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**How could increased economic inactivity affect financial resilience among older people?**



**INDEPENDENT**

**EVIDENCE BASED**

**NON LOBBYING**

**NEUTRAL**

**Daniela Silcock**

**Head of Policy Research  
Pensions Policy Institute (PPI)**

Pensions Policy Institute  
**PPI**



# Background to the Research

The Pensions Policy Institute (PPI) and Age UK are interested in exploring the rise in inactivity among 50-69 year olds, which appears to be mainly as a result of lifestyle choices rather than solely driven by health needs.

There is no significant variation between people who have become economically inactive in terms of education, job type or socio-economic class.

The PPI hosted a roundtable on Wednesday 22 March 2023 which considered current available data and PPI modelling to explore these trends in order to further understand why more adults are becoming economically inactive, what the financial impact of this might be for individuals in the run up to State Pension age (SPa) and beyond, and what are the implications for public policy.

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# Strategic Partnership

In 2022 the PPI and Age UK signed a Memorandum of Understanding agreeing to work together with a shared focus upon later life and develop a deeper two-way relationship which strengthens foundations to achieve better informed policies and decisions that improve later life outcomes.

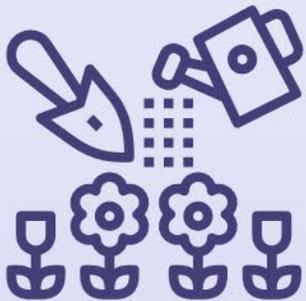
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# PPI



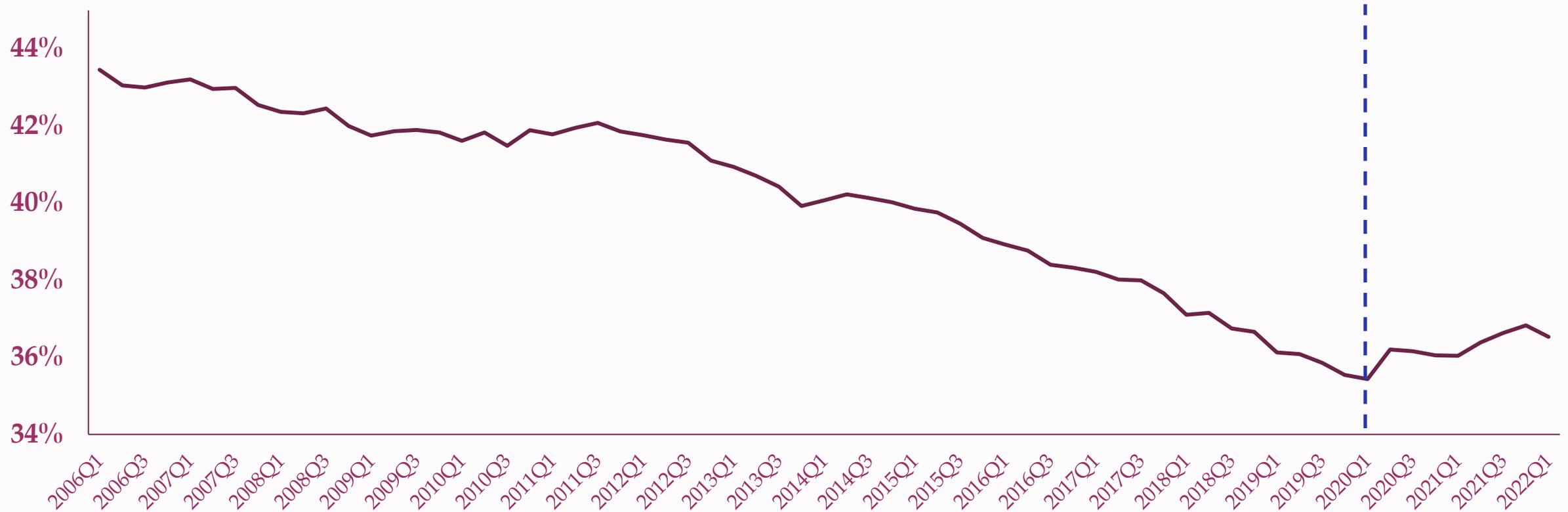
# What is economic inactivity?

Those who are neither in work nor actively searching for work are considered to be "economically inactive".



