more2life
the later life lender

Borrowing in later life

A snapshot of over-55s debt

2021

Contents

A view from more2life

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Chief Executive Officer
at more2life

In the foreword of our 2020 report into this market, I wrote about the unforeseen circumstances and unprecedented challenges both the world and the over-55s were facing as a result of the global coronavirus pandemic. Twelve months on, it is hard to believe that Covid-19 is still very much a factor in everyone's lives.

For many people all over the world, day-to-day life in a pandemic has just become the norm. However, unlike at the start of 2020 when the world was facing an uncertain and unstable future, there are more reasons for optimism in 2021.

While Covid-19 is still very much a part of our lives, and is likely to remain so for the foreseeable future, the global success of national lockdowns, social distancing measures and the rollout of the much-lauded vaccination programme has meant the world as we know it is slowly starting to return to normal, albeit with some degree of trepidation.

It is against this backdrop that we have released this Report, which reflects on the ramifications of Covid-19 on the finances of those aged 55 and over, as well as the other key issues facing those in and those approaching retirement.

The research, now in its fifth year, was conducted in conjunction with the Centre for Economics and Business Research (Cebr) and garnered the views of 1,016 UK adults aged 55 and over in a bid to identify the borrowing, spending, and income levels among this peer group. It also sought to examine the different financial situations men and women find themselves in during later life.

This year's findings show that retirement debt levels are on the rise. With consumer confidence in the post-Covid economy returning, the research shows that the total amount of secured and unsecured debt owed by people aged 55 and over is expected to rise by £10 billion from £226 billion in 2020 to £236 billion in 2021, with *"big ticket"* items such as property and cars driving this growth.

Furthermore, estimates suggest that in 2021, the average 55-64 year old household with mortgage debt will have around £106,100 left to pay, up from £90,000 in last year's survey, while those with unsecured loans will hold £8,800 in debt.

This year's report also takes a deeper dive into the differences between the finances of men and women in later years, and shows that men expect to see 38% higher incomes during retirement despite the fact that women actually save a higher share of their income into pension funds. In fact, the research suggests that the average woman has to work for 54.5 years to reach the same level of pension savings that a man can reach in 40 years, suggesting there is still a long way to go in addressing the gender pension pay gap.

> "This year's findings show that retirement debt levels are on the rise

Overall, the report findings clearly illustrate the continued financial challenges that many people face during retirement and serve as a useful reminder of the importance of housing wealth-based products like equity release to help people enjoy a better standard of living in retirement. In fact, the research shows the vital role equity release will play in boosting retirement income, with the level of equity released each year set to rise steadily, reaching a value of £6.4 billion by 2031 and the number of total transactions increasing by 49% over the same period of time.

It is our duty as an industry to continue to raise awareness of the benefits of equity release products as a possible solution to addressing the financial challenges some people may face in retirement and work together to provide education and support to all those who need it. For many people aged 55 and over, retirement is likely to be almost as long as their working lives, so let's ensure we provide them with the tools and support they need to enter retirement better prepared.

An independent view

Sara Benwell
Consumer Champion
and Personal Finance Journalist

> 33% of those surveyed expected to get into debt over the next year just to make ends meet

Debt amongst the over-55s is rising sharply, raising significant concerns around how people will fund their lifestyles through the coming decades. There are a number of factors at play here. One is the growing number of people who still owe money on their mortgages as they approach retirement. This, coupled with rising house prices and more silver splitters getting divorced in their 50s and 60s paints a very different picture of retirement to what was expected in the fairly recent past.

Property isn't the only big-ticket item leading to rising debt levels among the over-55s. The report showed that around 4.08million people in that age bracket had credit card debt, with an average figure of £3,000 not being paid off in full. Perhaps most alarming was that 33% of those surveyed expected to get into debt over the next year just to make ends meet.

The rising cost of living is part of the debt puzzle, but inadequate incomes at retirement are as much – if not more – of a cause for concern. The switch from defined benefit (DB) to defined contributions (DC) pensions has meant a sharp fall in retirement incomes. At the same time, significant numbers of people who fell through the gaps before auto-enrolment was introduced are now approaching retirement. Some of the statistics in the report make for worrying reading. For instance, only 35% of women surveyed said they had any independent pensions wealth.

Indeed, the disparity between men and women was one of the biggest takeaways from this year's research. The gender pensions gap is significant, with men aged 55 and over having or expecting pensions incomes of £20,712 a year (after tax) compared to just £14,964 for women. Over a whole retirement, this shortfall in savings for women works out at around £183,936.

There are many factors that lead to a disparity in retirement savings for women, but the research suggests that a major driving force is the overall gender pay gap in the workplace. The research showed that many women contribute a higher percentage of their salaries, but still end up worse off. The shift away from DB once again plays a role here. 47% of men aged 55 and over say that DB forms part of their retirement income, compared to just 30% of women.

Rocketing divorce rates may also be playing their parts, with 39% of divorced women saying they have lost out on pensions income when splitting from a partner. Interestingly, property wealth was higher among women than men, suggesting that many may be giving up pensions rights in order to keep the family home.

While this may seem logical in the short-term, retirement provision is critical and the number of women without savings is deeply alarming – 40% said they had no retirement wealth at all. The likelihood is that these women will need to find other ways to fund their later years, whether that's releasing equity from properties, downsizing, or continuing to work later than planned.

Overall, it is clear that people's financial futures are far from secure, and more must be done to address savings and debt levels among the over-55s. This action must take place now, and education will be critical in achieving pensions adequacy and acceptable standards of living for retirees.

Introduction

Ensuring there is enough money to fund retirement is one of the greatest challenges facing the UK's ageing population.

Longer life expectancies coupled with better medical and health provisions means many people aged 55 and over often underestimate the length of time they may spend in retirement and as a result, are at risk of failing to adequately prepare financially for later life.

Add to this rising inflation, a higher cost of living and unforeseen circumstances, such as the recent coronavirus pandemic, and many retirees could find themselves facing heightened financial pressure in future years, particularly given the fact that the average person can today spend almost 30 years in retirement.[1]

Our report shows that financial pressure in retirement is becoming more commonplace, with the total amount of secured and unsecured debt owed by people aged 55 and over expected to rise from £226 billion in 2020 to £236 billion in 2021.

Credit card debt was found to be the most common type of debt held by the over 55s in the UK, with the average balance of £3,000 not being paid off in full by 20% of those surveyed, a figure that equates to approximately 4.08 million people.

Income levels also varied significantly, the research found, with men aged 55 and over expecting to have retirement incomes of £478 a month higher than women, proving the gender pension income gap is a very real challenge for many women in their later years.

While the impact of the coronavirus pandemic has also undoubtedly had an effect on the income levels of many households over the last 12 months, the research found that for a handful of people, a limited number of spending opportunities has provided a rare chance to save and refinance existing debt.

This situation is not the norm however, and as we emerge from the social constraints brought about by the global pandemic, other challenging economic and social conditions are likely to lead to an increase in the number of people approaching and entering retirement with significant levels of secured and non-secured debt.

This raises concerns about the quality of life for future retirees in the UK, especially given the need to service this debt and the potentially high interest rates of unsecured borrowing in particular. For those aged 55 and over, careful consideration is required to ensure debt levels remain manageable to safeguard a comfortable retirement.

Using housing equity to improve financial wellbeing is an option worth considering and educating consumers on the retirement planning tools at their disposal can go some way to helping them prepare for the future.

Total amount of secured and unsecured debt owed by people aged 55 and over **expected to rise from £226 billion in 2020 to £236 billion in 2021**

[1]Money Advice Service: How will your money last in retirement

Key findings

Total debt of people aged 55 and over is set to **rise from £226 billion in 2020** to

£236bn

in 2021

33%

of people

expect to **accrue debt** over the next year in order **to make ends meet**

Credit card debt

is the **most common type of debt held** by the over 55s in the UK

1 in 5

people (4.08 million)

with **credit card debt** over the last five years **do not pay it off in full**

The amount of equity released per year in the next decade is set to **increase from £3.7bn in 2021** to

