Financial Capability Strategy for the UK

Older people in retirement

Summary

The Strategy's overall aim in this area is to support a strong and independent older, retired population to achieve the highest level of financial wellbeing possible, given their personal financial means and pressures.

People's ability to manage their finances confidently tends to peak around retirement age. However, financial capability often declines in retirement with a significant drop after 75. A significant minority struggle with budgeting and far too many face barriers to accessing financial services and advice. Some retired people hold debt or mortgages that put them at risk. Others have low resilience against the financial impacts of declining health and need support to plan and adapt effectively.

The key recommendations are:

- Support the 1 in 3 older people who find managing their day to day finances difficult to become effective money managers by addressing the barriers to existing budgeting and money management support.
- The financial services industry should work with the advice sector and older peoples' organisations to ensure that financial and advice services are easy to use and accessible for all older people
- Focus resources on the key risks to financial well-being in later life:
  - Support people who reach retirement with a mortgage to develop a realistic mortgage repayment plan (that may involve debt advice);
  - Increase the early take-up of debt advice by over-indebted retirees;
  - Encourage people to make timely plans to manage the impacts of increasing cognitive impairment on financial wellbeing;
  - Help people make informed and sustainable decisions about funding long term care.

This is your opportunity to shape the Financial Capability Strategy for the UK's approach to supporting older people:

Consultation question 11: How far do you support the Strategy's aims for older people?

Consultation question 12: What is your view of the recommendations for action relating to older people? How could they be improved?

See the complete list of consultation questions for the Financial Capability Strategy for the UK at **fincap.org.uk**

Context

Many older people have planned ahead effectively and are relatively well placed for financial security in later life. For example, 71% of people over 65 are satisfied with their financial circumstances, compared to 45% of people between 25 and 64.[1]

However, older people who are only just making ends meet are vulnerable to financial shocks caused by events such as bereavement, or an increased need for long term care. A significant minority have very limited financial means and live in poverty.[2]

Older people tend to avoid taking out credit but a small minority are either at risk of or already experiencing problem debt. Many more experience material deprivation as they cut back on spending on essentials like food and heating, for example, in order to balance tight household budgets.

- 1.6 million pensioners live below the poverty line and, of these, 900,000 live in severe poverty.[a]
- 8% of pensioners aged 65+ (about 800,000) in the UK live in material deprivation.[b]

Against this backdrop, our aim is to support a strong and independent older, retired population to achieve the highest level of financial wellbeing possible, given their personal financial means and pressures.

