds have almost triple that of women (a median of £8,100).<sup>xiii</sup> In addition, half of women in this age group with a private pension, have a private pension fund of less than £22,000 – a level which if converted into an annuity would provide an annual pension of only around £1,300 a year.<sup>xiv</sup>

In our research, pension and other forms of wealth, whilst important, were not the only factors associated with being ready for ageing. Being well-educated, economically active and being an outright home owner (as opposed to having a mortgage or renting) is significantly related to being ready for ageing. Rather unsurprisingly, lack of readiness is linked with health, disability and lifestyle factors, such as poor diet and lack of exercise.

### Particular issues for ‘Generation R’

Generation R have lived through recessions in the 1980s and the 1990s and the recent financial downturn has affected the income that many can expect in later life. At the younger end many, particularly women, have seen their expected retirement date receding into the distance as state pension age increases. While less of a problem for those who have good health and work they enjoy, working longer may be difficult or even impossible for others, such as those with health problems, caring responsibilities or the long-term unemployed.

The financial scandals of the past loom large for this generation, eroding their levels of trust in financial services, and there is a strong focus on self-reliance. Some of this generation feel under pressure to support both their own parents and their children, despite the fact that they would not want to be a burden on others themselves.

In our qualitative research, there was a sense that life had become far more complicated and less predictable and that, in the past, planning for the future had not extended beyond getting on the property ladder and automatically paying into a pension provided by an employer. Some of the participants at the deliberative events, held by Age UK, felt that they had not been in a position to save more for retirement, describing saving as a ‘luxury’.

Even the most resilient found the prospect of planning for a very long retirement daunting and expressed concerns that any savings they accumulated would simply be taken away from them to pay for care costs. This led to an ‘all or nothing’ attitude to saving, with some choosing to opt for a ‘live for today’ mentality as it was impossible to predict and plan for every eventuality.

### How can you persuade people it isn’t too late to save?

*‘Auto enrolment is a much-needed intervention, but it is a good basis to start from rather than a problem solved.’*  
**Resolution Foundation provocation**

Over a quarter of consumers say that they are now more likely to start saving or save more into a pension following the pensions reforms announced by the government<sup>xv</sup> – we will have to see if this intention is actually turned into reality. There is every reason to be hopeful that future generations will be more likely to have a pension, with the introduction of automatic enrolment and initial opt-out rates being far lower than anticipated – but will it be adequate? The question of when and by how much contribution levels should be raised (as pretty much everybody acknowledges that they must) remains. Future generations will also benefit from the clarity of the offer from the state in terms of the single tier pension.

For Generation R, auto-enrolment can only complement existing savings and, currently, opt out rates for older workers are typically between 25–50 per cent higher than for other age groups.<sup>xvi</sup> The proposed withdrawal of the need to annuitise may make pensions more attractive to older workers, but Generation R have also had the least time to adjust to the changes of the State Pension Age.

## What is needed for Generation R?

The Commission's participants discussed the need for:

- Clearer messages.
- Realistic forecasts.
- Clarity around the state offer – whilst the single tier state pension may help clarify the situation in the longer run, not everybody in Generation R will get the full single tier state pension.

A less tangible challenge raised by the Commission's participants is the difficulty of visualising retirement. Whilst people can visualise younger versions of themselves, they find it much harder to picture themselves as older and often discount the future in favour of immediate gains. One Commission participant suggested the use of avatars to help people picture the future. A series of experiments conducted at Stanford University found that people who view age-progressed photos of themselves often consider allocating more money to retirement accounts. They are likely to feel more connected with that future self and therefore be more motivated to save for the future.<sup>xvii</sup>

It is important to think beyond pension products and the Resolution Foundation highlighted the need for savings products that provide

an incentive to save for families on low incomes (such as the now extinct Savings Gateway), if those with the least financial resilience are to build up their savings. However, some Commission participants, questioned whether creating more low risk/low return products was actually in consumers' best interests.

## Who should do the persuading?

Whilst product providers could do more, there is clearly also an important role for employers too. Often employers are the first port of call for information about pensions and large employers have the perfect opportunity to hold workplace seminars to provide holistic information and generic advice to help with retirement planning. Previously, a workplace programme was run by the Financial Services Authority<sup>xviii</sup> under its financial capability strategy. We hope that the Money Advice Service will consider bringing this back, if not in its previous form then in one that brokers partnership arrangements, perhaps through workplace pension providers. Feelings about workplace advice provision amongst the older people we consulted were mixed. One spoke highly of the pre-retirement planning he had been offered but others were more cautious and would not have sought advice from their employer.

## Is working longer the answer?

It may be for some. The average age at which people are retiring is increasing. On average, men are currently retiring at 64.6 years and women at 62.3 years. But whilst people are working longer they are not necessarily doing so full-time. Around two-thirds of people working beyond the State Pension Age are currently in part-time employment, while around a third are self-employed.<sup>xix</sup> Flexible working is one of the key ways of enabling older workers to remain in work for longer, for example if they have caring responsibilities. It can also help people to phase their retirement. Age UK would like to see all jobs offered on a 'flexible by default' basis, whereby the employee can assume they can work flexibly unless the employer can justify otherwise. The Resolution Foundation also pointed out the limited availability of middle and high paid part-time employment, which would also facilitate more phased retirement. There is a balance to be struck between facilitating flexible working (which will help some to stay in work for longer) with ensuring that those who need or want full-time work can continue to secure it.

Working longer is not an option for everybody and, unfortunately, this is often the situation encountered by the very people who are most in need of the income. Clearly, health is an issue but long-term unemployment also remains a particular problem for the 50–64 age group. 46 per cent of 50–64 year olds who are unemployed have been so for more than a year – higher than any other age group.<sup>xx</sup>

## The Mid-life Career Review

The Mid-life Career Review aims to provide people aged around 50 with the opportunity to receive professional advice about their career options and related issues. The pilot, funded by the Department for Business, Innovation and Skills, ran between May and November 2013, and was delivered by a range of providers, reaching a variety of participants – from unemployed jobseekers to employees who wanted advice on maximising the later years of their career.

The initial findings were positive and showed a clear demand for advice on a range of topics, including self-employment, caring and finances.<sup>xxi</sup> The Mid-life Career Review could be an important starting point for engaging pre-retirees with their finances and financial preparation for retirement; particularly given the proposals for greater choice in accessing defined contribution pension pots.

Based on the US age-progression experiments, Bank of America's Merrill Edge unit has released a face retirement app to help people save for retirement. It is pitched at those aged 18 to 34 who have not yet started thinking about retirement. The app shows the user how they will look at various ages in the future, up to the age of 100. Alongside the photo are messages about the cost of living.

# Decision-making in retirement



## Financial resilience for people in retirement

People retiring need an inflation-proofed income; secure housing and savings they can draw on to meet any one-off costs; and helpful, accessible banking services. They also need to have the skills, tools and support to make good decisions about when and how to retire (including managing unexpected retirement); clarity about what their total assets are and how best to organise these to provide an income throughout retirement.

The government's plans to abolish the compulsory annuitisation of defined contribution pensions will come as a welcome relief to the many with small to moderate pension pots. However, the proposals also add a layer of complexity and risk to retirement decisions and those choosing not to annuitise will need to review their finances throughout retirement.

## When do people retire?

Transitions into retirement have become more complex in recent years, especially since the default retirement age ended in October 2011. Retirement is more likely to be an evolving journey, rather than a single event taking place

Around two thirds of people (in 2010-11) were in work immediately prior to starting to draw their private pension income. Only 45 per cent of them stopped work when they drew their pension - more than half (55 per cent) carried on working.<sup>xxii</sup>

around the State Pension Age. For most people, starting to receive a workplace or private pension and leaving paid employment do not happen simultaneously.

