Debt and Older People

Executive summary

Your Money Matters
The Your Money Matters programme is designed to improve the skills, confidence and financial situation of older people by providing basic money management and debt advice.

Many people, as they become older, face changes in their circumstances which can impact on their financial situation and ability to manage money. This Help the Aged three-year UK-wide programme of 18 projects aims to support over 30,000 older people and their carers to better manage their money. The programme is supported by Barclays, whose staff are helping older people to manage their finances in times of change and plan for their futures.

The programme will not only meet the needs of those currently struggling with money issues but also help to prevent future disadvantage and the possibility of debt.

In association with

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UK consumers now owe more than £1 trillion in secured and unsecured borrowing. Although aggregate levels of borrowing have increased substantially there is little existing information about the extent to which older people are in debt, either in terms of numbers or in respect of the amount borrowed.

While the propensity to borrow undoubtedly declines with age, there is increasing concern that problems arising from borrowing could negatively impact on efforts to address pensioner poverty. Help the Aged, with financial support from Barclays, commissioned the Personal Finance Research Centre to undertake a detailed study of extent and nature of borrowing and financial difficulties among people aged 50 and over. The research involved analysis of five nationally representative social survey datasets, and a review of the existing research literature.

Unsecured credit use among older people

Previous research has shown consistently that the propensity to use consumer credit decreases with increasing age. This is perhaps not surprising since older people tend to hold more negative attitudes towards credit than younger groups, and tend to reduce their reliance on borrowing as they enter retirement.

Detailed analysis shows that in 2005 the proportion of people with outstanding unsecured credit commitments fell steeply after the age of 50, tailing off to a negligible amount after the age of 80. In fact, after the age of 60 the proportion of people holding only unused credit facilities exceeded those actually owing money.

None the less, about 25 per cent of people were approaching state retirement age with outstanding credit commitments. There were also small increases in the propensity in credit use in the three years after age 60 and again at 65, suggesting a temporary increase in borrowing following retirement.

Moreover, the mean amounts owed by credit users in their late 50s and early 60s are higher than for any other age group, meaning that some people approach retirement owing substantial sums of money in unsecured credit, with a few individuals owing very high amounts.

Characteristics of older unsecured credit users

Certain socio-demographic characteristics are important for explaining variations in the likelihood of using unsecured credit among older people: age, marital status, housing tenure and the number of earners in the household – along with attitudes to credit – all individually predicted credit use, even after the influence of other characteristics was taken into account.

As such, the observed steep decline in credit use after the age of 50 held true independently of other characteristics. Unsecured credit use was higher among people who had separated or divorced than it was among all other marital groups, independently of other factors. This may reflect shocks to income and increased expenditure, although we do not know how recently the separation or divorce occurred. As might be expected, people who still had dependent children were also more likely to have outstanding credit commitments.

After their mid-50s, people with mortgages consistently have higher levels of unsecured borrowing than outright owners or tenants, a link which remains strong even for those with similar income levels and attitudes towards credit. This might indicate that some older people experience financial strain that results in both unsecured and mortgage borrowing; conversely it might indicate that having a mortgage puts a strain on the household budget that necessitates unsecured borrowing.

Levels of use were highest among those living in households with two earners, and this was true even after taking account of income levels. Older people who were working were more likely to use unsecured credit than those who were retired, even when comparing people of a similar age. This is consistent with earlier research showing that people try to reduce their reliance on borrowing when they retire. This might indicate that credit was being used to fund extras rather than essential purchases.

Perhaps unsurprisingly, therefore, those in the highest income groups were most likely to be using credit, although this link disappeared once other factors were taken into account. Even so, 25 per cent of the over-50s living in the poorest 40 per cent of households in Britain had outstanding credit commitments.

Significantly, there was a strong independent link between credit use and holding a favourable attitude towards credit. Those who were most likely to have unsecured credit were people who tended to agree that they preferred 'to buy things on credit rather than wait and save up', not those who strongly agreed.

Changes in unsecured credit use over time

The proportion of people of all ages using unsecured credit has remained very similar over the past ten years; instead, there has been considerable growth in the sums of money borrowed by those credit users, including older people. Credit users in their late 50s and early 60s owed, on average, at least four times as much in 2005 (£3,000 and £2,000 respectively) as their counterparts had done in 1995.

However, using data from surveys that interviewed the same individuals at intervals, new analysis showed that older people not only use less unsecured credit as they age, but their pattern of credit use becomes increasingly sporadic. For example, among people aged 65–69 (in 2005) who had used credit in either 2000 or 2005, fewer than one in ten had outstanding borrowing in both years.

We also found some evidence that the level of credit use might be influencing the timing of retirement. People aged 45 or over and in paid work in 1995 who owed £3,000 or more in unsecured credit were only half as likely to have retired within the next ten years as their peers who had no credit commitments.

