

Understanding retirement journeys: Expectations vs. reality

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How can we understand retirement journeys?

- Changing expectations of retirement
- Retirement realities:
 - Consumption and expenditure in old age
 - How consumers allocate their spending
 - What are people actually doing in later life?
- Delving deeper:
 - There is no such thing as the older consumer
- Conclusions and Recommendations



What is retirement really like?

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Retirement expectations today

“I expect to have a leisurely retirement”

“My savings will be inadequate to fund retirement.”

“I just don’t expect to live that long.”

“I don’t want to think about health and long-term care.”

“I have not given much thought to my needs in retirement”

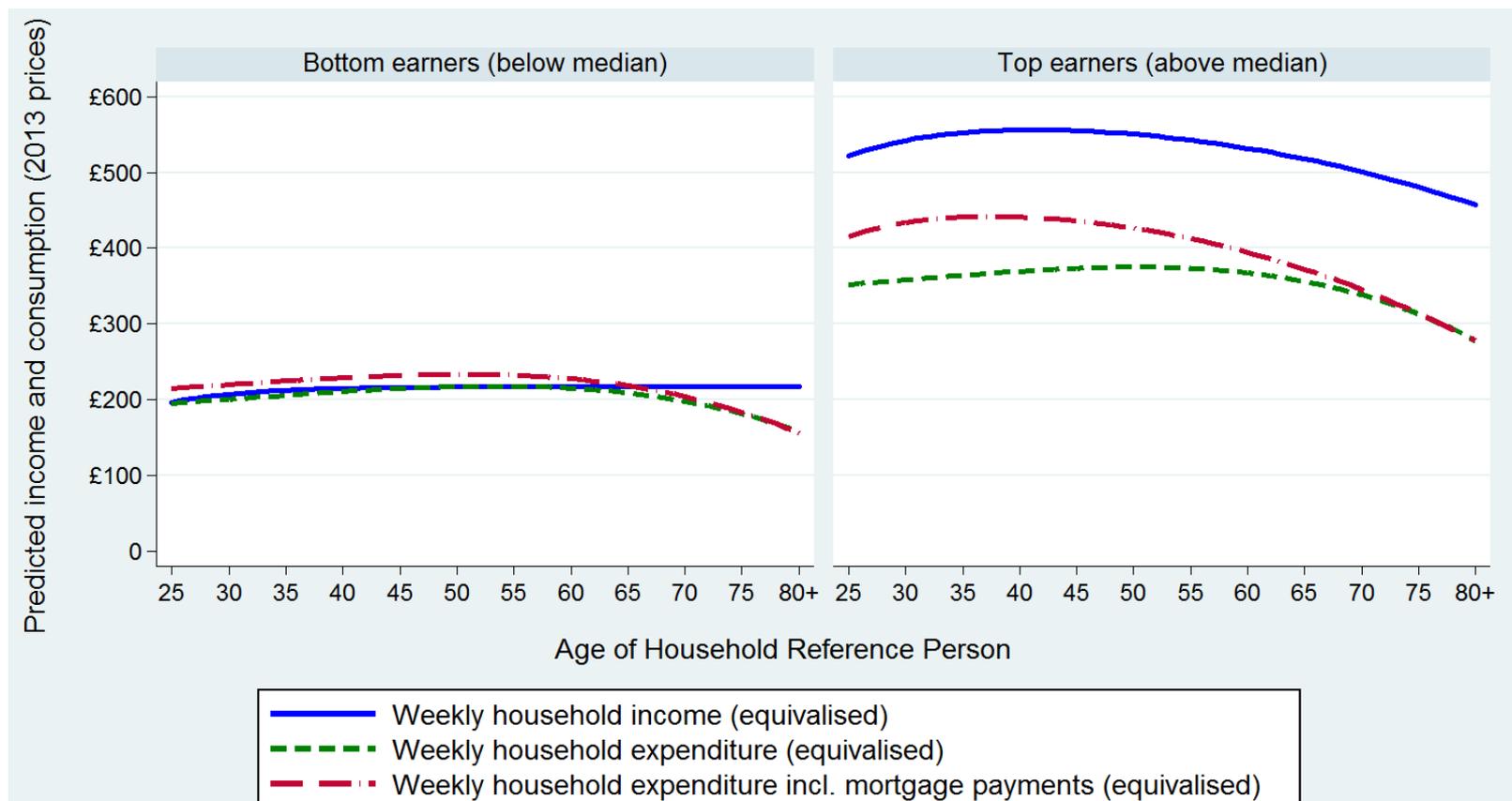
...but huge uncertainties make it difficult for us to predict the future

