Economic Tracker

Summer 2013

Welcome to the second edition of Age UK's *Economic Tracker.*

In the course of our work with people in later life, it has become apparent that there is no accessible resource that summaries the impact of the economy on the financial well-being older people. This Economic Tracker analyses key economic trends and the views of older people to give a concise picture of the economic situation for those in later life.

Since our first edition, the UK economy and economic policy have given us food for thought. There are concerns, disappointments, and one or two silver linings. Like other age groups many older people are suffering a fall in income in the current period of austerity and this is having an impact on their well-being. The situation is particularly worrying for many of those approaching retirement, tomorrow's pensioners, who find it more difficult to find a job following redundancy and face uncertainty about their income in retirement.

In this issue we report the results from the first wave of a new Age UK Economic Survey, showing what older people think about their current economic situation. This is presented alongside a dashboard of the key facts and figures relating to older people and their financial situation. We also focus on the implications of the recent announcement of a cap on social care costs and examine income and wealth inequality amongst older people.

We hope that you find this report useful and that the format is engaging and accessible.

Michelle Mitchell
Charity Director General, Age UK

Contents

Key insights in this issue

Among the messages emerging from the evidence a number of key issues have emerged that impact on the financial wellbeing of people in later life:

- Nearly 2.8 million people (13%) aged 50+ say they are finding it difficult to manage financially.
- Annuity rates continue to fall and low interest rates that are constantly less than inflation mean pensioners who rely on savings see their relative income continue to fall
- Over three million people (15%) aged 50+ are very worried and nearly 13 million (61%) people are worried about the cost of living. This is in the context of rapidly increasing prices for some essential items, especially utilities, which we know have a significant impact on older people's finances.
- Nearly a quarter of people in their early 50s are concerned about being forced to leave their home because of mortgage/ rent payments
- Only thirty-eight per cent of 50+ say the future looks good for them
- 13 million people aged 50+ say the government has done a bad job of managing the economy in the last year
- Older workers are more likely to be made redundant when compared to those aged between 24 – 49
- The probability of finding a job for someone who has been made redundant in the previous three months is much lower for those aged 50 or over than for younger job-seekers (25-49)
- 1.6m older people live in poverty and 900,000 of these people live in severe poverty
- 800,000 older people are materially deprived

For more in-depth analysis, please see the full Age UK Chief Economist's Report available on our website here

José Iparraguirre
Chief Economist, Age UK
E jose.iparraguirre@ageuk.org.uk

Matthew Norton
Social and Economic Research Manager, Age UK
E: Matthew Norton@ageuk.org.uk

Background

The topics in this Tracker focus on economic issues related to older people and must be understood in the context of the general economic situation, in particular the following:

Gross Domestic Product: still grounded
The Gross Domestic Product (GDP) –the main measure of UK total economic activity– increased by 0.3 per cent in the first quarter (Q1) of 2013, after falling by the same magnitude in the last quarter of 2012. The UK economy continues wriggling around the zero growth mark.

Public finances: highest level of public debt since the 1960s
Excluding the cost of underwriting publicly owned banks, public-sector borrowing in March 2013 was £15.1 billion, which increased public-sector debt to £1,185.8 billion. Public-sector debt is now equivalent to 75.4 per cent of annual GDP; it is creeping towards increasingly unsustainable levels. Including the cost of underwriting the bail out of financial institutions since the financial crisis, debt at the end of March 2013 represents 140.3 per cent of GDP.

1.6m

OLDER PEOPLE LIVE IN POVERTY AND

900,000

OF THESE PEOPLE LIVE IN

SEVERE POVERTY

Glossary of indicators

Here are the key indicators that we monitor. Together they give a picture of key economic issues for people in later life.

1. Labour Market

Economic activity and inactivity	The economically active are people over a given age (usually 16) who are either employed or unemployed over a given period. This is an indicator of labour supply. The economically inactive are neither in paid work, seeking work or available to sta§rt a job. Broken down by employment/unemployment/inactivity rates (and annual change) for those aged 16-64, 50-64, 65 and over. Source: Office for National Statistics (ONS), Labour Market Statistics, November to January 2013
Claimant Count Rate	People aged 50-64 who have been claiming Jobseeker's Allowance for six months or more as a proportion of the 50-64 population. Source: Department for Work and Pensions (DWP) taken from ONS NOMIS database, May 2013
Gross weekly earnings	The average (median) weekly earnings before tax for employees aged 50-59, 60 and above, and all employees Source: ONS, Annual Survey of Hours and Earnings, 2012

2. Pensioner income

Pension Credit	The number of people of State Pensions age claiming Pension Credit and the annual change. This indicator show the dependence on the state to reach a minimum income level. Source: DWP Tabulation Tool, August 2012
Perceptions of income	The proportion of those aged 65 and over by whether they feel better off or worse off financially than a year ago Source: Age UK Tracker Survey, Winter 2013
Average annuity rates	Average annuity rates offered to a male aged 65 for a £100,000 purchase (joint, two thirds, guaranteed 5 years and level payments), and annual change. Source: thisismoney.co.uk, April 2013