Key facts

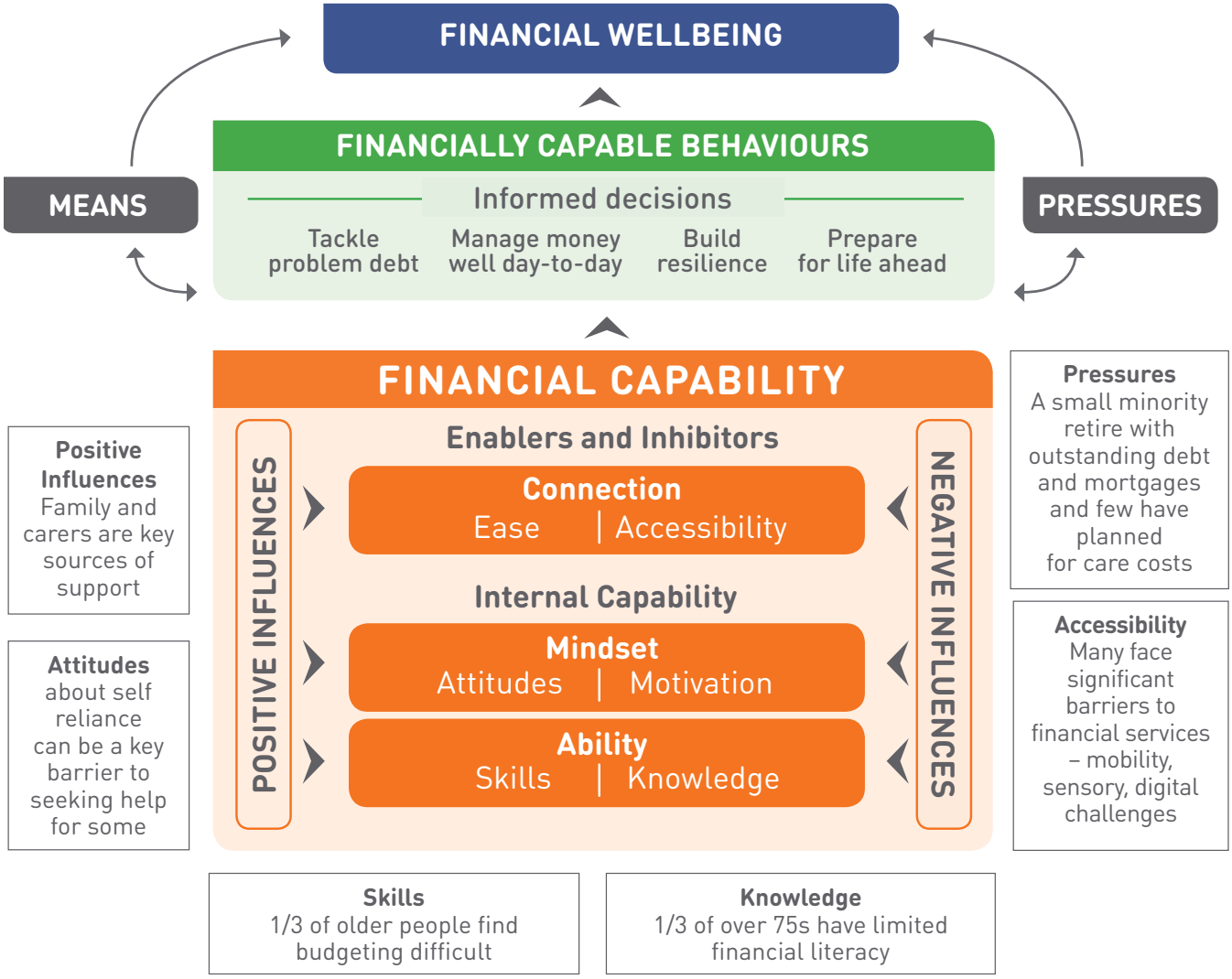
- 10.8 million people aged 65 or over and 1.4 million people aged 85 or over in the UK
- The number of people aged 65+ is projected to rise by nearly 50% in the next 20 years to over 16 million
- The number of people over 85 in the UK is predicted to double in the next 20 years and nearly treble in the next 30. This is the fastest growing segment of the population

Source: Age UK[3]

a Poverty line defined as 60% of the median average income after housing costs. Severe poverty defined as below 50% of the median income after housing costs
b Material deprivation is defined as not having access to certain goods, services, or experiences because of financial, health-related, or social isolation barriers (DWP, 2014)

Financial capability: insights and analysis

The Financial Capability Framework diagram below describes the strengths and limitations of older people's financial capability and helps explain how financial capability influences financial wellbeing for older people.



People's ability to manage their finances confidently tends to peak around retirement age:

> 39% of 65-74 year olds demonstrate positive financial behaviour across all areas of financial capability compared to the UK average of 30%.[4]

For current cohorts, capability declines after 75. For example, comparing current 65-74 year olds with people who are 75 and over:

> Twice as many people who are 65-74 demonstrate positive financial behaviour across all areas of financial capability.[5]

> Two-and-a-half times as many people aged 75 and over have poor financial literacy, meaning poor functional numeracy and low awareness of key financial terms or concepts.[6]

Further research is required to understand why capability declines but it is likely to be associated with deterioration in health and cognitive abilities after 75.