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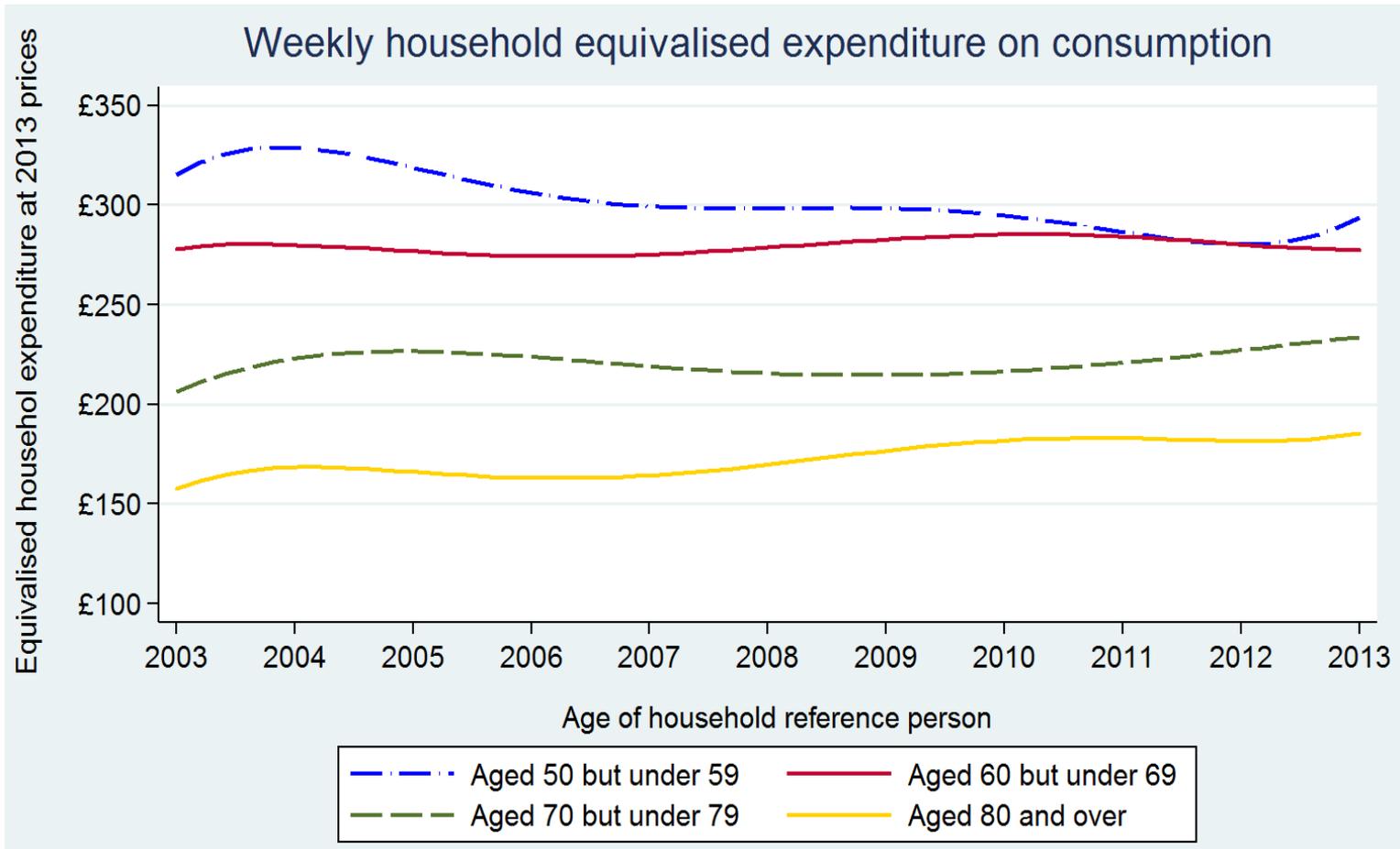


People spend progressively less as they age



Source: author's elaboration from Living Cost and Food survey / Expenditure and Food Survey (years 2003 to 2013)
Consumption expenditure and household income deflated by RPI index at 2013 prices; OECD equivalence scale used to account for household composition;
top and bottom 1% of the distribution of consumption expenditure and household income have been trimmed to exclude outliers; data are weighted using annual weights.