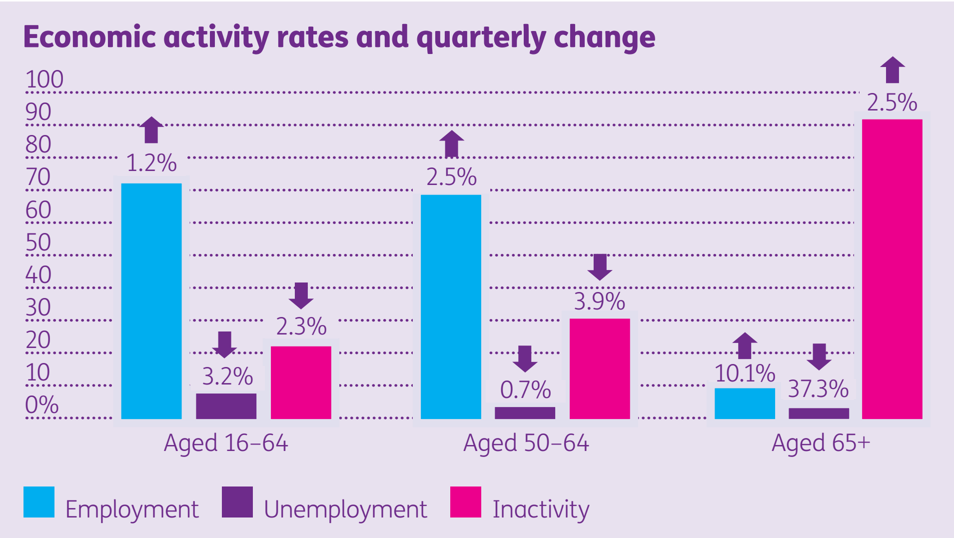
3. Social Care Expenditure

Net current expenditure	Net current expenditure on older people's care in England (£ billions at 2012/13 prices), and percentage annual change in expenditure. Source: Department for Communities and Local Government, Local Government Authority Revenue Expenditure and Financing

4. Prices

Age 55+ Inflation rate	A measure of inflation for people aged 55+ based on ONS data and designed to better reflect the financial situation for the older population. Source: Fathom Consulting for Age UK, data for year to December 2012
ONS RPI Inflation	A monthly measure of price inflation for the whole population. Source: ONS, Retail Price Index, December 2012
Fuel Prices	The extent to which fuel prices are increasing above the rate of inflation. Source: ONS, Consumer Price Index, Retail Price Index and fuel components, February 2013

1. Labour market



Weekly earnings

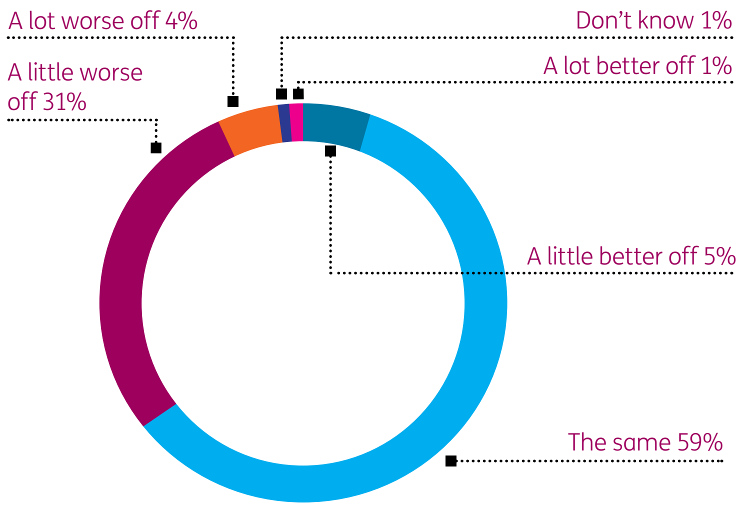
Age 50–59 £431 (⬆ 0.8%)

Age 60+ £319 (⬆ 2.6%)

All employees £405 (⬆ 1.3%)

2. Pensioner income

Are those over 65 feeling better or worse off financially compared with last year



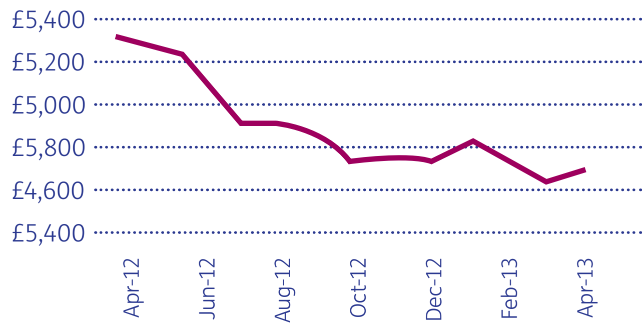
2.47 MILLION PEOPLE CLAIMING PENSION CREDIT