## Resilience to shocks

The Pensions Policy Institute (PPI) carried out research for Age UK to assess individuals' resilience to shocks in early retirement. Their paper used four hypothetical individual pensioners, who reached state pension age in April 2012 and started receiving their pension income from then on, to examine how certain events would affect their incomes. It explored: a period of unexpectedly high inflation; the onset of a moderate severity disability or health issue; the early death of a partner. The key findings were:

- For those individuals and couples reliant on the state pension, the triple-lock<sup>xxiii</sup> guards them well against the risks of inflation throughout retirement.
- Those more reliant on private pension income, and in particular defined contribution pension income, could see a significant fall in their actual income against their income requirement in retirement.
- The onset of a moderate severity disability or health issue is associated with a significant increase in spending needs, and, hence, required income, when the condition begins.
- Even those with a defined benefit private pension may find their income is no longer sufficient to meet their income needs and cover the additional spending needs of their disability.
- The early death of a partner is also associated with falling actual income against income requirements.<sup>xxiv</sup>

These findings are particularly sobering for women who tend to have lower pensions, usually due to lower salaries and taking time off work to raise children or care for a relative. The Pensions Advisory Service found that 76 per cent of women did not believe that they would have enough income to be financially comfortable in retirement and nearly 40 per cent did not know what their private pension would be or how to get estimates.<sup>xxv</sup>

Retiring with debt is also a growing issue. 9 per cent of households headed by somebody in their late 60s have a mortgage and the mean amount of mortgage debt held by those aged 75+ with a mortgage is £30,900.<sup>xxvi</sup>

### Weighing up the likelihood of care

Although the majority of people in later life do not face very high care bills, a small number of older people are forced to pay out over

£100,000. As there is no way to predict in advance who this will be and very few financial products are available to help cover very high costs, care truly is a 'life lottery'.

Given the potential costs and lack of certainty over how much care each individual is likely to need, there is a risk that people who choose to cash in their pensions early under the new Government reforms could find their care options restricted in later life. In addition, there may be people who actively decide not to save for care, given their inability to be able to accurately determine whether they'll need it. Others may be deterred from saving because the costs are so large and/or because they feel it is beyond their means. At our three deliberative events with older people, we found that no-one had planned for the cost of care, though some had experience of selling property on behalf of parents to fund care costs.

**AT THE AGE OF 65:**  
**1 IN 4 OLDER PEOPLE**  
WILL SPEND VERY LITTLE ON CARE



**2 IN 4 WILL SPEND OVER £20,000**



**1 IN 4 WILL FACE COSTS OVER £50,000**

**1 IN 10 WILL FACE COSTS OF OVER £100,000<sup>xxvii</sup>**



The interaction of pension savings with paying for care is extremely complicated. Pension income or lump sums will usually be taken into account in the means-test for government support (as well as for benefits), but the rules also allow local authorities to take undrawn pensions into account. Many people will be unaware of this, and it is unclear how the notional value of the pension will be calculated under the new regime. The impact of the 'deprivation of assets' rules (if people deliberately withdraw or give away savings to avoid paying for care), is also unclear. The government needs to ensure that there is clarity in this important area.

### The risks of poor decision-making

Many people lack the financial skills and confidence needed to deal with complex markets: to shop around, and to seek information and advice services. Whilst 89 per cent of people in the Money Advice Service Financial Capability Survey were able to identify the better deal from two financial options, for those aged over 55, nearly one in five picked the wrong option.<sup>xxviii</sup> The FCA found that 80 per cent of consumers who purchase their annuity from their existing provider could get a better deal on the open market.<sup>xxix</sup>

Habits will have been built up over a lifetime, influenced by past experiences of banking, buying financial products and seeking information, advice or guidance. People often stay with the same provider out of inertia or because they find comfort in knowing all their money is in one place, even if it is not the rational thing to do.

At a time when people are facing a major change in lifestyle, they are also having to make difficult financial decisions with insufficient knowledge and skills in a market

that does not work well for consumers, and which could become more complex as new retirement income products enter the market. This potentially increases the risk of consumers buying or being sold unsuitable products that are not affordable or which do not serve their needs well throughout retirement.<sup>xxx</sup>

### Seeking advice

In 2013, 66 per cent of the population had not sought professional financial advice on retail investments, pensions or retirement. Of those who had not sought advice, 38 per cent did not have the money to invest, and 16 per cent thought that they could not afford a professional financial adviser to discuss retail investment or pension issues. Nearly a quarter would have rather made their own decisions using sources of information (websites, newspapers, magazines). Yet 35 per cent of unadvised respondents said they would use advice as a result of the Retail Distribution Review (RDR)<sup>xxxi</sup> – a slight increase from 2012. This equates to 4.8 million new customers spending about £3.8 billion in adviser charges.<sup>xxxii</sup> Whilst the RDR is meant to clarify the costs of regulated financial advice, further work is needed to ensure costs are genuinely clear and transparent.



*'My pension and retirement planning specialist company have been brilliant to me. I now have a motto, which has been derived*

*from their work: The best thing about money is not having to think about it.'*

**Grahame, 68,**  
**MoneySavingExpert user**

During our deliberative events with older people, we found that the minority who had a trusted adviser were positive about the advice they received. In other research, 40 per cent of 61–70 year olds agreed that ‘when it comes to financial advice, it’s hard to know who to trust’. For 71–80 year olds, 64 per cent of people find it hard to know who to trust.<sup>xxxiii</sup> The majority of people turn to friends and family and to information from newspapers, magazines and websites.

*‘There’s no substitute for learning by experience. A lot of advice you get from every quarter is bad.’*

**Generation R research participant**

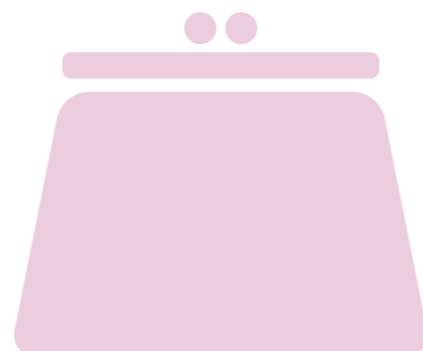
Commission participants agreed that a more targeted regulated financial advice solution is needed. The Chartered Insurance Institute and Personal Finance Society suggested that creating a more ‘focused advice’ solution, whereby consumers could get professional financial advice on specific issues such as retirement and decumulation (the conversion of pension assets into a pension income) for a fixed fee. This would go some way towards addressing the post-RDR mass market access issues described above, while giving the public the certainty they require about the costs involved and the types of advisers that are prepared to work with them.

### Products and services need to reflect people’s real spending patterns

A key aspect to improving the financial resilience of those retiring is ensuring that they have ready access to the financial products and services they need. As a matter of course, everyone retiring should consider how their spending is likely to vary over retirement, e.g. it might follow a u-shaped spending curve.<sup>xxxiv</sup> This would help people begin to decide on how they ought to make their money last throughout their retirement, and whether to spend/save at any point in a retirement.

Not everybody has the luxury of choice. 9% of 71–75 year olds (and 76–80 year olds) reported that they currently couldn’t afford to put anything away for future years or that they had nothing in place and didn’t intend to do anything.<sup>xxxv</sup>

People who can exercise choice might, as a potential consequence of ending compulsory annuitisation, be tempted to either overspend in the early years of retirement – or to underspend, including on necessities like keeping their house warm.



### Proposal from Mercer: Plan for the ‘U’

Generally, people tend to spend more in the early, active retirement years. Income needs then level off, only to increase again, with additional medical and care expenses.

Evidence from the US and Australia (where there has never been any requirement to purchase an annuity with pension plan savings) is that people spend too much of their savings in the early years of retirement, through a lack of appreciation of what will be required in later years. Following the Budget announcement in March 2014, whilst the flexibility that will be available to individuals at retirement has been generally welcomed, this will now be something to consider in the UK. Whilst the State Pension provides some basic level of security, unless an individual has a defined benefit income or decides to purchase an annuity, the remainder of the pot will be at risk from ill informed spending decisions, poor investment returns and longevity.

