

# Poverty in later life

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## Introduction

Age UK believes that all current and future pensioners should have enough money from state and private sources to live comfortably and participate fully in society. However, too many older people in the UK face poverty and financial disadvantage which prevents them from making the most of later life. This briefing looks at levels of pensioner poverty in the UK, changes over time, groups at greatest risk and considers what life is like for older people living on a low income.

## Key Points

- Although poverty levels are lower than they were 20 years ago, the latest figures show 2.1 million (18 per cent) of pensioners in the UK live in poverty. Rates have risen since 2013-14 when 1.6 million (14 per cent) lived in poverty.
- Some groups are at particular risk –
  - 38 per cent of private tenants and 36 per cent of social rented sector tenants, live in poverty compared to 14 per cent of older people who own their home outright.
  - 33 per cent of Asian or Asian British pensioners and 30 per cent of Black or Black British pensioners, are in poverty compared to 16 per cent of White pensioners.
- Financial disadvantage is not just about income coming in – it is harder to manage on a modest income when people have extra costs, for example due to disability or care needs or if heating bills are high because they live in a cold, poorly insulated home.
- The Government should set out a clear reform programme, in partnership with third sector organisations and others, to abolish poverty in later life.

- In an ideal world, the State Pension system should provide an income sufficient to cover basic needs, and everyone would have opportunities to build up additional private incomes which would allow a comfortable retirement.
- However, there is a long way to go to achieve this aim and, in the meantime, far more needs to be done to increase the take-up of benefit entitlements.

## What do we mean by poverty?

We consider people to be living in poverty when their resources are not enough to meet their basic needs and to allow them to take part in society. This could mean struggling to cover food and energy bills, watching every penny spent, worrying that nothing is set aside for a sudden emergency such as the cooker breaking down, or being unable to afford the cost of transport to visit a friend or go to a social club.

Poverty and low income can be defined and measured in different ways and people's individual needs and circumstances vary. However, the most commonly used definition is to say that someone in the UK is in poverty if they live in a household with an income below 60 per cent of current median (or typical) household income, taking into account the number of people living in the household. Unless otherwise stated, in this paper we define poverty in this way, and we use figures calculated after people have met their essential housing costs. These figures are drawn from the annual DWP *Households Below Average Income* (HBAI) statistics – see the appendix for more information.

Other ways to look at poverty include:

- Material deprivation, which is measured by asking if people lack certain goods and services and is also covered in the HBAI report (see below).
- Minimum income standards – these look at the cost of goods and services required by different households to reach an acceptable standard of living, as seen in the extensive work by Joseph Rowntree Foundation.<sup>i</sup>
- Self-reported measures - people are asked how well off they consider themselves.
- Measures based on a range of factors, not just income. For example, the Social Metrics Commission is developing a measure that aims to include 'inescapable costs' and also takes into account any savings someone has access to.<sup>ii</sup>

## Why are people in poverty in retirement?

People's financial position in retirement, is generally linked to their circumstances over the course of their lifetime. Private pension provision, in particular, is closely related to employment history – both time spent in work and earnings levels. On average, women have lower individual retirement incomes than men reflecting their lower average earnings and time out of the labour market or working part-time raising children and providing care to older and disabled relatives or friends. Other factors associated with lower income (before and after retirement) are being from a minority ethnic group, disability, caring and being self-employed. The impact of these, overlapping, characteristics are explored in the Pensions Policy Institute's work on the 'underpensioned'.<sup>iii</sup>