ANNUAL CHANGE **DOWN ⬇ 147,100**

AVERAGE WEEKLY INCOME **£291**

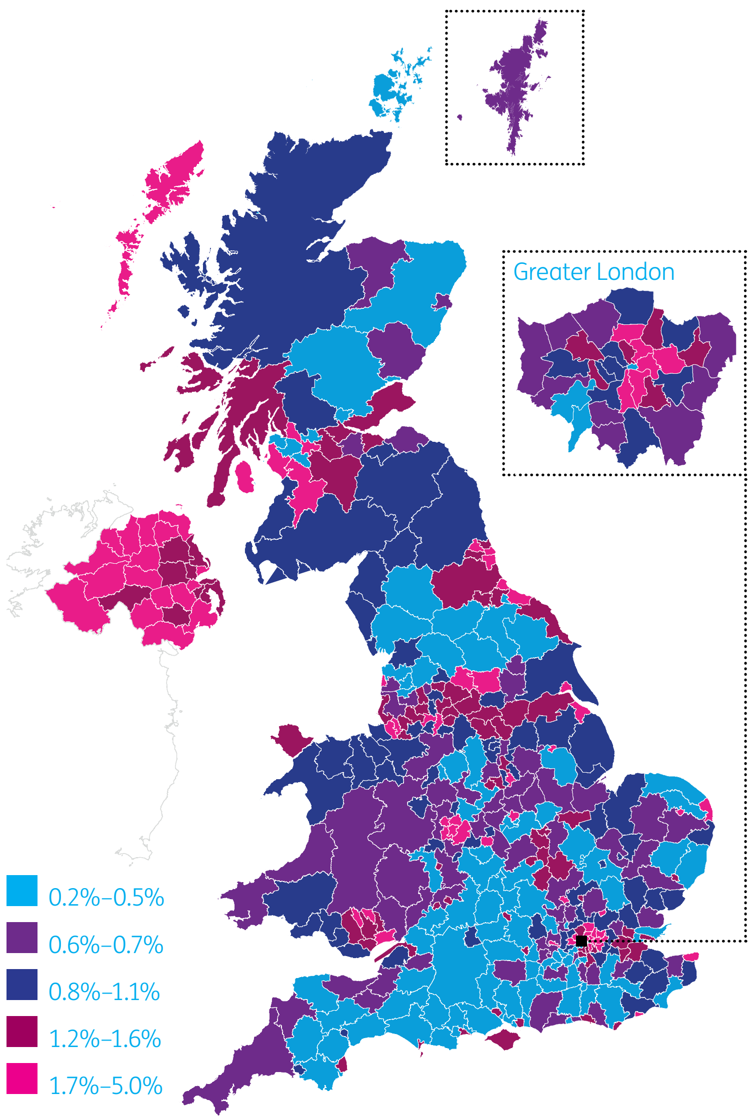
Annuity Rates:

Average annuity rate **£4,843** (Annual change ⬇ **£505**)



Claimant count rate

(age 50-64 claiming for 6 months and over)

