

The ticking timebomb of renting in retirement



Anna Brain

The Pensions Policy Institute (PPI) has run a policy simulation using its UK Pensions Framework, established three years ago, to explore the impact rising levels of private renting in retirement will have on member outcomes, describing it as ‘fault line’ opening beneath the pensions system. PPI research associate, Anna Brain, discusses the simulation’s findings and the potential policy implications.

➤ Can you give an overview of the report/policy simulation?

The PPI has been running a piece of research called the UK Pensions Framework. Its purpose is to look across the entire UK pensions system, and identify its strengths and weaknesses that relate to either adequacy, sustainability or fairness in the system, and spot trends in the system that might reflect policy changes that have taken place or that might help us to anticipate problems.

One of the biggest risks to future

➤ Jack Gray speaks to Pensions Policy Institute research associate, Anna Brain, about the institute’s report on the threat the rise in private renting could have on the UK pensions system

retirement outcomes we identified was falling home ownership. Today, 78 per cent of pensioners own their own home and 15 per cent live in social housing, which means they have low housing costs and secure tenure through retirement.

Over the next 20 years, the proportion of people living in the private rental sector could rise from 6 per cent to around 17 per cent. There are several reasons for that. Home ownership itself has fallen, but the second really important factor is a shortage of social housing.

Since the 1980s, there has been a net loss of around 1.5 million social homes. That means that a lot of the families that would have lived in social homes through retirement in the past, particularly low-income families, are unable to access that kind of tenure today.

We feel that this fall in home ownership and the rise in private renting is one of the biggest threats facing adequacy in the future, and it affects a huge population of people.

➤ Is this a pensions problem or a wider policy issue?

Looking at this from a pension perspective, it’s very clear. We look in this report at people aged 45 to 64; these are people who are retiring in the next 20 years.

The average household in this age group in the private rented sector has

around £60,000 in pension savings and around £30,000 in other assets. The cost of a one-bedroom flat outside London through retirement would be in the region of £180,000. This immediately tells you that it’s too late for most of these households to save enough, either in pension or non-pension savings, to be able to afford the cost of rent through later life.

That doesn’t negate the importance of pension saving and it doesn’t negate the importance of ensuring that savers are achieving value for money and making the right amount of contributions. But what it means is this is much bigger than a pension issue.

When we put this through the framework, we saw a huge decline in future adequacy. Normally, if you just look at something as a pensions problem, if adequacy goes down, then the sustainability of the system would improve, because it would indicate that there was less money going into the system that would result in poorer outcomes. In this circumstance, sustainability doesn’t change because this problem comes from outside the pensions system.

This is where solutions will be important because they are going to span several policy sectors, so it raises a couple of questions: Are we looking adequately at threats to retirement outcomes that come from outside the pension system? And: How do policymakers need to work together to tackle the problems that lie

ahead and prevent them from happening to the upcoming generation?

For this age group, it's going to take a three-pronged approach. Firstly, you have pensioners and pensioner saving, so people can build up their own income through both private pension saving and contributions to their state pension.

The second is the extent to which they receive support from the government in terms of their future retirement. That will include both housing benefit, other means-tested benefits, and the level at which the state pension is paid.

All of the metrics and measures we have in the UK pensions system are based on the assumption that people don't have housing costs. There are a number of complex interactions there, particularly around pensions and eligibility for means-tested benefits.

The third part of this issue is around housing, and it's very unlikely that there will be a majority shift from this group of people out of privately rented homes to either home ownership or social housing. For that to happen, there would need to be a huge change in access to home ownership or in social housing provision. Another way of looking at this is that we need to make private renting more affordable.

Whatever happens, this is not something that can just be tackled by pensions.

➤ How big of an issue do you envision this being?

If nothing were to change, this is a significant problem because, out of this group, the only households who would be able to afford their rent through later life would be those in the top income groups. This means that over a million more households could be facing a retirement where they have lower living standards.

From a public spending perspective, this is also a significant problem because public spending will have to form part of

the solution, given the short timeframe we have.

Compared to other risks faced by pensioners and the pension system, I think it ranks up as one of the most significant. We have a huge increase in living costs without an expected increase in retirement income.

"The policies we have are based on what retirees look like today, and not based enough on what the retirees of tomorrow will look like"

➤ What could change this scenario?

The shift towards having more pensioners in rented accommodation cannot be reversed, but the speed or size of the change could be addressed. One of the biggest factors in what could change is inheritance.

We know that amongst today's older population there is a huge amount of housing wealth that is set to flow through to younger generations in the future.

That inheritance will make a difference to many people, but it's very unlikely to be enough to shift tenures, particularly at this stage in life. In this case, moving from the private rented sector to home ownership, for most people it is unlikely to be enough to make that move, but it could make a considerable difference to adequacy and their ability to afford their rent.

In this research we have held all other factors constant, which means that inheritance roughly stays at the level it is today.

That is because the majority of these households are low-income households, and statistically we know that they are likely to inherit the lowest sums of money. We cannot rely on inheritance as a solution to this problem.

➤ What are the policy implications?

There would be an increase of several-hundred thousand who may become eligible for housing benefit in retirement. There is a concern that the level of pension savings that people have will affect their eligibility for means-tested benefits.

Under the universal credit system, pension savings are not counted towards the means test, so I think there is an argument for revisiting the qualifying criteria for housing benefit for people over the age of 65.

Housing benefit is based on the local housing allowance, which had been frozen at 2018/19 rates until the recent Autumn Statement. That means that, despite rents going up, people were not receiving a proportionate rise in their benefits.

This relationship between pensions and housing calls into question the longevity of the whole retirement income model we have in the UK. That is because this retirement model is based on several assumptions.

One of them is that people will reach later life with no housing costs. There are other assumptions we are worried about, including the notion that people will be able to work up to state pension age and the expectation that people will contribute on an ongoing basis. There is a real need to revisit some of the metrics we use and to look at inertia-based policies.

There isn't a conversation between policymakers currently as to what the right level of housing tenure should be. Without some kind of consensus across all policymakers as to what we are aiming for, we cannot work to deliver solutions.

The policies we have are based on what retirees look like today, and not based enough on what the retirees of tomorrow will look like.

➤ Written by Jack Gray