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2019 Later Life Lending Report: **Retirement Debt**

June 2019

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Foreword

Foreword by

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Demographic and lifestyle changes mean that the number of people approaching retirement age with mortgage debt or unsecured debt is rising. This shift in the age pattern of people with debt has far-reaching economic and societal consequences, which are still poorly understood.

In the 2019 Retirement Lending report, which the Centre for Economics and Business Research (Cebr) undertook for more 2 life, data has been used from various official sources as well as a bespoke survey to develop a full understanding of debt held by people aged 55 and over. This is achieved through studying income and spending levels, the different types of retirement borrowing and why people go into debt. We also forecast future debt levels of people aged 55 and over, finding a significant increase in the amount people near, or at, retirement age will owe over the next ten years.

After a decade of fast rising property prices, many cannot afford to buy a house until they are in their thirties or forties, leading to a rising number of people who will be entering retirement in the coming years with mortgage debt still to pay off. Furthermore, an ageing population means that in ten years' time there will be significantly more people aged 55 and over than there are now, further increasing the total size of the debt market for older people. Cebr forecasts that in 2029 the total amount of secured debt in Great Britain held by households aged 55 or over will be worth £410 billion. However, many will manage to pay this off before their 65th birthday. The total amount of secured debt held by people aged 65+ is set to rise from £77 billion in 2019 to £150 billion in 2029.

Mortgage debt is not the only type of debt which is set to grow. The value of total unsecured debt for people aged 55 or over is also set to rise, to £138 billion in 2029 from £48 billion in 2019. Apart from the demographic change, we also expect increased credit card uptake among those aged 55 and over to play a role in the total debt increase. Credit card debt is the most commonly used form of unsecured for people aged 55 and over, with 1 in 5 reporting having this form of debt .

As a new topic of interest in this year's report, Cebr also examined how often retired households find that income falls short of expenditure. One in ten (10%) retired people aged 55 or over said that spending often or always exceeds the money coming into their bank account, revealing the extent to which many retired households are failing to make ends meet, which often results in debt. Furthermore, one in five (20%) in that age group said that they would not be able to pay an unexpected £5,000 bill and 14% said that they would have to consider taking out a loan in order to pay it, showing that numerous older households would not be able to survive a financial shock.

This research sheds new light on the retirement lending sector and provides more insights into why older people are finding themselves in debt, therefore improving understanding of an ever more important topic.

1 Source: Bank of England NMG survey, Cebr analysis

Introduction

Foreword by

Dave Harris
Chief Executive Officer, more 2 life

The role of the financial services industry in helping over 55s achieve financial security and stability has never been greater than it is today. For the third year in a row, we have commissioned research from the Centre for Economics and Business Research (Cebr), to better understand attitudes towards debt among the over 55s. The results paint a clear picture of rising debt levels and lower income streams among retirees.

This combination of factors means many are facing difficult ongoing decisions about how to manage their income, assets and outgoings during retirement, a period of time that is now longer than ever before.

It is here that the later life lending sector specifically, can play a vital role. As over 55s look for financial solutions to combat shortfalls in pension provisions, pay off debt and manage the escalating cost of everyday living, now is the time to highlight the continued possibilities of housing wealth in helping to meet these challenges faced.

The timing of this report from more 2 life has never been more significant. Our research has found that not only are many people facing significant financial challenges in retirement but forecasts suggest that by 2029 the total value of debt for people aged 55+ will reach £548 billion.

While a growing number of older people are carrying secured and unsecured debt into their retirement as part of a deliberate asset management strategy, more are doing so to simply make ends meet.

The report shows that income levels are continuing to fall with age, with many 65-74 year olds estimated to have just £3,100 left at end of the year to save, invest, or use for future spending. This is the second lowest amount of income left after expenditure of all age groups, after the under 30s age group and adds credence to the belief held by almost half of over-55s (48%) that they do not have enough savings to cover an unexpected £5,000 bill.

This worrying trend illustrates the relative importance of housing wealth-based products like equity release in helping people to relieve budgetary restraints and provide greater financial freedom during their retirement years.

The findings of this report also serve as an important reminder that more work needs to be done to ensure that the potential role of property is considered when older people are planning retirement. Ignoring property wealth is no longer an option when more older people are forced into unsustainable borrowing.

The industry needs to work collectively to break down the perceived barriers and develop products that are attractive, flexible and meet the needs of an increasingly diverse population. It needs to promote the message that wealth-based housing products can provide the financial stability that many older people are in desperate need of.

The retirement landscape is changing; people are spending longer in retirement than ever before and the later life lending industry must ensure it does all it can to offer products that meet the changing financial needs and circumstances of today's retirees.