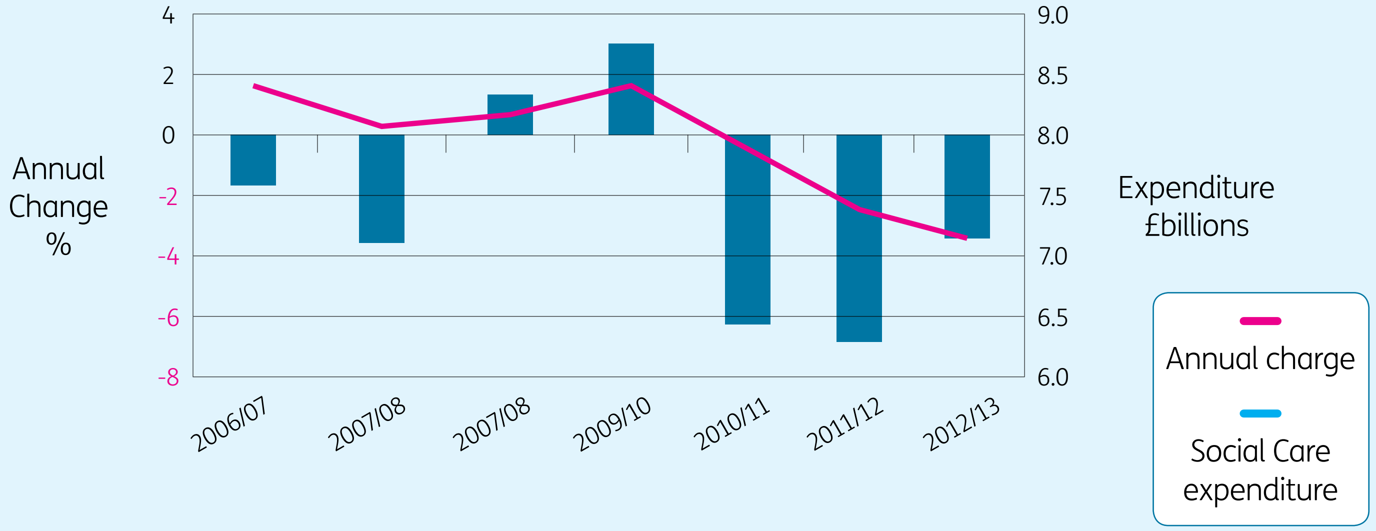


3. Social care expenditure

£7.12Billion

ANNUAL CHANGE

⬇ £0.4 Billion



4. Prices

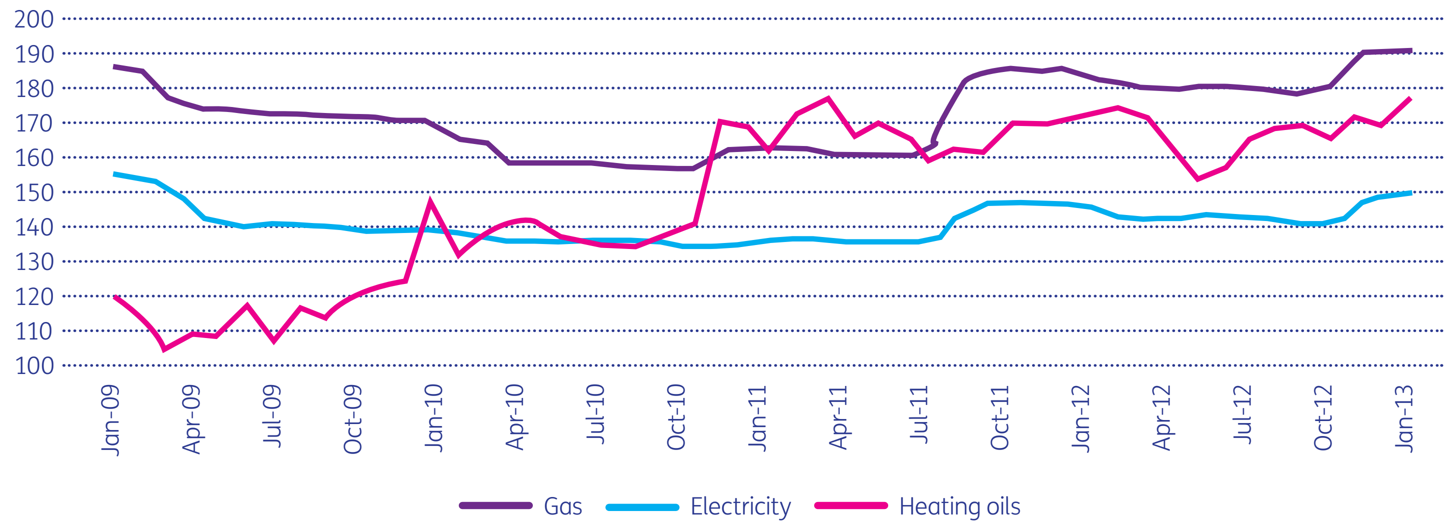
AGE 55+ INFLATION RATE

2.9%

ONS RPI INFLATION

3.1%

Monthly Fuel Prices relative to CPI June 2009 - Feb 2013



What older people say about their current economic situation

The big picture
Unsurprisingly, the current economic climate is having a negative impact on the lives of many older people.

According to the latest Age UK Economic Tracker Survey of Great Britain:

- Nearly 2.8 million people (13%) aged 50+ say they are finding it difficult to manage financially.
- Over three million people (15%) aged 50+ are very worried and nearly 13 million (61%) people are worried about the cost of living.
- Nearly a quarter of people in their early 50s are concerned about being forced to leave their home because of mortgage/ rent payments.
- Only thirty-eight per cent of 50+ say the future looks good for them.

This is reflected in the economic data presented in the Dashboard, which shows that prices of key goods and services continue to rise. For example the cost of energy, a key expense for many older people, keeps increasing well above the rate of inflation. Many older people experience a ”double whammy “ because in spite of the recent fall in inflation, it remains relatively high compared to an interest rate that has remained consistently low at 0.5% since March 2009, and means that interest earned on savings is failing to keep pace with the rising cost of living. Pensioners who rely on interest from savings have experienced years of declining income.

Tomorrow’s pensioners
A significant number of people between the age of 50 and 64 - tomorrow’s pensioners - are struggling to manage financially and are fearful of the future. We have found that:

- One in five of tomorrow’s pensioners are finding it difficult to manage financially and 44% say they are worse off than last year.
- Only one third say that the future looks good for them

Annuity rates are at a historic low: A £100,000 annuity will currently buy an annual income of £4,836, a decrease of £433 since April 2012. As the dashboard on page 6-7 shows, this is part of a historical downward trend.

