

PENSIONS POLICY INSTITUTE

PPI

Living through later life

Executive Summary



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Lauren Wilkinson joined the PPI in September 2016 as a Policy Researcher. During her time at the PPI Lauren has produced research on a range of topics, including Defined Benefit, consumer engagement, pension freedoms and Collective Defined Contribution.

Lauren was promoted to Senior Policy Researcher in January 2019.

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Chetan Jethwa joined the PPI modelling team in April 2018 as a Policy Modeller. He is responsible for maintaining and developing PPI models as well as producing modelling results and undertaking analysis to feed into the PPI's research.

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## The Pensions Policy Institute (PPI)

The PPI is an educational, independent research organisation with a charitable objective to inform the policy debate on pensions and retirement income provision. The PPI's aim is to improve information and understanding about pensions and retirement provision through research and analysis, discussion and publication. It does not lobby for any particular issue or reform solution but works to make the pensions and retirement policy debate better informed.

Pensions affect everyone. But too few people understand them and what is needed for the provision of an adequate retirement income. The PPI wants to change that. We believe that better information and understanding will lead to a better policy framework and a better provision of retirement income for all. The PPI aims to be an authoritative voice on policy on pensions and the provision of retirement income in the UK.

The PPI has specific objectives to:

- Provide relevant and accessible information on the extent and nature of retirement provision
- Contribute fact-based analysis and commentary to the policy-making process
- Extend and encourage research and debate on policy on pensions and retirement provision
- Be a helpful sounding board for providers, policy makers and opinion formers
- Inform the public debate on policy on pensions and retirement provision.

We believe that the PPI is unique in the study of pensions and retirement provision, as it is:

- Independent, with no political bias or vested interest
- Led by experts focused on pensions and retirement provision
- Considering the whole pension framework: state, private, and the interaction between them
- Pursuing both academically rigorous analysis and practical policy commentary
- Taking a long-term perspective on policy outcomes on pensions and retirement income
- Encouraging dialogue and debate with multiple constituencies

The PPI is funded by donations, grants and benefits-in-kind from a range of organisations, as well as being commissioned for research projects. To learn more about the PPI, see:

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This report has been sponsored by



A Research Report by Lauren Wilkinson and Chetan Jethwa

Published by the Pensions Policy Institute

© July 2019

ISBN 978-1-906284-84-8

[www.pensionspolicyinstitute.org.uk](http://www.pensionspolicyinstitute.org.uk)

# Executive Summary

As life expectancies have increased, conceptions of retirement have evolved. With many people likely to live for twenty to thirty years beyond State Pension age (SPa), retirement is no longer simply a period of winding down at the end of the lifecourse. This shift has led more individuals to question what retirement is all about, whether they want to or can afford to retire, and if they do, how they want to spend their remaining time.<sup>1</sup>

The diversity of later life experiences reflects the heterogeneity of the population in terms of individual preferences and circumstances, including health, financial and familial considerations. While some older people have a considerable amount of freedom to choose how they spend retirement, many more find their choices restricted by financial, health and family concerns.

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As the average length of retirement has increased, alongside life expectancies, there is generally more variation in the experiences people will face over the course of later life. Many of these experiences are correlated with age and physical limitations. This report categorises individuals who are either above SPa or under SPa but already retired into three phases of later life:

**The Independent Phase** of later life in which individuals have low or no physical limitations

**The Decline Phase** of later life in which individuals have mild physical limitations

**The Dependent Phase** of later life in which individuals have severe physical limitations and difficulty performing activities needed for day-to-day independent living (Figure 1)

