Retiring in the red

Summary
• Research suggests significant debt among many people retiring in 2020 – an average of more than £17,000 for one in three.
• Societal and economic trends that see people step onto the property ladder later in life, and with less certainty over income growth, could see the problem grow.
• Industry voices support for responses such as 'sidecar' pensions, ISA-linked pensions and lifetime mortgage products.

Instead of sitting back and enjoying their retirement, many pensioners are ending their working lives with significant debt to service. Andy Knaggs looks at the reasons for this and how the financial industry can respond

At the start of 2020, new research released by Key suggested that many of those retiring this year will face significant debt challenges.

The research was a study into the finances and ambitions of more than a thousand people who are expecting to finish full-time work in 2020. It discovered that more than one in three of these people will retire in the red, with average debts of £17,460. About 8 per cent owe more than £20,000, and 4 per cent did not know how much they owe.

Key chief executive, Will Hale, comments that servicing and repaying over £17,000 in borrowing from their retirement nest egg is a tough ask. He adds: "Even those with generous incomes may find this a stretch, and people are taking an average of three-and-a-half years to clear the debts they retired with, at a time when they should be enjoying an active retirement and worrying less."

This is certainly not a new phenomenon. Just a couple of years ago, *Pensions Age* looked at exactly this issue, drawing upon statistics from Prudential's *Class of 2018* research into people entering retirement. The headline figure then was that those retiring had an average debt of almost £34,000.

Meanwhile, figures from the Office for National Statistics, provided by Age UK, suggest that pensioner debt is actually less of a problem now than it was eight to 10 years ago. These numbers show that 7 per cent of those aged 65 and over had financial debts that they considered a heavy burden in the period 2016 to 2018, whereas 14 per cent did so in the period 2010 to 2012.

Real issue

One has to be careful about reading macro-trends into such data: what seems clear is that many people reaching retirement do so with an unresolved debt situation.

Prudential has not produced its *Class of…* research since 2018, but the company's senior retirement income expert, Vince Smith-Hughes, believes that pensioner debt remains a very real issue, with mortgages, credit cards and bank loans all contributing. However, the issue has to be understood within changing societal and economic patterns, and one of these is that the manner in which people retire today is different to that of their parents' generation.

"People used to retire one day, put the carriage clock on the mantlepiece, and never do another day's work," says Smith-Hughes. "These days, people are easing into retirement more. They might cut down to part-time work, or have a six-month contract. There are lots of people who are taking the opportunity to wind down gradually, and that might lead them to think they can service their debt and perhaps even spend some more money on new debt."

Another situation that is very apparent is that parents are sometimes re-mortgaging their house to give their offspring a hand getting on the property ladder, he adds. "It's almost like giving them their inheritance 25 years early. It's very easy to read the headline figures and think it's terrible that people have to do this to put food on the table in retirement. In many cases, people are making a conscious decision."

Real life

The financial pressures that make it hard for young people to get onto the property ladder until later in life will also contribute to this trend of pensioner debt going forward, according to Age UK charity director, Caroline Abrahams.

"There is a fundamental change happening with mortgages, in that the 'model' that has traditionally been used, where someone takes out a mortgage in their mid to late twenties, is increasingly broken," she observes. "Now, people are graduating from university with significant levels of debt which, coupled with high rents in many areas, can make it very difficult to save for a deposit. High house prices then mean they are hit with a double whammy – not only is it difficult for them to save for a deposit, they need a much larger one than before.

"As a consequence, people are buying their first home at a much later age than before, and having a mortgage for longer. This means that they may be borrowing into retirement or, alternatively, they will not have as long a 'mortgage free' period while in work and before retirement to accumulate retirement savings as previous generations enjoyed."

The increasingly fragile nature of work isn't helping here. There is no certainty whatsoever today that someone's income will steadily increase as they get older, meaning they may not be as affluent by the time they retire as previous generations.

Bigger picture

Debt in general is a much deeper-seated problem for society. The statistics about pensioner borrowing are just a small part of a bigger picture, as Money and Pensions Service head of debt policy and strategy, Craig Simmons, points out: "Often when dealing with money problems, there are a number of interconnected issues. We know that 11.5 million people have less than £100 in savings to fall back on, nine million people often rely on credit to buy food or pay for bills and 22 million don't know enough to plan their retirement, so there will be some people wanting to access their pension to pay off debts."

Spence & Partners director, Hugh Nolan, also cites a generational aspect that will likely contribute to further levels of debt when people reach retirement age; the willingness to take on debt – often easily available through services such as payday lenders – to have what they want now, rather than saving for it.

"There's a massive difference between my generation and the one behind," he notes. "There is much more of a sense of easy credit today, encouraging people to rack up debt."

Locked in

All of these trends would suggest that pensioner debt is being very much 'locked in' for the foreseeable future. Given that likelihood, how can the financial sector adapt, to mitigate pensioner debt or to empower people to manage debt as they contemplate retirement?

StepChange Debt Charity head of policy, Peter Tutton, says: "Industry and policymakers need to think about how best to help households with low income and low financial resilience to save for the future. Good ideas like 'sidecar' pensions savings may help people to manage long-term and short-term savings needs better, as might a better focus on pensions tax relief on those who need the most help to save. A simpler pensions landscape without multiple pots might help people to better engage with their pensions saving.

"We strongly support the flexibility that has begun to be shown in lifetime mortgage products, but recognise that the interaction between pensions and other financial products can be complex and can have wider consequences for individuals. Mostly, the clients we talk to are dealing with a financial problem rather than managing their financial assets to maximise their opportunities."

Abrahams says that lenders need to start identifying new products that reflect the changes in how people are now living their lives. She continues: "We recognise that they have made some progress, and lenders are much more willing to allow borrowers to borrow into retirement, but they must be much more innovative in developing radically new products that reflect the changed circumstances of their customers. We appreciate that lenders operate in a highly regulated sector – regulators must also start to encourage and facilitate firms to develop such products."

Nolan would also like to see some product innovation, such as an ISA with easy access to savings funds, but where the funds can be swept into a pension after a period of time.

Of course, designing new savings and pension products can only go so far, and people still need to find it within themselves to plan and save for their futures. Although we look at the issue of pensioner debt in the round, every scenario is an individual one, and education and advice must play the biggest role in ensuring people's finances are in good shape at the point of retirement.

Written by Andy Knaggs, a freelance journalist