The latest employment figures show small signs of optimism, with seasonally adjusted figures showing that among people aged 50-64 unemployment in the first quarter of 2013 was up 5.7%. However, recent Age UK analysis shows that the probability of finding a job for someone who has been made redundant in the previous three months is much lower for those aged 50 or over (23%) than for all other job-seekers other than those aged 16 - 24 (36% for 35 – 49 year olds and 39% for 25 – 34 year olds). This translates into higher proportions of older unemployed workers being out of work for longer. Forty-seven per cent of unemployed people aged 50 – 64 have been out of work for 12 months or more compared to thirty-seven per cent of people aged between 25 and 49.

Older workers are also more likely to be made redundant when compared to those aged between 24 – 49, with a rate of 6.6 redundancies per thousand in employment compared with 5.1 in the 25 – 49 age group. The economic evidence is reflected in the fears of ‘tomorrow’s pensioners’:

- A quarter are concerned about being made redundant or unemployed in the next 6 months
- One in five are concerned about being forced to leave their home because of mortgage/ rent payments

Reflection on perceptions of the government
Given the ways in which older people are suffering in the current economic climate, it is no surprise that the majority believe the government is mishandling the economy and treating older people badly:

- 12 million people aged 50+ (56%) think older people are treated badly by the government, only 19% think they are treated well.
- 13 million people aged 50+ (61%) say the government has done a bad job of managing the economy in the last year, 4 million (19%) think they have done a good job.

NEARLY A QUARTER OF PEOPLE IN THEIR

EARLY 50s

ARE CONCERNED ABOUT BEING FORCED TO LEAVE THEIR HOME BECAUSE OF

MORTGAGE RENT PAYMENTS

Analysis of the implications of a cap on social care costs

The two main recommendations in the Commission on Funding of Care and Support report (i.e. the 'Dilnot' report) were that individuals' lifetime contributions towards their social care costs should be capped at £35,000 (in 2010/11 prices) and that the upper limit means-tested threshold should be increased from £23,250 to £100,000 (also in 2010/11 prices)[1].

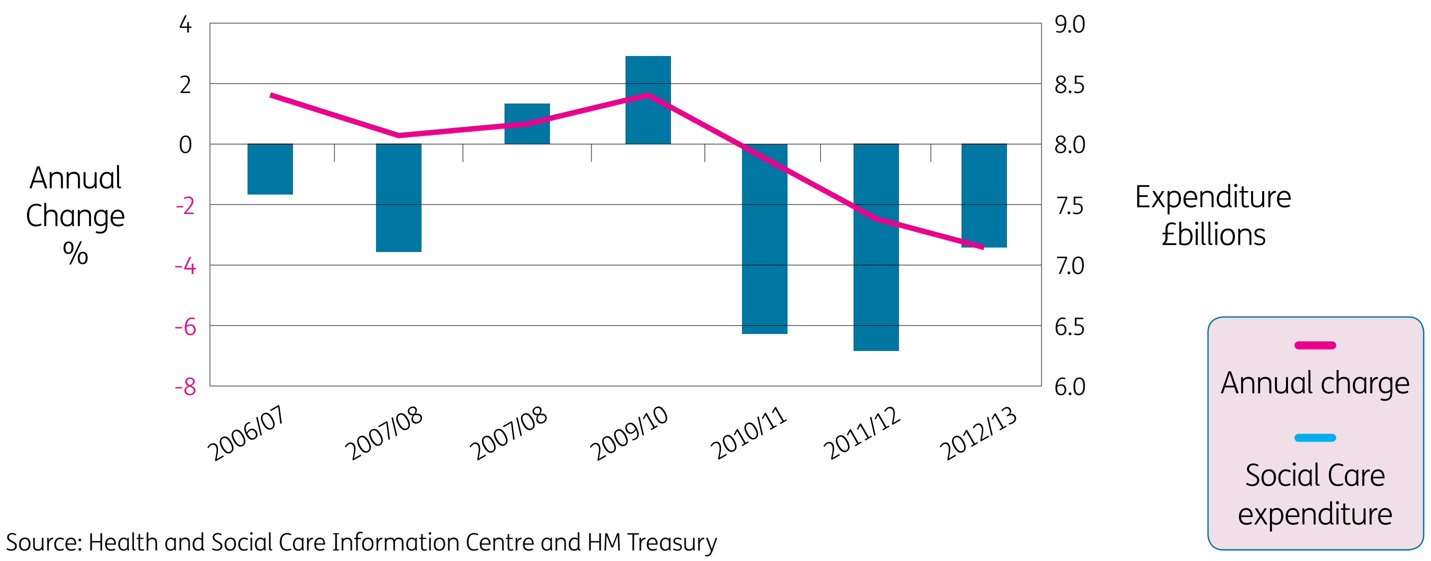
The Budget announced two measures that follow in spirit at least these recommendations. Social care costs will be capped at £72,000 in 2016, the equivalent of around £61,000 today. This falls short of Andrew Dilnot's recommendations because the cap is higher than the 'Dilnot Commission' deemed 'most appropriate and fair'. In turn, the Chancellor raised the upper limit for means tested residential care from £23,250 at present to £118,000 in 2016, the equivalent of around £100,000 today.