However, we still feel that individuals need to think carefully about their retirement income needs and the risks of not achieving them. To assist individuals, the amount of income an individual needs/obtains might be defined by two tiers:

**TIER 1:** The minimum requirements. The level of income required to meet basic day-to-day living expenses.

**TIER 2:** Replacement. The level of income required to preserve broadly current living standards.

For many, attaining Tier 1 may be the extent of the opportunity available. For these individuals it might be best to have a secure income stream to secure their basic needs, although the attraction of being able to withdraw their savings at any time maybe too much to turn down for future retirees.

For those that want security of income, a solid income floor includes an element which protects against longevity risk, either through a combination of state pension, a pension from an employer sponsored defined benefit plan or securing an annuity with a portion of retirement savings. Whilst there is now uncertainty about the future evolution of the annuity market in a post-Budget world, there is scope for more innovation in insured products in this area. For example, longevity insurance which is purchased at or close to retirement but takes effect on living past age 85 say, greater innovation in investment linked annuities e.g. with a reasonable guaranteed return plus scope for some market upside.

Whilst we believe that security of income will still be attractive to many, they may prefer to defer annuity purchase to later in retirement when the annuity rate itself can produce a meaningful income and the individual circumstances and state of health are clearer. For these individuals, in the years directly after retirement the flexibility of drawdown will be attractive when spending requirements are higher and more varied and their longevity is less clear.

**Extract from Mercer’s provocation**

## The impact of ending compulsory annuitisation

The government's pension reforms have the potential to enable people to structure their plans around a u-shaped spending curve, e.g. to withdraw sums to boost their incomes in early retirement, whether that is to renovate, travel or pay off a mortgage. However, product innovation is needed to help people maximise their incomes throughout their retirement; reflecting variable spending patterns and alleviating the risks of overspending in early retirement. At the same time, many people may want security over flexibility, so annuities will remain important.

We could learn from overseas. In Australia, where annuities are voluntary, few individuals choose to purchase lifetime annuities and most payments to retiring workers from superannuation funds are made as lump sums or through account-based pensions – that is, income funds without lifetime guarantees. Investment income in a superannuation fund is taxed at a lower rate during the working years and not taxed at all after being converted to an account-based pension. There is also a relatively generous means-tested old age pension.<sup>xxxvi</sup>

Variable annuities are popular in the US; level annuities currently dominate in the UK; while over 90 per cent of annuities purchased in Singapore (where annuitisation is compulsory) are deferred annuities.<sup>xxxvii</sup> At age 55, all Singaporeans with minimum-sized retirement accounts are placed in a standard default lifetime annuity fund. Payments begin at the drawdown age, which is gradually rising to 65. The life annuity has a premium refund feature that provides some bequest value during the early part of retirement. Alternatively, the worker may choose a so-called basic plan, purchasing

longevity insurance (a deferred life annuity) to start paying at age 90, with the remaining retirement account balance used for monthly drawdowns until age 90.<sup>xxxviii</sup> High rates of annuitisation in Singapore are reinforced by the fact that all defined contribution savers are restricted to making a simple choice between two standard products at age 55.

## Standardising and accessing pension guidance

The introduction of pension guidance for everyone retiring with defined contribution pensions could raise general awareness about pension options as people may need to take more responsibility and be more proactive about their finances in retirement. Everything we know about behavioural economics suggests the need to create defaults which negates the need for engagement and active decision-making. However, most people do have to make decisions about when to retire, so we need to learn from how people make these decisions. Learning could include:

- Personalising information to help people apply information to their own cases.
- Creating a consistent framework to build new 'norms' around retirement, replacing the old certainties with fixed retirement ages and defined pensions.
- Being aware of tendencies to discount future gains in favour of accepting immediate, less profitable rewards.

At a summit event discussion on pension warm up packs, one annuity provider pointed out that it never hears from a third of its customers, despite writing to each customer three times before retirement.

We want to ensure that the pension guidance produces good outcomes for everyone:

- It needs to very clearly guide people to make decisions that are tailored to their individual circumstances.
- People need to feel that they have walked away with a useful 'prescription'; armed with all the tools to make firm decisions about their retirement finances.
- Recipients of the guidance need to feel that the advice is trustworthy and useful, and actually empowers them to make good decisions to set themselves up for retirement. It would be helpful to have a framework to ensure consistent standards and messages.

The end of compulsory annuitisation may also increase the proliferation of unregulated websites and increase scams. People with small pots of money may not feel confident enough to discuss their finances with an adviser and prefer to turn to the web or friends and family. Many participants at our summit events raised concerns about the lack of places for people to go for advice, if they have small sums. There is potentially a strong case for codes of conduct for websites selling execution-only annuities/pension income products.

A mix of delivery mechanisms is needed. 19 per cent of 55–64 year olds have never used the internet and this increases to 40 per cent of 65–74 year olds.<sup>xxxix</sup> At our deliberative events, we found a preference for face-to-face advice. Pension guidance must meet the needs of older people who do not use the internet.



# Staying in control in later old age



## Financial resilience

Financial resilience in later old age requires much the same combination of opportunities, skills and attitudes as at any other time of life, with different emphases and different challenges.

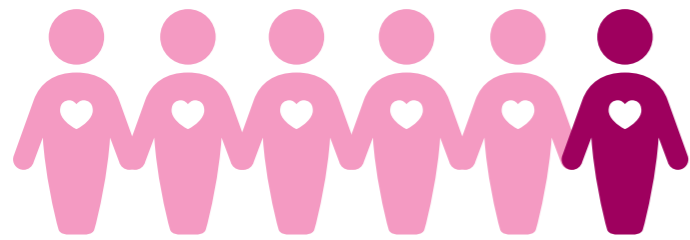
Staying in control day-to-day is key; while the likelihood of living with a serious long-term health condition is high, a negative life-limiting impact is not inevitable if proper support is available. And it is still important to plan ahead – with the average life expectancy at 85 being around another seven years.<sup>x1</sup> However, good decision-making is likely to involve not just planning ahead but also responding to crises which may require urgent and important financial decisions.

*'Financial resilience  
in later old age is often  
the culmination of our  
personal financial, social  
and technological journey  
through life'*

**Toynbee Hall  
provocation**



While 68% of people aged 75+ have a long-standing illness, only 47% report limits to daily activities<sup>xli</sup>

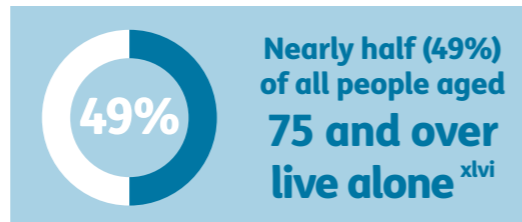


**DEMENTIA AFFECTS  
1 IN 6 PEOPLE  
OVER 80 AND  
1 IN 3  
OVER 95<sup>xlii</sup>**



**THOSE AGED 85+  
HAVE, ON AVERAGE  
A TOTAL NET WEALTH  
OF £34,681  
COMPARED TO THE  
£174,393 OF  
OLDER PEOPLE AGED  
65–69<sup>xliv</sup>**

**THE RISK OF  
DEPRESSION  
INCREASES  
WITH AGE  
SO THAT 40%  
OF THOSE OVER 85 ARE AFFECTED<sup>xlv</sup>**



**ONLY ABOUT  
16%  
OF PEOPLE OVER 85  
LIVE IN RESIDENTIAL CARE<sup>xlvii</sup>**

### The current landscape

*‘Our financial resilience in later old age depends not on how old we are, but on three key determinants: the availability of family support; our personal socioeconomic background; and our individual attitude to technology.’*  
**Toynbee Hall provocation**

There are currently 1.38 million people aged 85+ and this is forecast to double in the next 20 years. Life expectancy within this group is also set to increase. What was formerly a small group of exceptional individuals is rapidly becoming a whole new generation.

