



Planning tomorrow **today**

# Supporting aspirational retirements through financial decisions

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# What am I going to cover?

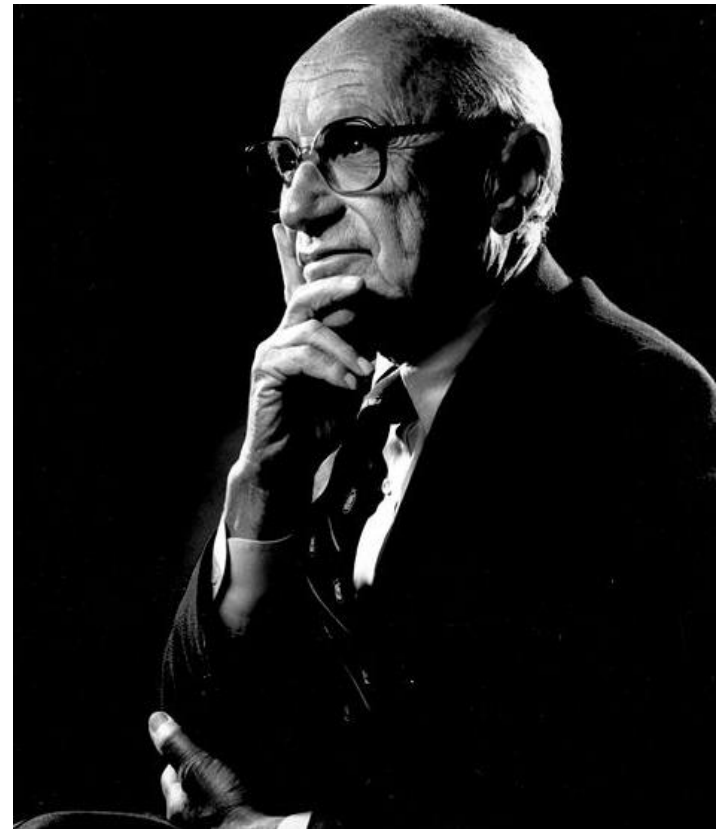
- ✓ What are financial decisions for?
- ✓ What is retirement currently like?
  - Saving and consumption in retirement.
  - Activities of daily life.
- ✓ How can we support an aspirational retirement?

# What are financial decisions for?

## In theory:

To maximise wellbeing over the lifetime

- Life cycle theory – smoothing consumption
- Saving and investing when young to support lifetime income. Consume wealth when old.
- Prioritising larger gains tomorrow over smaller ones today.