Is the decline in consumption a persistent trend?



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...but mind the differences: savers vs. spenders

	% Not Saving	Median Weekly Debt	% Saving	Median Weekly Savings
Aged 60 but under 65	38.9%	-£112.7	61.1%	£141.8
Aged 65 but under 70	30.1%	-£113.0	69.9%	£138.4
Aged 70 but under 75	24.5%	-£96.7	75.5%	£140.6
Aged 75 but under 80	20.2%	-£92.3	79.8%	£143.6
Aged 80 and over	14.6%	-£85.7	85.4%	£153.9
Total	22.9%	-£100.2	77.1%	£145.1

Source: author's calculations from Living Costs and Food Survey (2003-2013). Data are weighted using annual weights. Note that for these estimates the sample has been restricted to retired heads of household.

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What about health expenditure later in life?

- Consumption does not dramatically rise at the start of retirement or pick up towards the end of life to meet long-term care related expenditures
- Even for the 80+ age group, only a minority (6.4% of households) are putting money towards meeting long-term care needs.

	Proportion spending on care	Average care spending (for those who spend)
50 but under 55	0.1%	£19.9
55 but under 60	0.5%	£59.1
60 but under 65	0.4%	£27.2
65 but under 70	0.6%	£32.8
70 but under 75	0.9%	£44.3
75 but under 80	2.3%	£51.3
80 and over	6.4%	£45.5

Source: author's calculations from Living Costs and Food Survey Note that care expenditures relate to residential care or home helps.

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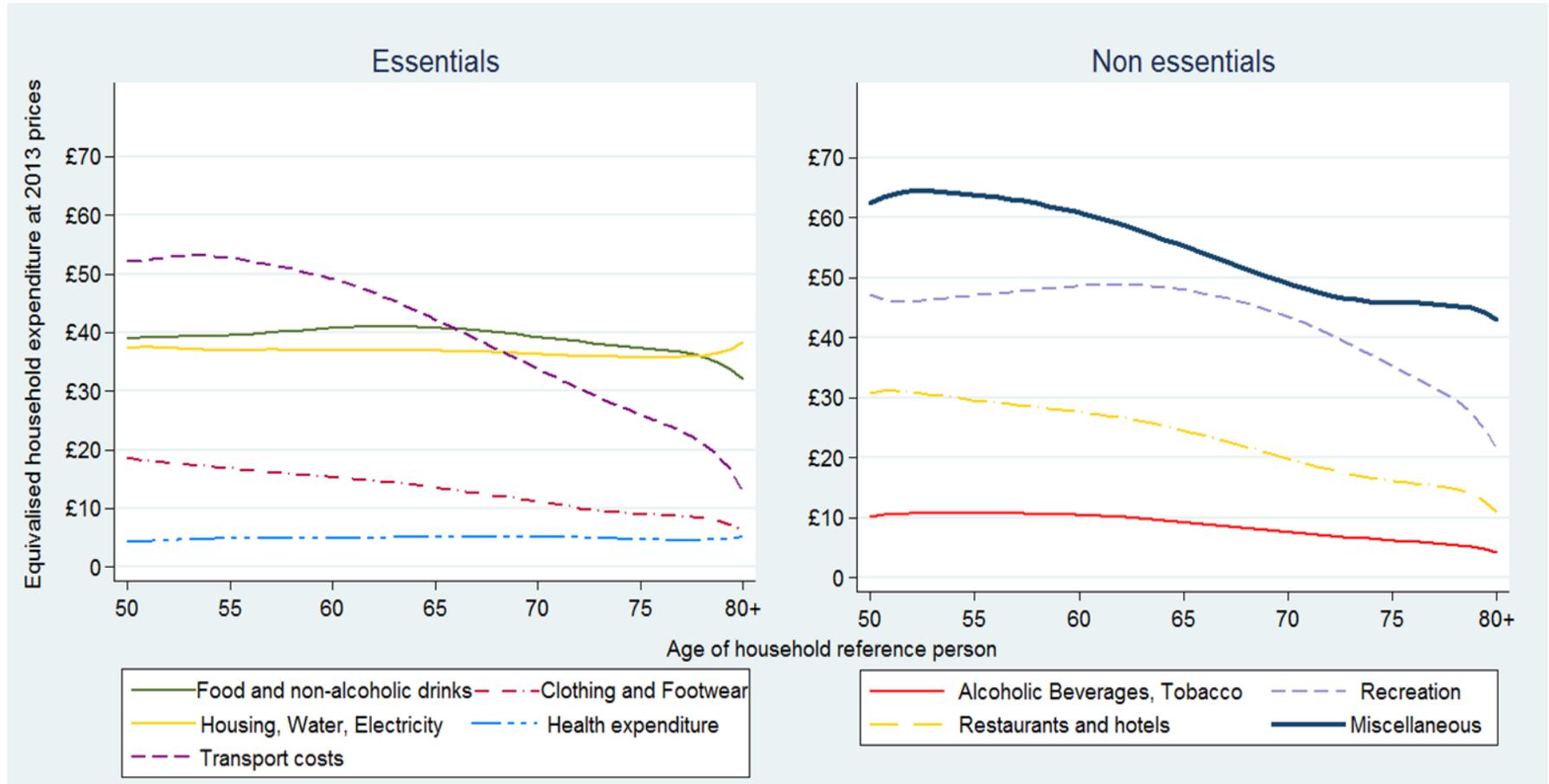