Key insight 1: A significant minority of older people do not manage their money well day to day

- One-third of all older people struggle to make and stick to a budget.[7] This is important because later life is not static. Older people need to adapt to the financial impacts of changing health and living circumstances.[c]

- People over 75 are much less likely to shop around to get the best deals on major purchases compared to other age groups. For example, only 18% of those aged 75 and over compare home contents quotes from a number of different insurers before making a choice. This compares with 47% of 65-74 year-olds or 57% of 18-64 year-olds.[8] This is likely to be related to lower access to the internet and price-comparison websites.

- Many do not maximise their income, particularly in relation to state benefit take-up. Between £3.7 and £5.5 billion of means-tested benefits that should rightly go to older people in GB went unclaimed in 2009-10.[9]

Key insight 2: Older people face significant barriers that exclude them from financial services and advice

Some older people are well informed and savvy consumers of financial services but many face significant challenges to getting the most from their money.

- Financial products are complex and older people's knowledge of financial products is often relatively low or out of date. People over 75 tend to have lower financial literacy than other age groups and may struggle to identify the financial products that will deliver the best outcome for them. For example, only 46% of those aged 75 and over could identify the ISA that gave the best financial return over a set period, compared to 70% of 65-74 year-olds or 75% of 18-64 year-olds.[10]

- A 'loyal' mindset can result in inertia. Many older people are very loyal customers and are not motivated to switch providers or shop around. For example, 37% of people aged 75 and over renew their home contents insurance with their current provider without even checking the quote, compared to 11% of 65-74 year-olds or 9% of 18-64 year-olds.[11] As a result, many have legacy accounts and products that are out of date, are not suited to their needs and may deliver very low interest rates or other benefits.

- Existing financial products and services are not designed around older people's needs. As highlighted by the Age UK Financial Services Commission, *"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."*[12]

c Spending in retirement is typically 'U'-shaped - with higher costs in the active early retirement phase and again in later retirement when health deteriorates.

Older people can also face multiple barriers to accessing information or advice designed to help people navigate financial products and services. Sensory, cognitive, mobility, attitudinal and technological barriers mean that conventional channels and messengers may not serve older people well.

- Many older people remain digitally excluded or without digital skills – 4.78 million people aged 65 and over have never been online - made up of 29.3% of people 65-74 and 62.8% of those over 75.[13] 29% of people who are over 65 use the internet daily, 11% weekly and 4% monthly compared to 67% daily, 12% weekly and 2% monthly, amongst all age groups.[14]
- Ingrained attitudes about independence and self-reliance can act as a barrier to seeking advice or help. Qualitative research found that the feeling of being 'head of the family' was an important source of pride but meant that it is difficult to ask for help from children or others.[15]
- Many older people have mobility issues which constrain their ability to access local bank branches. For example, 38% of adults aged 70+ have a mobility difficulty. The lack of physical access can be compounded by banking processes that require people to attend in person.

> **"My problem is that I have to go to the bank [one mile away] each month and get one of the cashiers to make a transfer between her (my wife with dementia) accounts in order to have the necessary funds to pay for her care home fees."**
>
> Male 80+
> Source: Alzheimer's Society[16]

Key insight 3: Older people face risks to financial wellbeing that better capability can protect against

The Older People Working Group considered evidence on the impacts of a range of issues and agreed that the following are significant risks, where better capability can help.