£6.4bn

in 2031

In 2021, the **average 55-64 year old household** will have

£106,100

left to pay on their mortgage

Women could be missing out on an additional

£180,000

in retirement, despite the fact they are the **better pension savers than men**

Women have to work an average of 54.5 years

to reach the same level of pension savings that a **man can reach in 40 years**

Men's pension incomes are

38%

higher than women during retirement,

equating to approximately £478 a month

59%

of widows

and

39%

of divorced women

believe they have **lost out on pension income** as a result of their divorce

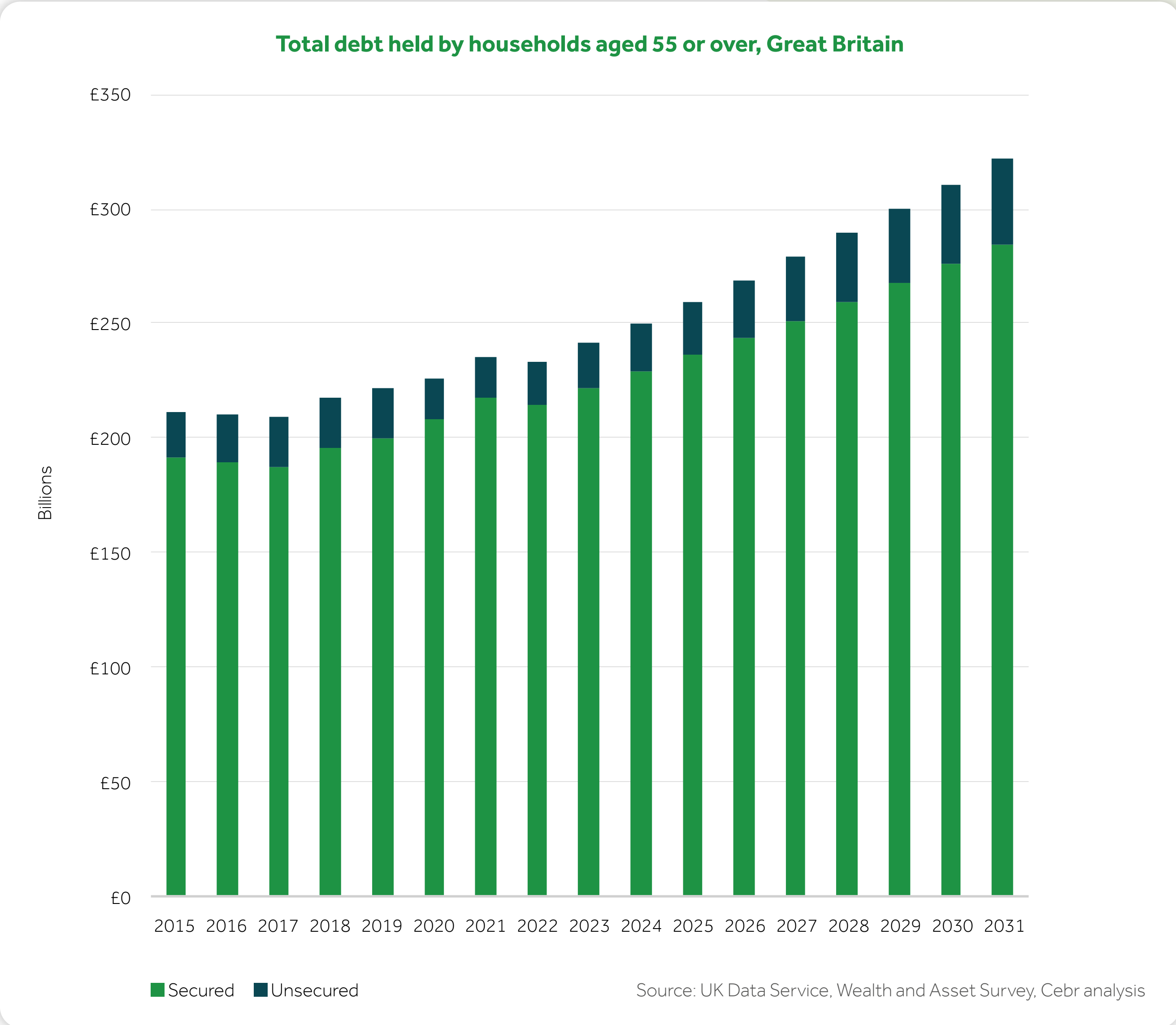
Main findings

Debt among silver spenders set to rise by £10bn

As consumer confidence returns to the post-Covid economy, figures from the 2021 more2life Borrowing in Later Life Report show the total amount of debt (both secured and unsecured) owed by people aged 55 and over is expected to rise from £226 billion in 2020 to £236 billion in 2021. This is mainly due to more consumers purchasing "big ticket" items such as property and cars, both of which require loans.

These estimates contrast starkly with last year's figures, which forecast the total amount of debt among people aged 55 and over to reach £211 billion in 2020 before falling to £207 billion in 2021, as the number of people spending money on large purchases fell as a result of the Covid-19 pandemic. However, spending activity has since picked up with buyer demand in the housing market buoyed by the Stamp Duty holiday and is significantly higher than pre-pandemic times since the second half of 2020.

Total debt levels are predominantly driven by debt secured on properties, the research found, with the secured debt levels of the over 55s expected to grow by £67 billion over the coming decade, reaching £284 billion in 2031. Add unsecured debt into the mix and total debt levels of the over 55s are expected to be £322 billion by 2031, £22 billion higher than the £300 billion estimated in last year's report.

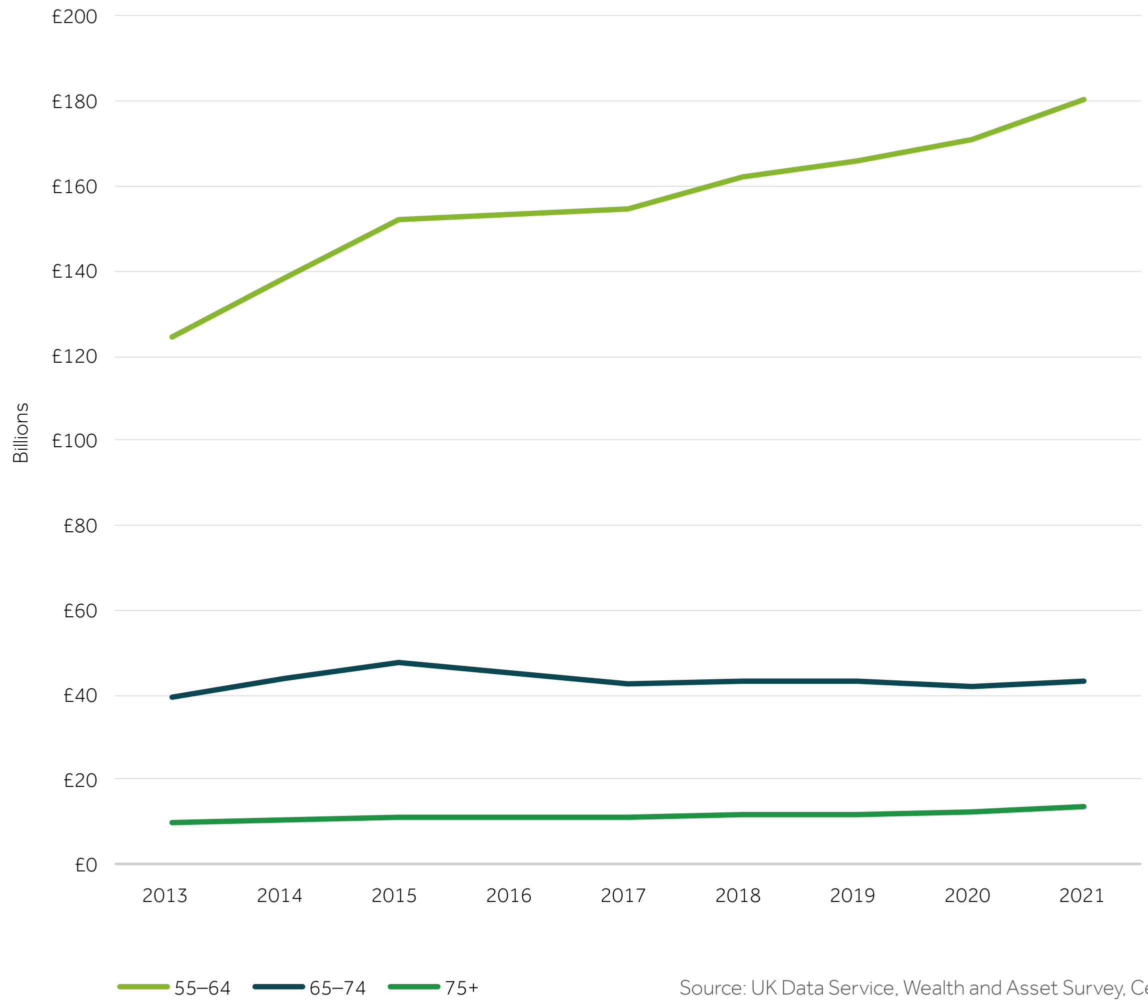


Three-quarters (76%) of the overall debt figure in 2021 will be driven by those aged 55-64, whose borrowing alone is expected to rise from £171 billion in 2020 to £180 billion by the end of this year.

Overall, levels of secured debt such as mortgages and equity release products among the over-55s are expected to rise by 5% over this period. Looking at the equity release market, £3.7 billion in equity looks set to be released in 2021, up from £3.4 billion in 2020, before dropping again to £3.4 billion in 2022 due to falling house prices. However, the level of equity released each year is thereafter set to steadily rise to a value of £6.4bn by 2031, with the average value per equity release transaction expected to rise 16% to £103,600.

Furthermore, the research also showed that although only 1% growth is anticipated in unsecured debt levels among the over-55s this year (e.g. credit card debt, bank loans), by the end of 2022 these levels are expected to have risen by a further 10% as the over-55s navigate the fallout of the coronavirus crisis. In total, this demographic will owe almost £20 million in unsecured debt next year.