Retirement realities: Essentials vs. non essentials

- Much of the decline in consumption is explained by falls in spending on “non-essential items” such recreation, eating out and holidays.
- “Essential items” account for an increasing proportion of the overall household budget.
 - By age 80+, over 50% of expenditure is on essential goods and services.
- There does not appear to be a post-retirement spending boom on leisure and holidays



Essentials vs. Non essentials in more detail



Source: author's elaboration from Living Cost and Food survey / Expenditure and Food Survey (years 2003 to 2013)
 OECD equivalence scale used to account for household composition; data are weighted using annual weights.

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What May Explain Consumption Patterns in Retirement?

- Precautionary savings in response to uncertainty (Carroll, Kimball)
- Uncertain health expenditure (de Nardi, Banks *et al*)
- Liquidity constraints (Zeldes)
- Unrealistic expectations (Crawford and Tetlow)
- Behavioural biases (Thaler, Shefrin etc)
- Bequest motives (Hurd and Rohwedder - debated)
- Home production/ drop in work related expenditures (Hurst)

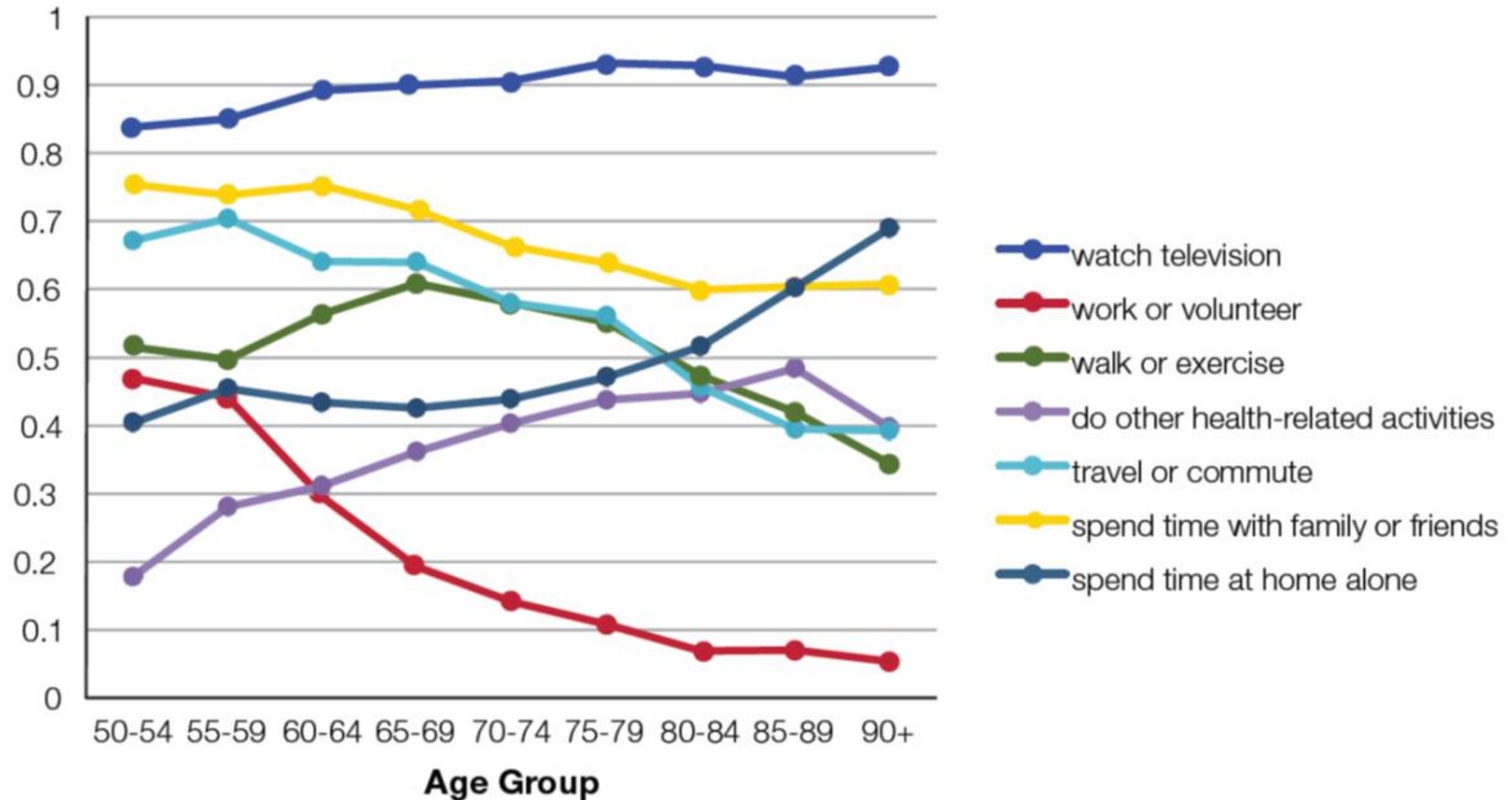
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The “reality” in later life: watching television and living alone?

Yesterday, did you...

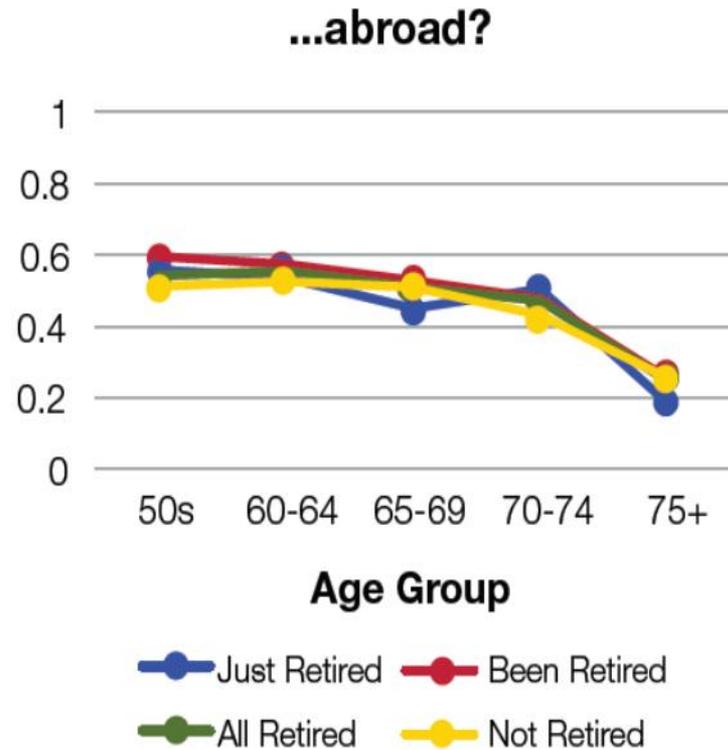
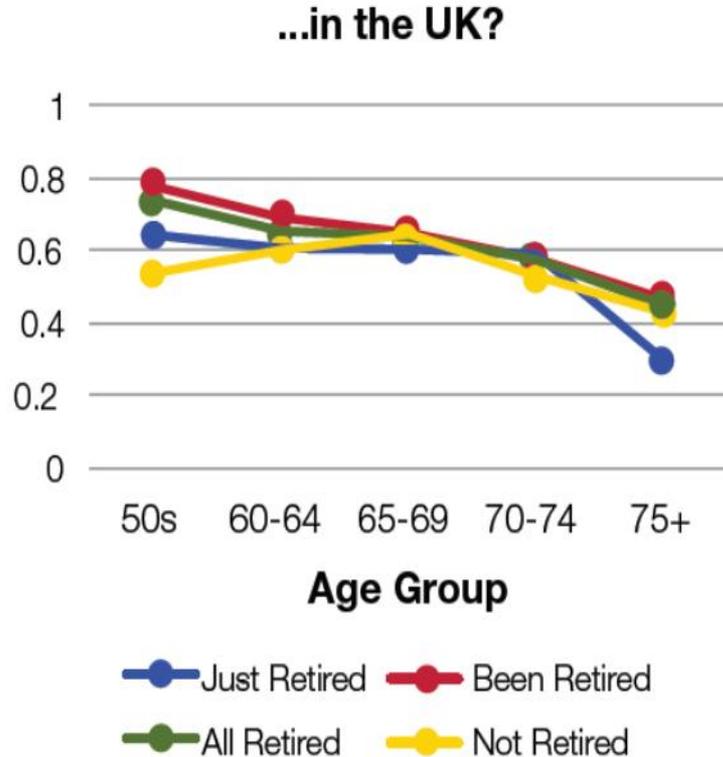