# Economic inactivity is increasing among older people since COVID-19

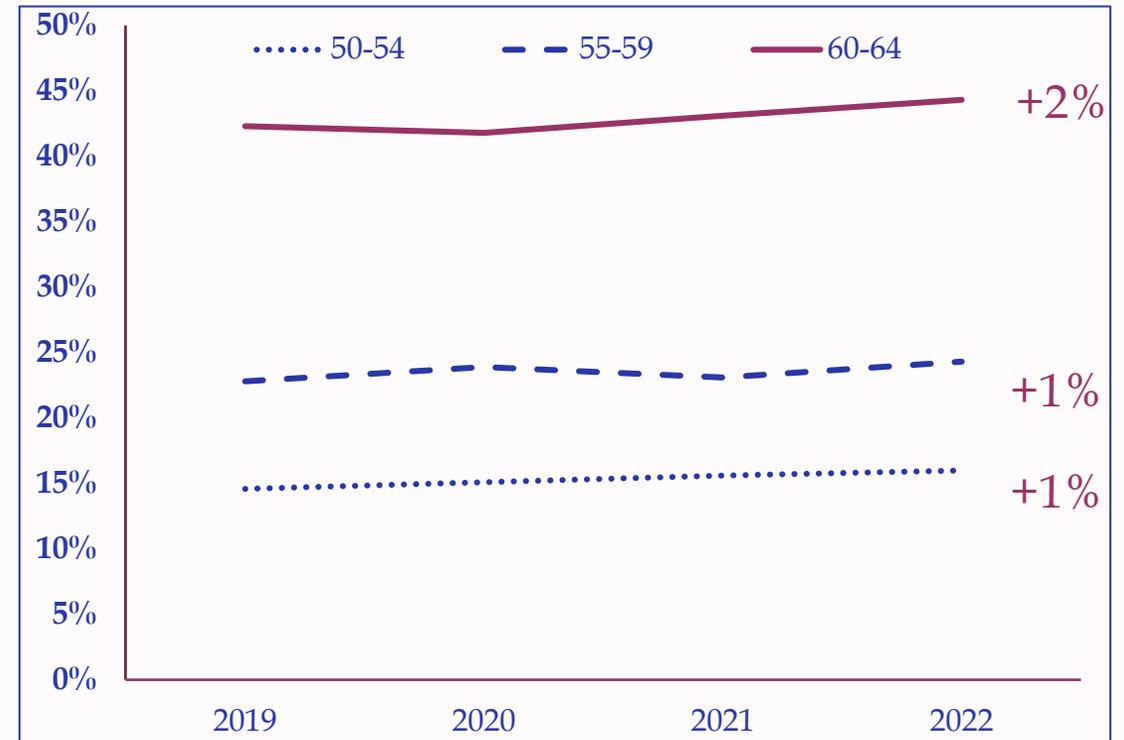
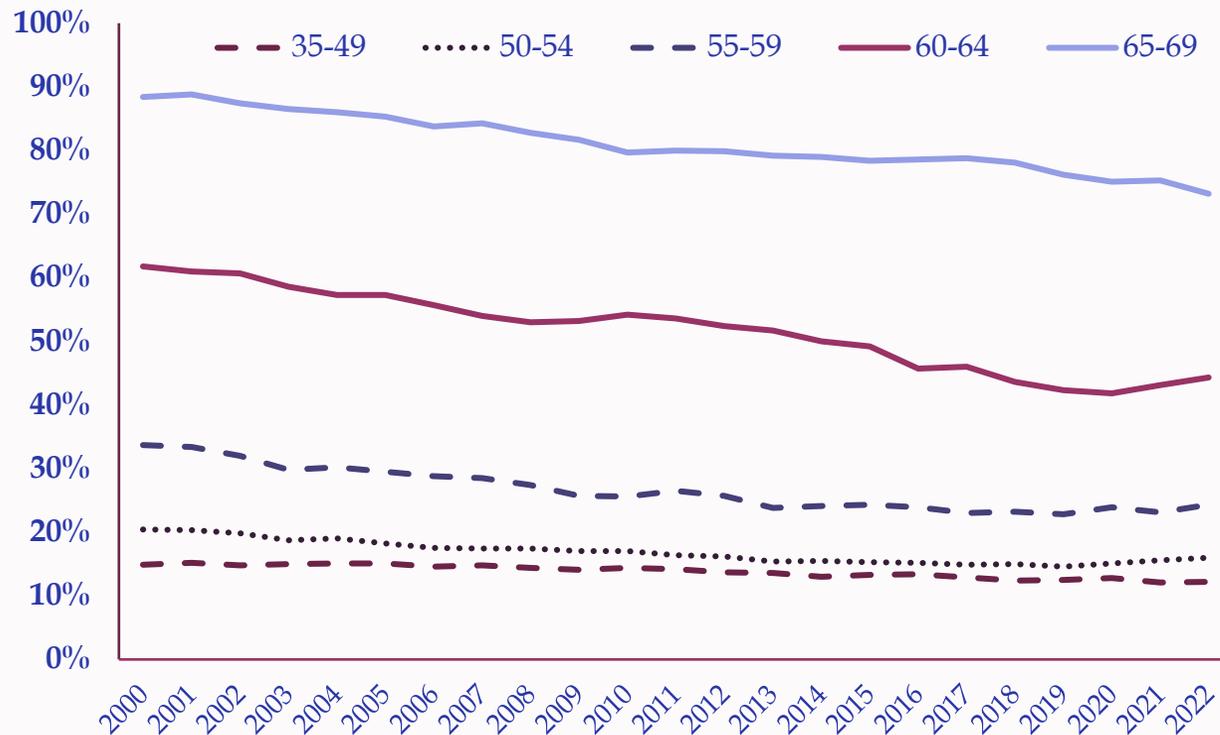
## Rate of economic inactivity among 50–69-year-olds (2006–2022)