Mortgage-holding

Home ownership is more common than renting in all age groups. Most home-owners buy their home on a mortgage. However, by their late 50s/early 60s most home-owners own their home outright. Use of equity release schemes was very rare in our analysis (less than 1 per cent).

The proportion of home-owners aged 50 and over with a mortgage decreased steeply with age: from 7 in 10 among those in their 50s to fewer than 1 in 20 of those aged 80–84. Although the majority of home-owners aged over 55 have paid off their mortgages, those who had not had significant amounts outstanding remaining; some people carry these into retirement.

Characteristics of older mortgage holders

As reported in relation to unsecured borrowing, the relationship between age and mortgage-holding was independent of other characteristics.

The relationship between income and mortgage-holding is strong: half of the people aged over 50 in the highest income quintile have an outstanding mortgage, falling to 1 in 10 of those in the two lowest income quintiles. Likewise there are strong independent links to work status. However, it is the link to the number of earners in a household that holds true when other characteristics are taken into account, suggesting that income *per se* is less important for explaining mortgage-holding than having at least one earner in the household.

The small number of older people who have dependent children had the highest rates of mortgage-holding. Married and divorced people were far more likely to have a mortgage than those who were widowed or who had never married. However, this relationship was not independent of other factors, such as age, the number of earners and credit use.

People with unsecured borrowing were far more likely to have a mortgage than non-credit users – independently of other characteristics. This no doubt accounted for the strong link observed between mortgage-holding and favourable attitudes to borrowing.

Changes in mortgage-holding over time

Across all age groups there is a strong continuity in home ownership over time. In other words, once people had bought a home they were extremely unlikely to go back to renting.

As with unsecured borrowing, the level of outstanding mortgages increased substantially between 1995 and 2005. Here the fastest growth was among mortgagors in their 60s, for whom the level of outstanding mortgages trebled in the ten years up to 2005 (from £10,000 to £30,000). This, along with the four-fold increase in outstanding unsecured credit, almost certainly explains the increase in the numbers of older people seeking advice from debt advice agencies.

However, there is a shift towards people paying off their mortgage fully: 7 in 10 people aged 60 or over in 2005 had repaid their mortgage in the previous ten years.

In contrast very few (3 per cent) outright owners of that age had mortgaged their home over that time, and the prevalence of social and private tenants in that age group taking out a mortgage was also low (3 per cent and 8 per cent respectively).

Financial difficulty among older people

At retirement, most people find that their income falls, which should put them at greater risk of financial difficulties. And, with the exception of teenagers, people aged 80 and over are the least likely to have savings to rely on. Indeed, while a minority of people reported an improvement in their financial position, many people were finding themselves financially worse off; 1 in 5 people over retirement age reported that their current income was insufficient to give them the standard of living they had hoped for.

But although older people often have lower incomes than younger people, they often appear to have a higher standard of living as measured by deprivation indicators. It seems that there is both a cohort effect, whereby earlier generations have lower expectations in respect of the things captured by deprivation indicators, and a detrimental ageing effect, whereby increasing restrictions in activities make it more difficult to ensure that a limited income covers the items included in the deprivation indicator.

Research has additionally shown a clear ageing effect in the proportion of income spent. Most people who have retired are very careful money managers who take steps to ensure that they live within their means, partly by cutting back. This is informed by five factors:

- an adjustment to living on a lower income;
- concerns about using commercial credit;
- fears about being unable to pay bills; and
- a desire not to run down savings.

Only a minority of retired people do not adopt this cautious approach and they tend to be people who have never been careful money managers.

Careful money management is reflected in lower levels of financial difficulties among older people. Older people were more likely than average to say they were keeping up with all bills and commitments without difficulty. Even so, a small minority (about 1 in 20) of people aged over 60 admitted struggling constantly or falling behind.

Among the over-50s, the proportion of people reporting signs of financial strain declined with age. Using a combination of measures – how well people feel they are keeping up with paying bills and other commitments, how often people are overdrawn on a current account, and the use of credit cards (not settled in full each month) to pay bills or buy food or other expenses – we see a steady decline in the number of people exhibiting some sign of strain, from 25 per cent of those aged 50–54 to just 3 per cent of those aged 80 or over. There was a steep drop among those in their 60s.

Although experience of financial strain has been decreasing steadily with age, there was an increase in the proportion of people reporting financial difficulties in the past five years among those currently aged 70–74. This may reflect the impact of an income drop when they retired. Moreover, among older people with a mortgage or rent to pay, difficulties meeting housing costs tended to be at least as common among people in their 60s and 70s as they were among those in their 50s.

As might be expected, fewer older people reported being in arrears on household bills and other commitments than admitted to experiencing financial strain, ranging from 7 per cent of people aged 50–54 to 2 per cent of those aged 75 or over.