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The “reality”: holidays and retirement?

- In the past 12 months, have you taken a holiday...



Source: ELSA Waves 5 & 6 (2010/11 & 2012/13)

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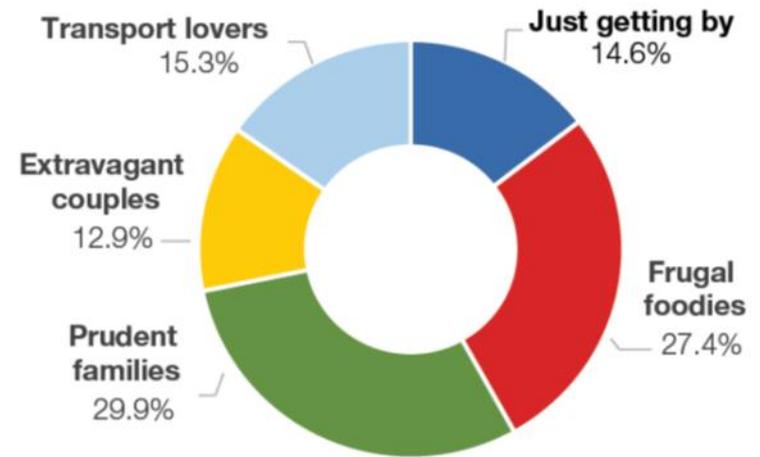
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There is no such thing as “the older consumer”

- “**Just getting by**” who spend over 45% of total expenditure on housing and bills; More likely to be single/widowed/divorced, renters.
- “**Frugal foodies**” who spend 27.5% of their total expenditure on food and drinks and over 13% on furnishing, housing equipment etc.
- “**Prudent families**” who spread their expenditure evenly on many items and save consistently as they age;
- “**Extravagant couples**” who spend nearly 40% of their total expenditure on recreational goods and services;
- “**Transport lovers**” who spend more than a third of their total expenditure (36.8%) on transport (both public and private).



Group 1: Just Getting By

Consumers in this group spend more than **45%** of their total expenditure on **housing and bills**.

Socio-demographic characteristics:

- Median age 70;
- More likely to be headed by a non-white, single, widowed or divorced person;
- More likely to be a renter, either private or social, than an outright homeowner;
- More likely to be on low income and not receiving income from investments;
- Furthermore, consumers in this group are disproportionately more likely to live in London or the North.

Issues/risks:

Older consumers belonging to this group have no family safety nets, are more likely to be renters and tend to be concentrated in London. As a result, as the group name suggests, individuals may struggle to afford day to day essential spending and cannot afford non-essential spending on recreation and holidays. Some individuals in this group are at particular risk in the event of rising rental costs or energy prices.