Given that this is an upper limit, beneficiaries will still have to make contributions towards the cost of their social care if they have assets between £17,500 (the lower capital threshold in 2016 prices) and £118,000. Compared to the current £23,250 upper limit, this is a considerable improvement.

Although the reforms are a substantial improvement compared with the current system, our analysis highlights a number of disappointing elements.

The wider social care system is still in crisis. The Dilnot reforms improve the structure of the system, but do not provide additional resources to improve quality or breadth of coverage of a system that has seen a £810 million reduction in funding since 2010. Figure 1 presents the annual changes in net expenditure on nursing and residential care services for people aged 65 or over in England since 2005/06[2]. The trend is clear, social care budgets are falling dramatically at a time when demand is increasing.

Figure 1.
The annual change in net expenditure on social care 2006 - 2013



Source: Health and Social Care Information Centre and HM Treasury

An important aspect in the implementation of a cap on care costs is that residential and nursing care varies depending on who is paying. Laing and Buisson estimate that the average rate a local authority pays for a residential care home is about £480, compared to the average fee across the whole sector (which includes private funders) of £596. Local authorities typically pay lower fees than self-funders as they have historically been able to use their bulk purchasing power.

These figures mask huge regional variations: on average, nursing care fees are 45 per cent higher in the South East compared to the North East and residential care costs 30 per cent more in London than in Yorkshire.

The breakdown of fees provided by Liang and Buisson is illuminating, especially when making value judgements about the costs of provision, but the funding for care homes is not itemised like this in practice. However, the total cost self-funders pay is alarming when compared to the average amount local authorities' pay for residential care.

This difference could have huge implications for the funding 'cap': if the amount of individual spending that counts towards the cap (the spending on a person's meter) is only going to increase by the amount the local authority would pay (minus the 'accommodation cost') then, using average figures, there will be spending of £116 per week that will not contribute towards a person's care meter, and which they will continue to pay after they reach the cap of £72,000. There may be legitimate reasons why a person wishes to pay extra to 'gold plate' their care, and in this case it is important that they are able to do so, but that the 'top-up' should not be part of their standard 'care cost'.

£810 million

FALL IN SOCIAL CARE FUNDING **SINCE 2010**

What the large gap between average fees and council 'usual rates' shows is that without significant changes to the system it will be impossible for everybody to purchase care at the 'usual rate'. Unless there is a robust infrastructure in place to ensure that everybody who wants to is able to purchase care at the council 'usual rate' this could potentially mean that the 'cap' is not actually a cap on care costs.

However, the cost of guaranteeing that everybody can purchase care at the council 'usual rate' is likely to be considerable. Although they did not look specifically at the Dilnot cap, recent analysis from Hancock et al.i at the Personal Social Services Research Unit gives a useful insight into the impact of the reforms.

They show that the difference between local authority 'usual rates' and the average cost a self-funder pays is likely to have a considerable impact on both local authority budgets and individual costs once reforms are implemented. For both individuals and local authorities the cost of provision is likely to rise.

There is a lot to be determined during the implementation of the Care Bill and Age UK will be working to ensure these issues are resolved and the costs of care are actually capped, as the Government has promised.

Laing & Buisson recently published the following breakdown of average charges of residential and nursing care homes in England, based on a survey of the market:

Average private care home fees 2012, England (£ per resident per week)

	Care	Accommodation	Ancillary	Operator's Profit	Total Costs and Profit
Residential care	£197	£151	£205	£44	£596
Nursing care	£347	£153	£205	£59	£764
Residential care dementia	£221	£151	£205	£47	£623
Nursing care dementia	£356	£153	£205	£80	£774

Source: Laing & Buisson (2013). Care of Elderly People UK Market Survey 2012-13

Meeting the costs of the social care reforms: Impact on pensions

The additional fiscal costs the Government will incur as a result of the social care reforms is £1bn a year from 2016-17. The Government has said these costs will be met by: 1) increased National Insurance Contributions (NICs) as a result of the end of contracting out; 2) extending the freeze on the inheritance tax threshold (currently £325,000) until April 2018.

The changes to NICs are significant. Currently, defined benefit pension schemes can 'contract out' of the second state pension by agreeing to provide a private pension pot in its place. In return, employees and employers pay reduced National Insurance contributions. The proposed introduction of a single-tier state pension from 2016 will put an end to this 'contracting out', which generates about £5.5 billion for the Treasury's coffers in 2016/17 and another £5.4bn in 2017/08, of which 60 per cent will come from public sector employers.

The Budget announcement increases affected employers' National Insurance Contributions (NICs) on salaries between £5,564 and £40,040 by 3.4 per cent, and raises contributions by employees in affected firms by another 1.4 per cent. Private employers can offset this added cost by reducing the generosity of their defined benefit schemes – effectively transferring the cost to their employees: as a result of this many of the 1.4 million people in private sector defined benefit pension schemes will see their final salary pensions reduced. In contrast, public sector employers are prevented from passing on the increased cost to their employees.