Key findings

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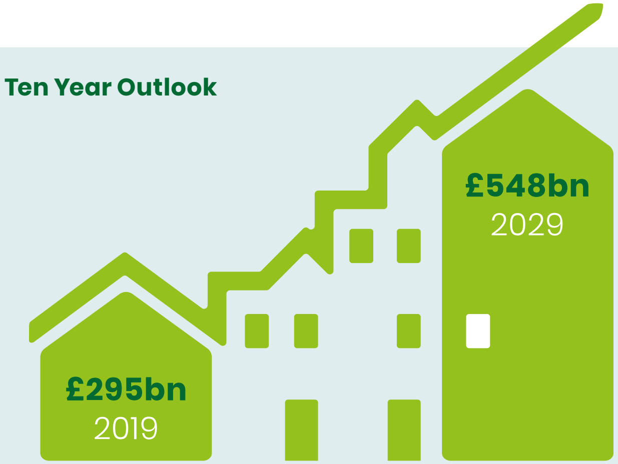
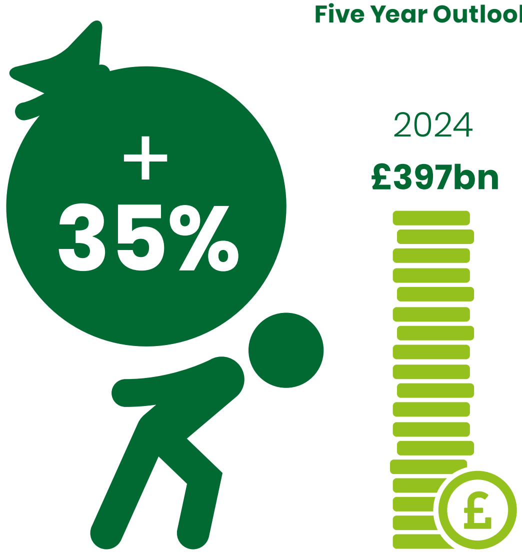
Ten Year Outlook

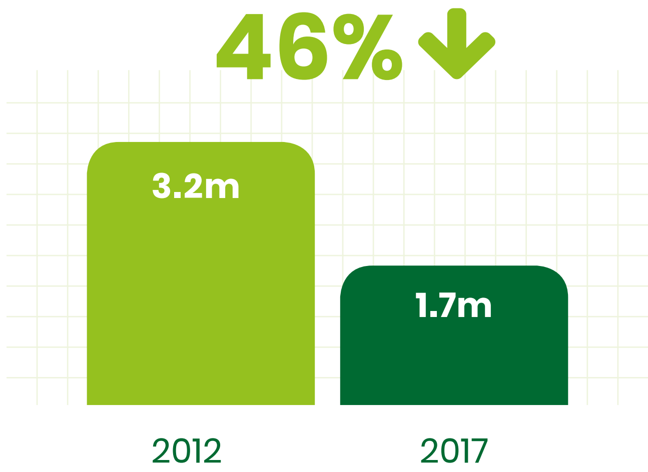


The size of the later life* lending market in 2019 will reach **£295bn** and is set to **increase by 85%** over the next ten years - nearly doubling to **over half a trillion by 2029 (£548bn)**.

Five Year Outlook



Over the past five years, **the total value of debt** held by over 55s is estimated to have **increased by 47%** with the total value of debt forecasted to increase by 35% to £397bn in the five years to 2024.

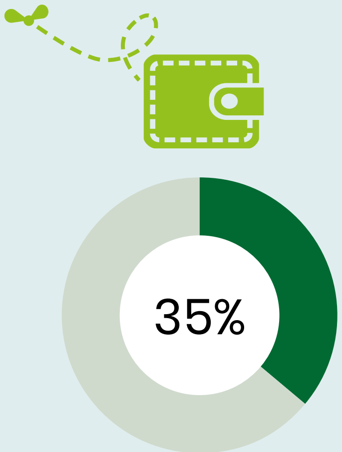


The number of interest-only mortgages has been falling over the six years to 2017 as lenders look to address this issue.

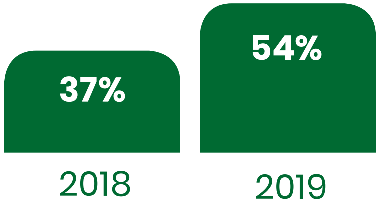
*Within the report, the use of the term 'later life lending' refers to both secure and unsecure lending the over 55s

Those aged 75 to 84 who are still paying off a mortgage owe over

showing no change from 2018

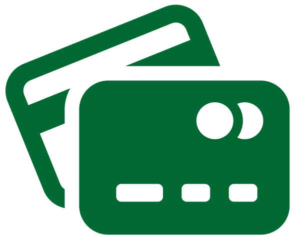


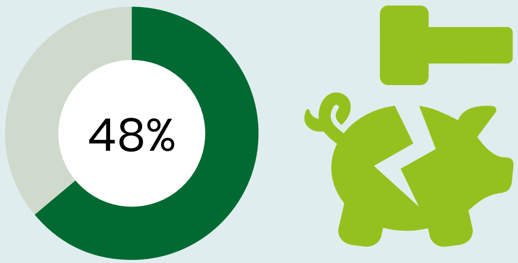
of over 55s say their expenditure exceeds their income



There has also been a **significant increase** in the share of over 55 year olds who hold credit card debt over the last year from 37% in 2018 to 54% in 2019.

Households aged 65-74 years old are estimated to have only £3,100 at the end of the year left to save, invest or use for future spending, after income and expenditure are taken into account. This is the second lowest amount of income left over after expenditure of all age groups, after the under 30s cohort.