Total debt held by households by age-band, Great Britain



Source: UK Data Service, Wealth and Asset Survey, Cebr analysis

Unsecured debt contracted by 19%

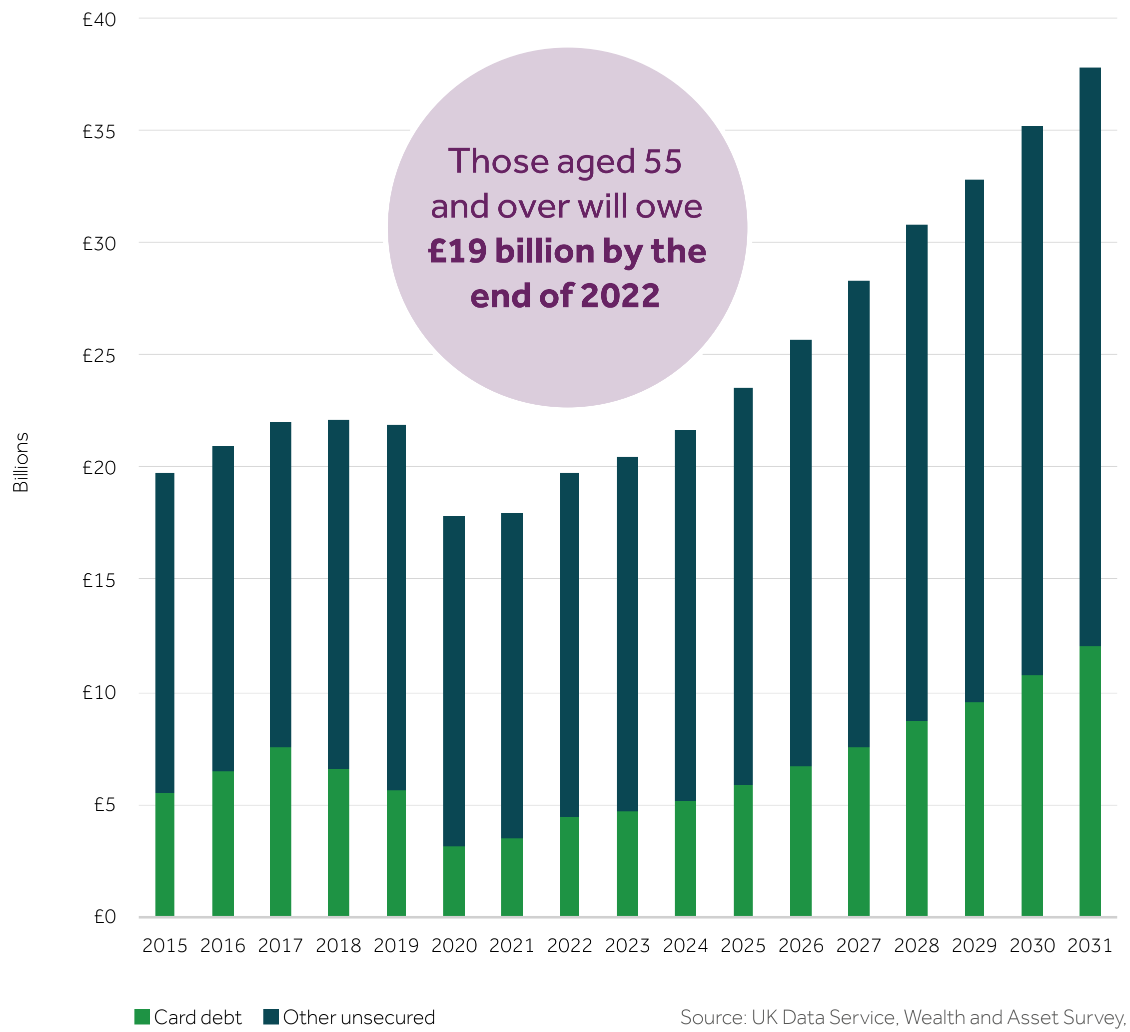
Breaking the data down further into credit card and other unsecured debt such as bank loans, the research found that those aged 55 and over will owe £4 billion and £15 billion by the end of next year, respectively.

Overall, unsecured debt is estimated to have contracted in 2020 by 19% the research found, as people used the pandemic as an opportunity to cut back on spending and make the most of the freed-up money to refinance current debt or save.

In total, 68% of over 55s said their financial situation had improved because of reduced outgoings, with households and individuals whose incomes have remained stable amid the coronavirus pandemic spending less on travel, eating and drinking out, and clothing. For those individuals whose financial situation has been improved, paying off unsecured debt (10%) or a mortgage (7%) was cited as one of the benefits.

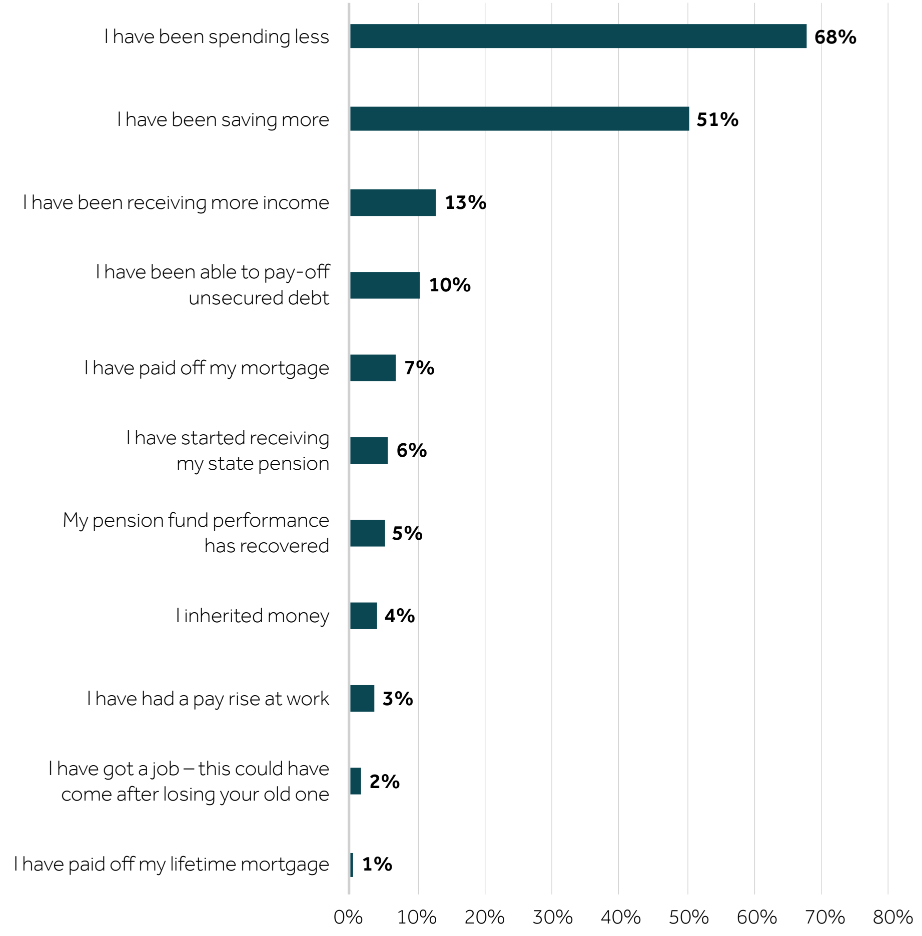
However, only 13% of over 55s said their situation has improved since March 2020 because they have seen a rise in their income, perhaps as a result of the uplift to Universal Credit introduced in April 2020. This was most common amid those aged 75-84 years old.

Total unsecured debt held by households aged 55 or over, Great Britain



Source: UK Data Service, Wealth and Asset Survey, Cebr analysis

Main reasons why respondents' general financial situation has improved since March 2020, people aged 55+



Source: Opinion matters survey, Cebr analysis

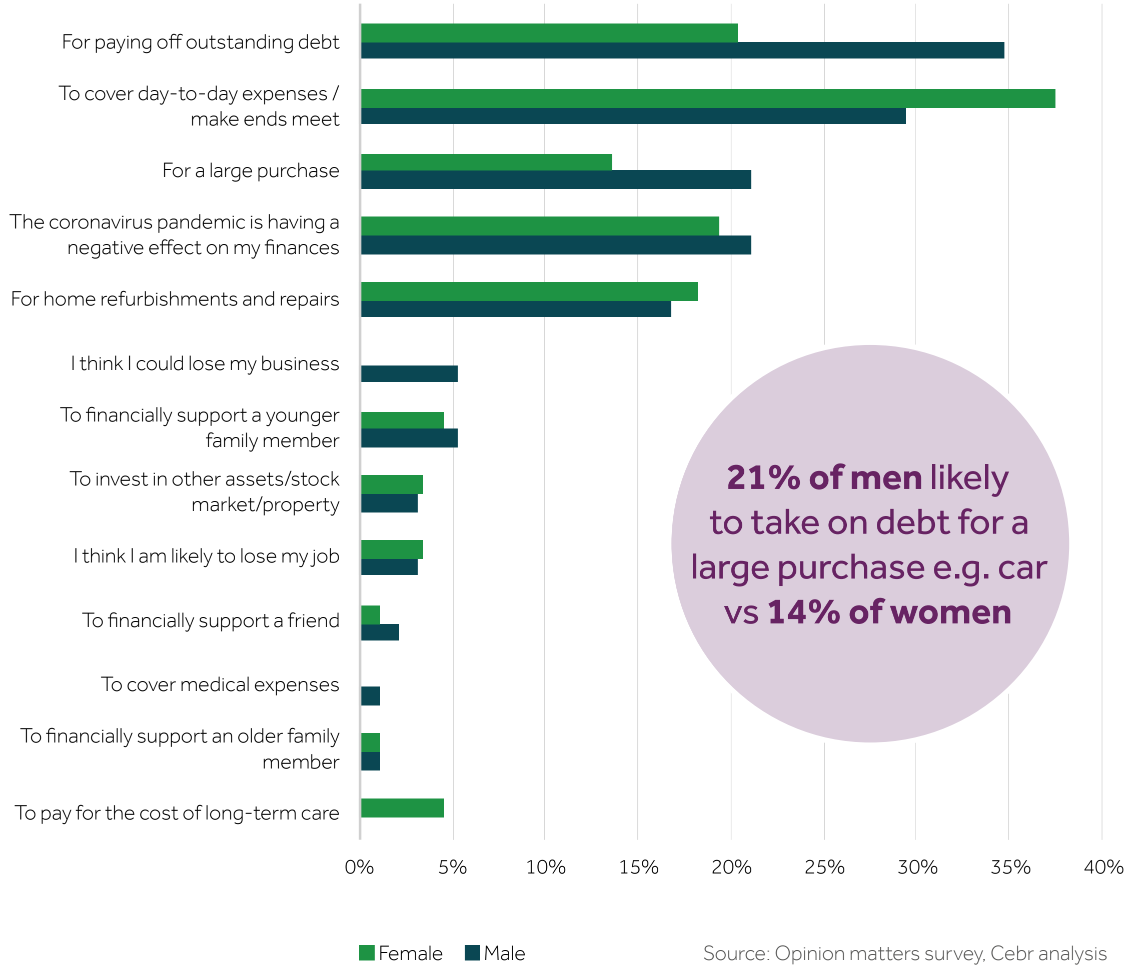
A quarter of over-55s rely on debt for basic living costs

One of the common threads in the last five reports is the growing number of over-55s relying on debt to meet the costs of everyday living. This again looks set to increase over the next 12 months, with 33% of over 55s citing this as a main reason for accruing debt.