This age group is highly diverse, with a broad spectrum of health and financial resources which poses challenges to those serving them; for example, in seeking to understand the balance between protecting vulnerable consumers and ensuring access to increasingly important products and services. As this group is likely to have been retired for several years, they will usually have been spending their retirement savings and total net wealth for

those aged 85+ is lower than the younger age groups.<sup>xlviii</sup> Yet spending needs may rise, with sometimes dramatic and sudden increases in the need for care and help in the home.

Those in later old age represent the fastest growing consumer group and even at current numbers hold a significant proportion of the nation’s property and financial wealth. They need advice, products and services to help them make the most of their resources and cope with unpredictable but urgent needs. Yet this group are also prevented from accessing some financial products because the Equality Act contains exemptions which allow firms to discriminate by age. Age UK believes arbitrary age limits must be consigned to the past.

One Commission participant challenged the industry to confirm whether people in later old age are an attractive market for the financial services industry as, if they are not, there may be a need for a greater degree of intervention from the regulator or the state. The question remained unanswered.

## Staying in control day-to-day

*'My bank will not give me monthly statements on my... account because there is not enough turnover of money in the account – I therefore have to wait for the quarterly statements to check on the money that's gone out.'*

**The Way We Pay,  
Age UK<sup>xlix</sup>**

Practical difficulties with mobility or communications, combined with the shrinking bank branch network, affect the ability of those in later old age both to access financial services and manage their money. Recent years have seen a welcome increase in banking services available at the Post Office; however, these still do not replace a bank branch.

A recent publication from the British Bankers Association proclaims that 'a revolution is underway in how people spend, move and manage their money...'<sup>1</sup> However, the majority of those in later old age are still offline: 59 per cent of men and over 73 per cent of women aged 75 and over have never used the internet.<sup>li</sup> Internet use is rising among older people and some firms are working to help increase the internet literacy of people in later life. However, it will not offer a solution to the banking needs of all or even the majority of people in later old age. This challenges web-based solutions, unless they can be delivered with consistent, additional support.

## The impact of divorce and separation

The impact of divorce and separation came through strongly in our deliberative sessions with older people. Making one family's savings provide for two or even more households stretched resources. Participants also reported that one partner tended to take control of the finances and so, on separation, the partner who had not been as involved suddenly found themselves managing their finances (which could involve a significant lump sum) and this situation being 'quite traumatic'. It seems impossible to plan for divorce or separation, yet as estimates put 42 per cent of marriages in England and Wales ending in divorce it is likely to strain the financial resilience of a significant number of households in retirement.<sup>lii</sup>

*'I had savings [for retirement], but I got divorced and lost my job, and now I have to start again.'*

*'in fact the pension has to go three ways, between him, me and his ex-wife.'*

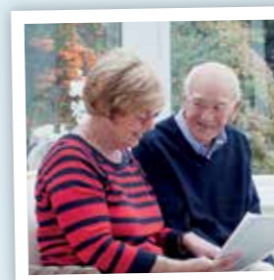
**Cranleigh deliberative session**

## The policy/practice gap

Commission debate highlighted the impact of the gap between policy and practice within financial institutions on people in later old age. For example, a bank may have a good policy on accepting a range of identification documents to access or open accounts, but front line staff may not be fully aware of non-standard options, and inadvertently misinform the customer of the bank's policy on identification. People in later life may be more likely than others to experience the 'policy/practice gap' as they may have requirements or questions that front line staff do not experience every day and therefore may find it harder to respond to. The gap can

be caused by lack of staff training or by systems which do not highlight appropriate responses. Institutions may not always be aware of the gaps, especially where vulnerable consumers are most affected.

Many participants agreed that consumer organisations and other charities have an important role in helping firms to identify detriment and potential detriment to consumers before it became a major issue, so that resources could be focused on prevention.



*'For about 10 years, my 93 year old grandfather, John, held over £90,000 in a single building society account which was*

*earning a paltry 0.08 percent interest. It had been migrated from another savings product which he'd had for a number of years. It was only when I organised an enduring power of attorney that I was informed that the money ought to be moved to a higher interest paying account. I'm now finding it difficult to open new accounts for him using the Power of Attorney because of the paperwork; the differing processes and requirements by different providers; and also the time consuming nature of it all.'*

**Patricia,  
MoneySavingExpert user**

Powers of attorney and other forms of delegation – where arrangements are put in place for a third party to support people who need help managing their day-to-day affairs – are another area in which both policy and practice have not kept pace with the needs of people in later old age. Powers of attorney are a highly formalised and prescribed legal power, yet both front line staff and institutional systems create barriers to their proper use in some firms. Similar gaps also exist for other forms of delegated authority, for example bank mandates. However, not all gaps are caused by implementation challenges. Research by the Payments Council has found that many consumers were not aware of options that exist to delegate payments securely. Almost one fifth of people aged 65+ use someone else to withdraw cash for them and disclosure of PINs is common.<sup>liii</sup> People living in later old age have told Age UK that they use unsecure 'workarounds' in order to access their cash and receive help managing their money, for example sharing their PIN, using joint accounts or sharing all password details to allow family or friends to help them because the ways banks currently allow them to share access to their account don't work for them. The need for safe ways to receive help is likely to increase and successfully tackling this would increase independence for older people and reduce risks of financial abuse.

*'I don't see a problem if you've got people you can trust... I give them a card and they do it for me.'*

### **The Way We Pay, Age UK**

There is also a need to support older people who are helping others. Over 93,000 people aged 85+ provide unpaid care to a partner, family member, or another person<sup>liv</sup> and 11 per cent of those aged 80+ help someone else with their finances.<sup>lv</sup>

### **Managing money**

How can providers equip older individuals to overcome barriers to accessing and managing their finances? How can processes be made simpler and easier? How can service providers protect vulnerable customers whilst at the same time respecting their independence and how do people safely stay in control of their personal affairs when they need third party assistance?

Although these issues are focused on the needs of people in later old age, they will impact on a range of age groups. For example, in research on payment systems difficulties using payment systems are correlated with disability.<sup>lvi</sup> Approaches to technology may mean that the nature of solutions could be different; however, the need for ease and confidence in systems should be attractive to the full range of age groups.