SOURCE: Reproduced from Figure 2.1 in: Cribb, J. Boileau, B. *The rise in economic inactivity among people in their 50s and 60s IFS*, Authors' calculations using the Labour Force Survey

# Economic inactivity has reduced for those aged 35 to 49 and 65 to 69

## Rate of economic inactivity among UK adults by age and year



SOURCE: DWP (2022) *Economic labour market status of individuals aged 50 and over, trends over time: September 2022*

<https://www.gov.uk/government/statistics/economic-labour-market-status-of-individuals-aged-50-and-over-trends-over-time-september-2022>

# Economic inactivity is increasing among older people since COVID-19



Prior to the pandemic, rates of economic inactivity among older people were falling, partly as a result of rises to State Pension age

There were 386,096 more 50-64 year olds in economic inactivity in May-July 2022, than just prior to COVID-19 (Dec 2019- Feb 2020) - ONS

The increase in retirement rate was higher for workers in their 60s than those in their 50s and higher for part-time workers than for full-time workers - IFS

There were no significant differences between men and women or by socio-economic group - IFS



# Economic inactivity is increasing among older people due to...

*"Those who left the workforce post-pandemic were even more likely to say they just didn't want to work" - Phoenix*



## Health

Of those who left work during the pandemic those who did not return to work (51%) were more likely to have a physical or mental health condition than those who did return to work (43%) - ONS

However, not all of these people left work *due to ill health* - IFS

Those aged 50-59 were more likely to stay out of work due to mental and physical health issues than those aged 60-65. - ONS/Phoenix

Less access to healthcare related to pandemic shortages could play a role - Phoenix

## Access to support

Those who left work and then returned were less likely to have access to support (such as flexible working or health or wellbeing support) than those who remained in work - ONS



## Retirement transitions

Fewer people are transitioning into retirement through part-time/flexible working - IFS



## Providing care

There are small increases in the number of those out of work aged 50-69 who are providing care - IFS



## Financial Position

Homeowners and those who report being more financially comfortable were more likely to remain out of work; and the proportion of older people in this position has increased. 87% of retired 50 to 64 year olds are homeowners - Phoenix