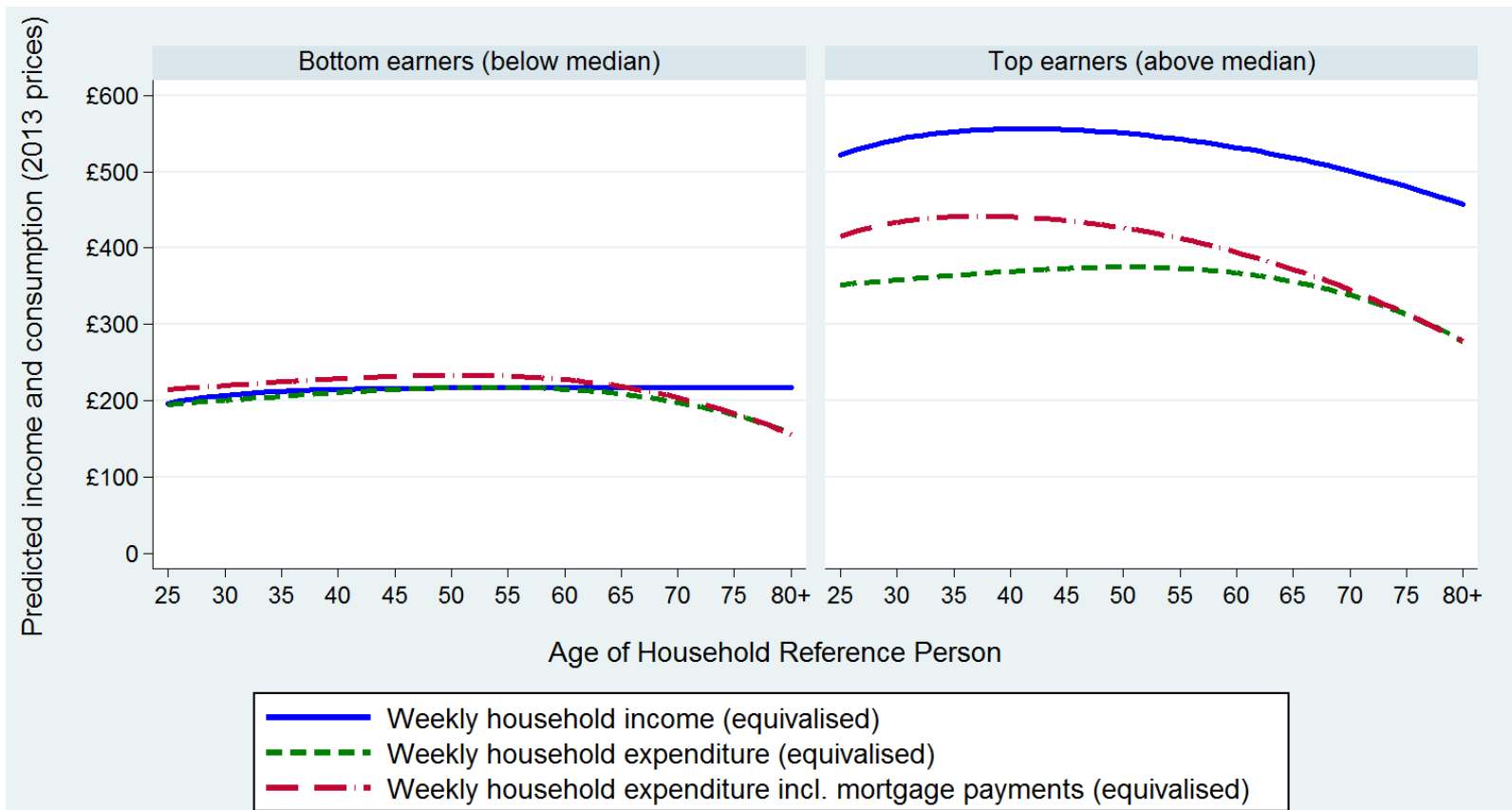
# What is retirement currently like?

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# People consume progressively less after age 60 and people save in later life