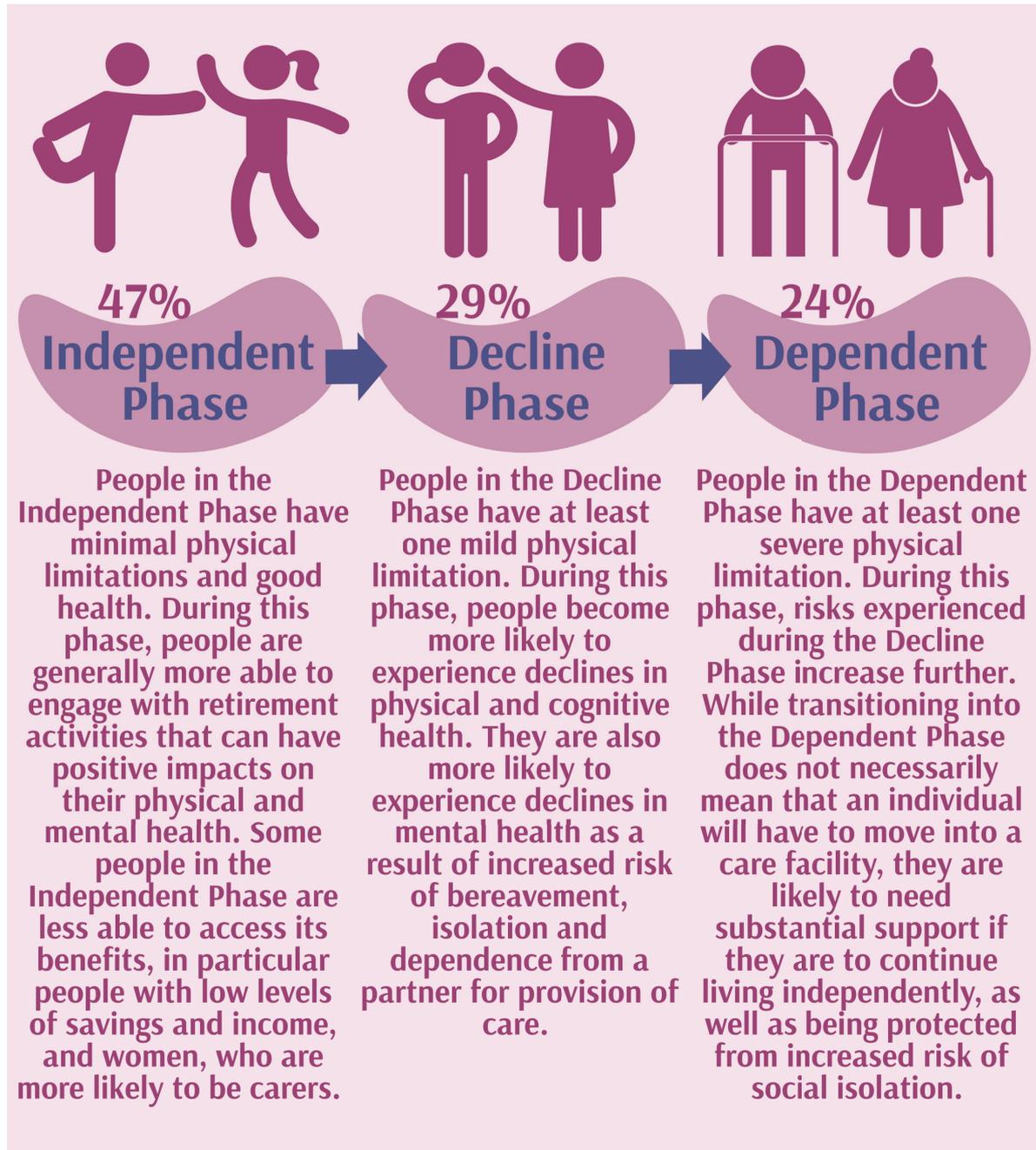
These phases are reflective of current life expectancies, work patterns and retirement provision, and may potentially change in the future depending on the way that these factors evolve.

This report uses data from the English Longitudinal Study of Ageing (ELSA) to identify which experiences and risks are associated with each phase of later life, as well as to analyse the demographic characteristics of each phase.

1. Sargent, Lee, Martin & Zikic (2012)

This is the first of two reports on the subject of Living through later life. The second report will further explore the trajectories of later life experiences as illustrated by a number of hypothetical individuals, particularly in regards to how individuals will fund these experiences and challenges. The second report will also identify where there are gaps in support and safeguards, particularly in terms of policy, industry, advice and guidance, and how these gaps may be best filled.