Reaching retirement with problem debt

Problem debt affects a small proportion of older people, and the likelihood of over-indebtedness decreases significantly with age. For example, in 2010, 6% of 60-69 and 2% of 70-79 had problem debt.[17]

Although the numbers involved are small, indebted older people typically have higher debts than other groups and their ability to make repayments on a fixed retirement income is severely constrained.[18] Over half of indebted older people find it a constant struggle to keep up with bills but most are averse to taking out further credit to pay off debts and prefer to restrict their expenditure.[19] Research demonstrates that, as at other life stages, problem debt amongst older people is associated with a statistically significant decrease in quality of life.[20]

Effective debt advice services are available but for many older people a key barrier to debt resolution is their attitude towards seeking help. Recent research suggests that 77% of indebted older people want to pay off their debts as soon as possible.[21] However, around a third of indebted older people could not see themselves seeking debt advice, compared to around one in six for all age groups.[22]

Case study: Living with problem debt in retirement

Wendy and Nigel are both retired. Nigel worked for over 40 years in a factory, whilst Wendy was a full time mother and home maker. They own their own home outright. Their only source of income is their state pension.

Both Wendy and Nigel live a frugal lifestyle in an attempt to make ends meet. Their tight budget means they're unable to meet any 'one-off' costs, such as the cooker breaking down, or a carpet needing replacing.

Wendy and Nigel identify they're in debt, but haven't sought advice as they don't believe they need help. Their belief is they have the skills to budget and prioritise, but lack the financial means to survive.

Source: Money Advice Service[23]

Reaching retirement with a mortgage

Around 7% of people aged 60+ (nearly 1 million people) have an outstanding mortgage.[24] Many are able to pay it off in the early years of retirement. However 2% of householders aged 75 and over still have a mortgage to repay on their main home and a high proportion of these will hold non-repayment mortgages and have significant outstanding debt.[25] For example, 66% of people over 75 with a mortgage had a non-repayment mortgage.[26] This difficulty may be compounded when mortgage lenders have upper age limits beyond which they will not lend.

Holding a mortgage in retirement increases the risk of future debt problems. One study of people aged over 50 found that. owner-occupiers with mortgages were five times more likely to be in problem debt than owner-occupiers without a mortgage.[27]

Cognitive decline and impairment

Many people will experience a decline in cognitive function in older age. This can be relatively mild, but growth in the older population as a whole means that a significant and increasing number of older people will be living with more severe levels of impairment. For example, 850,000 people in the UK currently have dementia and this is predicted to increase to over 1m by 2021 and to over 2m by 2051.[28] The overwhelming majority of people with dementia are over 65 and only 43% of people with dementia are thought to be diagnosed.[29]

Cognitive impairment can have a significant impact on financial resilience. One survey found that 76% of people with a cognitive impairment had experienced difficulties in managing their finances.[30] Many are also at increased risk of falling victim to financial abuse and scams.

Trusted carers and family members have a key role to play in supporting the financial capability of people with cognitive impairment. Many already share responsibility through formal means such as a Power of Attorney or provide support through more informal arrangements. However, evidence suggests that more than a third (36%) of carers report problems managing the money of the person they supported.[31] This suggests a need for greater advice and guidance and more effective processes and support for trusted third parties across financial services.

> **"Before he had dementia he managed our finances very well. So it has been an uphill struggle for me to take on this aspect of our lives."**
>
> Carer of person with dementia
> Source: Alzheimer's Society[32]

Funding long-term care costs

Unlike health care, social care is means-tested at the point of use and many people currently 'self-fund' part or all of their social care. One study in England found that around 45% of all care-home places are self-funded, with a value of £4.9bn in 2010.[33] Although demand for social care is widely expected to increase, the number of people receiving state funded services is decreasing. For example, the total number of people receiving state funded services in England in 2012-13 was 1.3m, down 9% from 2011-12.[34] Age UK estimate that nearly 900,000 older people have unmet care needs.[35]

Against this backdrop, evidence consistently highlights that too few people are planning ahead for future care costs. For example, one survey found that only 37% of older people agree that they have a plan to pay for any care they need in old age.[36] Some mistakenly believe that social care is state funded. Others optimistically feel that 'it will never happen to them' or say that they would rely on housing assets or their wider family if they are hit with significant costs. Others feel that the amounts are too large to plan for.[37]