The fact that over a quarter (27%) of over-55s say their general financial situation has worsened as a result of the pandemic could explain why their debt levels are likely to increase over the next year, as those in full-time or part-time work are more likely to have been placed on furlough or seen salary cuts.

The research found that women (38%) in particular are more likely than men (29%) to use debt to cover everyday expenses, with the report suggesting this is perhaps a result of the disproportionate impact the Covid-19 pandemic has had on women. Unfortunately, these challenges look set to continue as the longer-term financial impact of the Covid-19 crisis is likely to worsen their ability to fund or save for later life. This is true for 30% of women aged 55 and over who said their financial situation has worsened to some degree since the pandemic began. This is compared to 24% of men in the same demographic.

Reasons why respondents expect to take on new debt, people aged 55+ who have been in debt and expect to accrue debt, by gender



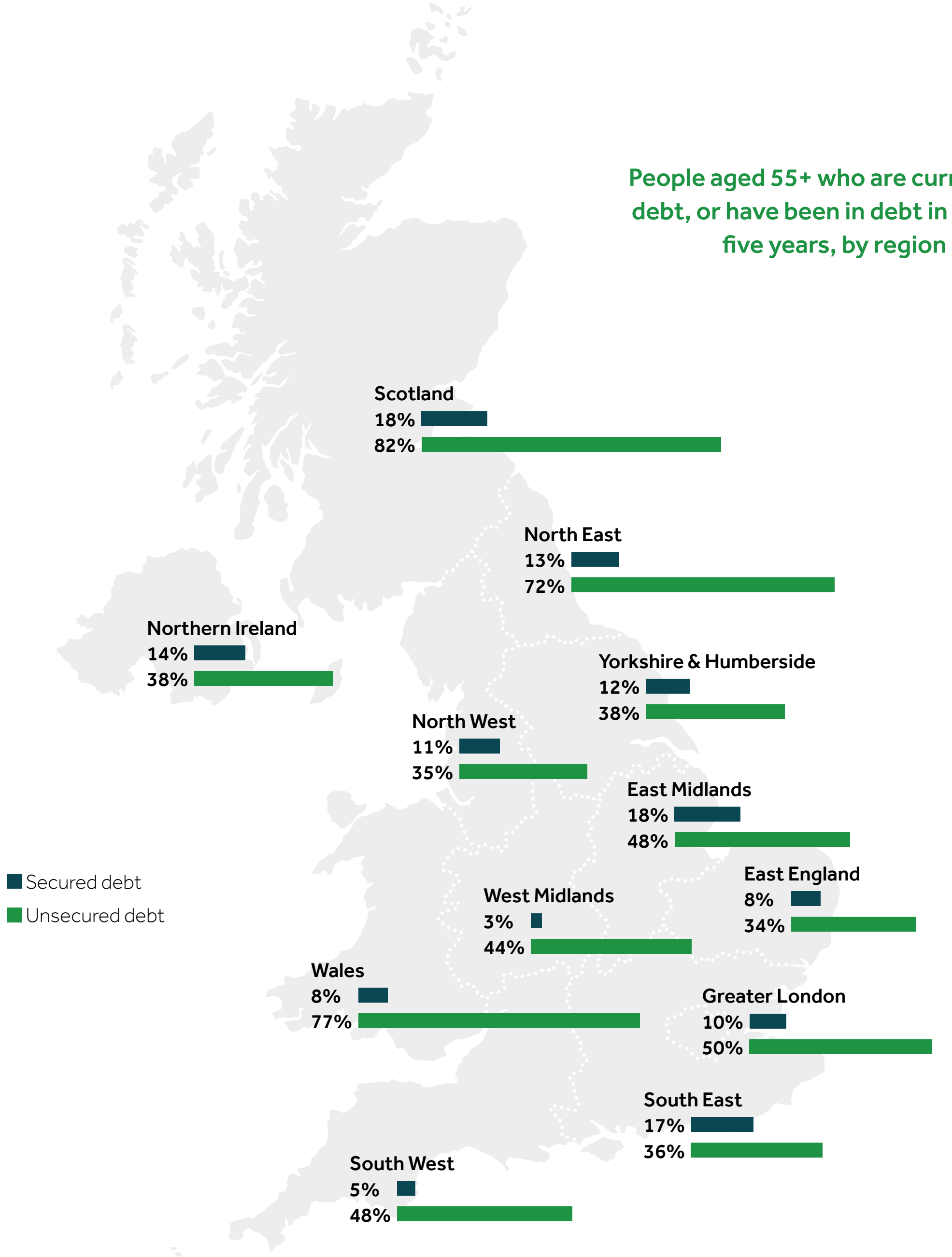
Source: Opinion matters survey, Cebr analysis

The research also noted that many women have faced job loss or redundancy during the crisis, as they are more likely to work in industries that have been forced to close such as retail and travel. Similarly, women are also more likely to have been furloughed over this period, which could have also disrupted their ability to save into a pension or put money aside for retirement.

Overall, more than a quarter (28%) of over-55s also said they expect to build up debt in order to repay existing debt, which may well lead to an unsustainable financial situation in the future. Men are far more likely to say they expect to pay off outstanding debt by taking on new debt (35%) compared to women (20%), the report found, while overall, 20% of survey respondents said the pandemic was the reason why they expected to take on more debt in the future.

On a regional level, respondents in the North East were found to be most likely (55%) to have recently been in debt. This equates to approximately 492,000 people. Although only 36% of respondents in the South East said that they have recently been in debt, this actually equates to the highest number of individuals (1.05 million), as it is the region with the most over-55s. In contrast, the East of England has the lowest share of over-55s who have recently been in debt (25%).

People aged 55+ who are currently in debt, or have been in debt in the last five years, by region

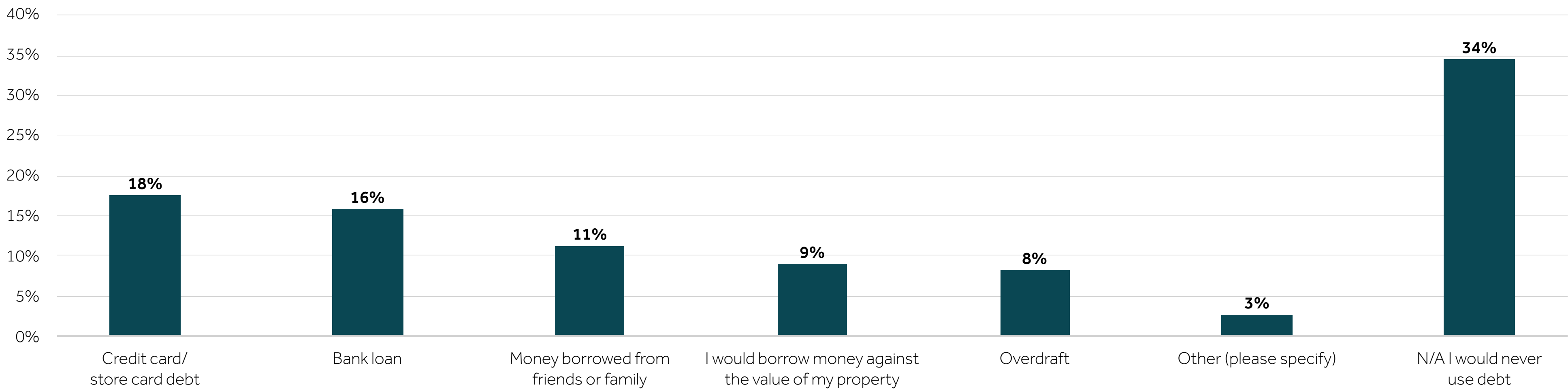


Credit card top choice for financial shortfalls

In the event of an unexpected expense over the next 12 months, 18% of over-55s said they would choose a credit card if they needed additional funds, with 19% of women and 16% of men saying this. A bank loan was also a favoured option for 16% of respondents, while 11% said they would turn to friends and family. A smaller percentage (9%) said they would borrow money against the value of their property using an equity release mortgage.

Borrowing on a credit card is clearly the preferred choice among the over-55s, with 4 million (20%) of those in this demographic currently or previously holding credit card debt in the past five years. The numbers are the same for both men (20%) and women (20%), but is most apparent among those aged 55-64 (24%) and those in full (29%) or part-time (26%) work compared to those in other employment situations.