Almost half of over 55s would not have enough savings to cover an unexpected £5,000 bill

Overview

During the latter half of the 20th century, the age of the UK population began to steadily increase. This upward trend continued to accelerate into the 21st century and the latest figures from the Office for National Statistics (ONS) show that the number of UK residents aged 65 years and over is expected to reach 20.4 million by 2066 – accounting for 26% of the UK's total population[1].

The steady acceleration in the number of people in retirement, coupled with challenging and ever-changing economic and social conditions, means more people than ever before are approaching then entering retirement with significant levels of debt. It is estimated that by 2029 the total value of secured and unsecured debt for people aged 55+ will reach £548 billion.

Faced with high debt levels, poor returns on savings and low pensions income, a small but growing number of retirees are using the wealth locked up in their properties to boost their finances.

But this is not enough and more needs to be done to foster the right environment which encourages people to make effective long-term financial choices around retirement that includes consideration of residential property wealth. Whether this is as a source of income, rainy day fund or early inheritance, people need to consider how to make their largest asset work for them.

As part of this, more emphasis must be placed on raising public awareness of these options and providing easily accessible information and advice on how property wealth can help with these challenges.

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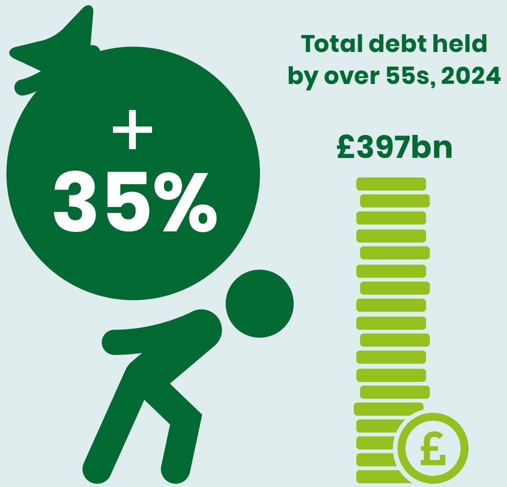
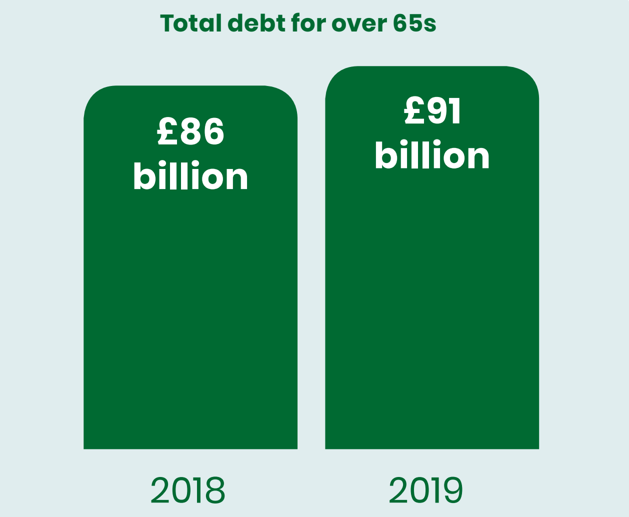
Over 55 debt levels continuing to rise

One of the major problems facing many older people approaching retirement is falling levels of income coupled with rising levels of debt. In the past five years alone, the total value of debt held by the over 55s is estimated to have increased by 47%. In another five years, this total value of debt is forecast to increase by 35%, rising to £397 billion by 2024.





A similar trend is emerging for the over 65s, with the total value of debt held equalling £91 billion in 2019, compared to £86 billion in 2018. Further projections suggest these levels will increase by 117% in 2029, reaching a total of £199 billion within the next decade. Based on ONS figures of those aged 65 and over currently in the UK, means that the over 65s will each be £16,500 in debt by 2029[2].

A number of factors are driving these rising debt levels. As first-time buyers are getting on the property ladder later and house prices have significantly increased over the past 15 years, mortgage debt has also risen. This has resulted in not only higher mortgage values that borrowers are spreading over a longer period but people carrying mortgage debt beyond traditional retirement age. Similarly, the number of people who own more than one home has also increased, with figures published by the Resolution Foundation in 2017 showing one in 10 British adults own a second property. This increased by 1.6 million to 5.2 million between 2000 and 2014, an overall increase of 30%[3].