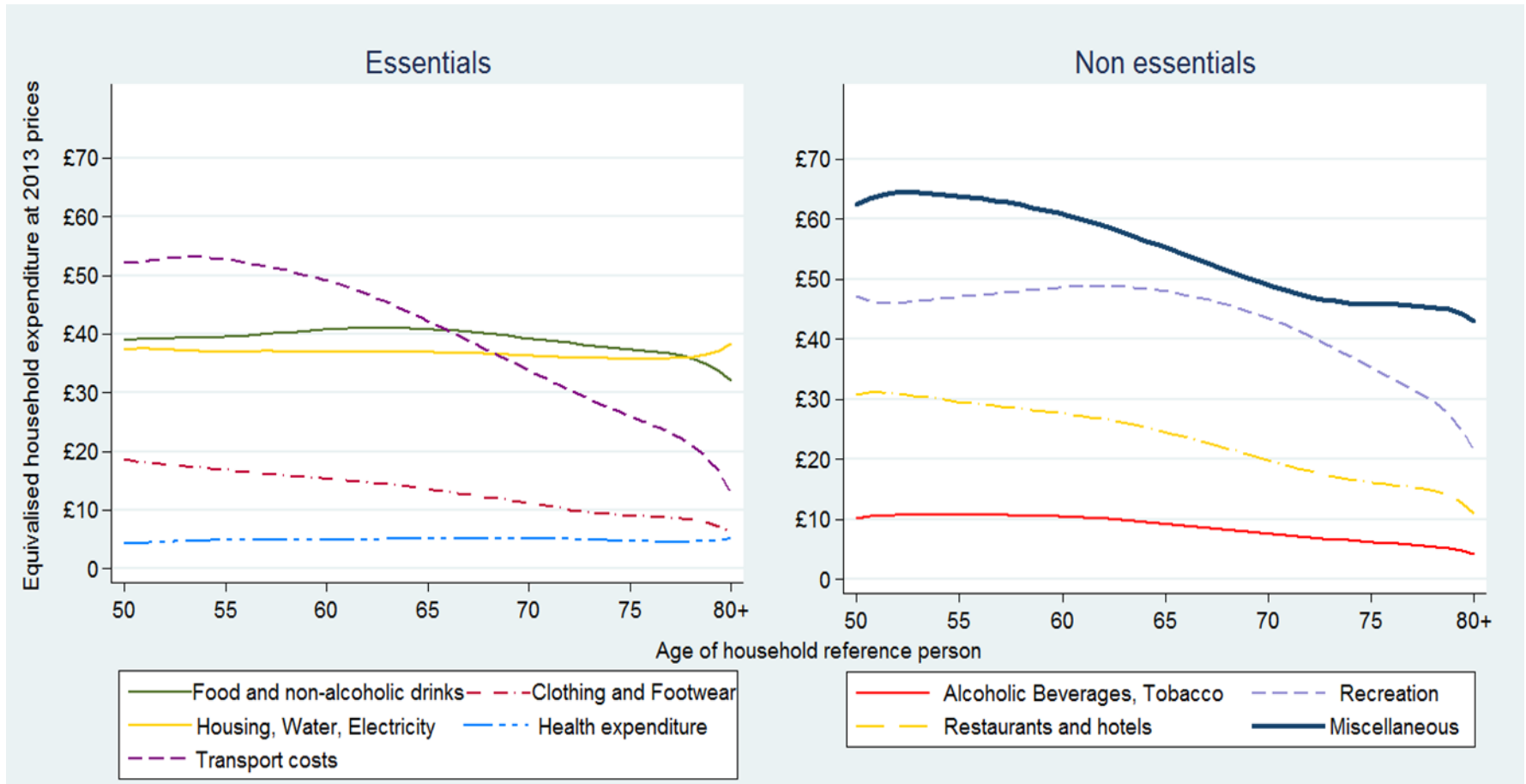
Source: author's elaboration from Living Cost and Food survey / Expenditure and Food Survey (years 2003 to 2013)

Consumption expenditure and household income deflated by RPI index at 2013 prices; OECD equivalence scale used to account for household composition; top and bottom 1% of the distribution of consumption expenditure and household income have been trimmed to exclude outliers; data are weighted using annual weights.

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# Spending on non-essentials falls



Source: author's elaboration from Living Cost and Food survey / Expenditure and Food Survey (years 2003 to 2013)  
 OECD equivalence scale used to account for household composition; data are weighted using annual weights.

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# No evidence of U shaped consumption path being “typical”