Type of debt over 55s would use if an unexpected event occurred within the next 12 months which meant that they required additional funds



Source: Opinion matters survey, Cebr analysis

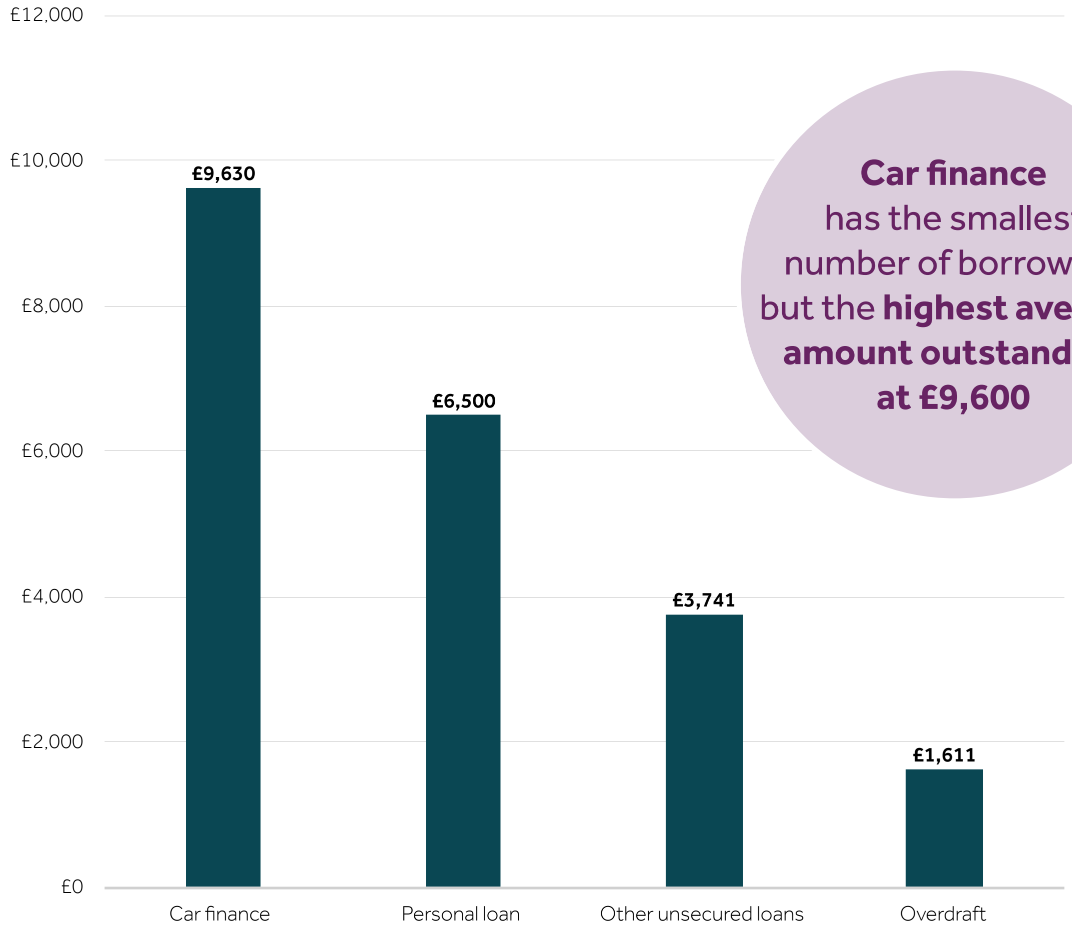
Analysing the spending habits of those aged 55 and over even further, the research found the average amount outstanding on unsecured loans (excluding personal loans) is £3,741. Car finance is the type of non-mortgage debt that has the smallest number of borrowers but the highest average amount outstanding at £9,630.

Meanwhile, the average amount owed in personal loans (e.g. bank loans) for those with this type of debt aged 55 and over is £6,500. Following credit cards, bank loans are the most common borrowing option, with 7% of over-55s currently holding or having had this type of debt in the last five years. This equates to 1.4m people.

Despite the research showing that debt levels are set to increase over the next year, only 6% of the over 55s with debt in 2020 said they are very concerned about their debt levels, while 19% said they are somewhat concerned. This is down from 8% and 23% respectively in 2019, which could be attributed to the fact that some people have managed to repay some debt during the pandemic, which may have alleviated concerns.

Of those who had debt in 2020, 17% had started to cut back on spending in order to manage their debt levels more effectively, while 16% were avoiding getting into any more debt at all.

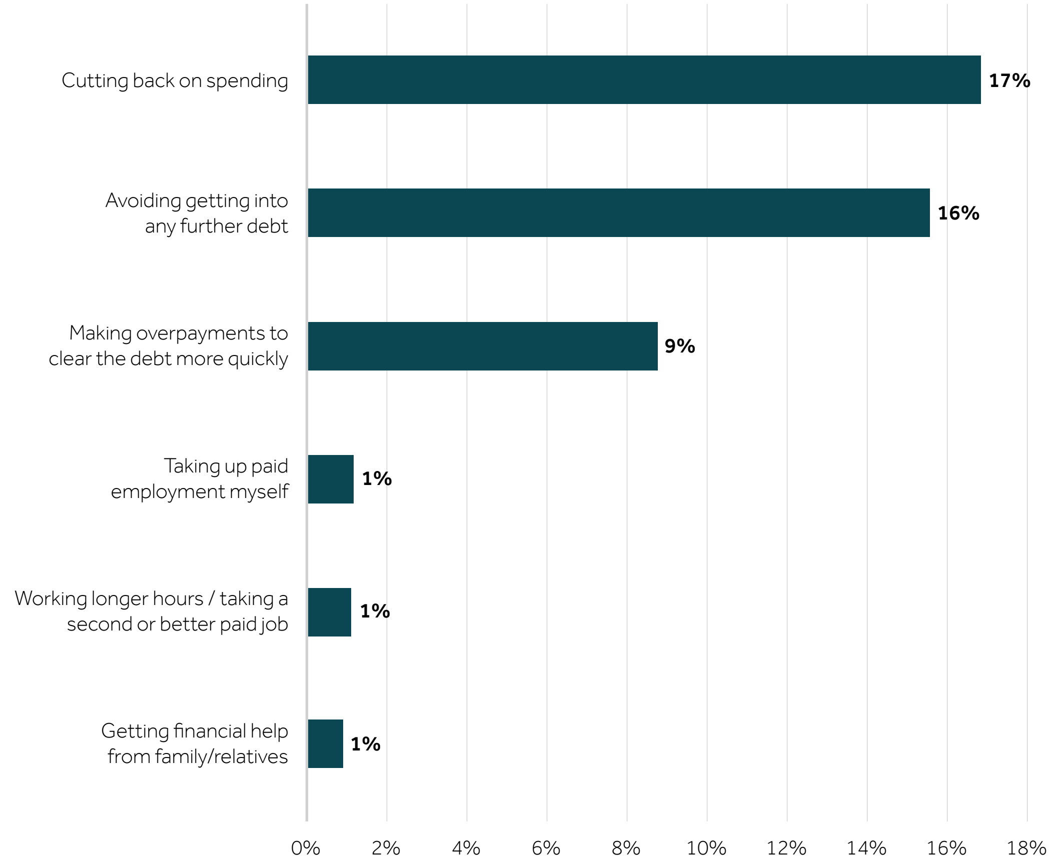
Average amount owed for each of the following types of loans, for those who have such debt, aged 55+, 2020



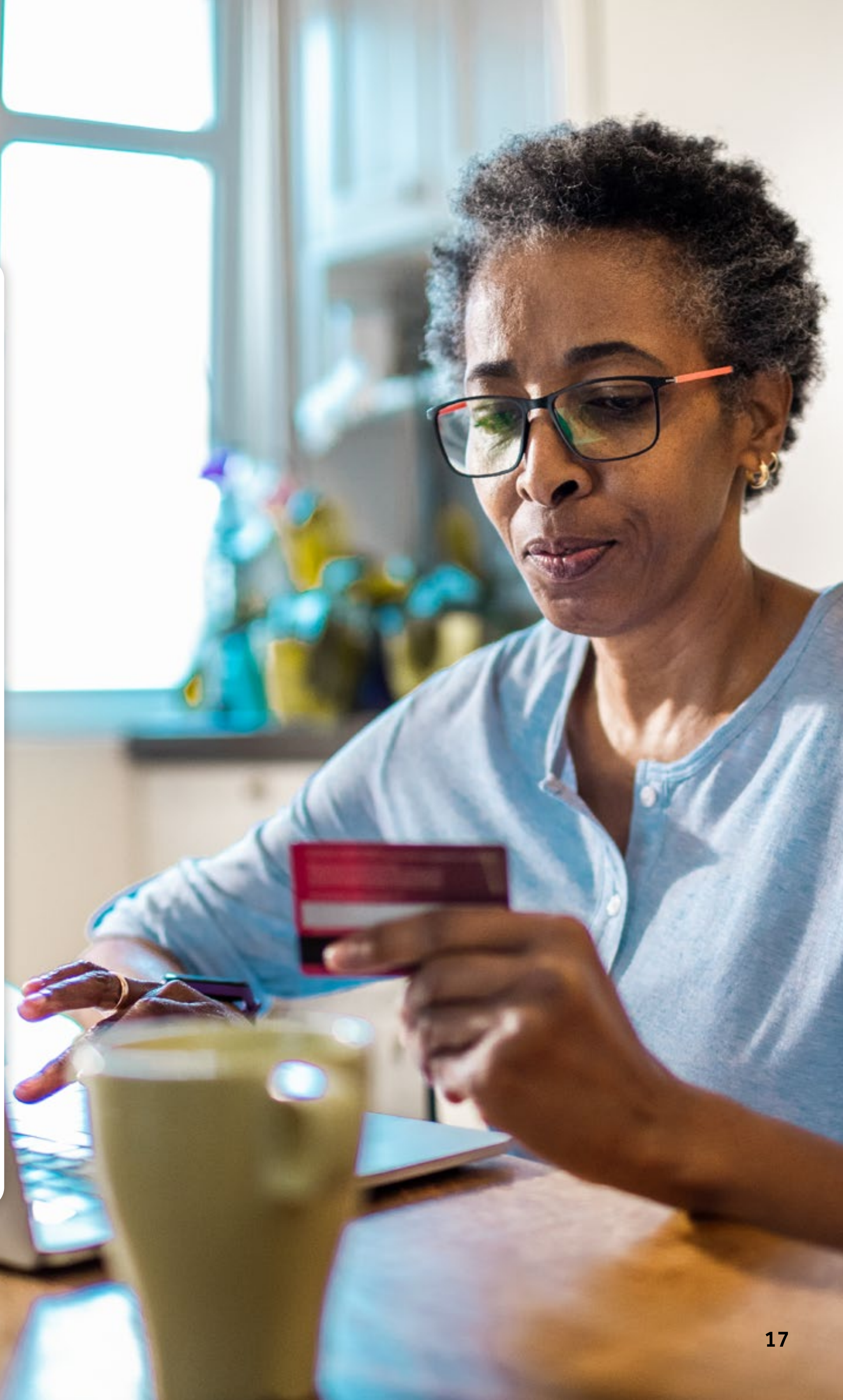
Car finance has the smallest number of borrowers but the **highest average amount outstanding at £9,600**