### **Making good decisions**

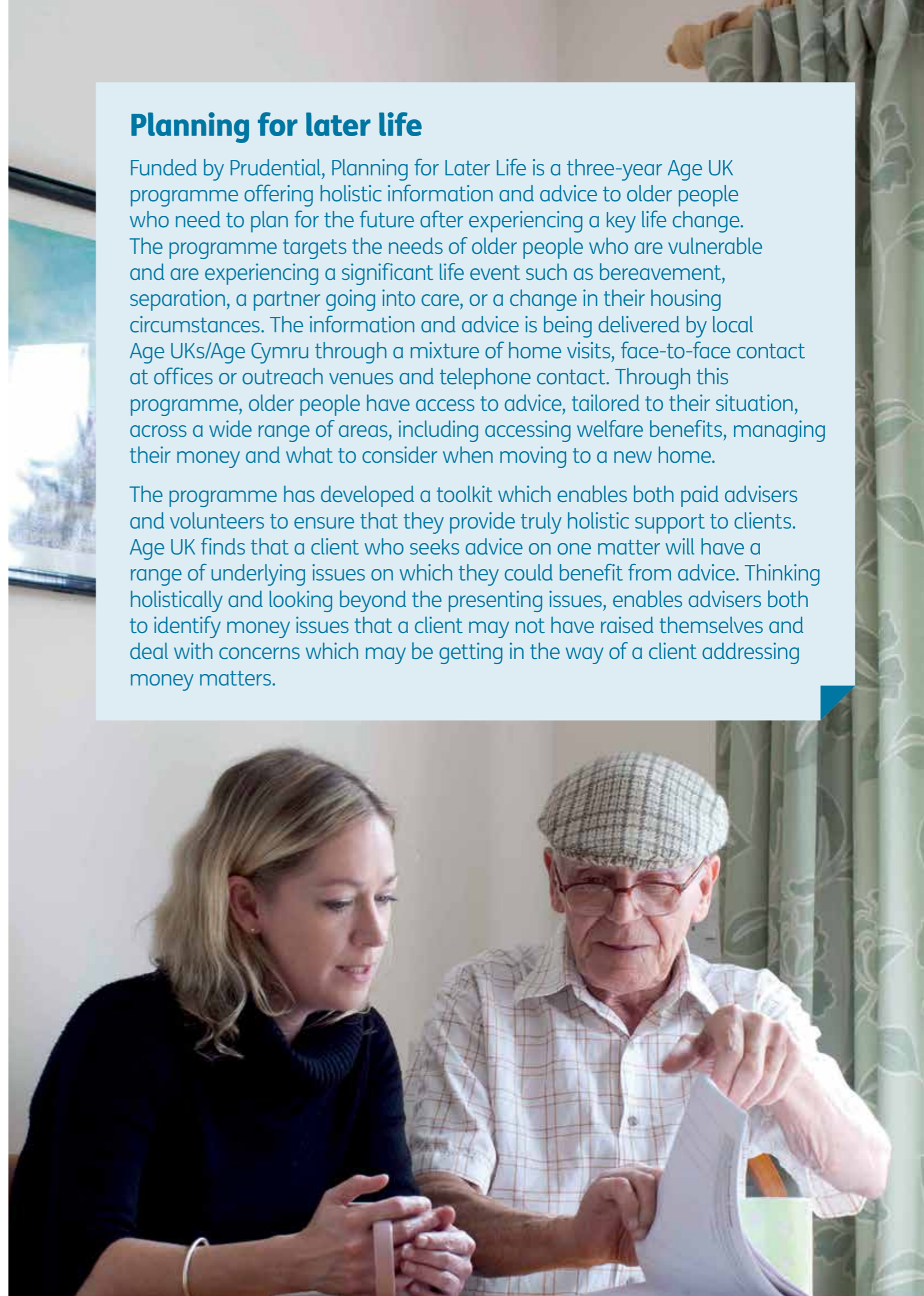
The stereotype of older people as savers and careful money managers has an element of truth but knowledge gaps may prevent them from making the best choices. Older people also appear less likely to shop around than younger consumers.

Although many consumers have experienced an almost overwhelming proliferation of information with access to the internet, for those who do not have access or who lack the confidence to use the internet, information has become harder to obtain. There has been much emphasis on access to advice, but access to information to enable individuals to make good decisions themselves, for example around making sure their money is in the best available deposit savings account, is also important.

## **Planning for later life**

Funded by Prudential, Planning for Later Life is a three-year Age UK programme offering holistic information and advice to older people who need to plan for the future after experiencing a key life change. The programme targets the needs of older people who are vulnerable and are experiencing a significant life event such as bereavement, separation, a partner going into care, or a change in their housing circumstances. The information and advice is being delivered by local Age UKs/Age Cymru through a mixture of home visits, face-to-face contact at offices or outreach venues and telephone contact. Through this programme, older people have access to advice, tailored to their situation, across a wide range of areas, including accessing welfare benefits, managing their money and what to consider when moving to a new home.

The programme has developed a toolkit which enables both paid advisers and volunteers to ensure that they provide truly holistic support to clients. Age UK finds that a client who seeks advice on one matter will have a range of underlying issues on which they could benefit from advice. Thinking holistically and looking beyond the presenting issues, enables advisers both to identify money issues that a client may not have raised themselves and deal with concerns which may be getting in the way of a client addressing money matters.



## Coping in a crisis

People in later old age may still need to plan ahead, given increasing life expectancy. However, their planning will need to take into account a growing likelihood that they will experience 'shocks', such as increased costs due to ill health, bereavement or illness of a partner. So people in later life will need to 'plan for the unexpected', have access to help and support, or have the financial capability and resilience to be able to make good financial decisions in times of crisis. These decisions include not just making the most of savings and income but also knowing when to use it up; for example, what are the implications of spending some savings on preventative care? Consumers are increasingly likely to be dealing with these challenges alone or with support from family who may not live nearby and who will have other pressures on their time.

The preferred source of advice about money among the 80+ cohort is friends and family (36 per cent) followed by banks or building societies (12 per cent per cent) with just 6 per cent consulting a financial adviser.<sup>lvii</sup> Awareness of the Money Advice Service is also lower among this age group, including with the older people we talked to at our deliberative events.



People in later old age may also need advice about how best to use up their savings, including what to do with existing legacy products which may be difficult to access and/or poor value for money. Commission participants highlighted the challenges in providing advice to customers in later old age; some institutions felt unable to help their customers manage existing products because of perceived vulnerabilities, such as cognitive decline.

However, consumers will need more than straightforward money guidance or even regulated financial advice. People in later old age will frequently need to understand benefits, housing options, types of care and support available and connections to other support services before they are in a position to make a good decision about their personal finances. The Care Act 2014 sets out high level requirements for local authorities to provide an information and advice service on care, including signposting to care-related independent financial advice.

Because older people may be seeking advice at a time of great stress and possibly personal health challenges, they may be more likely to require face-to-face services or even a home visit. Helping people in later life to make good financial decisions will therefore require holistic advice – possibly from a single source but most likely from a joined-up partnership between charities, firms and regulated advisers.

## A financial navigator

Macmillan, the cancer charity, works to ensure that people receive targeted and timely financial information and support at key points in the cancer journey, for example, at the point of diagnosis or at the end of life. Health care professionals play a critical role in helping to prompt early consideration of the financial implications of cancer. Macmillan has worked to ensure that financial conversations are built into clinical pathways and that relevant digital, e-learning and print resources are available to support these discussions.



*'It's like being in a car crash. Immediately, you think you're going to die, when you're told. But after a while you think, well I'm not dead so maybe there's a chance I could get through this. This was when I met the Macmillan nurse. She was brilliant because she put me at ease because she knew so much about it, and she also put me in touch with the Welfare Rights Service, who came round and went through all the forms. My welfare rights advisor helped me know what I was able to get. She told me about the Macmillan fund and that there was money I could apply for. I've been working since the age of 16 so I had no idea what benefits there were. I wouldn't have known anything if I hadn't have met her.'*

**Female, 55, diagnosed with bowel cancer  
Macmillan case study**

## The role of housing equity

According to Just Retirement, 'equity release performs a vital function in allowing individuals to access equity stored in their homes.'<sup>lviii</sup> We agree. However, the market remains small, with 20,331 plans sold in 2013 (a 3 per cent increase from 2012), with a notable increase of 2 per cent in the first quarter of 2014, from the final quarter of 2013.<sup>lix</sup> Although the product is highly regulated, the Financial Services Consumer Panel and Stepchange have raised concerns about poor competition, as a result of the inter-relationship between some of the largest providers and advisers and confusing, restrictive and changeable product terms, such as

unpredictable exit penalties.<sup>lx</sup> In our deliberative events with older people, we found a reluctance to use equity release because of fears about the cost of borrowing, and also because of a strong desire to leave an inheritance for children and grandchildren.

The current top uses of equity release, according to one provider, are for home and garden improvements (58 per cent); holidays (31 per cent) and debt repayment. 30 per cent used it to pay debts and 21 per cent to clear an outstanding mortgage.<sup>lxi</sup> It is helpful that the FCA will look at the development of hybrid equity release products (where interest



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payments are made monthly and do not roll up, as a solution to the interest-only maturity issue, where borrowers have not cleared the capital of the loan at the end of their term) as a potential solution to the problem of increasing numbers of older people retiring with an outstanding interest-only mortgage.