1 in 10 British adults own a second property

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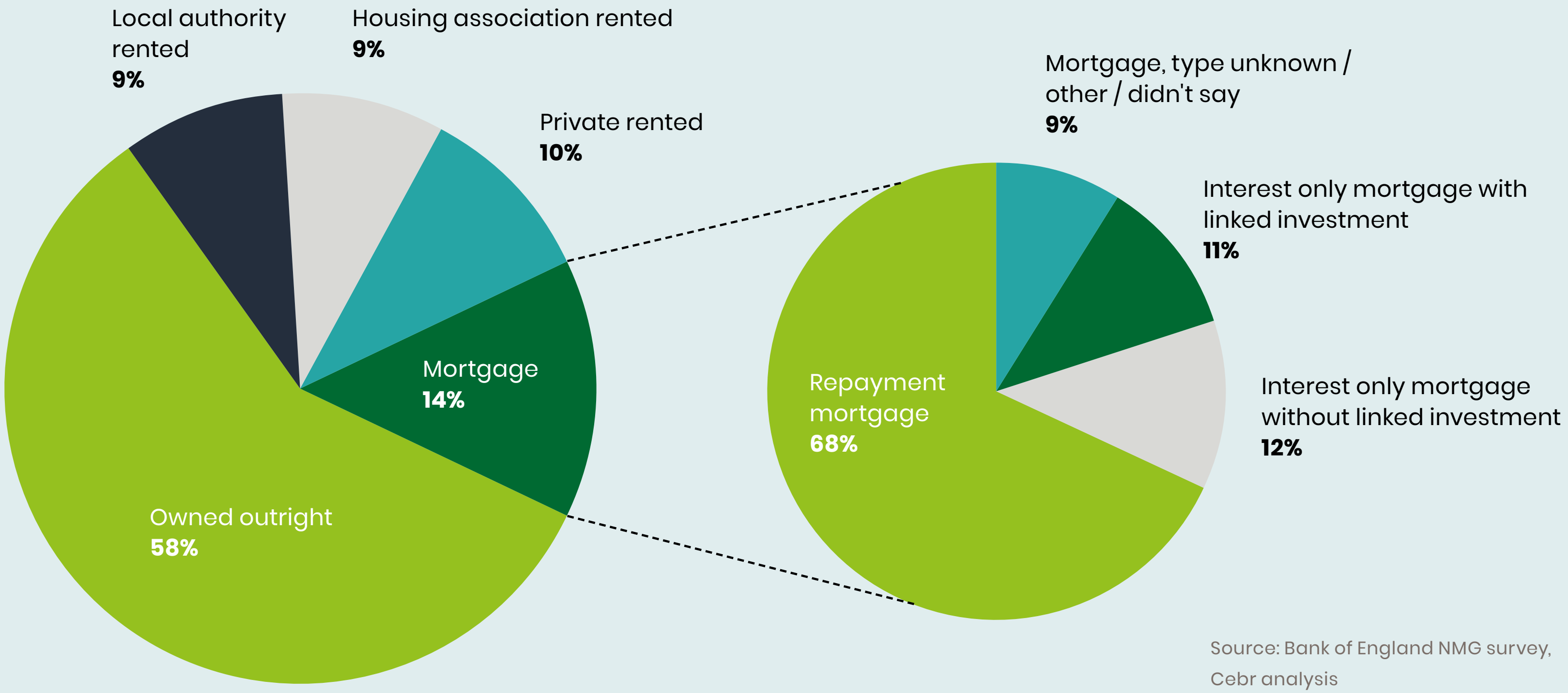
The Cebr research reveals that 14% of households over the age of 55 still have a mortgage on their property, with 68% of these individuals having a repayment mortgage and 23% worryingly an interest-only mortgage.

Of those homeowners aged 65 to 74 who are still paying off a mortgage, the average amount owed is £120,000. This is higher than the average for 55 to 64 year olds (£113,000) and for those aged 75 to 84 (£78,000).

Although the research shows that the number of interest-only mortgages have fallen over the six years from 3.2 million in 2012 to 1.7 million in 2017, these retirees may face considerable financial strain when the final capital repayments are due should investment plans underperform or there be no plan in place.

While the vast majority of people hope to be debt free in retirement, holding debt need not be a problem if they are able to access financial products that meet their needs. Using housing wealth can help to address these issues in an effective and affordable way by helping them to unlock the equity stored in their home in order to repay the outstanding loan.