JGB's

Spends more than **45%** of their total expenditure on housing and bills.

Group 2: Frugal Foodies

Consumers in this group spend more than **27.5%** of their total expenditure on **food and non-alcoholic drinks**, and over **13%** on **furnishings and other household equipment** (nearly twice the average).

Socio-demographic characteristics:

- Median age 70;
- More likely to be a woman;
- More likely to be on low income, and not have private pensions or income from investments.

Issues/risks:

This group under-consume throughout their lifetime relative to all the other groups identified. Despite having a relatively low equivalised household income (£308.6 per week), they consume a lower proportion of their income than any other group. For this group, longevity insurance may be a solution, but perhaps those in this group are less aware of the options out there and end up under-consuming as a result.



FF's

Spends more than **27.5%** of their total expenditure on food and non-alcoholic drinks

Group 3: Prudent Families

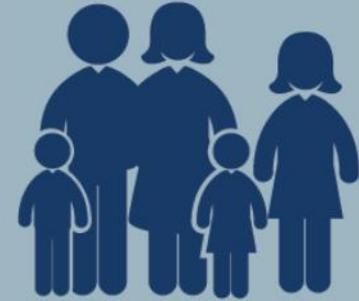
Consumers in this group are consistent savers; they spread their expenditure quite evenly on all items, except for restaurants and hotels, which they seem to enjoy more than other groups.

Socio-demographic characteristics:

- Median age 61;
- More likely to be a woman, part of a couple and living in a larger household;
- Have relatively high household income, likely to have private pensions and income from investments.

Issues/risks:

“Prudent Families” are doing well. The only issue they might be facing is under-consuming, in that they could attain a higher standard of living given their means. However, consumers in this group also spend a lot more money on health than other groups do, and therefore some may be saving because they pre-empt declining health conditions. Having a larger than average family size, “Prudent Families” may also be saving in order to leave a bequest.



PF's

Are consistent savers; they spread their expenditure quite evenly on all items

Group 4: Extravagant Couples

The “Extravagant Couples” like to enjoy their life and spend nearly **40%** of their total expenditure on recreational goods and services.

Socio-demographic characteristics:

- Median age 65;
- More likely to be part of a couple, but living in a smaller household;
- High household income, having income from investments;
- More likely to own their home outright;
- More likely to live in the North of England than other groups.

Issues/risks:

“Extravagant Couples” are not savers until very late in life so, despite having relatively high income for most of their lives, there is a potential risk that they could run out of money in later years. For this group, financial advice is likely to be particularly beneficial to ensure that they have the means of meeting their rather more extravagant retirement needs.



EC's

Likes to enjoy their life and spend nearly **40%** of their total expenditure on recreation.

Group 5: Transport Lovers

“Transport Lovers” spend a very large proportion, up to **36%** of their total expenditure, on transport – including the use of and other costs associated with their own vehicles.

Socio-demographic characteristics:

- Median age of 61;
- More likely to be male, part of a couple and living in an average sized household;
- High household income.
- More likely to be buying their home with the help of a mortgage than other groups.
- More likely to live in the East Midlands than other groups.

Issues/risks:

Given the amount spent on transport right across the life-course, consumers in this group are likely to be spending money on their own cars, rather than public transport which older people may get concessions on. A potential risk for them is that health problems and disability in older age might prevent them from travelling as much as they might like to the detriment of their quality of life. Despite having high income, they do not spend as much of their income as the “Extravagant Couples”, and indeed consistently save during retirement.



TL's

Spend a very large proportion, up to **36%** of their total expenditure, on transport

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Developing some recommendations

The need for initial flexibility but with security of income in later life

- The pension freedoms introduced in April 2015 have stimulated debate about what decumulation strategies might be needed to meet changing consumption needs in retirement.
- Given the reality of retirement journeys, it may make sense for financial products and services to **facilitate relatively high initial income before guaranteeing a base level of income in later life.**

The need for guidance and advice

- However, getting balance right between flexibility and security is key and consumers will likely require guidance and advice.
- A **mid-retirement financial health check** should be built into the **financial guidance process**

Many thanks

Planning
tomorrow
today

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