During the Commission, some concern was expressed over the Government's interest in using housing equity to pay for care costs, as evidence has shown, there may be earlier calls on this asset such as debt repayment. Commission participants also suggested that the mortgage industry and equity release sector are too separate and need to co-operate more closely.

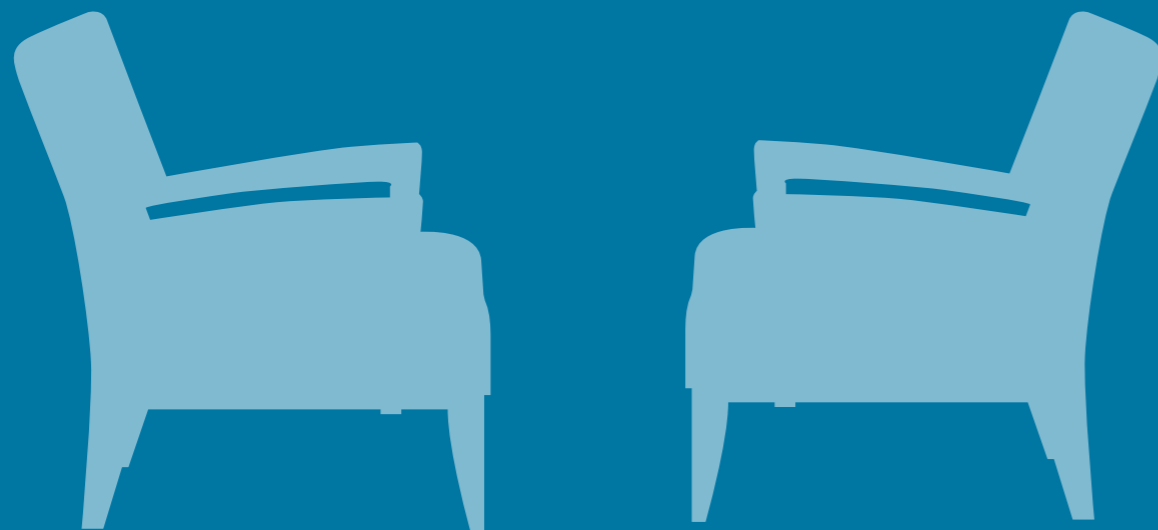
Housing equity is likely to grow in importance to help more people retiring on modest or low pensions to maximise their income in retirement. The passage of the 2014 Care Act led to a greater debate about the role of equity release to help meet care costs. Age UK would like to see these developments spur further innovation and improvements in equity release products.

However, for Age UK, there is a broader question around ensuring that older people have access to the housing options they need – it needs to be recognised that there are significant inequalities in housing wealth which means that in some regions, the choices open to older home owners are very limited. They lack the resources to make downsizing or retirement housing viable, whilst at the same time struggling to maintain or adapt their existing home.



# Recommendations:

## Information, advice and guidance



### The need for access to information, advice and guidance throughout later life

Good quality information, advice and guidance are essential to enable people in later life to make informed decisions, plan ahead, access entitlements and services and play a full part in their communities and society. Government reforms on extending choice and freedom in pensions have made this even more important. With annuities now an option rather than an expectation, people with reasonably sized pension pots who choose not to annuitise will need to periodically review their finances throughout retirement. A significant initial decision will need to be made to determine how best to access pension funds; continue to invest assets; manage any outstanding debt and prioritise any other expenditure, such as care costs.

### Information, advice and guidance are a collective responsibility

The financial services industry, the government and regulators have a collective responsibility to ensure that everybody in retirement has access to good information and guidance. This includes ensuring that the many older people who don't use or who don't trust the internet are able to access printed, phone and/or face-to-face information and guidance. Many organisations already offer some of these services, including Age UK and the Money Advice Service. However, amongst older people, an awareness of the Money Advice Service could improve and there is still an advice gap for those who choose not to pay for regulated advice. Money guidance needs to reach older people more effectively. We look forward to the delivery of a national financial capability strategy that specifically targets older people and isn't reliant on the web as the first point of contact with the Money Advice Service.

### Age UK's priorities for pension guidance

The priorities in the months running up to April 2015 must be to:

- Develop a common curriculum that all guidance providers must use, supplemented by measurable quality standards so that where guidance sits outside the regulatory boundary there is still a way to ensure high and consistent standards; we see this as a role for the FCA and the government.
- Ensure that there is a central agency or agencies to deliver impartial guidance. We think this will be needed because the range of subjects that should be covered will be wider than just pensions, and we question whether all pension providers will be able to provide a truly impartial service. We suggest that this central service should be leveraged from existing guidance services such as the Pensions Advisory Service and the Money Advice Service.
- Join up all the parts of the system so that there are 'warm' transfers or referrals to other bodies where appropriate, such as regulated financial advisers, debt agencies, tax advisers (such as Tax Help for Older People or TaxAid) or services offering holistic advice such as Age UK.
- Plan and implement awareness-raising activity to encourage take up of the guidance guarantee.

### Delivery mechanisms need to ‘go with the grain’ of consumer behaviour

Choice and freedom may seem appealing but people presented with too much choice find it difficult to take action. The introduction of auto enrolment is predicated on inertia and the lack of need to take any action, yet pension reforms mean that people facing major retirement decisions are now being forced to take more responsibility than ever before. Providers of information, advice and guidance need to find ways to pro-actively drive customer engagement without solely relying on customers to take the initiative.

### A ‘portable fact find’ will help common standards

These reforms present an ideal opportunity to revisit ‘the portable fact find’ idea that captures an individual’s savings, assets, pension pots and debts. If everyone seeking the ‘guidance guarantee’ was assisted to do this as part of the guidance process, this could have lasting benefits. With permission from the consumer, the ‘portable fact find’ could be shared with anyone giving them financial advice or guidance at any stage in their lives and be updated as and when circumstances change. However, financial institutions will need to play their part and the FCA should ensure that providers give their customers easily accessible information e.g. providing pension forecasts, in a relatively uniform way. For the portable fact find to work, the FCA would need to provide more regulatory certainty so that an adviser is able to accept it as part of their own suitability assessment.

### Joined up services are needed throughout retirement

The government needs to ensure that pension guidance continues to develop and evolve beyond 2015 to ensure it is supporting people throughout later life, not just at the point of retirement. This will mean that any organisation delivering the guidance guarantee should ensure that they are joined up with existing guidance services and that retirees are directed to further sources of ongoing support.

The role of employers is also important as they are often (though not universally) seen as trusted sources who can easily reach people who are retiring. We would welcome the re-introduction of a programme similar to the workplace programme which was run by the Financial Services Authority, but acknowledge the limitations of such an approach in reaching small employers and self-employed workers.

There is a real opportunity to develop a life stage approach to guidance, by linking up the Mid-life Career Review (see page 23) with pensions guidance at the point of retirement, and then through periodic financial reviews or MOTs. Under the Care Act 2014, local authorities will have a duty to refer people to sources of financial advice on paying for care. Is it time to develop a ‘retirement navigator’, along similar lines to Macmillan’s financial navigators, which could cover all aspects of money management in retirement, including paying for care?

Although this will not be possible for everyone, it would be helpful if everyone approaching retirement was made aware of the implications of working longer, should they want and be able to. Although it is not possible for everyone, according to the Pensions Policy Institute,

working and saving for an extra two years beyond State Pension Age can increase retirement income by 20 per cent. They have also suggested that illustrations could also be included in pre-retirement packs as standard information to break the default of an assumed retirement age.<sup>lxvii</sup>

### A choice of delivery channels is needed

Whilst the quality and content of the guidance guarantee is crucial, the cost effectiveness of the service is also important. If pension providers are expected to bear the costs of the guidance guarantee, including the cost of engagement, it is important that the service is not a disguised sales opportunity and that costs are not hidden in other charges. Everyone should be able to choose to receive guidance in the way they prefer: telephone, online or face-to-face.