For people who do plan ahead, future care costs are very challenging to predict. The Dilnot Commission estimated that *"a quarter of people aged 65 will need to spend very little on care over the rest of their lives. Half can expect care costs of up to £20,000, but one in 10 can expect costs of over £100,000."* [38]

> **"I haven't given it any thought – maybe it's just me but I don't really think about it because I don't want to think about the ordeal".**
>
> Female, 60+
> Source: Ipsos Mori (2014)[39]

> **"I don't know how my health is going to be. Without sounding all doom and gloom, till I know if I've got a future, there's no point thinking about it."**
>
> Male research participant, 50+
> Source: Financial Services Commission[40]

As a result, most decisions about long-term care are currently made at the point of crisis rather than as a result of careful planning. For individuals and families in these circumstances there is typically not a clear pathway to independent financial information, guidance and regulated advice and making informed financial decisions is challenging.

> **"It's not till you're thrown into that position [needing social care], or that you have a mum, dad or a relative that's in that position, you start very quickly learning all the things that you have to know about it."**
>
> Female, 60+
> Source: Ipsos Mori (2014)[41]

The Care Act 2014 introduces a new system for funding care in England and Wales, including a lifetime cap on care costs, but also provides new opportunities to identify and support people ahead of making decisions about their care. Local authorities have a key new duty to provide information and advice services around social care, including financial advice, through direct provision or by facilitating access to advice provided by local or national third parties. The Department of Health is also planning a multi-stakeholder communications campaign to raise awareness of individuals' financial responsibilities in the new social care system and signpost to relevant sources of information and advice.

Key insight 4: There is limited evidence on the availability of information, advice and financial capability provision for older people, how they access it, and how effective it is

Consequently, it is challenging to map provision against needs and to assess the relative effectiveness of different approaches and programmes.

Most existing provision aims to help people make informed decisions, rather than building wider positive financial behaviours. A wide range of national and local organisations provides financial information and advice services for older people.

- **Age-specific services**, such as those provided by Age UK and Independent Age.
- **Services focused on specific life events or circumstances.** For example to help manage the financial implications of health conditions, such Alzheimer's' Society, or changes to care and housing circumstances, such as First Stop.
- **Generic services** such as provided by the Money Advice Service or Citizens' Advice.

Relatively few programmes or services aim to change older people's financial behaviours and build positive money habits, such as budgeting, planning ahead or shopping around. Examples of services that do include Age UK's Planning for Later Life as well as the Money Advice Service's generic services and tools.

Case study: Planning for Later Life (Age UK)

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 UK/Age Cymru branches 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. Where they would benefit from regulated financial advice, they are referred to IFA directories.

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 to address. By thinking holistically and looking beyond the presenting issues, adviser can both 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.

After a successful pilot that reached 2,590 people in 2013, in 2014 the number of local Age UKs involved has been increased. Of those interviewed for the independent evaluation, over 90% said that their issues had been resolved and that Age UK had played a significant role in this.

Source: Age UK[42]

Recommendations for priorities and actions

Priorities and actions have been developed based on the insights from the Financial Capability Framework and the Older People's Working Group.

> **Priorities:** what the strategy will focus on.

> **Actions:** how these priorities can be delivered.

The consultation period will be used to gather views, including from older people themselves, and build consensus on the way forward. The next step will then be to work with partner organisations to develop detailed action plans ready for publication in the final Strategy.

Priorities

We propose four key priority areas for older people. These form the core objectives of the proposed strategy for older people.