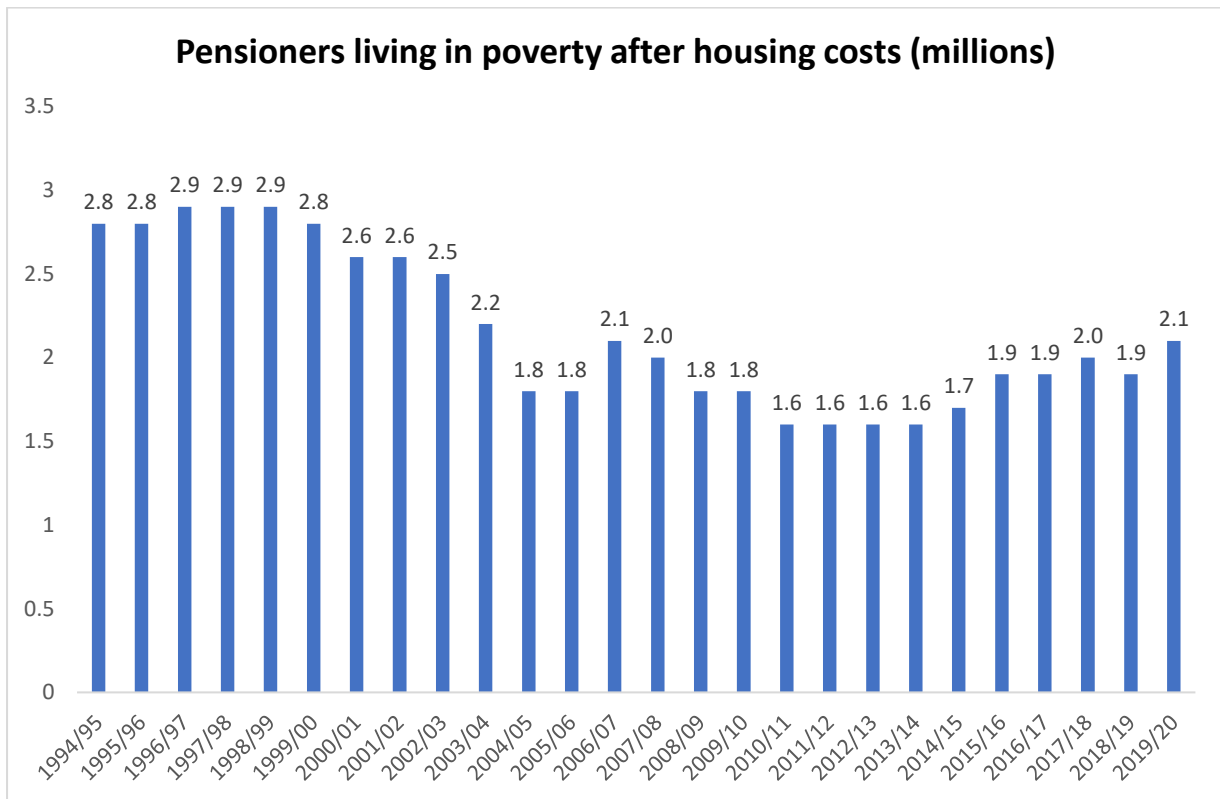
As well as lifetime income, retirement finances are affected by decisions people take about saving. However, even the best financial plans can be thrown off track by life events such as illness, redundancy, bereavement, or relationship breakdown.

Once people have reached retirement, they often have little opportunity to increase pension income or savings, however, they may be able to improve their financial situation by claiming social security entitlements. Worryingly, many miss out on these rights – the latest estimates show around £2.2 billion of Pension Credit and Housing Benefit alone are unclaimed by pensioners in a single year in Great Britain.<sup>iv</sup> Older people may not know what is available for them, may feel they are not entitled to any help, may be put off by the process of claiming, or struggle on alone reluctant to ask for help.

## Levels of pensioner poverty in the UK and changes over time

Based on the most commonly used definition set out above (that is, income of less than 60 per cent typical household income after housing costs) 2.1 million pensioners (18 percent) are living in relative poverty.<sup>v</sup>

The number of pensioners in poverty is much lower than 20 years ago. However, the main reduction occurred in the first decade of this century. From 2010/11 the numbers remained steady at 1.6 million until 2013/14. Since then, worryingly, they have risen reaching 2.1 million in the most recent year.<sup>vi</sup>



Source: *Households below average income: for financial years ending 1995 to 2020*, DWP 2021. (Figures are after housing costs.)