Housing tenure of British households aged 55+, 2018



Source: Bank of England NMG survey, Cebr analysis

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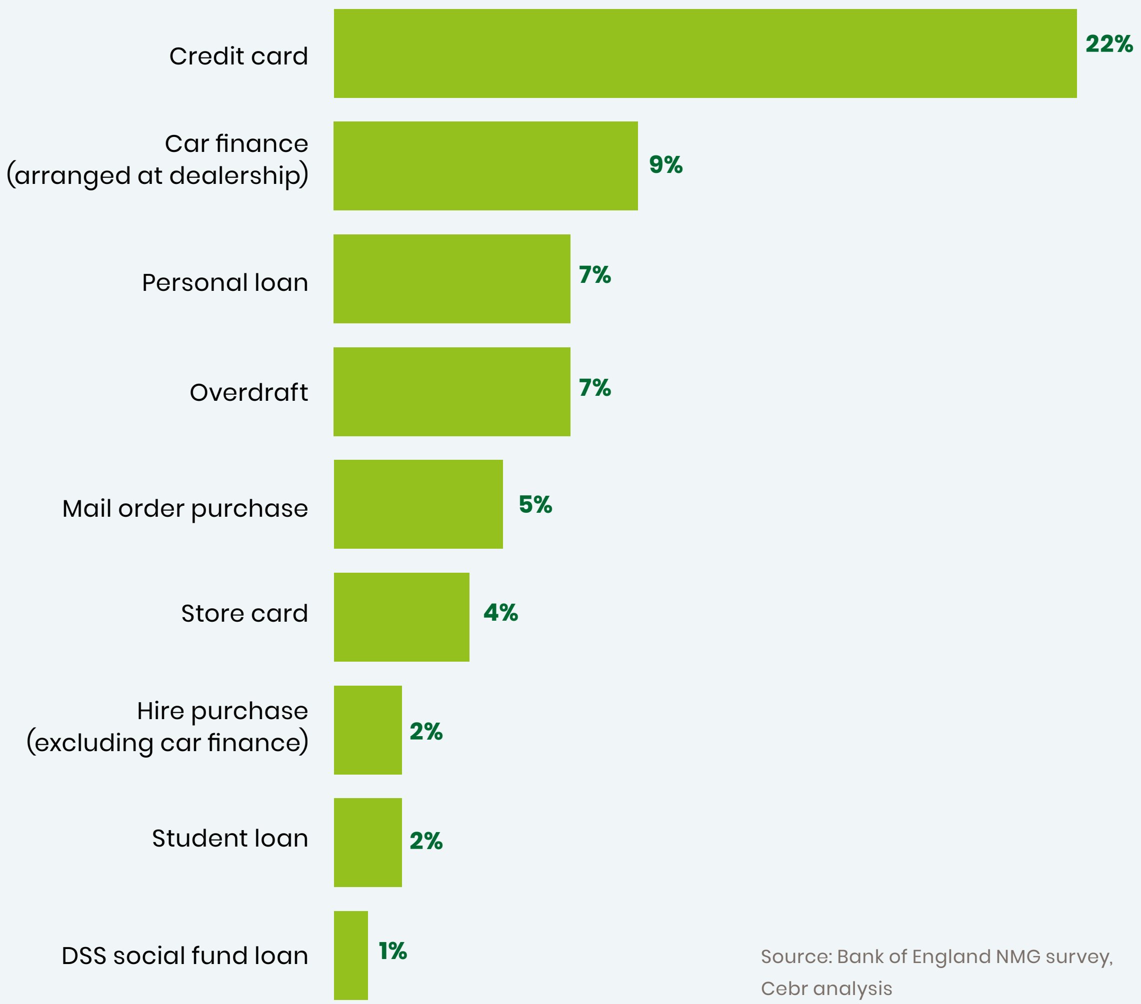
More than half of over 55s have credit card debt

It is not just mortgage debt that is rising among those aged 55 years old and over, so too is the level of unsecured credit debt. The analysis found that credit card debt is the most common form of non-mortgage debt among the over 55s, with over one in five (22%) holding credit card debt, followed by car finance debt (9%), personal loans (7%) and an overdraft (7%).

Our research found of those who have held debt in the last five years, the research shows there has been a significant increase in the number of over 55 year olds holding credit card debt over the last year in particular, rising from 37% in 2018 to 54% in 2019. Similarly, the share of people who have been in debt over the past five years and who reported having used an overdraft also increased over the year from 20% to 23%.

Share of people over 55 who hold the following types of unsecured debt, 2018



Source: Bank of England NMG survey, Cebr analysis

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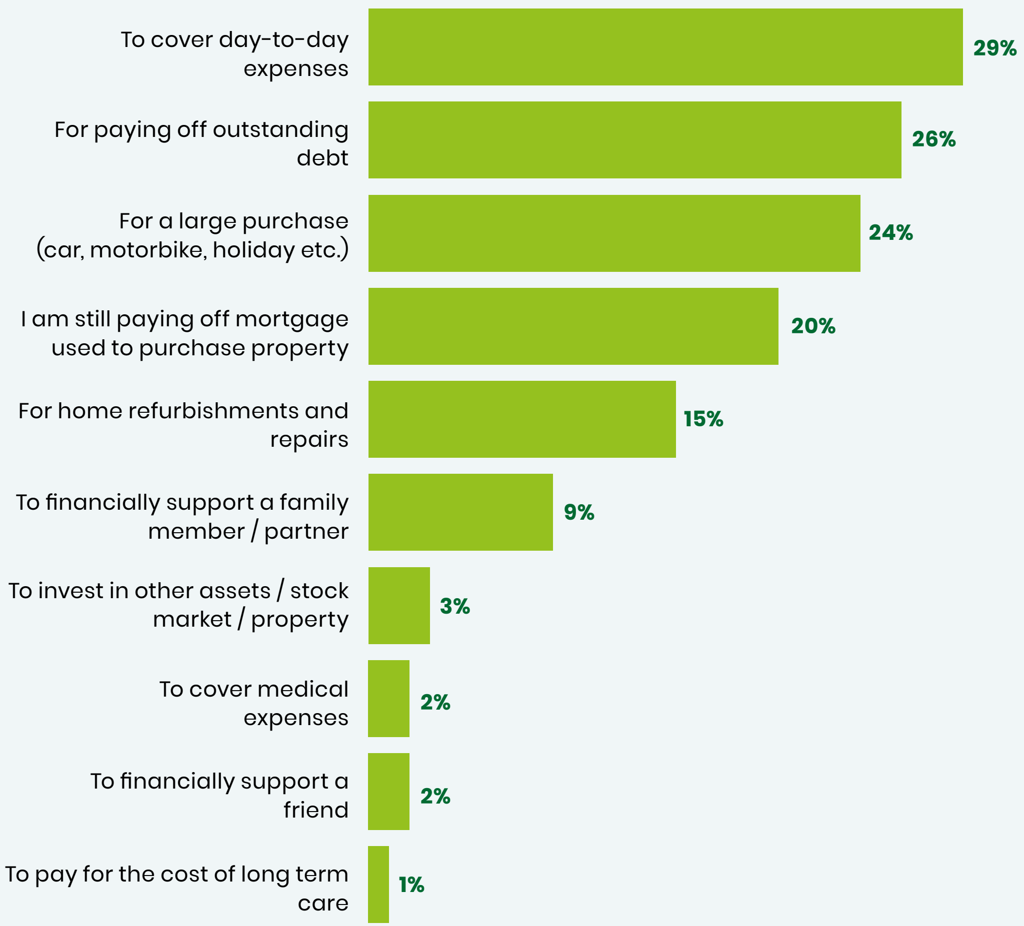
Reasons for holding debt for people aged 55+