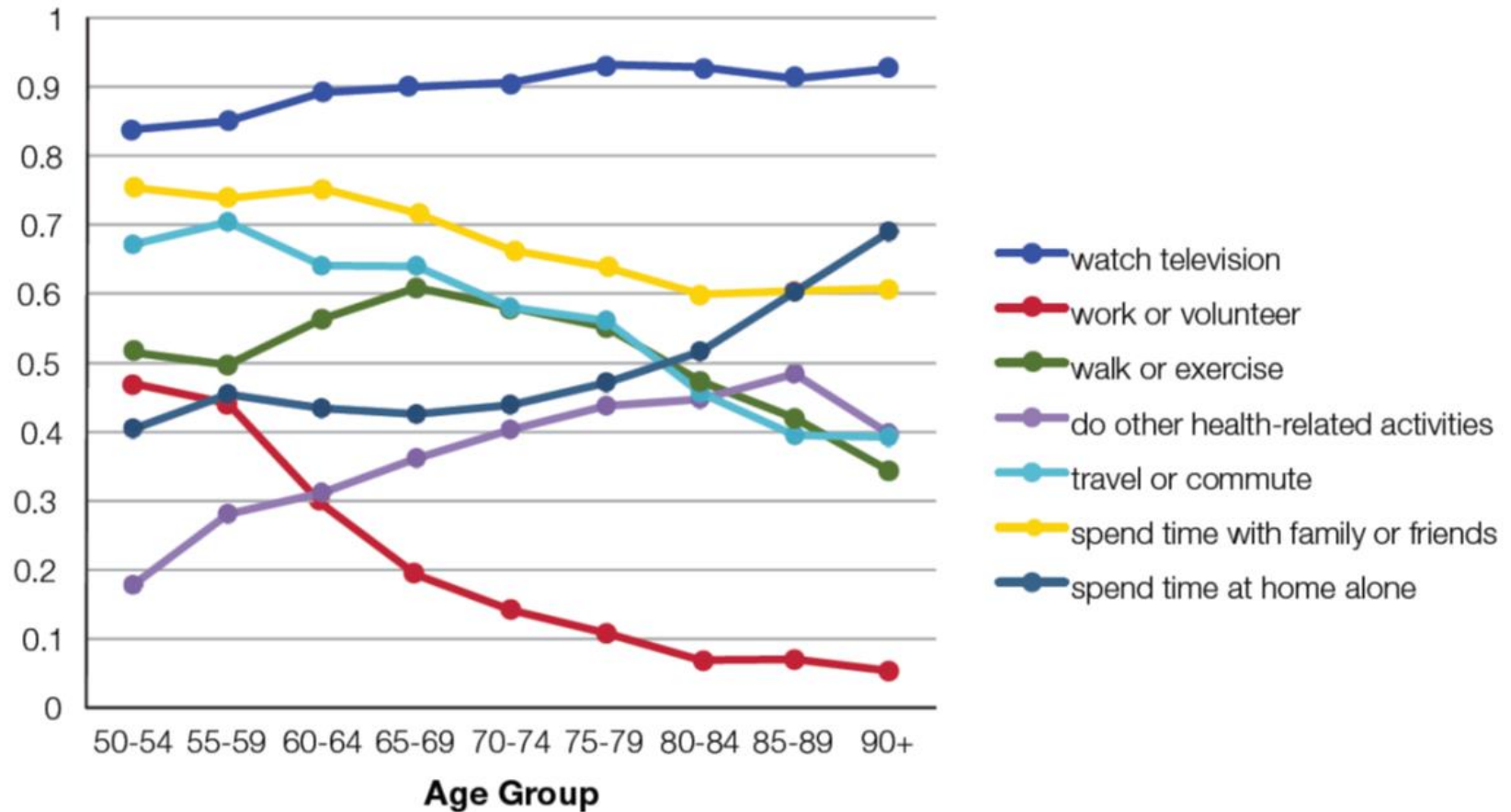
- Consumption does not dramatically rise at the start of retirement or pick up towards the end of life to meet long-term care related expenditures
- Even for the 80+ age group, only a minority (6.4% of households) are putting money towards meeting long-term care needs.
- Health warning – data excludes the 3% of people over age 65 in residential care.

|                 | Proportion spending on care | Average care spending (for those who spend) |
|-----------------|-----------------------------|---|
| 50 but under 55 | 0.1%                        | £19.9                                       |
| 55 but under 60 | 0.5%                        | £59.1                                       |
| 60 but under 65 | 0.4%                        | £27.2                                       |
| 65 but under 70 | 0.6%                        | £32.8                                       |
| 70 but under 75 | 0.9%                        | £44.3                                       |
| 75 but under 80 | 2.3%                        | £51.3                                       |
| 80 and over     | 6.4%                        | £45.5                                       |

Source: author's calculations from Living Costs and Food Survey Note that care expenditures relate to residential care or home helps.

