**Summary**
• A fifth of 2018 retirees will do so in debt. The average amount owed has grown by 40 per cent since 2017, to £33,900. The debt is mainly the result of credit cards and mortgages.
• Longer-term mortgages, continuing past the age of 65, is likely to increase the number of people entering retirement in debt, as will university debt, a growing number of people renting in retirement and the rising cost of living.
• The pensions industry can assist people approaching retirement with debt by signposting them to financial advice bodies.

# The price of debt

**The number of people entering retiremen in debt is set to grow rapidly. Laura Blows explores why this is the case and what the industry can do to help these retirees**

£33,900. While the pensions industry is understandably concerned about matters like how to ensure auto-enrolment contributions provide a sufficient retirement income, or whether DB scheme pensioners should be protected from the risk of its scheme falling into distress by changing the inflation link from RPI to CPI, there are many people – a fifth this year – beginning their retired life on a minus figure greater than the UK's average annual salary.

So finds Prudential's annual research into people entering retirement.

Its *The Class of 2018* report shows that one in five people planning to retire this year will do so with debt. Of those retiring in debt, the average amount owed is £33,900, 40 per cent higher than those retiring last year on £24,300, and 80 per cent higher than the low of £18,800 recorded in 2016.

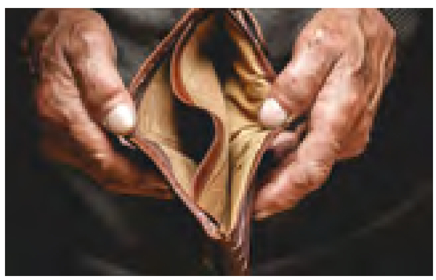
The figure for 2018 is a record high, surpassing the average £38,200 retiree debt recorded by Prudential in 2012. Since then the amount owed had steadily declined, but has been rising back up again from 2016.

Delving into the figures, men were found to owe substantially more debt than women, owing £43,600 on average, compared to the average £19,200 owed by women. Regional differences also shone through, with those retiring in the North West most likely to retire in debt, with 24 per cent of respondents there doing so. Wales is the least likely area to see retirees in debt, at 14 per cent.

**Reasons for debt**

Society of Pension Professionals president and Spence & Partners director Hugh Nolan sees how easy it is for retirees to fall into debt.

"Lots of pensioners in the UK struggle to make ends meet each week. Those without a private pension to top up their state pension can only afford a very basic standard of living and usually have little or no savings to deal with



unexpected one-off expenses, however vital they may be," he says. "They end up in debt paying high interest charges, which eat further into their meagre incomes, and can only repay minimal amounts so that the interest just keeps on coming. Other people who fall into debt can hope to get a new job, promotion or pay rise to ease the pressure but pensioners can't even see this possible light at the end of the tunnel."

At a time when the base rate is expected to rise, it is worrying to see the rapid increase of a pensioner's average debt, Prudential retirement income expert Vince Smith-Hughes says.

"Given forthcoming retirees' expected income has increased for the fifth year in a row, it's possible that some people feel more comfortable about servicing debt and are borrowing more," he explains.

"Meanwhile, more and more grandparents are helping their grandkids with university fees and children with house deposits."

According to Prudential's research, credit cards and mortgages account for the biggest proportion of debt. Over half of those retiring in debt owe money to credit card firms, with 38 per cent still paying off mortgages, its research finds.

This is backed up by StepChange Debt Charity's findings. Its financial solutions manager Andrew Kerry says: "Those approaching retirement can be cash poor but have assets, with the main reasons our retired clients borrow money being clearing outstanding mortgages or paying off debts."

More2life's 2017 research, *The size of the retirement lending market,* also finds that 9 per cent of 65-74 year olds are still repaying their mortgage, as are 4 per cent of over-75s. The average mortgage debt for 65-74 year olds has increased from £5,400 in 2006-2008, to £9,500 in 2012-2014.

As the average amount of debt has increased in the past year, so has retirees' repayments. Prudential finds that 2018 indebted new-retirees will pay an average of £285 a month, up nearly a quarter on the £230 a month being paid on average by those retiring in debt in 2017.

Of those retiring in debt in 2018, 14

per cent expect to take over seven years to pay off their debts and 6 per cent fear they will never clear the money they owe.

