Pensions Policy Institute
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# Pensioner Poverty: challenges and mitigations

## 1 Response

1.1 This is the Pensions Policy Institute's (PPI) submission to the Work and Pensions Committee's call for evidence on 'Pensioner Poverty: challenges and mitigations'.

1.2 The PPI promotes the study of pensions and other provision for retirement and old age. The PPI is unique as it is independent (no political bias or vested interest), focused and expert in the field, and takes a long-term perspective across all elements of the pension system. The PPI exists to contribute facts, analysis and commentary to help decision-makers to take informed policy decisions on pensions and retirement provision.

1.3 This submission does not address all of the specific questions in the call for evidence, neither does it seek to make policy recommendations. Rather, the response summarises relevant conclusions and analysis from research that the PPI has conducted in recent years:

- 2021-2024. ***The UK Pensions Framework series***. Available at: pensionspolicyinstitute.org.uk/uk-pensions-framework
- 2024. ***What could effective pensions engagement look like?*** Available at: pensionspolicyinstitute.org.uk/research-library/research-reports/2024/2024-02-15-what-could-effective-pensions-engagement-look-like
- 2024. ***The Underpensioned: Defining the Gender Pension Gap.*** Available at: pensionspolicyinstitute.org.uk/research-library/research-reports/2024/2024-02-07-the-underpensioned-defining-the-gender-pension-gap/
- 2023. ***What can the UK learn about other countries' approaches to accessing DC savings?*** Available at: pensionspolicyinstitute.org.uk/research-library/research-reports/2023/2023-11-01-what-can-the-uk-learn-about-other-countries-approaches-to-accessing-dc-savings
- 2022. ***The Underpensioned Index: 2022 Edition.*** Available at: pensionspolicyinstitute.org.uk/research-library/research-reports/2022/2022-12-07-the-underpensioned-index-2022-edition
- 2022. ***PPI Briefing Note Number 129: How do cost-of-living increases affect pensioners?*** Available at: pensionspolicyinstitute.org.uk/research-library/research-reports/2022/2022-03-25-briefing-note-number-129-how-do-cost-of-living-increases-affect-pensioners/

1.4 This covering letter sets out the main conclusions of these research reports as they relate to Pensioner Poverty. Please read the reports for the underlying analysis.

1.5 We are happy to talk further about any of the research discussed in this response if it would be helpful for the consultation.

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## 2 Relevant conclusions from: The UK Pensions Framework: Trends, Transitions and Trade-offs in the UK Pension System

2.1 ***The UK Pensions Framework: Trends, Transitions and Trade-offs in the UK Pension System*** (2022) brings together findings from over forty indicators to assess the function of the UK pension system in regard of adequacy, sustainability and fairness.

2.2 The picture for adequacy is mixed, but the overall outlook is somewhat negative. Retirement income rose slightly faster than inflation and earnings in the years to 2021, pensions coverage and employment are high, and the new State Pension is helping to improve income in the lowest income households. However, low levels of DC contributions among those who need more than the State Pension in retirement, slow earnings growth, low financial resilience and limited support for decision-making, as well as the relatively low level of the State Pension and benefits for those who depend on them for the majority of their income continue to present risks to adequacy and financial security in later life.

2.3 Variation in the level of financial security people have in retirement is improving, but persistent differences in retirement outcomes have a net negative impact on fairness. Several issues continue to underpin differences between groups and outcomes in the UK pension system. They include the access that people have to different forms of retirement saving, the extent to which they are connected with their pensions and able or supported to make optimal decisions, the protection they have from risks in retirement, and widespread resulting income inequality in later life. Although defaults such as automatic enrolment are helping to narrow saving divides in working life, lack of infrastructure to help people manage DC pensions through retirement may compound challenges around financial capability.

2.4 There is a persistent inequality in retirement income, which is driven by the relatively low value of the State Pension (particularly for those who retired under the old system), poor inclusion of low-income, self-employed and nonstandard workers in private pension coverage, low earnings growth and differences in contributions and the type or quality of pension offered by employers.

2.5 There are high levels of dependency on State benefits in later life, which, despite increases over the past decade, continue to produce comparatively high rates of poverty against international peers and poor outcomes against retirement living standard targets.

2.6 The pension system interacts heavily with other policy systems and outcomes are dependent on individual circumstances. Recognising the impact of differences in health, caregiving, working patterns, and home and family arrangements through coordinated policy design can help to support adequacy, sustainability and fairness by reflecting the experiences that people have in later life.

2.7 Although average statistics paint a relatively stable picture of adequacy for pensioners, they mask considerable variation in characteristics and inequalities among the older population.