Source: Bank of England, NMG, Cebr analysis

Share of over 55s with debt who are taking the following steps to deal about concerns with debt, 2020

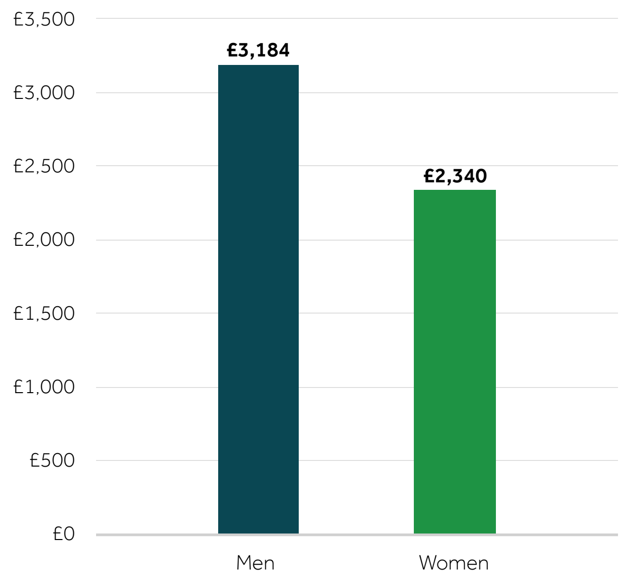


Source: Bank of England, NMG , Cebr analysis



Women missing out on £180k in retirement

Average estimated annual pension contributions, 2020



Source: ONS, Cebr analysis

Women have to work for 54.5 years to reach the same level of pension savings that a **man reaches in 40 years**

The gender pay gap between men and women when it comes to salary and therefore pension provision has been well documented over recent years, and the findings from the research show women are increasingly at risk of retirement poverty.

Breaking down the data by income, gender and number of years worked, the report shows that women have lower incomes in retirement for all lengths of years worked, mainly because of the gender pay gap. This is supported by the fact that despite saving a higher share of their income into their pension funds, women still contribute less overall to their pensions each year because they earn less money.

The report found that women contribute 5.1% to their pension each year, with a further 4.3% contributed by their employers. This compares to the 4.8% of earnings and 3.5% employer contributions men put into their pension pot each year.

Based on the average earnings of men and women in 2020, this suggests that men added an average of £3,184 to their pension pots, while women added £2,340. Extrapolating the figure for 2020 suggests that the average woman has to work an additional 14.5 years to reach the same level of pension savings as a man.

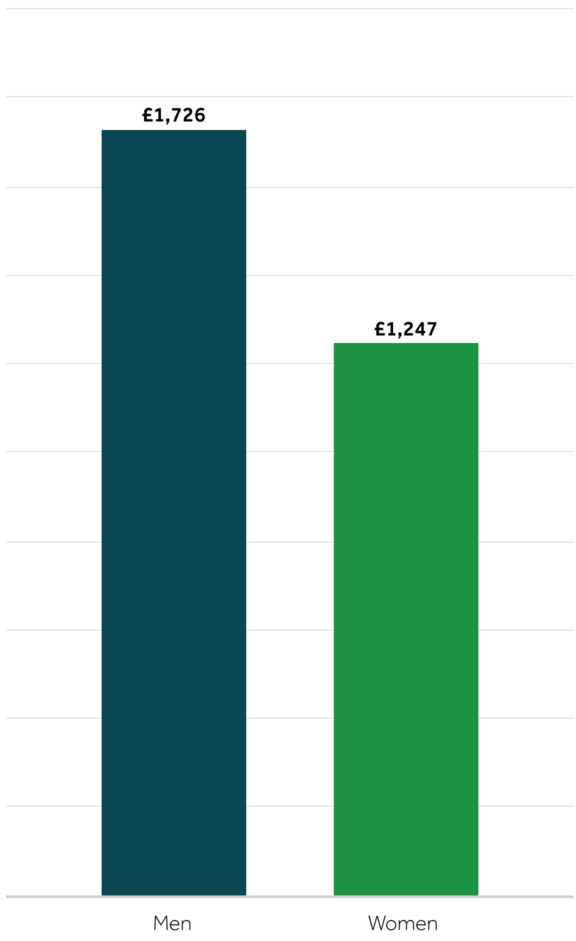
Similar disparities can be seen in the retirement income levels of men and women, with men aged 55 and over having or expecting retirement incomes of £20,712 a year (after tax). Meanwhile, the equivalent figure for women is £14,964.

Based on the average life expectancy (32 years) for a woman aged 55 using calculations from the Office for National Statistics (ONS)[2], this shortfall means that women could be missing out on an additional £183,936 compared to their male counterparts in retirement. This figure is up £26,673 from £157,263 on last year's data, suggesting the Covid-19 pandemic has negatively impacted not only how much over-55s have in retirement savings currently, but how much they anticipate they will accrue before they stop working.

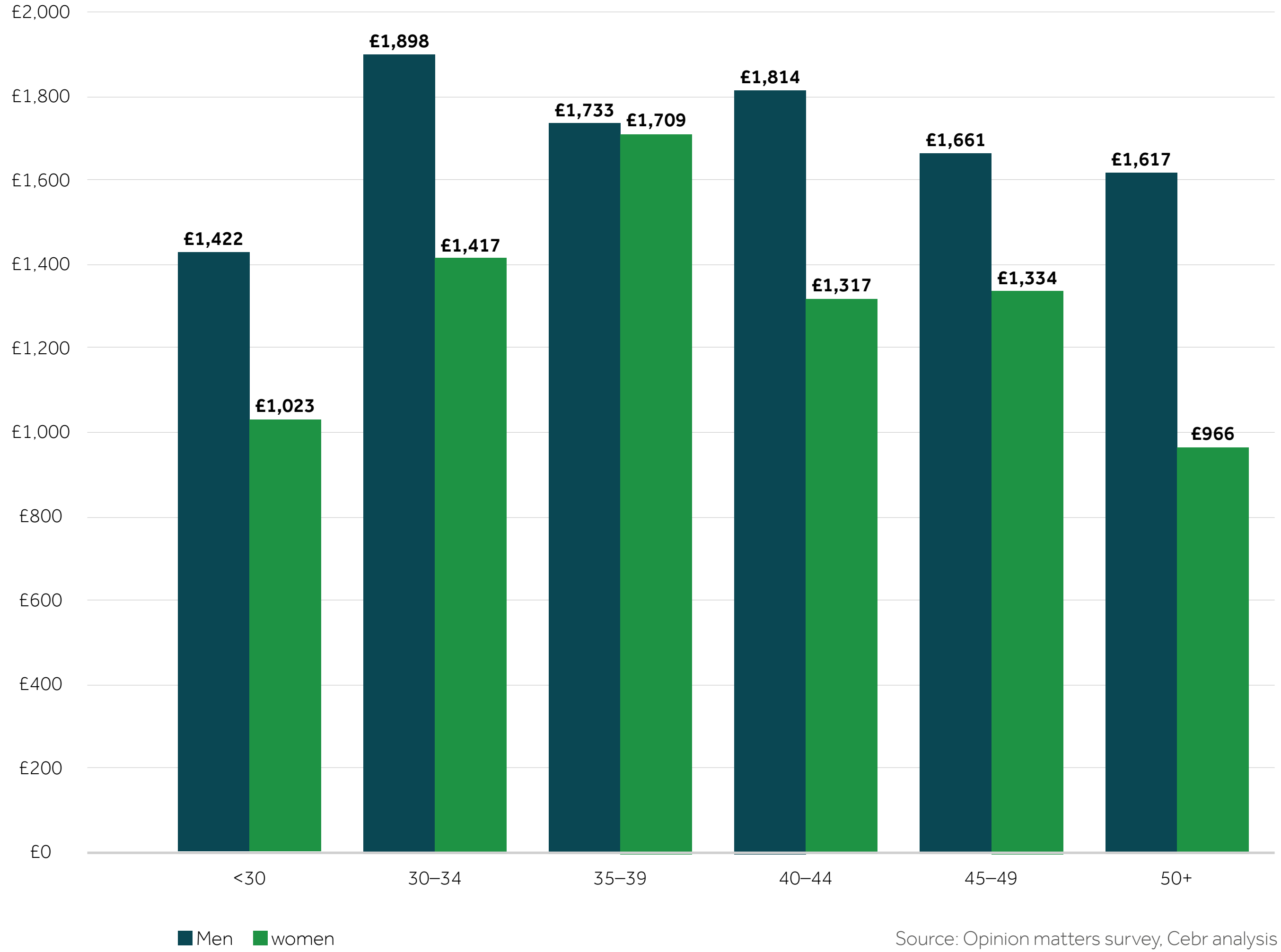
Men who have worked for 30-34 years receive the highest average retirement income of £1,898 per month out of all male respondents, the research found, while women who have worked 40-44 years generate the highest retirement income of £1,814 out of all female respondents. Interestingly, women who worked for more than 50 years only have monthly retirement incomes of £966 compared to £1,617 for their male counterparts. The research suggests this may be because people on a lower income work for longer to support themselves and, as a result, save less for retirement.