Source: Opinion matters survey, Cebr analysis

While credit card debt and overdraft facilities are a common way for people to manage their finances when faced with sudden and unexpected bills, the research found an alarming number of people are using these as borrowing tools to pay for simple day-to-day living costs rather than using this money for discretionary or larger purchases.

This is backed up by the data highlighting that the main reason people aged over 55 hold debt is to cover day-to-day expenses (29%), with a further 26% saying they have debt to help pay for other outstanding debt and 24% saying they use the money for a large purchase such as a holiday or a car.

Worryingly, the research found that the number of over 55s who had left bills unpaid also increased in the year from 2018 to 2019, doubling from 8% to 16%. This is of great concern and highlights the importance of raising awareness amongst homeowners of the potential to use equity release to manage borrowing in retirement.

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35% of over 55s say monthly expenditure exceeds income

In addition to rising debt levels, the struggle to service the debt is also proving problematic for many, with disposable income levels falling to an all-time low, according to the Institute of Fiscal Studies[4].

Many are approaching retirement without adequate pension provision. The research reveals that households aged 65-74 years old are estimated to have only £3,100 left in their net savings at the end of the year once their incomes and expenditures over the year are taken into account. This is the second lowest income left over after expenditure of all age groups, after the under 30s cohort.

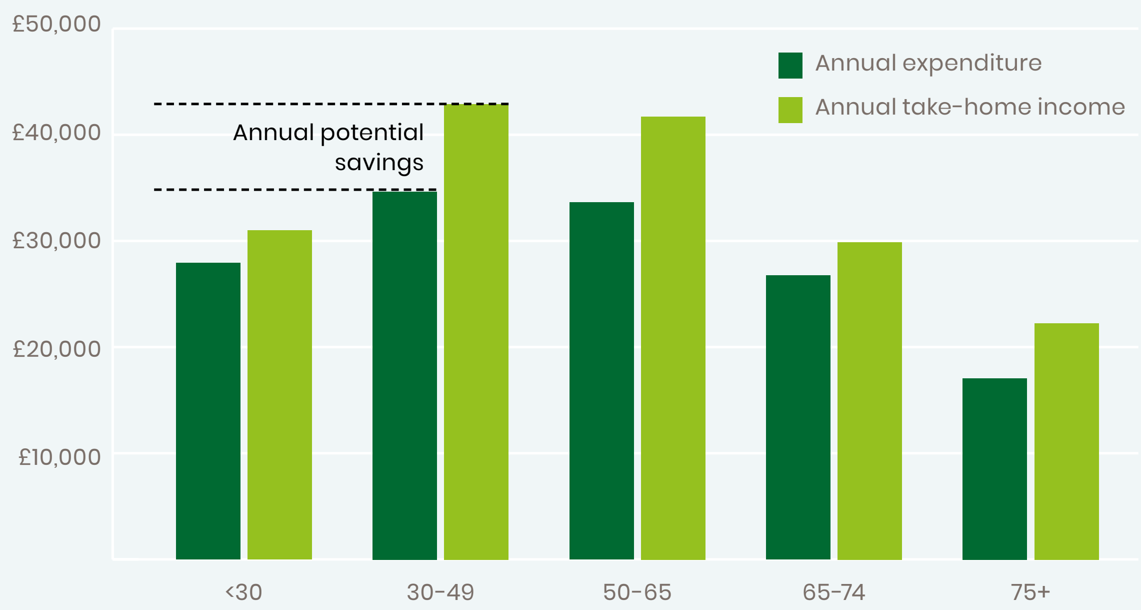
When you look to private or workplace pension provision, 36% have access to a defined benefit or final salary pension scheme, 18% expect to take an income from their pension pot in the form of drawdown and 16% will receive annuity income. This suggests that some people are relying on the state and that people expect to receive an income from a variety of different sources which may be finite or fluctuate.

As such, budgeting remains a challenge for 35% of those aged over 55 years who said their monthly expenditure costs exceed their income. Younger retirees in particular, and those who have been retired for a shorter period of time were more likely to hold this belief, as were over 55s living in Greater London.

As a means to make ends meet, 68% of those with an income deficit said they would dip into their cash savings to fill the income gap, with 17% saying they would use their bank overdraft. Borrowing on a credit card was the preferred option for 16% of over 55s.