2.8 Overall, the risk of relative poverty among older people is comparable to that of the total population, but UK rates are high compared to Organisation for Economic Co-operation and Development (OECD) peers. Although poverty rates fell in 2020-21 as retirement income grew, data collection was affected by the pandemic, so the reversal of rising trends is not clear.

2.9 The new State Pension is improving adequacy for younger pensioners, but variation among those under the old system has led to high levels of dependency on income related benefits.

2.10 Dependency on Means-Tested Benefits remains high among low-income households, particularly single pensioners, of whom 30% are eligible. However, the Pension Credit minimum guarantee rate has fallen below the Minimum Income Standard and one third of eligible households do not take up income-related benefits in later life, suggesting they do not fully meet the goal of providing adequacy for those in need. Working-age benefits for those who leave the labour market before SPa are considerably lower, putting those without private savings at even greater risk of poverty or a fall in living standards.

2.11 The cost of providing public services to meet the needs of people in later life, including the provision of health and social care, is rising as the older population grows, putting strain on the affordability of the UK pension system in the context of wider public spending.

# 3 Relevant conclusions from: The UK Pensions Framework: Renting in Retirement - The Fault Line Below the UK Pension System

3.1 ***The UK Pensions Framework: Renting in Retirement - The Fault Line Below the UK Pension System*** (2023) examines how retirement outcomes could change as fast-growing numbers of people look set to reach retirement without the security of owning their own home in the future.

3.2 A growing fracture in the relationship between pensions and housing is putting strain on the overall UK retirement income model.

3.3 Unless policymakers adjust their expectations around housing affordability and home ownership in later life, dependency on public spending among pensioners could increase.

3.4 Assumptions, levers and metrics in UK pensions policy do not adequately reflect the changing of characteristics and circumstances of future pensioners, the holistic nature of retirement, or threats to adequacy from outside the UK pension system.

3.5 According to PPI analysis, if patterns of home ownership among today's 45-64 year olds were to persist through to retirement and all other factors were to remain equal, by 2041:

- The proportion of households who own their own home in retirement could fall from 78% to 63%, the proportion living in the private rental sector could rise from 6% to 17%, and the proportion in social housing would remain unchanged.
- The number of households renting in retirement could rise to 3.6 million, of whom 1.7 million would live in the private rented sector, around 1.2 million more than today.

- Very few renters would have adequate savings to cover both the cost of renting and cost of living through later life. A couple aged 45-64 today on median income may need to double their total assets or more if they are to privately rent even a one-bedroom flat outside London through later life.
- As many as 400,000 more households could become dependent upon income-related pensioner benefits, at a time when renewed concerns over the sustainability of the benefit system, including the freezing of the Local Housing Allowance, are prompting uncertainty over the extent to which the State might intervene to support people with living costs through later life.
- Rates of relative and absolute poverty among pensioners could rise by 2%, and an additional 170,000 households outside London could be precluded from meeting minimum living standard targets in retirement, of whom more than two thirds live on their own.
- Although there is some geographic variation in the scale of the problems, trends towards higher levels of private renting among households aged 45-64 are consistent across the country. The changes largely impact low to-middle-income households, those already at greatest risk of wealth inequality and poor retirement outcomes.

# 4 Relevant conclusions from: The UK Pensions Framework: Red Sky in the Morning? Inequalities, Savings Gaps and the UK pension system

4.1 ***The UK Pensions Framework: Red Sky in the Morning? Inequalities, Savings Gaps and the UK pension system*** (2024) examines the link between rising inequality and the UK pension system.

4.2 The simplicity of policies like automatic enrolment and the new State Pension necessitate that the pension system is designed around the profile of what is, essentially, a stylised or typical individual. In a population with many forms of inequality however, it can be challenging for universal policies to meet people's retirement needs equally because so many people will not match the profile or needs of a typical saver. For those disadvantaged by lower levels of work, participation or contributions, a robust system of safety nets can mitigate the financial risks that people face in later life. Under the current system however, the benefits provided by safety nets can be inconsistent, difficult to access and do not increase at the same pace as the State Pension.

4.3 The pension system cannot solve all problems for all people and in some cases, safety nets are needed to support living standards through later life (such as income-related benefits), or to protect pension coverage and contributions in working life (such as National Insurance credits or policies that protect workplace pensions during periods of leave). In some cases however existing safety nets can be inconsistent, difficult to access, and at times, inadequate. Maintaining the simplicity of the system while protecting at risk groups will depend on improving safety nets for those who need them.