Key insights	Priorities
1. A significant minority of older people do not manage their money well day to day	1. Support older people to manage their finances day to day more effectively
2. Older people face significant barriers that exclude them from financial services and advice	2. Ensure that financial and advice services are easy to use and accessible for all older people
3. Older people face specific risks to financial wellbeing against which better financial capability can protect	3. Focus action and resources on older people: > with an outstanding mortgage > with problem debt > with cognitive decline or impairment > with long-term care needs
4. There is limited evidence on the availability of information, advice and financial capability programmes for older people, how they access provision, and how effective it is	4. Develop a shared evidence base to guide development of services and interventions that have impact

[1] In collaboration with Age UK

Recommendations for action

Delivering against these priorities will require action from a wide range of organisations working in partnership with the Money Advice Service. In some areas the necessary steps are clear, but in others we need to work together to identify and agree the way forward. Drawing upon a wide range of expertise, the Money Advice Service has taken the lead and developed a set of proposed actions to deliver the Strategy.

Priority 1. Support older people to manage their finances day to day more effectively

Most existing money management tools and services are designed for a generic adult audience and don't take older people's needs into account. The recommended actions are that financial services, the advice sector and older people charities work together to:

- **Ensure that appropriate budgeting tools and support** are accessible for older people, particularly targeted at the one in three who struggle with budgeting, fill in any gaps in provision and improve signposting and referral.
- **Provide practical support and assistance to shop around and get the best deal** on big purchases, utilities or other services.
- **Help older people maximise their financial means** by encouraging take-up of eligible benefits, particularly by those on low incomes. This is an area where Department for Work and Pensions, Age UK and others have already done significant work that can be built upon.

Priority 2. Ensure that financial and advice services are easy to use and accessible for all older people

Many older people face significant challenges getting the most from the personal finance marketplace. The recommended actions are that the financial services, advice sector and older people charities work together to:

- **Make information and communications about financial products clear and easy to understand.**
- **Help older people understand the benefits of updating financial products and making it easier to switch to new products.**
- **Ensure that all older people can access information and advice through a range of channels. While some will be able to access digital channels** many of the most vulnerable older people, who would benefit most, face multiple barriers.
- **Explore how financial capability can be more closely integrated into other initiatives targeted at older people targeted at older people, such as digital inclusion programmes.**

Priority 3. Targeting the key risks to financial wellbeing in later life

The Strategy proposes to focus action and resources on four key risks to older people that better financial capability can protect against. The recommended actions are that:

- Mortgage providers work with the advice sector to identify people who hold a mortgage as they near or meet retirement age and support them to **develop a realistic mortgage repayment plan** (which may involve debt advice);
- Financial services and creditors work with the debt advice sector to **increase the early take-up of debt advice** by over-indebted retirees;
- Organisations such as the Alzheimer's Society and Age UK work with the advice sector to encourage people to **make timely plans to manage the potential impacts of cognitive decline** on financial capability; and
- Department of Health work with local authorities, Money Advice Service and regulated financial advisors to help people **make informed and sustainable decisions about funding long-term care.**

Money Advice Service will play a coordinating role in developing detailed action plans to address each risk.

Priority 4. Develop a shared evidence base to guide development of services and interventions that have impact

The evidence base on the effectiveness of advice and financial capability support for older people is limited – as it is across all life stages. The UK Financial Capability Strategy aims to address this and **create a highly effective financial capability sector in which the programmes funded are either ones that have been proven to work, or innovative pilots which are being rigorously evaluated.**

The Money Advice Service will work in partnership with other key organisations to support the growth of an evidence and evaluation culture across the sector. To learn more, please see the Evidence and Evaluation section of the UK Financial Capability Strategy.

Consultation questions:

Consultation question 11: How far do you support the Strategy's aims for older people?

Consultation question 12: What is your view of the recommendations for action relating to older people? How could they be improved?

See the complete list of consultation questions for the Financial Capability Strategy for the UK at **fincap.org.uk**

The Older People Working Group

The Financial Capability Strategy for the UK has drawn on the expertise of a wide range of organisations. Jane Vass, Head of Public Policy at Age UK, chaired a working group of experts drawn from the private, public and charity sector with Money Advice Service providing secretariat.