The research also highlights the different approaches of men and women towards debt, with women more likely than men to take out an overdraft or use a credit card in the event that expenditure exceeds income, while men are more likely to liquidate assets. Not only does this illustrate the 'gender-divide' in retirement income, but clearly highlights the different financial needs of men and women in retirement.

Average annual disposable income and expenditure, by age group, financial year ending 2019



Source: ONS, Living costs and food survey, Cebr analysis

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Sudden financial needs encouraging debt

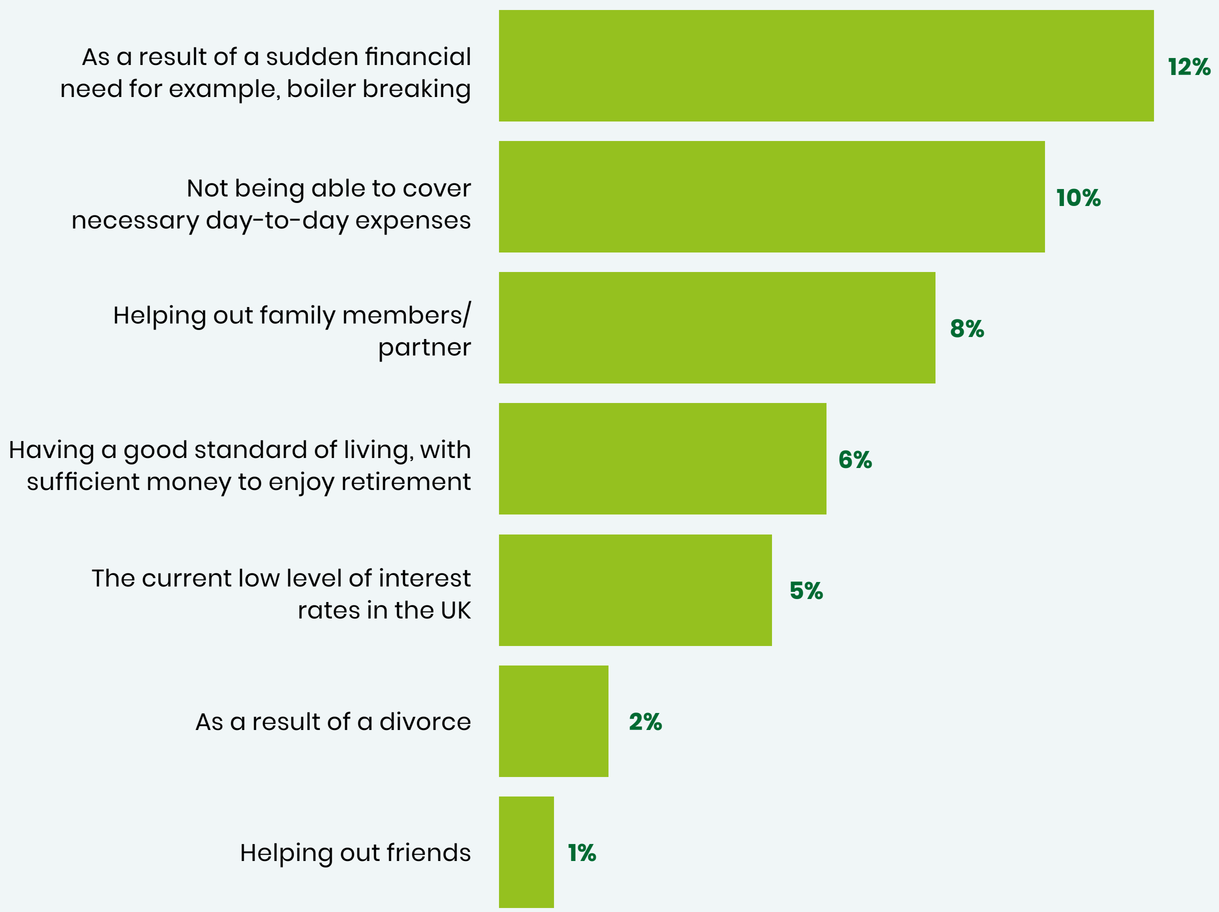
While no longer spending on big-ticket items was cited as a way to combat higher outgoings for many over 55s facing financial challenges, 12% said a sudden financial needs such as a boiler breaking down would encourage them to go into debt, suggesting this cohort has very little financial cushion should anything unexpected occur.

A further 10% said that not being able to cover day-to-day expenses would encourage them to take out debt, while 8% would take out debt to help a family member/partner.

Almost half of over 55s would not have enough savings to cover an unexpected £5,000 bill (48%) and a further 14% said they would have to consider taking out a loan to cover the cost.

The research also showed that older people were more likely to be able to cover the cost of an unexpected bill – 38% of 55-64 year olds said they would have enough in savings compared to 72% of 85-94 year olds. This is because they have less debt than younger retirees because by this age, most individuals own their house outright and are not making rent or mortgage payments. They are also unlikely to have dependants such as children, meaning that total expenditures are smaller, the research states.