4.4 Long-term income inequality is leading to widening differences in lifetime income. These differences are now starting to be seen in retirement, where relative measures of both income inequality and poverty are rising. Although lower than working-age groups, income inequality among pensioners reached a record high in 2022, At the same time, the share of pensioners in relative poverty rose to 16% (up from 13% in 2011-12) and the share of pensioners in material deprivation rose to 8% (from 6% in 2019-20). The changes are due in part to a sevenfold rise in pension wealth since 1980, and in part to the diminishing effect of cash benefits and lagging income growth among poorer pensioners who have less income from private pensions and other forms of financial wealth.

## 5 Relevant conclusions from: What could effective pensions engagement look like?

5.1 ***What could effective pensions engagement look like?*** (2024) sets out the broad range of factors that can impact the level of engagement that can feasibly be achieved, the benefits and risks associated with engagement and the ways in which engagement strategies could be strengthened, including what other support may be needed for those who are less likely to become engaged or benefit from engagement.

5.2 In 2019-20, around a third of people (850,000 households) entitled to pension credit did not take up the benefit (although this is not solely due to low engagement, but also perceived stigma around claiming benefits among older generations in particular).

5.3 The Government has a vested financial interest in people making informed, active decisions about pensions and retirement. The less provision people make for their own retirement, the more likely they are to become eligible for means-tested benefits, at a direct cost to the exchequer. As relative poverty also affects physical and mental health outcomes, a population with insufficient pension savings will result in greater pressure on the NHS and care systems.

5.4 Alongside work around financial capability and potential defaults, it is vital for people at the lower end of the engagement spectrum (those who are unlikely to become engaged or benefit from engagement) to have safety nets they can fall back on. Safety nets are any support offered by Government, such as means-tested benefits, to help those in financial difficulties. Safety nets can also be provided 'in kind' through guidance, support, legal assistance, or care and support for those with health problems or struggling families. Those who are at the lower end of the engagement spectrum are more likely to be unprepared for financial difficulties and are therefore more dependent on social safety nets than more fully engaged people with greater financial resilience.

## 6 Relevant conclusions from: The Underpensioned: Defining the Gender Pension Gap

6.1 ***The Underpensioned: Defining the Gender Pension Gap*** (2024) explores the impact of factors that contribute to inequality in retirement outcomes between men and women, in order to provide greater clarity on how to define the Gender Pension Gap (GPG) and support effective policymaking decisions to narrow the gap.

6.2 Poor or unequal retirement outcomes pose a risk to women's quality of life and dignity in old age. The GPG often results in women facing financial instability, forcing many to depend on family or state aid, which can lead to feelings of dependence and loss of autonomy, as well as the potential health impacts of poverty.

6.3 The GPG significantly contributes to the rising rates of poverty among the elderly, with women being particularly susceptible. Two-thirds (67%) of pensioners in poverty are women, and half (50%) of pensioners in poverty are single women. This trend not only diminishes the quality of life for many women but also places additional strain on the social welfare systems. Addressing the gap, therefore, is not just about individual financial stability but also about promoting social stability and easing pressures on social welfare systems.

6.4 While the GPG is primarily driven by labour market inequalities, pension-specific solutions could be introduced to mitigate the impact on women's retirement outcomes:

- Household pension pots could be used to support married women who have made employment sacrifices in order to meet childcare needs.
- Employer-only contributions for low earners could extend the benefits of automatic enrolment to people, including a significant number of women, who would otherwise be unable to accumulate pension wealth.
- A family carer top-up could mitigate gaps in pension contributions during periods of childcare.

  However, as with any policy, there are trade-offs associated with each of these possible options, and this list is not exhaustive.

## 7 Relevant conclusions from: What can the UK learn about other countries' approaches to accessing DC savings?

7.1 ***What can the UK learn about other countries' approaches to accessing DC savings?*** (2023) gathers and analyses evidence from the US, Canada, Australia, New Zealand, the Netherlands, Denmark, Chile and Singapore, and offers some suggested lessons for the UK when thinking about the challenge of enabling good outcomes for those who will need to access benefits from DC pension arrangements.

7.2 The complexity of means testing and tax incentives or penalties makes decisions for individuals more complex and choices more challenging. In these circumstances, policies designed to constrain choice may become de-facto defaults.

7.3 The Social Security system in the US provides a significant underpin to retirement income for workers on low-to-median incomes. Whilst the system is progressive, meaning that benefits replace a larger share of earnings for lower-income workers, it does not produce the high replacement rates for those on the lowest incomes that a flat-rate system would. Retired-worker benefits for most long-career workers born in the 1940s exceed the official federal poverty threshold. For workers born in the 1960s, 1970s and 1980s, even more are projected to have retired-worker benefits above that threshold.