Represented on the group were:

- Association of British Insurers
- British Bankers Association
- Citizens Advice
- Department of Health
- Department for Work and Pensions
- Money Advice Service
- StepChange
- The Alzheimer's Society
- The Pensions Advisory Service
- Which?

The group met three times between January and May 2014 and considered a wide range of evidence on the financial capability of older people and the extent and effectiveness of existing provision, and agreed recommendations to make to the Steering Group.

1. Money Advice Service Financial Capability Tracker data 2013-14 (forthcoming)

2. Households Below Average Income 2012/13, DWP (2014)

3. Later Life in the United Kingdom, Age UK (August 2014)

4. Personal Finance Research Centre, University of Bristol (forthcoming)

5. Personal Finance Research Centre, University of Bristol (forthcoming)

6. Personal Finance Research Centre, University of Bristol (forthcoming)

7. Personal Finance Research Centre, University of Bristol (forthcoming)

8. Unpublished analysis of Financial Capability Tracker data (waves 2-5), Money Advice Service (2013/14)

9. Households Below Average Income 2012/13, Chapter 6, DWP, 2014

10. Unpublished analysis of Financial Capability Tracker data (waves 2-5), Money Advice Service (2013/14)

11. Unpublished analysis of Financial Capability Tracker data (waves 2-5), Money Advice Service (2013/14)

12. Financial Resilience in Later Life, Age UK (2014)

13. ONS Internet Access, quarterly figures, Q1 201, May 2014

14. ONS Internet Access - Households and Individuals, 2012

15. Money Lives, Money Advice Service (2014)

16. Short changed: Protecting people with dementia from financial abuse Alzheimer's Society 2011

17. Problem Debt Among Older People, Age UK 2013

18. Problem Debt Among Older People, Age UK 2013

19. Indebted Lives: the complexities of life in debt, Money Advice Service (2014)

20. Problem Debt Among Older People, Age UK 2013

21. Personalising the debt sector: A segmentation of the overindebted population, Money Advice Service (2014)

22. Indebted Lives: the complexities of life in debt, Money Advice Service (2014)

23. Indebted Lives: the complexities of life in debt, Money Advice Service (2014)

24. TNS survey for Age UK, April/May 2012 in Later Life in the United Kingdom, Age UK (August 2014)

25. Financial wellbeing in later life: evidence and policy (March 2014)

26. Financial wellbeing in later life: evidence and policy (March 2014)

27. Problem Debt Among Older People, Age UK 2013

28. Alzheimer's Society (2014). Dementia UK: The Second Edition. London: Alzheimer's Society.

29. Alzheimer's Society (2014). Dementia UK: The Second Edition. London: Alzheimer's Society.

30. Short changed: Protecting people with dementia from financial abuse Alzheimer's Society 2011

31. Short changed: Protecting people with dementia from financial abuse Alzheimer's Society 2011

32. Short changed: Protecting people with dementia from financial abuse Alzheimer's Society 2011

33. Estimating the number and distribution of self-funders of care in England – a quantitative study, Institute of Public Care, Oxford Brookes University (Dec 2010)

34. Community Care Statistics: Social Services Activity, England 2012-13, Final release (December 2013)

35. Age UK Research analysis using Marmot, M. et al. , English Longitudinal Study of Ageing: Waves 0-6, 1998-2013. July 2014.

36. Unpublished analysis of Financial Capability Tracker data (waves 2-5), Money Advice Service (2013/14)

37. Making the Money Last, Age Concern (2007)

38. Fairer Care Funding: The Report of the Commission on Funding of Care and Support (July 2011)

39. Your future care and its costs: Findings from qualitative work with social care 'self-funders' in Surrey, Ipsos Mori (2014)

40. Financial Resilience in Later Life, AgeUK (2014)

41. Your future care and its costs: Findings from qualitative work with social care 'self-funders' in Surrey, Ipsos Mori (2014)

Financial Capability Strategy for the UK

September 2014

fincap.org.uk