# The “reality” in later life: watching television and living alone

Yesterday, did you...



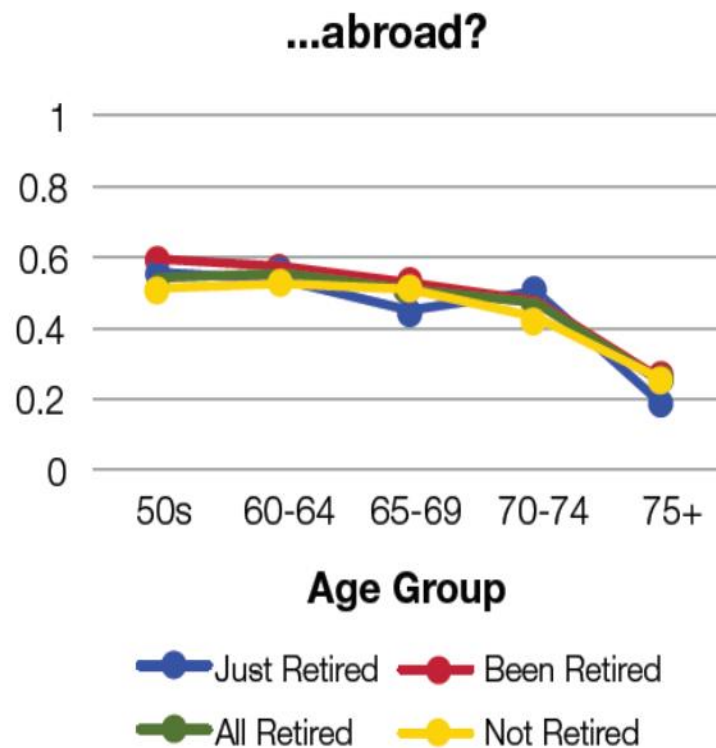
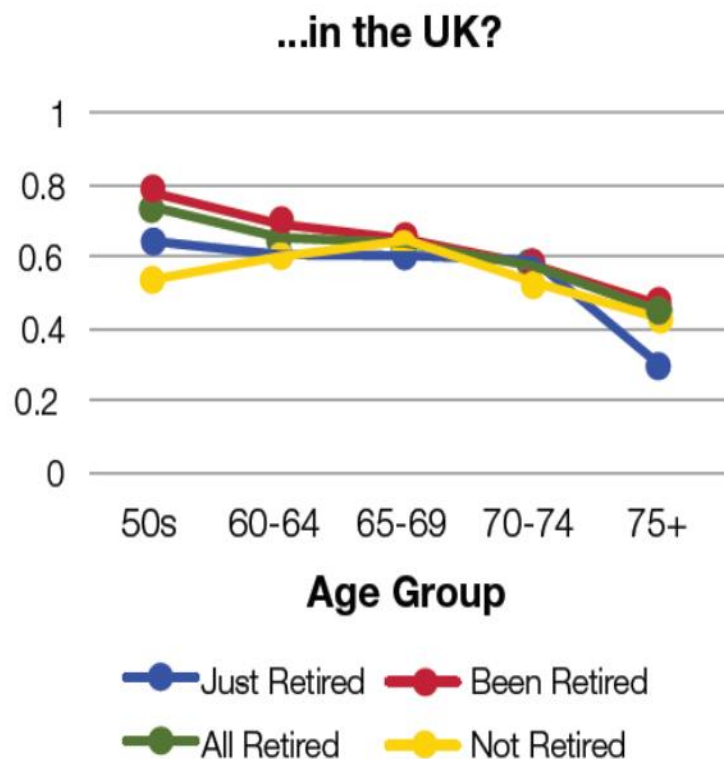
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# The “reality”: holidays don’t increase in retirement

- In the past 12 months, have you taken a holiday...