The Budget does not compensate public sector organisations for these additional costs, which implies that local authorities, the NHS and other public sector employers will have to face the increased cost out of their own budgets. Unless we see a dramatic improvement in efficiency then, given the continued reduction in public sector budgets, this announcement places another pressure on public services and is likely to mean a reduction in numbers of services and quality.

The changes to NICs will raise significantly more than the cost of the Dilnot reforms. It could be argued that this money should be redistributed into initiatives that will improve later life, as the money comes from contributions designed to support an individual in their retirement. In this case the money could have been used to either increase the proposed single-tier pension amount above the illustrative rate of £144 per week, or inject additional funds into the chronically underfunded social care system.

Spotlight on Poverty and Inequality

Poverty and inequality are two different social phenomena. Poverty is a multi-faceted condition; income poverty can occur despite high levels of income equality and low levels of severe income poverty may coexist with high inequality. Therefore it is advisable to consider poverty and inequality separately.

Poverty

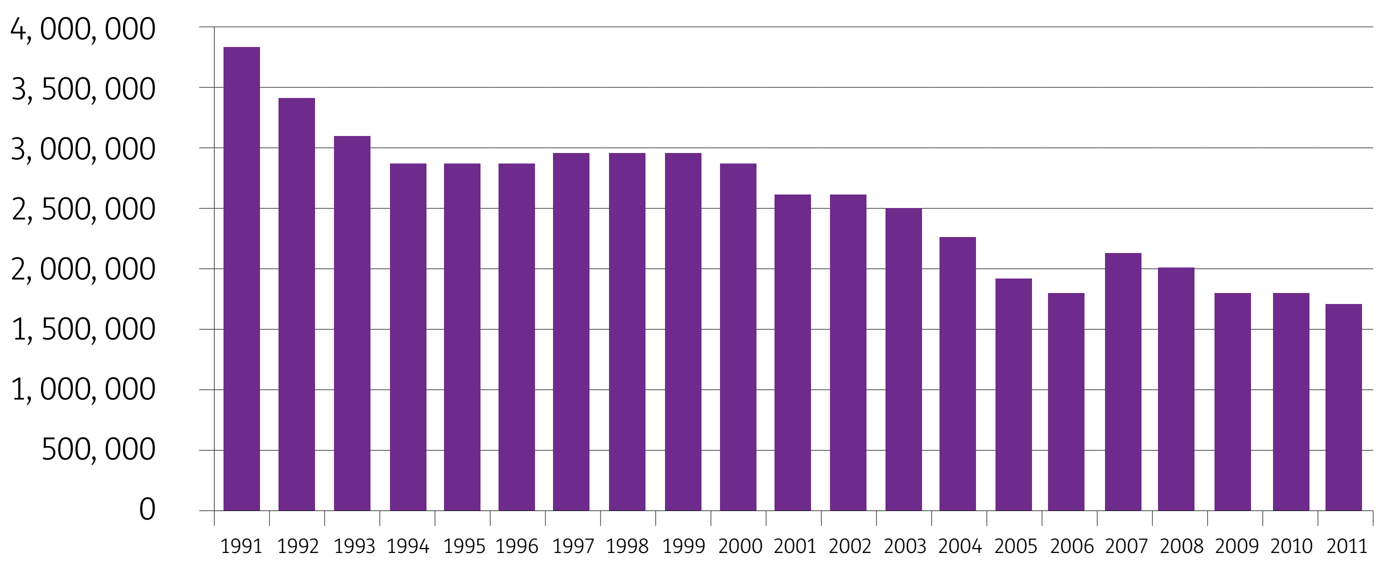
The latest data on income poverty are from 2011/12. Pensioners' relative poverty –defined as the number of pensioners who live with an income below 60 per cent of median income- has been falling over the last two decades. Nevertheless, there are still about 1.6 million pensioners in relative poverty in the UK.

However, if we dig a little deeper the picture becomes more complicated. Using data compiled by the DWP, we estimate that about 900,000 of the 1.6 million pensioners in poverty live on incomes below 50 per cent of median income –a situation often referred to as 'severe poverty'. This number has remained almost constant over the last 15 years, but it has been increasing as a proportion of older people in poverty: more and more older people who live in poverty are living in severe poverty.

To compound the picture of pensioner poverty, we must factor in that about 1.1 million older people live on incomes just above the poverty line.

Figure 2.
Pensioner Poverty 1990 - 2011

Pensions below 60 per cent median income after housing costs, UK



Source: DWP

They do not make it into the statistics of relative poverty, but their lives are as much mired in financial penury, unwillingly doing without things they should be taking for granted in contemporary Britain. Income, then, is one of the main drivers behind poverty and deprivation in old age – and these older people have a very slim chance to overturn their financial position.

It is also important to understand material deprivation. This describes numbers of people who lack specific items judged to be important to their well-being (listed below) not because they do not want them but because they cannot afford them.