A similar picture is found if we look at the percentage, rather than the numbers, living in poverty. After housing costs, 29 per cent of pensioners were in poverty in 1998/99, falling to between 13 and 14 per cent in the first half of the 2010s (2010/11 to 2014/15) then rising to 18 per cent in 2019/20.<sup>vii</sup>

## The risk of being in poverty

As stated above, in 2019/20 18 per cent of pensioners in the UK had incomes, after housing costs, of less than 60 per cent median household income.

- Of these, over half (or 10 per cent of all pensioners) had incomes of less than 50 per cent median income (sometimes described as ‘severe poverty’).
- 9 per cent had incomes above 60 per cent but less than 70 per cent, of median income (sometimes described as ‘just above the poverty line’).

Some groups of pensioners are at greater risk of living in poverty<sup>viii</sup>:

- Tenants: 38 per cent of private tenants and 36 per cent of social rented sector tenants, compared to 14 per cent of older people who own their home outright.
- Pensioners from minority ethnic groups: 33 per cent of Asian or Asian British pensioners and 30 per cent of Black or Black British pensioners, compared to 16 per cent of White pensioners.<sup>ix</sup>
- Older pensioners: 22 per cent of those aged 85+ and 19 per cent of those aged 80-84 compared to 17 per cent of 65-69 year olds.
- Women: 20 per cent of women compared to 16 per cent of men.
- Single older women: 27 per cent of single women pensioners, compared to 23 per cent of single men and 13 per cent of pensioners in couples.

## Material Deprivation

The annual DWP HBAI report also includes a measure of 'material deprivation' among people aged 65 and over. This is based on questions which ask if people have access to 15 basic items or services that research has shown to be a good indication of quality of life among older people: for example - having a damp free home, being able to pay regular bills, and seeing friends or family at least once a month. People are considered to be in material deprivation if they reach a certain threshold which links to lacking 3 or 4 items or more. The latest figures from DWP, found that around 700,000 people aged 65 or over (6 per cent) were in material deprivation in 2019/20.<sup>x</sup>

In the survey, if respondents do not have the item, or do not take part in the activity, they are asked why not. They can say that they do not have money for the item, or they can choose other options, such as their health prevents them, or it is too much trouble.<sup>xi</sup>

The table below gives the responses to some of the items and the main reason people give for saying no. For example, it shows that seven per cent of people aged 65+ say they would not be able to replace their cooker if it broke, with the main reason being lack of money. On the other hand, health or disability is the most common reason why nearly a fifth (18 per cent) of people do not go out socially at least once a month.

**Material Deprivation selected items and services lacking among pensioners aged 65 and over: and the most common reason for ‘no’ response, 2019/20**

<b>Item of Material Deprivation</b>	<b>Percentage 65+ responding no</b>	<b>Most common reason for ‘no’ response</b>
Able to replace cooker if it broke down	7	No money for this
Able to pay regular bills	2	No money for this
Have a damp free home	5	Other reason
Home kept adequately warm	2	No money for this
Have access to a car or taxi, whenever needed.	7	No money for this
Go out socially at least once a month	18	Health/disability prevents me
Take a holiday away from home	36	Health/disability prevents me

In addition, 8 per cent of people aged 65+ said they would not be able to meet an unexpected expense of £200.

**The link between low income and material deprivation**

As set out above, 18 per cent of pensioners are in relative income poverty and 6 per cent of those aged 65+ are in material deprivation. However, only two per cent of people aged 65+ are in both relative poverty and material deprivation.<sup>xii</sup> This may reflect the different options people can give to the material deprivation questions – for example, responses include health and other barriers. This makes material deprivation a measure reflecting disadvantage more broadly than looking at income alone. Having said that, even if money is not the main reason for a ‘no’ response, information provided in the HBAI tables shows there is still an association. For example, health or disability is given as the main reason why 18 per cent of people aged 65+ say they do not go out socially at least once a month. However, among the poorest fifth the proportion who do not go out once a month is much higher (24 per cent) than among the richest fifth (8 per cent).

## Financial disadvantage is not just about income

Qualitative research conducted for the DWP explored the links between income poverty and material deprivation.<sup>xiii</sup> This found that although income influences material circumstances, a much wider range of factors contribute to ‘pulling up’ or ‘pushing down’ the position of a person living on a low income. These include: social support networks, health, financial management, area and housing support, and attitudes and priorities.