[2]Ons: Life Expectancy Calculator

Personal monthly post-tax retirement income of men and women, aged 55+



Average retirement income for men and women by number of years worked, aged 55+



Source: Opinion matters survey, Cebr analysis

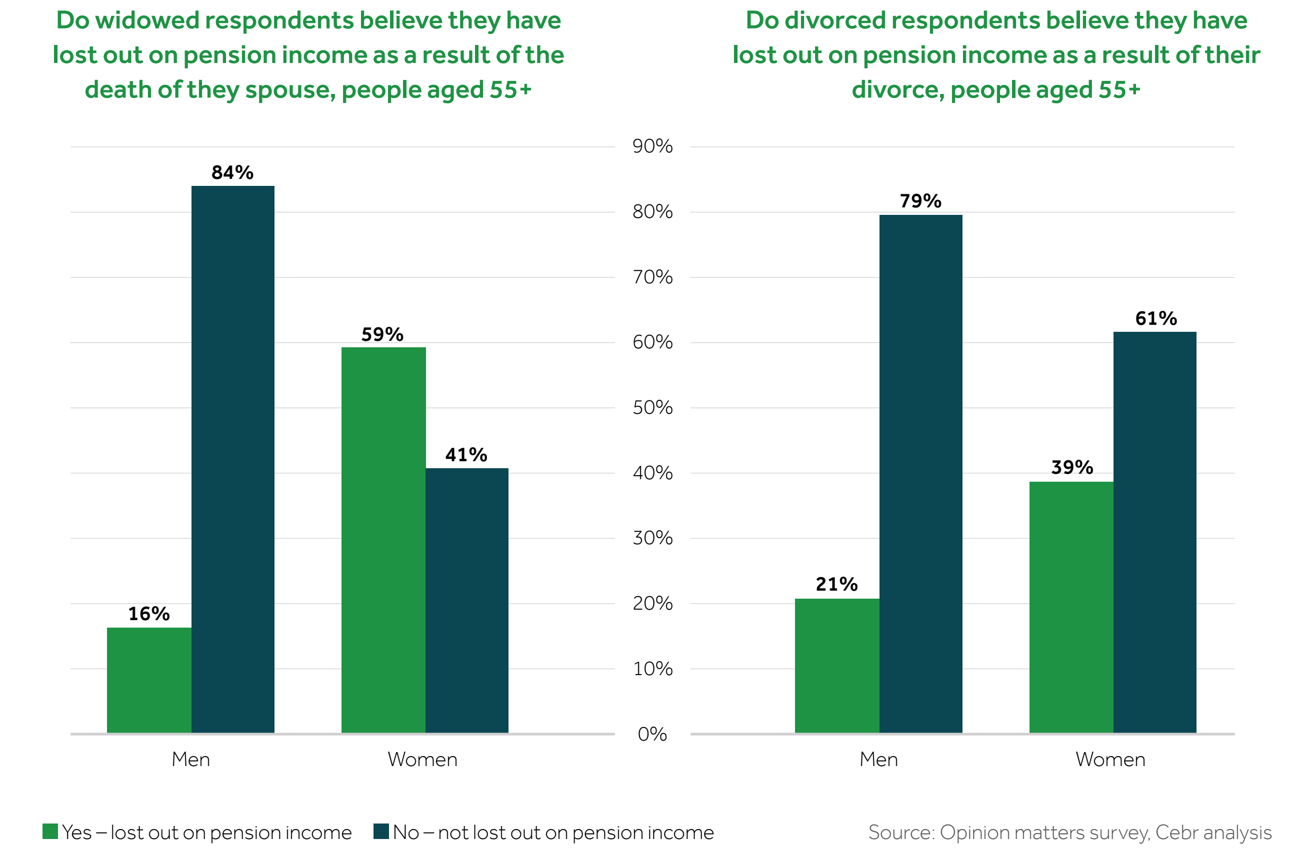
Widows left with less or no income in retirement

Drawing on the continued challenges facing women in retirement, the survey analysed the situation faced by women who have suffered the loss of a partner. It found that the majority (59%) of widows aged 55 and over feel that they have lost out on pension income as a result of the death of their partner.

In contrast, only 16% of men aged 55 and over said they feel the same. In fact, 84% of men said they had not lost out on pension income after their partner passed, suggesting that the financial reliance on husbands and partners leaves many women financially vulnerable during retirement.

Going through a divorce can also leave men and women in a worse financial position for retirement, the research found, with two in five (39%) divorced women of the belief that they had lost out on pension income as a result of their divorce. This was compared to 21% of men.

Interestingly, the majority of men and women thought that they had not been left in a worse financial position after their divorce, with 79% of divorced men aged 55 and over saying they had not lost out on pension income and 61% of women also saying this.



Source: Opinion matters survey, Cebr analysis

Nevertheless, divorced households are most likely to see higher outgoings than income every month, with 23% of divorced over-55s saying their expenditure sometimes, often or always exceeds their income. This is compared to 18% of widows in the same age bracket.

Only 35% of women have independent pension wealth

40% of women do not have pension wealth altogether, compared to a 25% of men

47% of men aged 55 and over say a **defined benefit or final salary pension scheme forms or will form a part of their retirement income,** whereas only 30% of women in the same age group agree

The financial reliance of some women on their husbands during retirement is further illustrated by the fact that the research found only 35% of women have independent pension wealth, with 18% jointly owning this with their partner. This is compared to 47% of men who have independent pension wealth.

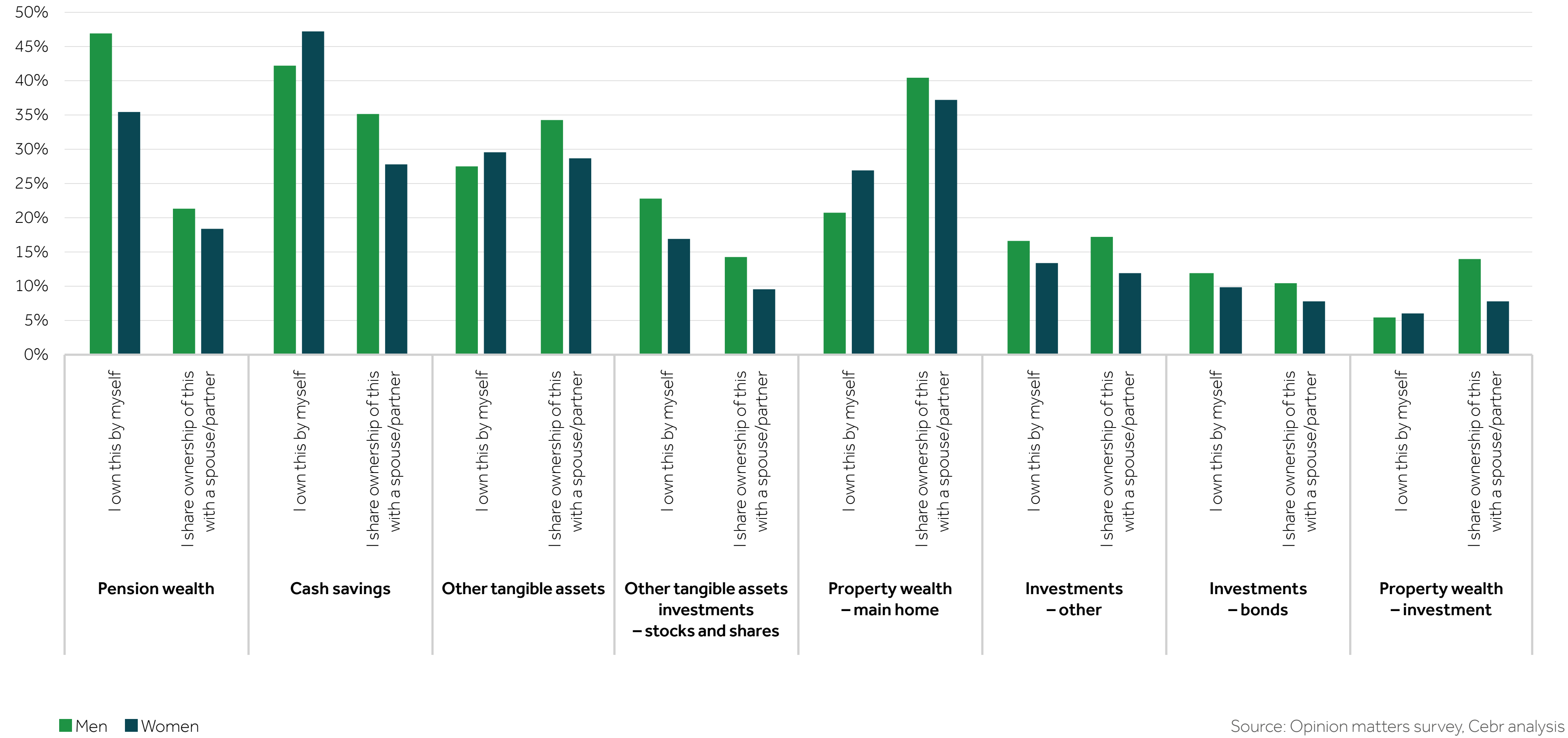
Almost half (47%) of men aged 55 and over say a defined benefit or final salary pension scheme forms or will form a part of their retirement income, whereas only 30% of women in the same age group agree. Alarmingly, 40% of women do not have pension wealth altogether, compared to a 25% of men.

Interestingly, more women (27%) than men (21%) own property wealth, and a similar trend can be seen with cash savings – 47% of women own this type of wealth themselves, compared to 42% of men. For those holding property wealth, accessing equity release products later in life will provide them with more opportunity to unlock a potential revenue stream and achieve more financial freedom should the need arise.