Figure Ex1



As people transition through the phases the risk of having poorer retirement experiences increases, beginning in the Decline Phase and worsening in the Dependent Phase.

### Those who remain in the Independent Phase for as long as possible are likely to have better retirement experiences

The activities and experiences associated with the Independent Phase of later life can encourage healthy ageing, including decreased risk of frailty and physical decline, improved mental health and emotional wellbeing, and enable older people to maintain engagement with social networks and the broader community, all of which are important components of a positive retirement experience. In order to improve later life experiences, older people may need additional support to remain in the Independent Phase for as long as possible.

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Experiences in the Decline Phase are generally more positive than those in the Dependent Phase, but less positive than the Independent. This means that once individuals transition into the Decline Phase, they would benefit from support in maintaining physical health and where possible slowing declines in order to protect them from the more severe risks present in the Dependent Phase.

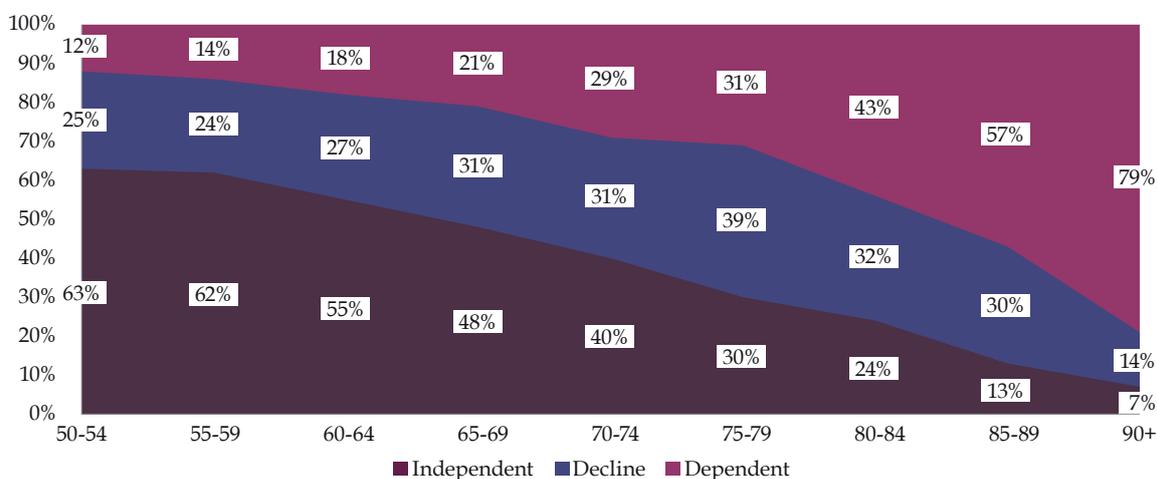
### The likelihood of transitioning out of the Independent Phase and into either the Decline or Dependent Phase increases with age

The proportion of people in the Independent Phase is negatively correlated with age, with nearly half (48%) of people in the five years following SPa living within this phase, compared to 7% of those aged 90 and over (Chart Ex1).

Chart Ex1

#### People are increasingly likely to transition out of the Independent Phase as they age

Proportion in each phase of later life by age



While many older people transition from Independent Phase to Decline Phase to Dependent Phase over the course of their retirement, some die while still in relatively good health (Independent Phase), while others experience sudden declines in health that see them retiring directly into the Decline or Dependent Phase, or transitioning directly from the Independent Phase to the Dependent Phase. People who do not transition gradually through the stages, as a result of sudden health declines, may benefit more from support as they have less time to plan and adjust their behaviour to minimise the impact of declines. Some older people may also backslide between phases if their physical limitations are the result of temporary conditions, however this is less likely than progressing through the phases in order.

