**What next for generation R?** **Provocation to AgeUK's financial services commission**

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*Older people (here defined as 50 to 64 year olds) are seen as a lucky generation: they have enjoyed high employment rates over much of their working lives and many were able to get onto the housing ladder in time to benefit from steep house price increases. The current older cohort is a diverse group. While some are financially resilient, many are at risk of poor standards of living in later life. This paper explores some of the reasons for this precariousness.*

Firstly, pensions are changing. With defined benefit schemes having seen their peak, families must work harder to ensure they maintain a decent standard of living in later life. The percentage of people actively contributing to a pension has fallen, and at present, over two-thirds of people in low and middle households have no pension or a frozen pension (this compares to 41 per cent of people on higher incomes).[1]

Auto enrolment is a much-needed intervention, but it is a good basis to start from rather than a problem solved. It is already getting more people to think about their pension and to start making contributions. That it is seen as trustworthy and portable is crucial. The importance of a mobile pension pot has never been greater as employees more regularly change employers.

However, enrolled workers will have to save more than the minimum required amounts if they are to build a sufficient retirement income. Whether or not they will do so is yet to be seen. Moreover, the scheme comes too late for those in the middle of their working lives. Women in their 40s, for example, will not be able to build up a decent pension under auto enrolment alone.

Many still distrust the pensions industry and underestimate just how much they will need to have saved by the time they retire. **The government must ensure that the basic contribution levels under auto enrolment are seen by its users as a starting point only**, and help the public to understand how much they need to contribute now to live well in later life.

The ability to make savings is likely to be a significant challenge for the current working age population as they age, soon to create their own "generation R". Many low and middle income families struggle to put aside anything because the daily cost of living swallows up a large and increasing share of their income. More than half of low to middle income households have no savings at all, and two thirds have less than a month's income in savings.[2] This group is at heightened risk of a financial breakdown in the face of sudden changes to their income or expenditure. Large shocks, such as being suddenly unable to work, could leave these families with a very low standard of living, or for some, in poverty. **Savings products that provide an incentive to save for lower income families** (such as the now extinct Savings Gateway) are much needed if those with the least financial resilience are to build up their savings.

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[1] Resolution Foundation (2013) Squeezed Britain
[2] ibid

Many households are also marred by debt. This is a growing problem for older people, a growing minority of whom are retiring with debt. Those who have debt, including mortgage debt, are likely to be particularly vulnerable to rising interest rates.

An inability to save compounds another growing issue for low to middle income families: the frustrated aspiration to own a home. Most people in the UK would like to own their own home, yet the barriers to ownership are mounting. In 1983, a low to middle income household would need to save for three years to have enough for a typical first time buyer deposit. In 2011, this family would have to save for 22 years, assuming they could save at all.[3] These high deposits are driving the decline in ownership among younger low to middle income households, who for the first time are more likely to be renting privately than in any other tenure.

In some other countries, falling home ownership is not a problem. However, the UK does not have the secure, long term rental market that others do. With ownership out of reach, families can find themselves with no option but an insecure and often expensive private rental and with little scope to make their house a home. It also takes out of reach a major form of savings. According to a survey by Resolution Foundation, owning a home is seen as crucial to funding retirement and later life care for half of respondents.[4] Those who cannot drum up a deposit are not able to benefit from the favourable treatment within the tax system of a family home, and have few, if any, other savings or investment options that as well-understood, trusted or lucrative.

Looking ahead to future generations who will be less likely to own their home as they reach the end of their working lives suggests there will be a greater need for alternative forms of asset building. Low to middle income families who cannot get on the housing ladder would benefit from savings products that are linked to their housing, such as house price inflation-linked products. Others would benefit from products that enable them to buy a home over a long period of time, such as long term purchase plans, or to build up a deposit as they pay their rent, such as enforced saving coupled with affordable rents.

For many, the route to saving starts with work. Older people are more likely to be working, and work for longer, than ever before. Overall, this is good news, not least because households get the opportunity to save more. This is crucial given that most saving is done after 50 years old. (A larger older workforce also has the benefit of growing the UK economy. The oft-reported fear that older people block jobs for younger people is not borne out in the macroeconomic reality.)

However it will also bring to the fore issues that public policy has so far failed to correct. Longer working lives will inevitably result in an increase in older jobseekers. But finding a job is notoriously hard for older people. They face the double hit of widespread age discrimination as well as an ever-changing labour market that can leave them without the skills they need for the local vacancies. At the moment 47 per cent of unemployed older people have been unemployed for at least a year – 8 percentage points higher than for younger people.[5] (This is likely to be a gross underestimate. Many unemployed older people drift into economic inactivity and are not recorded in this figure.)The

[3] ibid

[4] V. Alakeson, H. Fearn and G. Cory (2013) One foot on the ladder: How shared ownership can bring owning a home into reach

[5] ONS (November 2013) Labour market statistics

expectation of longer working lives – and therefore longer to save for retirement – means that these unemployed older people are financially underprepared for retirement.

The transition out of work is also changing. In the twentieth century, older people typically moved from work to retirement in one step. The twenty-first is seeing more gradual movements into retirement. This is facilitated by the rise of flexible working, including part-time roles and working from home, and should do much to support older workers to stay in work until they want or need to retire. The increase in self-employment among older people is also contributing to this trend, though worryingly much of this rise has been in those earning little. The rise of flexible arrangements has bought with it the rise of precarious employment, almost entirely a problem of those on low pay.

Flexible working arrangements remain much more accessible to those at the top and bottom ends of the pay scale. Senior figures can move into consultancy roles, working for themselves and maintaining control over their hours. Those in low skill (and pay) roles may be able to get shift work that suits their needs. But the availability of middle and high pay part-time employment is still very limited. **Broadening the part-time labour market will do much to facilitate phased retirement** giving older workers the flexibility they need to work for longer.

The need for savings is reinforced by changes to the provision of social care. In the short term as Local Authorities re-trench, support for care will be restricted to those with the highest level of need. This will leave the majority to cover their costs out of pocket. In the intermediate future, the Dilnot reforms will leave many without any support for the cost of care, while giving protection to the small minority who experience very large care bills. The proposed system sets a means test threshold which is far lower than the typical value of a house. As a large proportion of older people own their homes, they will not receive support to cover their care bills. Many will need to sell their home or free up some of the equity in it to pay for care. Moreover, some people do not understand what the proposed reforms will mean for them.[6] These families will be caught unawares by high care costs.

These changes only accentuate the need for savings products that reflect the need many families will face in later life. **Easier access to equity held in property** will also be vital for those that bought a home in order to cover the costs of care.

*The last decade has been one of falling pensioner poverty. This is a trend that is likely to continue. But risks to the financial stability of low and middle income households in later life still remain. There is much that government can do to increase the financial resilience of this group. They have a role in ensuring the pensions industry is acting in a fair and transparent way. They can also increase access to home ownership and open up other paths to ownership. But they must act together with industry if we are to see any significant change. Potential savers need access to products that are understandable, safe and cost effective. These products need to help families to build assets without having to buy a property, and to incentivise families to save despite their monthly budgets being tighter than ever.*

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[6] For example, Financial Times poll, June 2013. See "Steep bills ahead for care", Josephine Cumbo, June 28th 2013