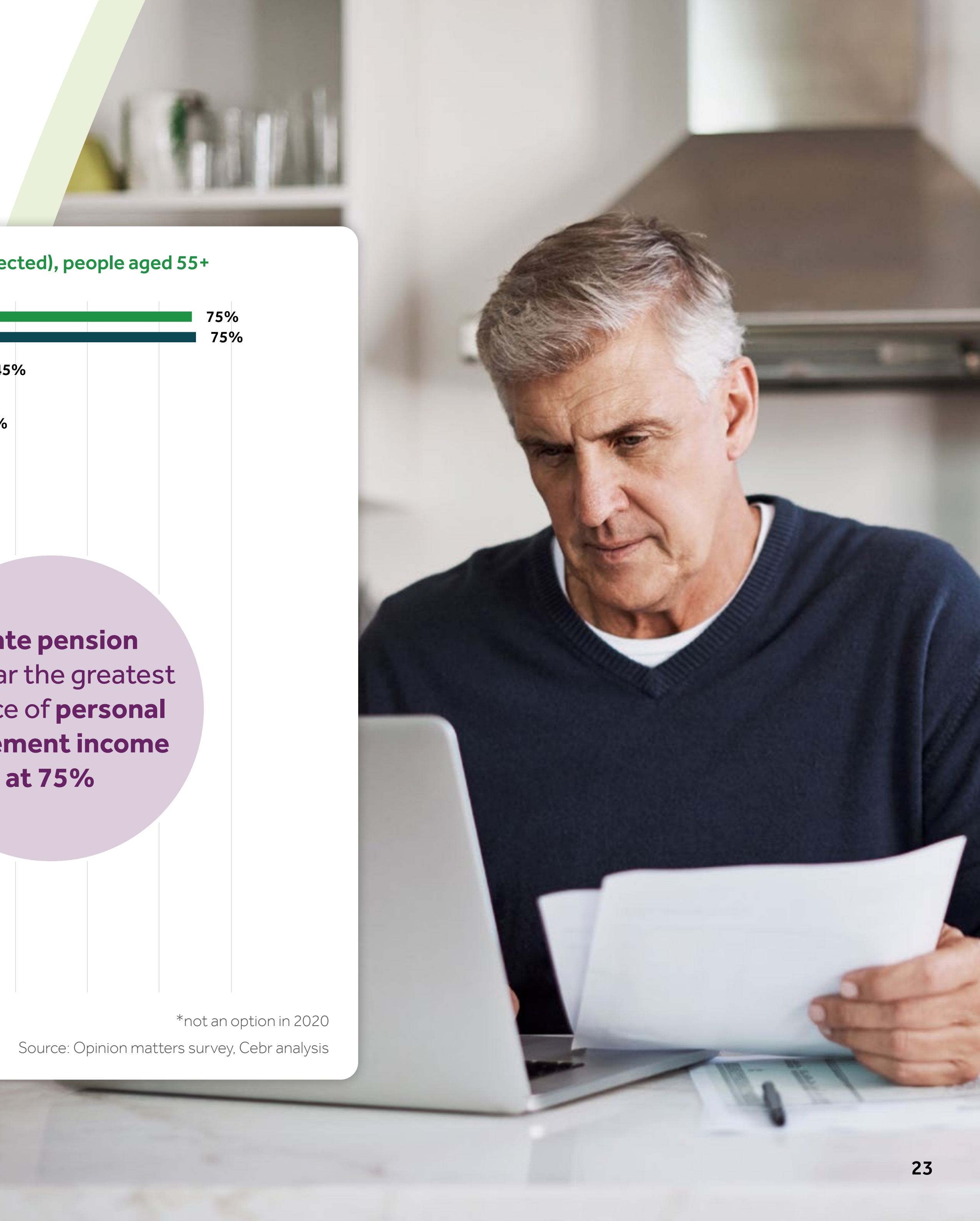
Aside from private and workplace pensions, and cash savings, the overwhelming majority (75%) of over-55s rely or expect to rely on their state pension in later life as a source of income. This is similarly felt between men and women. The second most common option is personal savings (41%), followed by a defined benefit or final salary pension scheme (39%).

A small percentage (8%) said that they had inherited money, or expected to receive an inheritance that would support them during their retirement. This was most common amid the 55-64 year old age category, with 11% reporting it as a source of personal income.

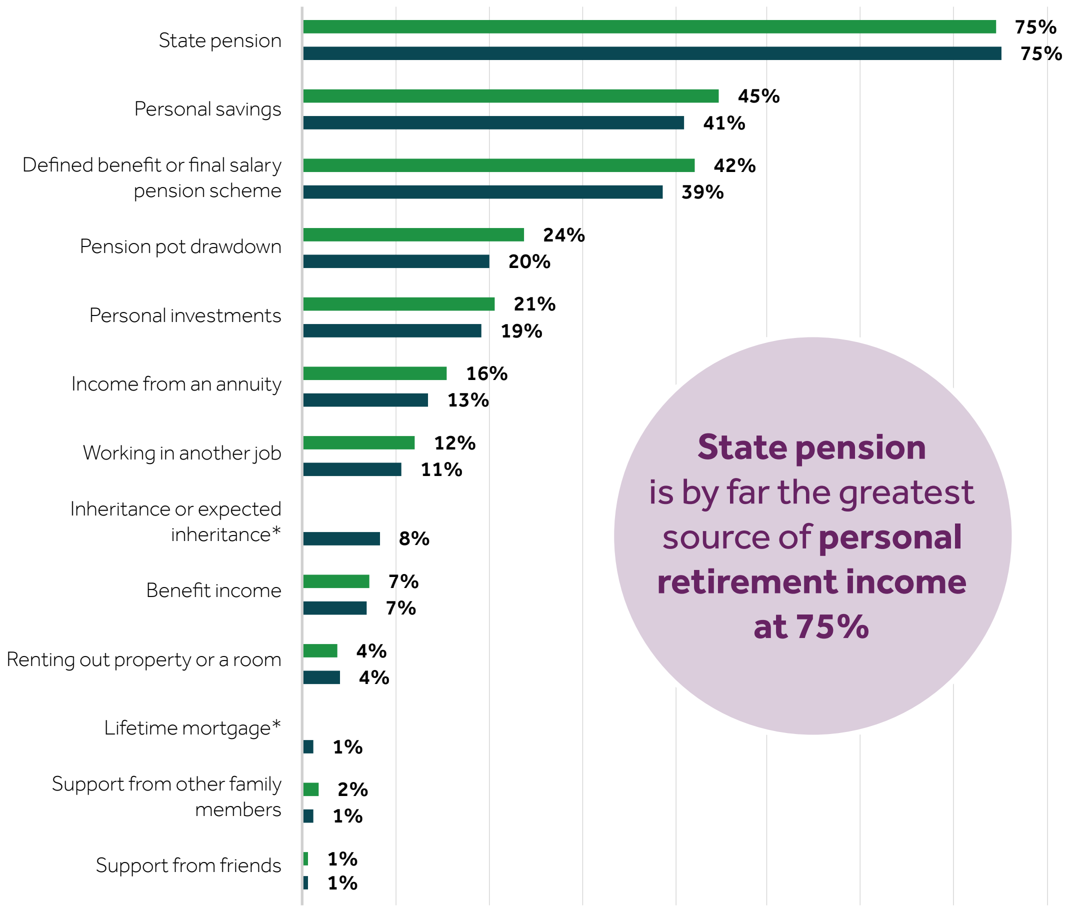
Share of men and women who personally own the following types of wealth, or share them with a spouse or partner, people aged 55+



Source: Opinion matters survey, Cebr analysis



Sources of personal retirement income (current and expected), people aged 55+



State pension is by far the greatest source of **personal retirement income at 75%**

*not an option in 2020

Source: Opinion matters survey, Cebr analysis

Conclusion

The findings from this year's report, give an in-depth look at life for the over-55s in the UK and it is clear from the research that for those aged 55 and over, financial worries are a growing concern.

Rising debt levels and lower incomes in retirement coupled with social and environmental factors, such as rising house prices and living costs, has created an environment where retiring with debt is now commonplace.

In addition, there remains a clear disparity between the income levels received by men and women in retirement, as despite many women working longer, and in some cases, contributing more to their pension pot, they still enter their retirement less financially prepared than men.

Similarly, while the coronavirus pandemic has contributed somewhat to the debt levels of many of those aged 55 and over, the challenges facing UK retirees were there long before Covid-19 caused widespread global disruption.

Debt levels among this demographic have been increasing since this research began and they are set to increase even further over the next decade as everyday living costs continue to increase and the opportunity to save decreases.

This does not bode well for the future of the UK's retirees and the equity release industry must work collaboratively with government and other key stakeholders to raise awareness of these social issues if we are to bring about long-term change.

There are currently 11.9 million people aged 65 and over in the UK and with this figure expected to increase by more than 40% in the next 20 years[3], demand for financial products that draw on housing wealth to provide financial security in later life is expected to grow.

This presents the later life lending industry with an opportunity to develop products that can help those aged 55 and over enjoy a better standard of living when they retire by presenting solutions that can allow them to make the most of their overall wealth and achieve greater financial freedom in retirement.

[3]Age UK: Later Life UK Factsheet

Research methodology

This report is based on research commissioned by more2life and carried out by Opinion Matters between 19th and 26th April 2021, which surveyed the responses of 1,016 UK adults aged 55 and over.

These results were then collated and analysed by the Centre for Economics and Business Research (Cebr), alongside other datasets including the Bank of England NMG survey and the Wealth and Assets survey. Forecasts in this 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.

References for additional research sited in this report:

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   https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandlifeexpectancies/articles/lifeexpectancycalculator/2019-06-0
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   https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/later_life_uk_factsheet.pdf?dtrk=true

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