Recent research by the Department for Work and Pensions[3] estimated that 800,000 pensioners (about 7 per cent of all pensioners) are materially deprived.

The table shows that over half a million people cannot pay regular bills or buy a new cooker if it breaks down, and over two hundred thousand cannot afford a warm coat.

These findings are all the more revealing if we consider that, when surveyed, older people are less likely than the population as a whole to report they don't have items because of a lack of financial resources (the 'enforced lack' criterion).[4] Therefore previous research showing little overlap between low income and material deprivation among older people[5] could be explained by the fact that older people under report material deprivation.

MATERIAL DEPRIVATION AMONG PENSIONERS		
Item of Material Deprivation	**Number of Pensioners affected**	**(% All population aged 65 or over)**
Not seeing a friend or family regularly	768,000	7.5%
Not having a holiday away from home	656,000	6.4%
Not being able to pay regular bills	688,000	6.7%
Not being able to replace a cooker	560,000	5.4%
Not having a home in good repair	400,000	3.9%
Not being able to keep the home warm and damp free	160,000	1.6%
Not having a warm coat	224,000	2.2%
Lacking one filling meal per day	64,000	0.6%

Inequality

A recent report for the British Academy[6] contends that there are three main paradigms prevalent in current policy discussions concerning population ageing:

a) the 'dominant' paradigm of population ageing imposing unprecedented burden on social and health services;

b) a paradigm that stresses the great diversity between cohorts and emphasises the contribution of older people to the economy and society at large; and

c) the 'intergenerational inequity' approach, which pits younger people against older people overlooking the "extreme socio-economic inequalities within generations and the extensive lifetime financial transfers from older to younger generations".

The report concludes that "evidence... suggests that the second paradigm presents the strongest basis for realistic, evidence-based policies in the UK".

Nevertheless, diversity between older people is somehow overlooked in the economic and public policy discussions. As already mentioned, inequality –as much as poverty- is multi-pronged. Arguably, its starkest form is manifest in differences in life expectancies and healthy life expectancies among older people.

Using data from the Office for National Statistics[7] we estimated that the average life expectancy in the five local authorities with the highest life expectancy at age 65 is 6.1 years higher (for males) and 5.7 years higher (for females) than the average life expectancy in the five local authorities with the lowest life expectancy at age 65.

The difference in life expectancy at 65 between a female in Glasgow and a female in Kensington and Chelsea is around 12 years.

What is even more worrying is that this gap is increasing: whereas at age 65 men in the least deprived areas in 2002-05 could expect to live 3.6 years longer than those in the most deprived areas, by 2006-09, men living in the least deprived areas could expect to live 4.1 years longer (similarly, the gap among women went up from 2.9 years to 3.4 years).

In order to unpick this further we looked into the statistical association between income deprivation (one of the domains of the multiple deprivation index prepared by the Department for Communities and Local Government[8]) by local authority in England in 2010 and the average life expectancy at 65 for males by local authority in England between 2008 and 2010. We found that the higher the income deprivation the lower the life expectancy at age 65[9]:

This disparity would be somewhat qualified were inequality in healthy life expectancy or disability-free life expectancy (DLFE) among older people not as marked. However, this is not the case. According to the ONS[10], inequality in DFLE at age 65 also increased between least deprived and most deprived areas. In the most affluent areas, men aged 65 are expected to live 11.8 years (almost 65 per cent of their remaining lives) in good health compared to 7.2 years (equivalent to merely 49 per cent of their remaining lives) for those in the most deprived areas -and similarly for women.

Footnotes

1. Dilnot, A. (2011). Fairer Care Funding. The Report of the Commission on Funding of Care and Support (page 5).
2. Adjusted to 2011 prices using the GDP implied deflator (HM Treasury).
3. M. Kotecha, S. Arthur, S. Coutinho, A. Bartlett, C. Frew, J. Gilroy and L. Taylor (2013). Understanding pensioner poverty and material deprivation – a synthesis of findings. Department for Work and Pensions.
4. See, for example, R. Hick (2013). "Poverty, Preference or Pensioners? Measuring Material Deprivation in the UK", Fiscal Studies, Vol. 34, No. 1, pp. 31-54.
5. A. Bartlett, C. Frew and J. Gilroy (2013). Understanding Material Deprivation Among Older People. Department for Work and Pensions.
6. Thane, P. (2013). Demographic futures: addressing inequality and diversity among older people. New Paradigms in Public Policy. A Report Prepared for the British Academy. British Academy: London.
7. **http://www.ons.gov.uk/ons/publications/re-reference-tables.tml?edition=tcm%3A77-223356**
8. **https://www.gov.uk/government/publications/english-indices-of-deprivation-2010**
9. We applied the robust gamma rank correlation test. Gamma= -0.5259; p-value= < 2.2e-16.
10. **http://www.ons.gov.uk/ons/dcp171778_265133.pdf**

Tavis House
1–6 Tavistock Square
London WC1H 9NA
0800 169 80 80
www.ageuk.org.uk

Improving later life