Credit arrears fell more steeply with age than arrears on household bills, and if older people were in arrears at all it was most likely to be on utility bills (gas, electricity and water). This finding relates to data collected before the 2006 increases in fuel costs, which other research has shown had a disproportionate effect on older people. There were tentative signs that paying off overdrafts was problematic at around the time of retirement and arrears on credit card payments affected a minority in the run-up to it.

Characteristics of older people in financial difficulties

Among people aged 50 and over, age is one of only two socio-demographic characteristics that relate independently to reporting some sign of financial strain. The other is housing tenure, with having a mortgage being associated with the highest risk. However, when unsecured credit use was taken into consideration, the link to housing tenure disappeared and the link to age was greatly weakened. As such, unsecured credit use was the sole important predictor of financial difficulties, increasing the likelihood of experiencing financial difficulties substantially.

The finding that neither income nor the number of earners in a household is an important predictor of current financial strain in older people is consistent with earlier research, which found that these factors were predictive only among non-pensioners.

Changes in financial difficulties over time

Between 1995 and 2005, the proportions of people who were finding it difficult to make ends meet reduced substantially across all age groups. This almost certainly reflects the overall rise in incomes over this period, including, for older people, the introduction of the Pension Credit to assist those with lower incomes.

People in the early years of retirement (aged in their late 60s and early 70s) seem to have benefited to a lesser extent than those who were either younger or older, perhaps indicating financial strain as they adjust to living on a lower income.

Once again, using data from the same subset of individuals who were asked in 1995, 2000 and then again in 2005 to rate how well they were making ends meet, we were able to gauge to what extent their situation had improved, worsened or stayed the same. Overall, there was little association between age (in 1995) and changes in people's financial situation, although those aged over 60 did show slightly greater stability in their finances.

Conclusions and recommendations

The high levels of current secured and unsecured borrowing in the UK have given rise to concerns about the potential long-term consequences for both individuals and the economy. Historically, older people have tended to have very low levels of borrowing and financial difficulties.

For the vast majority of older people, the situation is largely unchanged from that faced by previous generations. Most people do not enter retirement with either unsecured credit commitments or mortgages; and the proportion doing so has not increased dramatically, as feared. Taken as a whole, the study indicates that current anti-poverty strategies for people over retirement age are having a positive effect. The introduction of Pension Credit, in particular, seems to be ensuring that some older people are benefiting from a rise in prosperity.

However, it would be wrong to be complacent: there are indications that some older people still face financial difficulties and that some people struggle to adapt to life on a reduced income when they retire. The people who owe money when they retire owe substantially larger amounts than their counterparts of ten years ago. Moreover, there is a strong link between having a mortgage and owing money on unsecured credit, putting these people at even greater risk of financial difficulties.

Help the Aged is concerned that this may be undermining attempts to address pensioner poverty. In particular, there is concern that people may be entering retirement with outstanding mortgages and credit commitments that cause them to get into financial difficulty. This suggests a need to ensure that older people are included in strategies to raise levels of financial capability, especially awareness of the dangers of over-borrowing around retirement. The Charity therefore welcomed the FSA's announcement (July 2007) that its next campaign will focus on people nearing retirement.

Help the Aged recommendations

- Financial education should be for all and not just for young people and people of working age. The Government's plans for financial education must meet the needs of older people.
- Voluntary sector initiatives to promote financial education and tackle bad debt (such as the Help the Aged/Barclays Your Money Matters programme) must be supported and resourced so that they become sustainable.
- Unless the issue of problem debt is tackled across all age groups, the Government's attempts to tackle pensioner poverty will be undermined.
- The Government's Public Service Agreement 17 commits to tackle poverty and promote greater independence and well-being in later life.
- Help the Aged believe that the Government should introduce a strategy to continue progress in tackling pensioner poverty and should introduce automatic payments of benefits to those believed eligible for them.
- Age discrimination legislation covering goods, facilities and services should be introduced and upper age limits for access to credit should be illegal. Age should not be used as an arbitrary way of assessing whether someone should be granted credit.
- The Social Fund should be radically overhauled so that it meets the needs of the poorest pensioners. The budget for the Social Fund should be significantly increased and it should be made easier for older people to access it.

Fighting for disadvantaged older people in the UK and overseas,
WE WILL:

COMBAT POVERTY wherever older people's lives are blighted by lack of money, and cut the number of preventable deaths from hunger, cold and disease

REDUCE ISOLATION so that older people no longer feel confined to their own home, forgotten or cut off from society

CHALLENGE NEGLECT to ensure that older people do not suffer inadequate health and social care, or the threat of abuse

DEFEAT AGEISM to ensure that older people are not ignored or denied the dignity and equality that are theirs by right

PREVENT FUTURE DEPRIVATION by improving prospects for employment, health and well-being so that dependence in later life is reduced

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