## Preference

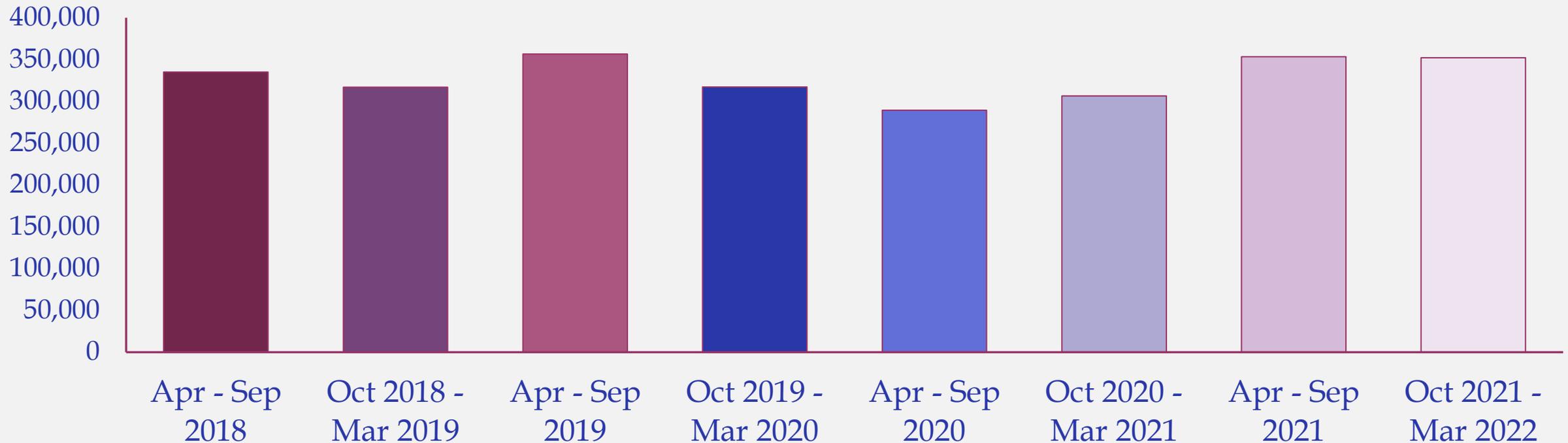
Many of those who left work prefer to remain out, 66% of people aged 60-65 who left do not wish to return - ONS

UK attitudes to work have become more negative - Phoenix



**The number of DC plans being accessed for the first time has increased by 18% over the past year**

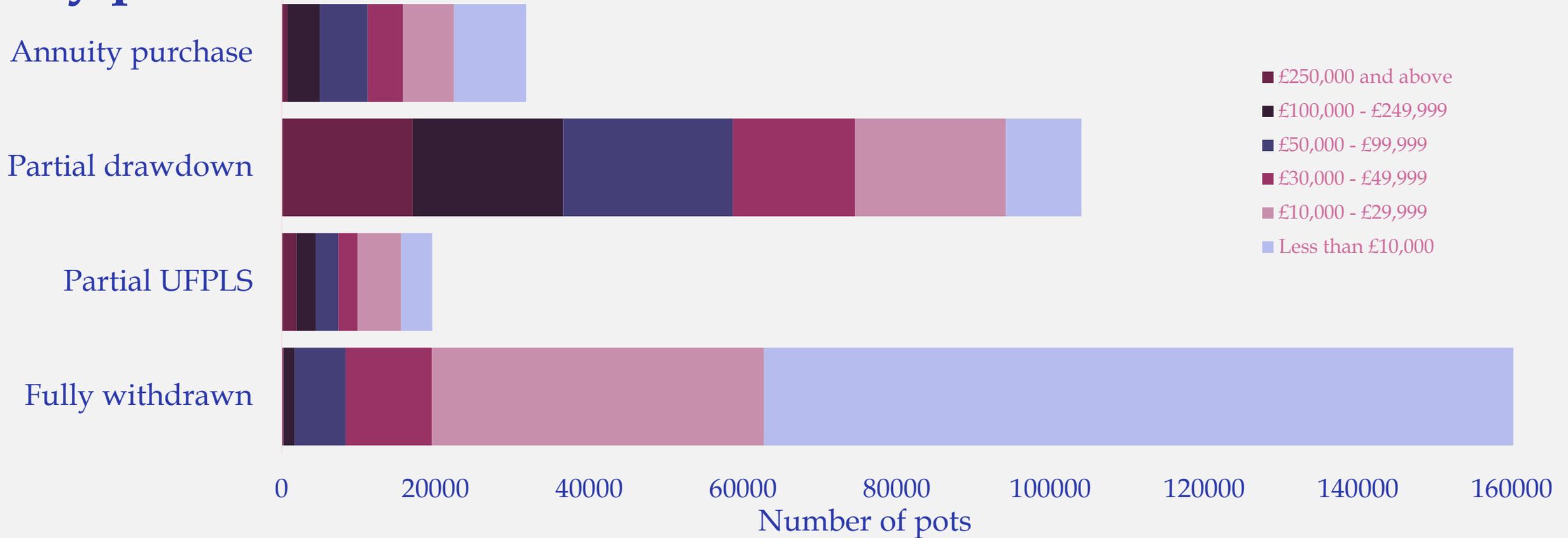
**Total number of DC pots accessed for the first time by date**