Factors which encourage people aged 55+ to take out debt



Source: Opinion matters survey, Cebr analysis

Working patterns before retirement: expectation vs reality

With the state pension age continuing to creep upwards, many people feel the need to continue to work for as long as possible in order to mitigate the financial impact of no longer receiving a monthly income. According to figures released by the Department for Work and Pensions, in October 2018, the average age of exit from the labour force for men was 65.1 years, a rise of two years since 1998. But for women, the average age of retirement jumped by 3.3 years since 1998 alone, to reach 63.9. In addition, 10.4% of individuals are working beyond the age of 65, double the number in 2000. The number of women working past age 65 has nearly tripled[5].

The research examined the working patterns of older people in the period before retiring, with the highest share of respondents saying they worked or plan to work full-time up until the state pension age.

This was more common among men (22%) than women (17%). A total of 25% of men planned to work full-time and then take early retirement before the state pension age compared to 10% of women. Only 13% of respondents said they plan to work full-time or part-time past the current state pension age.

However, what is notable throughout the research is the disparity between the hours retired people actually worked and what those who are planning to retire expected to work.

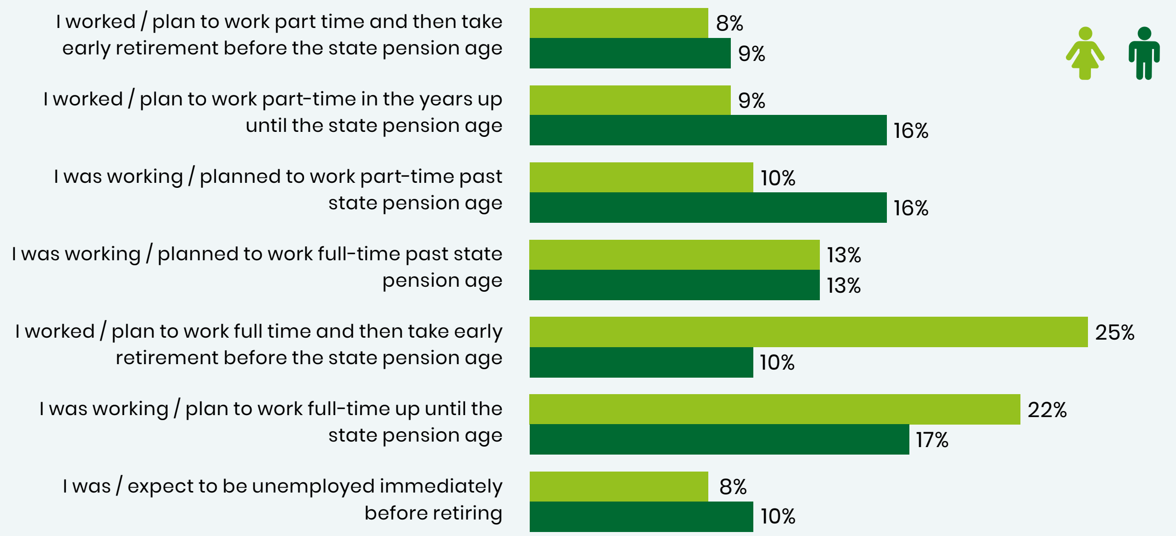
For example, 16% of employees said they were planning to work part-time past the state pension age, but only 10% of retired people actually did that. This is also true for those who planned to work full-time past the state pension age (15%) and those retirees that actually achieved this (11%).

Also of note, is the fact that 10% of non-retired people said they planned to work full-time and then take early retirement, whereas in reality, nearly a quarter of all retired people actually did this (24%).

This is likely to be due to changing circumstances, a lack of employment opportunities or possible illness. Regardless, it highlights that peoples' expectations of how long they think they will work in order to meet their financial needs in retirement can easily change. Therefore, planning for the future is critical.

This is where financial products including later life lending products should be explored as it can help older people enjoy a better standard of living in later life, particularly when things might not have gone according to plan.

Working patterns of 55+ year olds by gender (retired + working)



Source: Opinion Matters survey, Cebr analysis

Conclusion

The current combination of rising debt levels and lower incomes among the over 55s is endemic of today's social and economic environment. The rising age of first-time buyers and the significant increase in the numbers of homebuyers using mortgages with a longer term has created a unique environment where retiring with debt is now perceived as more normal than ever before.

This means the demand on the financial services industry to develop products that will help older people enjoy a better standard of living in later life is only likely to increase. This is where the retirement lending industry must step up.

The later life lending industry is growing at a faster rate than anticipated, and for growing numbers of people aged 55 and over, financial products that draw on housing wealth may provide them with a solution they need.

The industry is perfectly positioned to seize this opportunity and to deliver the best possible financial outcomes for older people and their families, enabling them to make the most of their overall wealth and achieve greater financial freedom in retirement.

Methodology

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This report is based on research commissioned by more 2 life and carried out by Opinion Matters between 5th April 2019 and 16th April 2019, which analysed the responses of 1,766 individuals aged 55 and over. The data for this report was collated and analysed by the Centre for Economics and Business Research (Cebr), which used the Wealth and Asset Survey and the Living Costs and Food Survey produced by the Office for National Statistics (ONS) as well as insights from UK Finance and the Bank of England NMG survey. Forecasts in the report are based on Cebr modelling for the number of households in the UK by age band, and average secured and unsecured debt per household over the next ten years.

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