"Debt repayments will take a substantial slice of monthly retirement income, which will make budgeting tougher at a time when most people will see their income drop as they stop work," Smith-Hughes says.

However, the problem of pensioners in debt may be "less acute than it might seem", Nolan says, as the biggest debts may be new retirees who haven't quite finished paying off their mortgage. "Some of these have private pensions or are not yet able to draw their state pension and can therefore look forward to a decent retirement even after settling their debts," he explains.

Since Prudential started researching the number of people retiring in debt in 2011, the proportion has remained pretty consistent, hovering around the 20 per cent mark. However, the number of people retiring in debt decreased this year, from a quarter in 2017 to 19 per cent this year. This Prudential retirement expert Stan Russell attributes to the pensions freedom and choice reforms, as many may have used their newly-freed pensions to pay off debts, reducing the percentage of people still with debt in retirement.

**A growing problem**

Yet the numbers look set to explode. More2life's research forecasts the total debt held by over-65s to grow from £65 billion in 2017 to £142 billion by 2027. This it attributes to the rising number of over-65s in employment, increases in the state pension age and increasing household incomes for the over-65s increasing the ease in which this demographic can access credit.

Currently, its research states, 65-74 year olds hold an average of £12,500 of debt, which is forecast to increase to a £22,700 average by 2027. Those aged between 75-84 currently hold £4,100 of debt , which is expected to rise to £8,200 by 2027, while over-85s are expected to increase from £2,400 of debt to £6,000 within a decade. Growth in average unsecured debt among the over 75s was higher than any other age group, More2life adds.

According to the International Longevity Centre-UK (ILC)'s 2017 report, *Lengthening the Ladder: The future of borrowing in older age*, the amount of mortgage debt held by over-65s is set to increase by more than £19 billion by 2030 – from £20.1 billion to £39.9 billion.

More2Life's research explains this expected growth. The average first-time home buyer is now over 30 years old, and with the number of longer-term mortgages increasing, they can expect to still be in debt in retirement. In 2016, 28 per cent of all first-time buyers opted for a 30-35 year mortgage, an increase from 11 per cent doing so in 2006.

Mortgages may not be the only reason why future generations can expect to spend later life with bills still to pay. Russell thinks that the cost of university tuition may also play a part, as even though the university debt is wiped after a certain number of years, while it is still being paid for it adversely affects people's financial ability to save for a mortgage or pay into a pension, increasing the likelihood of mortgage debt and a smaller pension at retirement.

The increasing number of people not buying a home at all, but permanently renting may also cause financial strain in retirement. They run the risk of high rent increases, while those owning homes benefit from having much lower expenditure, as well as having a capital asset to fall back on if needed, through equity release or downsizing for example, Nolan explains.

**Industry help**

Despite pensioner debt likely to become a growing issue, "sadly the people most in need of help are largely ignored by the pensions industry as they aren't in our schemes and don't buy our products," Nolan says.

However, the success of auto-enrolment means an increasing number of retirees should have some additional savings in the future.

"The industry must do all it can to support AE, including designing inexpensive products for people with small pots to invest and withdraw their savings without facing disproportionate charges," Nolan adds.

The People's Pension director of policy Darren Philp agrees that "much more needs to be done across the industry" to help people understand the options and support available to them in preparation for life after work.

"It's important to remember that how people live their lives is changing. The days of collecting your pension at 60 or 65, having paid off your 25-year mortgage, are a thing of the past. And how people plan their financial lives and the role that pensions play in that needs to evolve," he adds.

To assist with this, Kerry says: It's important that *[retirees in debt]* seek a full range of advice and do not make hasty decisions such as cashing in their pensions to clear the debts. Pensioners will have a slightly different set of concerns and could be recommended different debt solutions more suitable to their circumstances and could greatly benefit from free debt advice."

Tackling the issue of older people in debt needs to begin well before they retire, Russell says, by signposting people to bodies such as Pension Wise, Citizens Advice and Money Advice Service before retirement to help find out how they could manage their debts.

People retiring in debt may be the individual's own concern, but if the number doing so rises significantly, and the amount owed increases rapidly, the pensions industry will be one of the sectors paying the reputational price.

**Written by Laura Blows**