Source: FCA - Retirement income market data 2021/22

# Most pots that were fully withdrawn were of a smaller value

## Number of pension plans accessed in 2021/22 by pot size and method of access



Source: FCA - Retirement income market data 2021/22

# Time out of the labour market requires income from other sources to maintain living standards

## Amount required to maintain desired living standard while out of the labour market prior to State Pension age

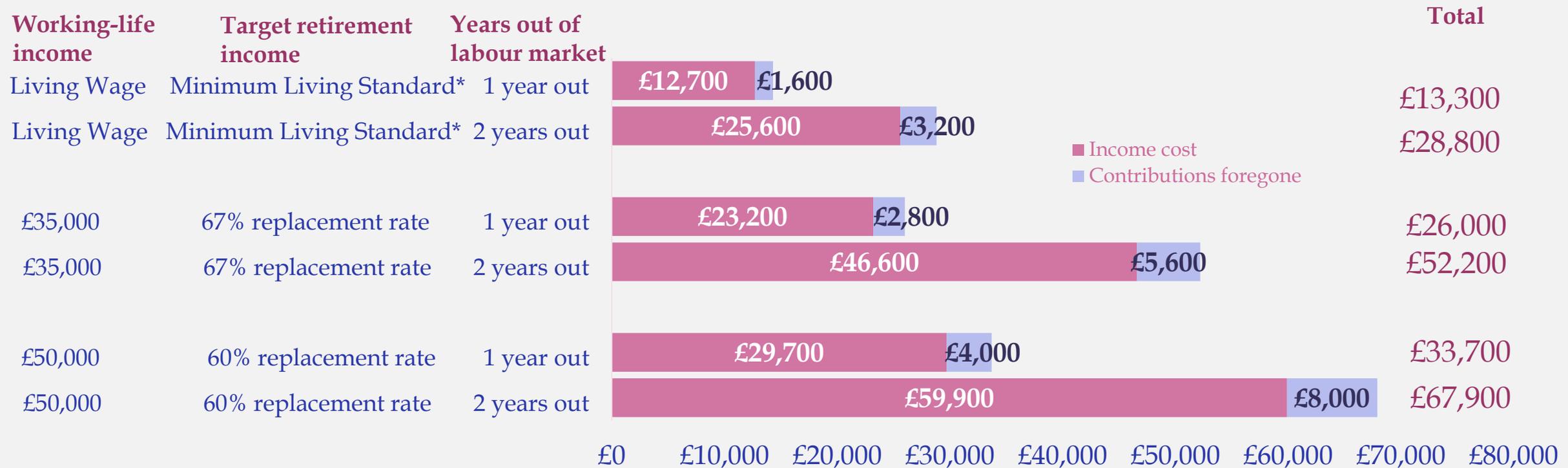


Source: PPI Modelling \* Minimum Living Standard from *PLSA Hitting the Target Retirement Living Standards*

Minimum Living standard for a single person living outside London = £12,800, Living wage is assumed to be 37.5 hours a week at the living wage giving of £20,300 (April 2023 rate of £10.42 an hour)

# Time out of the labour market results in the missed opportunity of pension contributions

## Amount required to maintain desired living standard + value of forgone employee and employer pension contributions of 8% of earnings



Source: PPI Modelling \* Minimum Living Standard from *PLSA Hitting the Target Retirement Living Standards*

Minimum Living standard for a single person living outside London = £12,800, Living wage is assumed to be 37.5 hours a week at the living wage giving of £20,300 (April 2023 rate of £10.42 an hour)

# How could increased economic inactivity affect financial resilience among older people?

## Conclusions

- ✓ Inactivity rates have increased among older people.
- ✓ While health and lack of employer flexibility have contributed to higher rates, a large proportion of older people who left work during COVID-19 simply do not wish to return.
- ✓ Time out of work prior to State Pension age can result in high expenditure and the loss of opportunity to make further contributions.
- ✓ More people are accessing DC pensions early.

# Bibliography

- Cribb, J. Boileau, B. (2022) *The rise in economic inactivity among people in their 50s and 60s* IFS
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