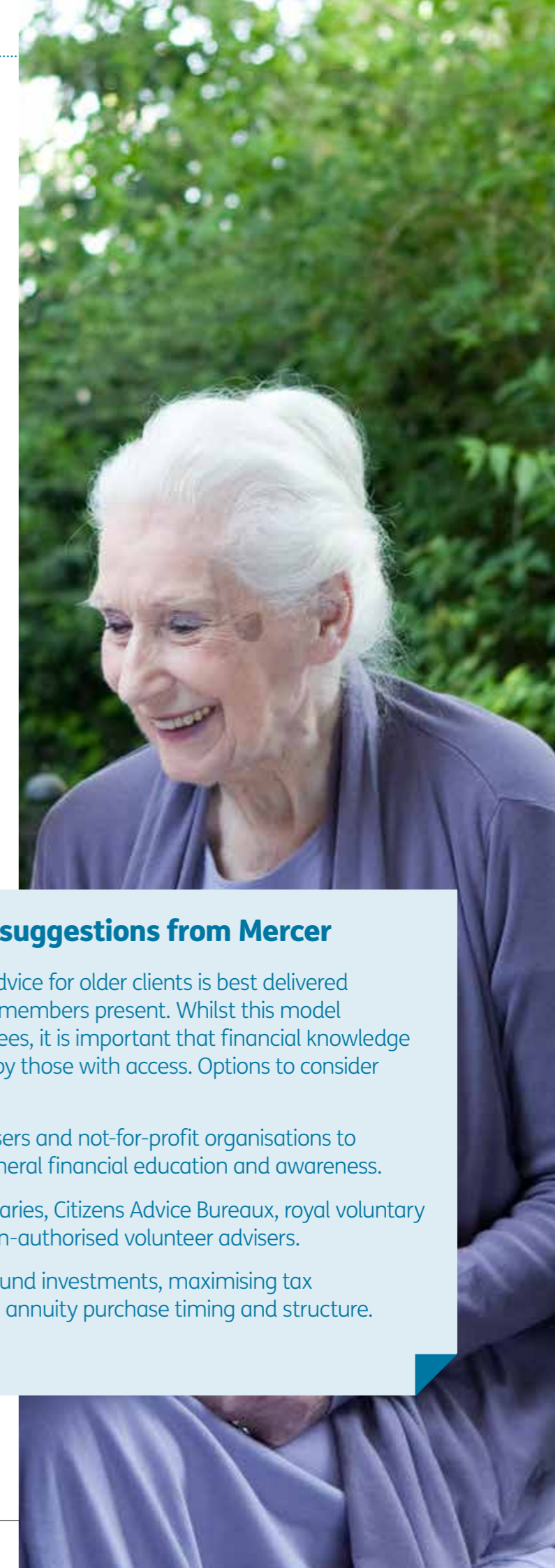
### Financial education and advice, suggestions from Mercer

Regulated Financial Advisers recognise that advice for older clients is best delivered through a home visit, often with other family members present. Whilst this model is unlikely to work across all categories of retirees, it is important that financial knowledge is delivered face-to-face into the community by those with access. Options to consider (on top of the guidance guarantee) include:

- Incentivising banks, regulated financial advisers and not-for-profit organisations to provide walk-in clinics and workshops for general financial education and awareness.
- Using other community outlets including libraries, Citizens Advice Bureaux, royal voluntary services etc. and creating an academy of non-authorised volunteer advisers.

Financial advice and education is required around investments, maximising tax opportunities, such as NISAs and decisions on annuity purchase timing and structure.

### Extract from Mercer’s provocation





# Recommendations:

## Financial products



### **Financial products to support our longer, more complex lives**

Financial products currently on the market do not sufficiently support the diverse needs of people in later life or our longer, more complex lives. The government's pension reforms may increase innovation in pension income products. The desire to give people more control and flexibility must be balanced with the need that most people have for a base level of certainty, and to keep costs low, as well as ensuring transparency and fairness. The changes must also meet the needs of people with modest pension savings, with a focus on good value.

### **Innovation in retirement products**

Age UK would like to see innovation in annuities and related pension products, and more research into international retirement product trends. People may decide to buy an annuity later in life, now that the decision about taking a lump sum and buying an annuity has been uncoupled. They may also decide only to invest a portion of their pension pot into an annuity. It would be helpful to see the development of a product which links the pension accumulation and decumulation stages – so that the pension pot continues to be invested as amounts are drawn down or converted into an annuity, with the continued protection of a pension fund and without costly fees attached to the drawdown or the ongoing management of the fund. This may impact on default retirement ages built into products and any defaults into less risky investments.

### **Build easy to understand pension products with intelligent defaults**

It is crucial that there are good value, transparent and easy to understand pensions income products that are suitable for those who can't afford to pay for investment advice. They also need to have built-in defaults, just as auto enrolled pensions do, so that customers who aren't sophisticated investors can still make the most of their money. An example might be investment products that offer ready-made investment portfolios which you select by risk, already offered by many firms, e.g. for stocks and shares ISAs.

### **Products should complement actual retirement spending patterns**

We would like to see products, or suites of products, which adapt along with people's actual retirement spending patterns. Whilst we recognise that many won't have the luxury of a variable income, others may want a product or a suite of products that help them to meet the occasional large cost (whether expected or unexpected), whilst providing a steady income and some level of guarantee that the overall pot won't run out before they die. For example, a retirement product that gives you a regular income with the ability to withdraw larger sums as needed would give an individual the certainty of a regular income, with inbuilt flexibility to manage unexpected costs. This could work in a similar way to a mortgage that allows you to overpay and withdraw overpayments without penalty.

### Acknowledge the limits to planning ahead for care

Our research with older people demonstrated clearly that many people will never be in a position to plan ahead for the cost of care. To fund care costs, they may use their property, rely on the state, or buy a financial product at the point of need. Importantly, they will need clear information, guidance and advice to enable them to navigate the options. If a care insurance product could be developed with an automatic transfer of unused funds to the person's estate upon death (and therefore inheritable) it may help to incentivise those unwilling to put aside money specifically for care.

### Equity release could play a greater role

Equity release has an important role to play for some homeowners in helping them to maximise their retirement income. It should be referenced in any retirement information and guidance. The adviser community may also want to improve links to specialist equity release advisers to ensure that customers are appropriately informed about equity release during their retirement planning. The equity release industry has come a long way but there is still much to be done. The use of equity release may change with the pensions reforms and we would like to see this spur further innovation in equity release; for example, putting an end to expensive exit penalties.

### Products should not penalise loyal older savers

During our deliberative events with older people, we found that they tend to be loyal to their existing providers. Such loyalty should not be penalised. The financial services industry has a responsibility to ensure consumers aren't unknowingly left in accounts offering paltry interest rates. We look forward to the outcome of the FCA's cash savings market study and hope that it will oblige providers to be more pro-active, for example, by presenting customers with some choices when a promotional rate comes to an end, perhaps with an automatic transfer into the best paying account if no active choice is made by them.

It is not just the savings market which exploits consumer biases; we also welcome the work being undertaken by the FCA and the ABI into 'legacy' products<sup>lxiii</sup> (no longer on sale but still held by many people) to ensure that consumers aren't locked into costly and restrictive products. At the same time, we would like to see the financial services industry take immediate action to improve their products for their customers and not wait for the FCA and ABI investigations to conclude.