Age UK carried out interviews with older people who told us they were finding it difficult to manage financially or were only just getting by.<sup>xiv</sup> Often this was about increasing costs as well as income. People were spending more on utilities, healthcare items, and paying for services or jobs at home than they had done previously. Heating bills were a worry – older people tend to spend a lot of time at home and some live in cold poorly insulation properties. One interviewee told us:

*‘In winter the bills are very, very heavy. You go to my room now, it’s very cold. There’s nothing I can do to heat my room in winter, it takes ages to start warming up.’*

When the people we talked to, or their partner, had health conditions and care needs this could entail extra costs. For example, one woman caring for her disabled husband said:

*‘The washing machine has to go on every day because [the carers] use a lot of towels. And he gets clean sheets four or five times a week if his catheter bypasses. It all has to be paid for.’*

While the people we interviewed all recognised the importance of having a savings cushion to fall back on, not everyone had this. And some had debts that they were struggling to pay. One said:

*‘I’ll have these debts until I die. It will take me that long to pay them off, I know I won’t.’*

We found that people used various mechanisms to cope with living on a low income including maximising income through claiming benefits, staying in work (in the case of 2 people in their early 70s), cutting down, doing without wherever possible, turning down social invitations due to cost, and adopting a mind-set of ‘making do’. However, constant, and careful money management can be stressful and can mask the levels of financial hardship people are experiencing.

## Living on a low income

We also hear more about what day-to-day life feels like trying to manage on a low income from the people who contact us at Age UK. This includes cutting back, doing without, constantly worrying about making ends meet, while an unexpected bill can cause major problems.

Our Advice line receives many calls from individuals, or their families, worried about money. Some examples are:

- A man who was nearly 90 and lived alone had a leaking roof which had recently soaked his staircase. He was receiving Pension Credit and could not afford to get it mended. His family asked if there was any help available.
- A relative contacted us about a man in his 80s who kept having problems with his electricity and could not afford the new fuse box needed. The family were in daily contact, but it was only when they visited and found him in a cold, dark house that they realised the problem as he had not wanted to worry them.
- A couple with health problems told us they were living on a low income and finding it difficult to buy food. On top of that they had a large energy bill and rent arrears.

Other people have been in touch with our Campaigns team to tell us in their own words about the pressures they face. Some examples are:

- “Being a pensioner, you look at your money and wonder if you can afford to pay the bills, food, electric and gas rates and council tax and have enough money now and then to have a treat. People are worrying if they can go to the theatre which is impossible on a state pension, although that would be a great treat. We are happy if we could buy some chocolates for a treat.”
- “Having lost my job during the lockdown, we are having to survive on my husband’s pension. There is no other option and no other financial assistance available to us. We have cut back on everything we can just to make ends meet. I cannot get my pension for another 5 years and employers just don't seem interested in someone of my age.”
- “I worked hard all my life and saved so I could enjoy my retirement. With everything going up in price I now have to watch my pennies. I dread my winter bills arriving.”
- “[Having enough money would] allow me to have a life rather than an existence. It takes the stress out of my life and would allow me to feel I can stay warm and eat well. It would make me feel valued rather than just a burden on society, as at present I feel like a nuisance to the government and the young people.”



## Conclusions and what needs to be done

Some people can look forward to a comfortable retirement, and it is good news that poverty levels are considerably lower than they were a couple of decades ago. However, there are over 2 million pensioners living in poverty. The impact on current and future poverty should be considered in all policy decisions which are likely to affect retirement income. And while income poverty is easiest to measure and track, it is important to continue to look at other measures, such as material deprivation and the JRF Minimum Income Standard, which provide a broader picture of the experience of older people.

Age UK's policy calls

- The Government should set out a clear reform programme, in partnership with third sector organisations and others, to abolish poverty in later life.
- The State Pension system should provide an income sufficient to cover basic needs and, in addition, people need opportunities to build up private incomes which allow a comfortable retirement.
- If everyone had an adequate income from pensions, there would be far less need for means-tested top ups and additional one-off payments such as the winter fuel payment. However, there is a long way to go and, in the meantime, it's important that current support is maintained, and benefit take-up increased through: on-going publicity, changes to administration and looking at ways of placing less onus on the individual to navigate a complicated system of benefits.
- Financial disadvantage also needs to be addressed through good social support, affordable essential goods and services, and access to information, advice, and practical help to enable people to maximise their income and make the most of what they have.