## Variations in healthy life expectancy mean that some individuals are less likely to experience the benefits of the Independent Phase than others

While the Independent Phase characterises the early years of later life for many older people, others are not so fortunate. Between 37% and 52% of people retire directly into either the Decline or Dependent Phase, assuming they retire before age 70 (Chart Ex1). Those who retire, in some cases early, due to ill health, are less likely to experience the Independent Phase, and those who retire earlier also have, on average, a higher risk of early death, compared to those who retire later.<sup>2</sup>

Healthy life expectancy varies by as much as fifteen years for men and almost eighteen years for women, depending on region.<sup>3</sup> There are also variations in healthy life expectancy according to socioeconomic class. Among those aged 50 and over, one in five (20%) people in routine occupations in England say that age often prevents them from doing the things they would like to do, compared to just 7% of those in professional occupations.<sup>4</sup>

Lower socioeconomic position is associated with:

- Poorer functioning<sup>5</sup>
- Lower age of onset of disabilities<sup>6</sup>
- Steeper trajectories of functional decline<sup>7</sup>

Older people in a lower socioeconomic position or those in areas with lower life expectancies and lower healthy life expectancies are less likely to experience the freedom and benefits of the Independent Phase of later life, and those who do are likely to experience this phase for a shorter period of time than their more privileged peers. Those who worked in higher managerial and professional occupations remain in the Independent Phase until significantly older ages. For example, at age 85 to 89, 35% of this group are in the Independent Phase, compared to just 8% of those who worked in routine occupations.

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Because those with lower healthy life expectancies are more likely to skip the Independent Phase and retire directly into the Decline Phase, they are likely to require more support to prolong this phase for as long as possible and protect against the greater risks associated with the Dependent Phase.

## Women are more vulnerable than men to poorer retirement experiences as they are more likely to be carers, as well as having a greater likelihood of being in the Decline and Dependent Phases at almost all ages

Carers, who are more likely to be women than men, may find it more difficult to access the benefits of the Independent Phase, even if they are in good health. 18% of women in the Independent Phase provide some form of informal care, compared to 12% of men. This means that women are at greater risk of missing out on the beneficial aspects of the Independent Phase and may experience poorer retirement outcomes in the long run.

2. Wu, Odden, Fisher & Stawski (2016)

3. Age UK (2018)

4. Centre for Ageing Better (2019)

5. Louie & Ward (2011)

6. Jagger et al. (2007)

7. Koster et al. (2006)

**Women are at greater risk of missing out on the beneficial aspects of the Independent Phase and may experience poorer retirement outcomes in the long run.**

Women, on average, are more likely to be in either the Dependent or Decline Phase than men of a similar age. This means that women in particular may need more support in extending the Independent and Decline Phases of later life. Targeting of support would also need to take into account life expectancies, healthy life expectancies and socioeconomic background.

**People with higher levels of wealth are likely to remain in the Independent Phase for longer than those in lower wealth quintiles**

Those in higher wealth quintiles are likely both to live longer and to spend a greater proportion of later life with minimal physical limitations. Nearly a third (29%) of those in the highest wealth quintile are in the Independent Phase at ages 85-89, compared to 13% of those in the lowest quintile. This means that people in lower wealth quintiles are likely to benefit most from support aimed at elongating the Independent Phase.

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**While in the Dependent Phase, those in lower wealth quintiles are likely to need more support if they are to avoid having particularly poor later life experiences**

Even while in the Dependent Phase, members of higher wealth quintiles are likely to have more positive later life experiences than those in lower quintiles. As well as the increased physical limitations associated with the Dependent Phase, the risk of social exclusion plays a significant role in determining the quality of later life experienced during this phase.

Many of the risk factors associated with experiencing social exclusion are also associated with having lower levels of wealth:

- Low income and/or benefits as the main source of income
- Live in rented accommodation
- No access to a private car and never use public transport

This means that those in the lower wealth quintiles are at greater risk of experiencing social exclusion while in the Dependent Phase. They are likely to need more support in order to experience the same standard of living as those in the Dependent Phase in higher wealth quintiles.