7.4 The Superannuation system in Australia favours homeowners by excluding retirees' residences from the Age Pensions mean test. The implicit assumption of home ownership and its support for retirement living standards may not be sustained for the generation of younger savers, if their higher levels of renting continue into retirement. 60% of single retirees who rent their home are in poverty compared to about 10% of single homeowners.

7.5 The Age Pension in Australia includes means testing which should influence withdrawal behaviour. The taper rates applied to the Age Pension, a reduction of just under 8% in pension payment for assets held in excess of the test threshold, should incentivise retirees to draw down their savings as fast as possible between the point where they become eligible for a part-Age Pension payment until their assets fall below the threshold entitling them to a full pension. However, there is little evidence that this happens in practice.

7.6 The Chilean DC system includes an underpin, the Universal Guaranteed Pension (in Spanish Pensión Garantizada Universal or PGU). The PGU features a flat-amount State-financed pension, which currently equals a monthly value of approximately US$250 (slightly above the poverty line). The PGU is available to the poorest 90% of the population aged 65 and above. This social pension complements the self-financed pension provided by the DC scheme.

# 8 Relevant conclusions from: The Underpensioned Index: 2022 Edition

8.1 ***The Underpensioned Index 2022 Edition*** (2022) the third in the series, provides an updated version of the Index, alongside recent data illustrating changes, particularly in the labour market and pension saving, that have been experienced by underpensioned groups since the first Index.

8.2 Certain groups are at risk of experiencing poorer retirement outcomes, including the following:

- Women, particularly divorced women and single mothers
- People from ethnic minority backgrounds
- People with disabilities
- People with caring responsibilities
- People in non-traditional employment, e.g., multiple jobholders and the self-employed

8.3 Private pension incomes of some underpensioned groups have remained relatively stable since the 2020 Index, including single mothers, carers and divorced women (although the former experienced a small decline of 3%). Other groups have, however, experienced significant declines comparative to the population average. Private pension incomes of people from ethnic minority backgrounds decreased by almost 10% compared to the population average, while incomes of people with disabilities declined by almost 8%.

8.4 Whereas underpensioned groups' private pension incomes are all below three-quarters of the population average, when income from State Pension and other benefits is combined with private pension income, comparative incomes of underpensioned groups range from 78% to 94%.

8.5 The fact that underpensioned groups receive a high proportion of their retirement income from the State Pension and other benefits, means their incomes may have a higher degree of inflation protection, compared to those who are more reliant on private savings. However, this is a longer-term effect and may not offer short term protection to a sudden increase in costs.

## 9 Relevant conclusions from: Briefing Note Number 129 - How do cost-of-living increases affect pensioners?

9.1 ***Briefing Note Number 129 - How do cost-of-living increases affect pensioners?*** (2022) explores the impact of changes in inflation on pensioner households. Recent economic events have led to a particularly significant increase in the cost of living, especially in relation to housing and energy costs. These increases will hit older and single pensioners hardest, as they spend more on these goods than younger and single pensioners.

9.2 Single pensioners, with less total income, spend a greater proportion of expenditure on basic needs, spending an average of 17% on housing, water and electricity, compared to only 10% for pensioner couples. This means that in 2019/20 single pensioners spent 75% more, per person, on housing costs than people in pensioner couples.

9.3 As pensioners age, their income tends to decrease which leads to reduced overall expenditure and decreased ability to spend on discretionary goods, such as recreation. Poverty also increases as pensioners age, with 15% of those aged 65 to 69 in relative poverty, 18% of those aged 70 to 79, 24% of those aged 80 to 84 and 27% of those aged 85 and over.

9.4 It is possible that Household Cost Indices could provide an easier way of ensuring that pensioner income rises in line with costs of living, by linking State and private pension payments to a minimum of the HCI, while allowing for higher increases in the case of, for example, the State Pension and the triple lock. This would at least ensure that pensioners don't experience drops in standard of living as they age or as household makeup changes.

**For further information or if you have any additional questions please contact:**

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# About the Pensions Policy Institute

### We have been at the forefront of shaping evidence-based pensions policy for over 20 years.

The PPI, established in 2001, is a not-for-profit educational research Institute. We are devoted to improving retirement outcomes. We do this by being part of the policy debate and driving industry conversations through facts and evidence.

The retirement, pensions and later life landscapes are undergoing fast-paced changes brought about by legislation, technology, and the economy. Robust, independent analysis has never been more important to shape future policy decisions. Each research report combines experience with INDEPENDENCE to deliver a robust and informative output, ultimately improving the retirement outcome for millions of savers.

Our **INDEPENDENCE** sets us apart – we do not lobby for any particular policy, cause or political party. We focus on the facts and evidence. Our work facilitates informed decision making by showing the likely outcomes of current policy and illuminating the trade-offs implicit in any new policy initiative.