## Appendix

### **The Households below average income (HBAI) statistics**

These annual DWP statistics provide a wide range of information about poverty and low income.<sup>xv</sup> In this briefing we mainly use a definition of relative poverty whereby people are considered to be in poverty if they live in a household with an income of less than 60 per cent of contemporary household income. HBAI also looks at 'absolute poverty' using 2010/11 household income, as a baseline.

While 60 per cent is the threshold generally considered as the poverty line, figures are also given on the numbers and proportion of people with incomes below 50 per cent and 70 per cent of household income.

Income is net of taxes such as income tax, National Insurance and council tax, and can be measured before or after housing costs (BHC or AHC). If income is on an 'after housing costs' basis this is the income remaining once people have paid certain costs such as rent, mortgage interest and water charges.

To compare living standards of different size households, income is adjusted to take into account people living in the household using an agreed scale – described as 'equivalisation'.

The DWP gives the example of three households which each have an income of £300 a week. The process of equivalisation, as conducted in HBAI, gives an equivalised income of £448 to the single person, £300 to the couple with no children, and £214 to the couple with children.<sup>xvi</sup>

Age UK  
1-6 Tavistock Square  
London WC1H 9NA  
T 0800 169 80 80 F 020 30033 1000  
E [policy@ageuk.org.uk](mailto:policy@ageuk.org.uk)  
[www.ageuk.org.uk](http://www.ageuk.org.uk)

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- <sup>i</sup> <https://www.jrf.org.uk/income-benefits/minimum-income-standards>
- <sup>ii</sup> <https://socialmetricscommission.org.uk/>
- <sup>iii</sup> <https://www.pensionspolicyinstitute.org.uk/sponsor-research/research-reports/2020/2020-12-08-the-underpensioned-index/>
- <sup>iv</sup> *Income-related benefits: estimates of take-up 2018-19*, DWP October 2020.  
<https://www.gov.uk/government/statistics/income-related-benefits-estimates-of-take-up-financial-year-2018-to-2019>  
<https://www.gov.uk/government/collections/income-related-benefits-estimates-of-take-up--2>
- <sup>v</sup> *Households below average income: for financial years ending 1995 to 2020*, DWP, 2021.  
<https://www.gov.uk/government/statistics/households-below-average-income-for-financial-years-ending-1995-to-2020>
- <sup>vi</sup> As above, table 6.3tr
- <sup>vii</sup> As above, table 6.1tr
- <sup>viii</sup> As above, tables 6.5db and 3.5db
- <sup>ix</sup> Due to the small number of older people in non-white groups this is based on a three year average
- <sup>x</sup> As above, table 6.10db
- <sup>xi</sup> As above, table 6.11db (AHC)
- <sup>xii</sup> Age UK calculation using <https://stat-xplore.dwp.gov.uk/webapi/jsf/login.xhtml>
- <sup>xiii</sup> Kotecah, M. Arthur, S and Coutinho, S (2013) *Understanding the relationship between pensioner poverty and material deprivation*. DWP
- <sup>xiv</sup> *Struggling on Experiences of financial hardship in later life*, Age UK 2019,  
[https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/money-matters/lr-6064-age-uk-financial-hardship-final\\_v1.pdf](https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/money-matters/lr-6064-age-uk-financial-hardship-final_v1.pdf)
- <sup>xv</sup> *Households below average income: for financial years ending 1995 to 2020*, DWP, 2021  
<https://www.gov.uk/government/statistics/households-below-average-income-for-financial-years-ending-1995-to-2020>
- <sup>xvi</sup> <https://www.gov.uk/government/statistics/pensioners-incomes-series-financial-year-2019-to-2020/pensioners-incomes-series-background-information-and-methodology-financial-year-2019-to-2020>