TISA has established an industry-wide project to develop strategic proposals for a Savings and Investments policy. It will focus on how to improve consumer's financial wellbeing through clarifying the benefits of saving and enhancing consumers' appetite for saving for short, medium and longer term security.<sup>lxiv</sup>



# Recommendations:

## Building trust



### **Balancing interests**

This is a period of unprecedented change which could generate innovation, competition and accelerated change in the financial services industry. Innovation in the past has not always worked in the interests of consumers but we now have a real opportunity to make sure it does. The FCA has a mandate to promote competition in the interests of consumers and aims to put the consumer perspective at the heart of its decision making. While this is welcome, the major role is with industry leaders, encouraged by government and the regulator, to ensure that the industry balances its focus on the bottom line with the best possible products and services for its customers of today and tomorrow.

### **Policies, technology and systems should be designed inclusively for a more painless customer journey**

Before we can improve the customer experience of people in later life, we need to know what they experience now and what they need. We welcome the engagement of the financial services industry during the Commission and hope this indicates an ongoing commitment to improving services for older people. In the past, customer research – with some honourable exceptions – has often effectively ignored people aged 65 and over. Seeking to understand the needs of people in later life should become an automatic part of new product, policy and service development. By designing with the needs of older people in mind, offerings will become more inclusive and the need for expensive niche solutions reduced. Examples of existing barriers improved design could seek to address include: passwords and security; telephone lines; online banking systems. Mass market products and services

need to be genuinely available to the mass market. As well as thinking about improvements to individual systems and transactions, firms should review and seek to smooth the overall customer journey for older consumers.

### **Policies and best practice need to be implemented consistently**

As in all businesses, it can be difficult to ensure that policies are implemented consistently. Firms should proactively evaluate, including through research and engagement with consumer groups, how well their policies are being implemented and how they are being experienced by consumers. As they do so, they should pay special attention to groups who may be less likely or able to bring problems to the attention of the firms, including people in later life.

### **Firms need to improve treatment of powers of attorney and deputyships**

One particular example of both the need to understand customers better and to improve policy implementation is in the area of powers of attorney and deputyships. Firms should systematically review their policies, procedures and staff knowledge to ensure that customers are treated well. Some firms may need to update their policies as it appears that they do not reflect the law surrounding powers of attorney. Others may have good policies, but the supporting technology may make it more difficult for staff to provide good service, e.g. customer records may be displayed in a way which makes it difficult for staff to identify quickly the existence of a verified attorney. In other cases, these elements may be in place but have not been adequately communicated to staff.

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### **We need new delegated payments and access options**

All firms should review the ways in which customers are able to receive help in the management of their affairs, identify gaps and seek solutions. The Payments Council has conducted detailed research into customer needs and is encouraging members to embed consideration of those who need help managing their affairs in all reviews of existing products and development of new ones. The Payments Council is developing a framework to support these efforts and members should engage fully with this project. Other financial services firms should consider whether similar frameworks would be appropriate in their field.

### **We need to continue to improve our understanding of and response to cognitive decline**

Not all people in later life experience cognitive decline, but it is important that all organisations have systems able to respond to this appropriately. Firms should work with the FCA to support its initiative to improve understanding of vulnerability and improve the way the industry serves its vulnerable customers, including those with cognitive decline. It is also important to recognise that the external environment affects resilience and vulnerability and so products and services should be designed to improve resilience, e.g. by including accessible and simple communications.

### **The industry needs to develop a sustainable model to enable older customers to access financial services**

No matter how well telephone, digital and mobile channels are designed, there will still be a significant group of people who will continue to require face-to-face communication. Some customers will only seek face-to-face contact for the more complex transactions, such as mortgage applications, while others will continue to rely on their branches for information too. As branch networks contract and become increasingly automated, the industry needs to consider new ways to enable older customers to access financial services.

### **The industry needs to be genuinely transparent**

As financial products can be complex to navigate, the financial services industry needs to offer greater honesty and transparency, for example about the likely returns a product will achieve when promotional rates are ending, and how to transfer to an account offering a better return.

The industry and regulators should strive to improve communications with customers, to ensure that information is easily digestible. For example, it is not enough to give customers annual forecasts with accompanying small print about the risks of investments that can be easily discarded or ignored. These letters need to enhance awareness and be complemented by an explicit and clear explanation of how these have changed from previous years to demonstrate how forecasts can go up or down.

To encourage customers to take action with their money, it would also be useful to have accepted rules of thumb. We need to learn from the success of the awareness of the '5 a day' in the health world to change norms and help people set realistic expectations about their retirement income.



# Conclusion and next steps



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## Age UK remains committed to improving the financial resilience of older people in the UK.

We welcome the fact that the government's pension reforms may drive significant change in the financial services landscape, but the interests of consumers must be the central focal point in this period of innovation. Whilst much attention in the year ahead will be on the point of retirement, we must not take our eyes off the longer term. Retirement can last as long as one's working life and just as your first job is a key point of change, so the start of your retirement is only the beginning of your next journey. As we are living longer, more complex lives, the financial services industry has a critical role to play in helping people to navigate life.

It is crucial that developments in information, advice and guidance, products and services are made with older consumers' interests in mind. Older people are increasingly important to the UK's economy. One in six of us in England and Wales are now aged 65 and over and the over-85s are the fastest growing segment of the population.

## Next steps

We have been tremendously encouraged by the level of industry engagement throughout the lifetime of the Commission. Age UK will continue to work with key industry figures and bodies and develop a plan to take forward the report's recommendations. We will also be actively seeking partners to progress strands of work.

## Appendix: Commission participants

We would like to thank all those who participated in the Financial Services Commission summit events.

Whilst we have reflected the key debates had during the summit events, the conclusions and views expressed in this report do not necessarily reflect those of individual participants. The participating organisations are listed below:

Annuity Line  
 Association of British Insurers  
 Aviva  
 Barclays  
 Barnett Waddingham  
 BlackRock  
 BritainThinks  
 British Bankers' Association  
 Citizens Advice  
 Council of Mortgage Lenders  
 Equity Release Council  
 Fidelity Worldwide Investment  
 Financial Conduct Authority  
 Financial Services Consumer Panel  
 HM Treasury  
 HSBC  
 Investment Management Association  
 Joseph Rowntree Foundation  
 Just Retirement  
 Legal & General  
 Money Advice Service  
 Mercer  
 National Employment Savings Trust  
 Pension Protection Fund  
 Pensions Policy Institute  
 Personal Finance Society  
 Prudential

RBS  
 Reform  
 Santander  
 Scottish Widows  
 Society of Later Life Advisers  
 Stepchange  
 SwissRe  
 The Fair Banking Foundation  
 Towers Watson  
 Toynbee Hall  
 The Money Charity  
 The Pensions Advisory Service  
 TSB  
 Which?

We would also like to thank the following individuals who participated in the summit events: Nick Hurman, Sir Brian Pomeroy and Doug Taylor.

## Notes

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- xxiv The financial resilience of the recently retired, Pensions Policy Institute (February 2014).

- xxv Women & Pensions, The Pensions Advisory Service (January 2014).
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- xxvii Fairer Care Funding, The Report of the Commission on Funding of Care and Support (July 2011).
- xxviii The Financial Capability of the UK, The Money Advice Service (November 2013).
- xxix Thematic Review of Annuities, FCA (February 2014).
- xxx The Risk Outlook, FCA (2014).
- xxxi The FCA/FSA introduced the Retail Distribution Review (RDR) to make clear how much consumers pay for financial advice, what they pay for, and to improve professional standards by introducing a minimum level of qualification for all investment advisers.
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- lix Equity Release Council press release, 18 April 2014.
- lx Financial Services Consumer Panel and StepChange roundtable discussion on equity release (November 2013): <http://www.fs-cp.org.uk/newsroom/2013/243.shtml>
- lxi UK Equity Release Market Monitor, 2013 Review, Key Retirement Solutions (2014).
- lxii The financial resilience of the recently retired, Pensions Policy Institute (February 2014).
- lxiii The FCA is reviewing life insurance legacy products and the ABI is reviewing pensions legacy products.
- lxiv Age UK is participating in the project. The full review is available from: <http://www.tisa.uk.com/savings-investments.html>





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