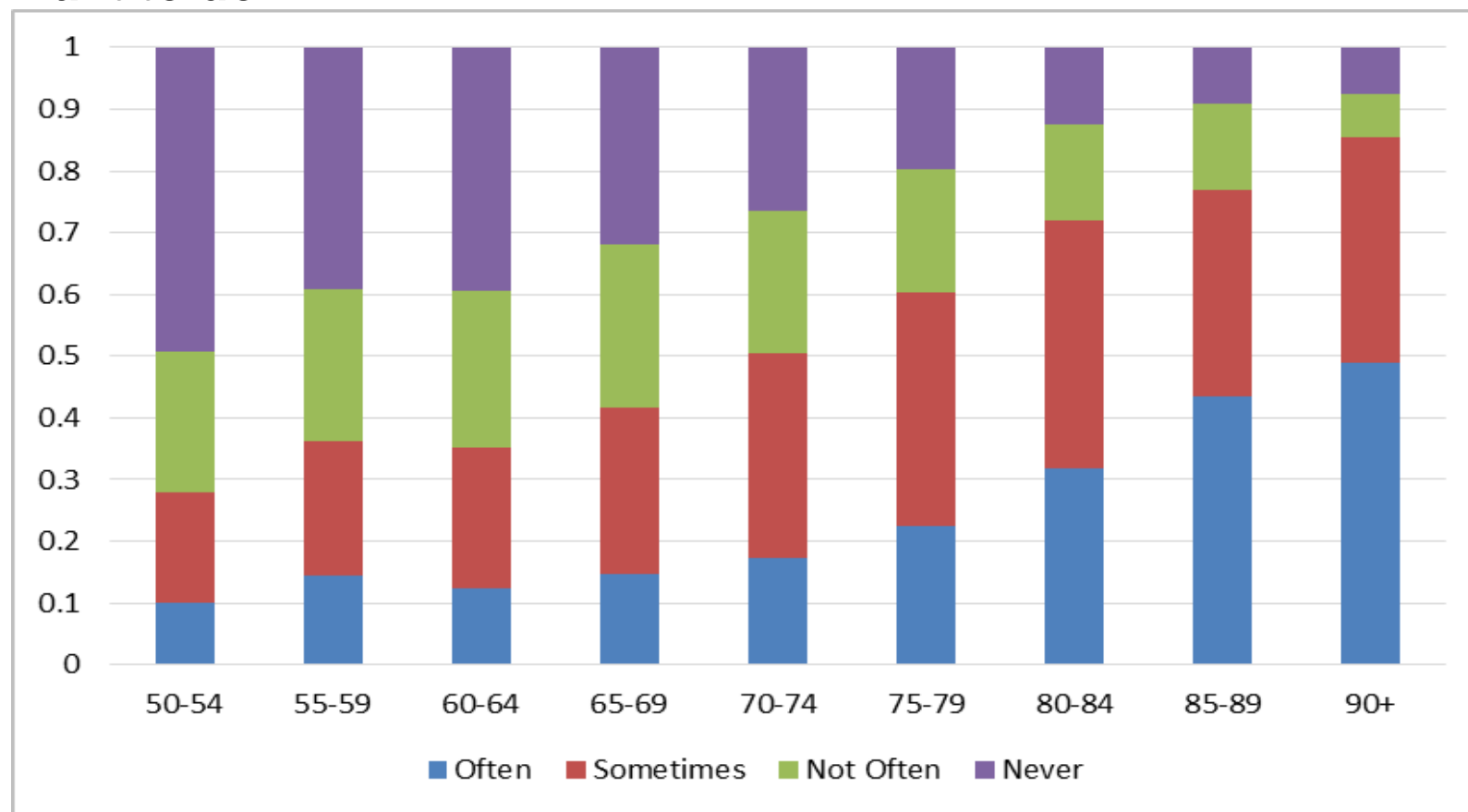
Source: ELSA Waves 5 & 6 (2010/11 & 2012/13)

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# Health is a barrier to consumption

How often does health prevent people from doing things they want to do?



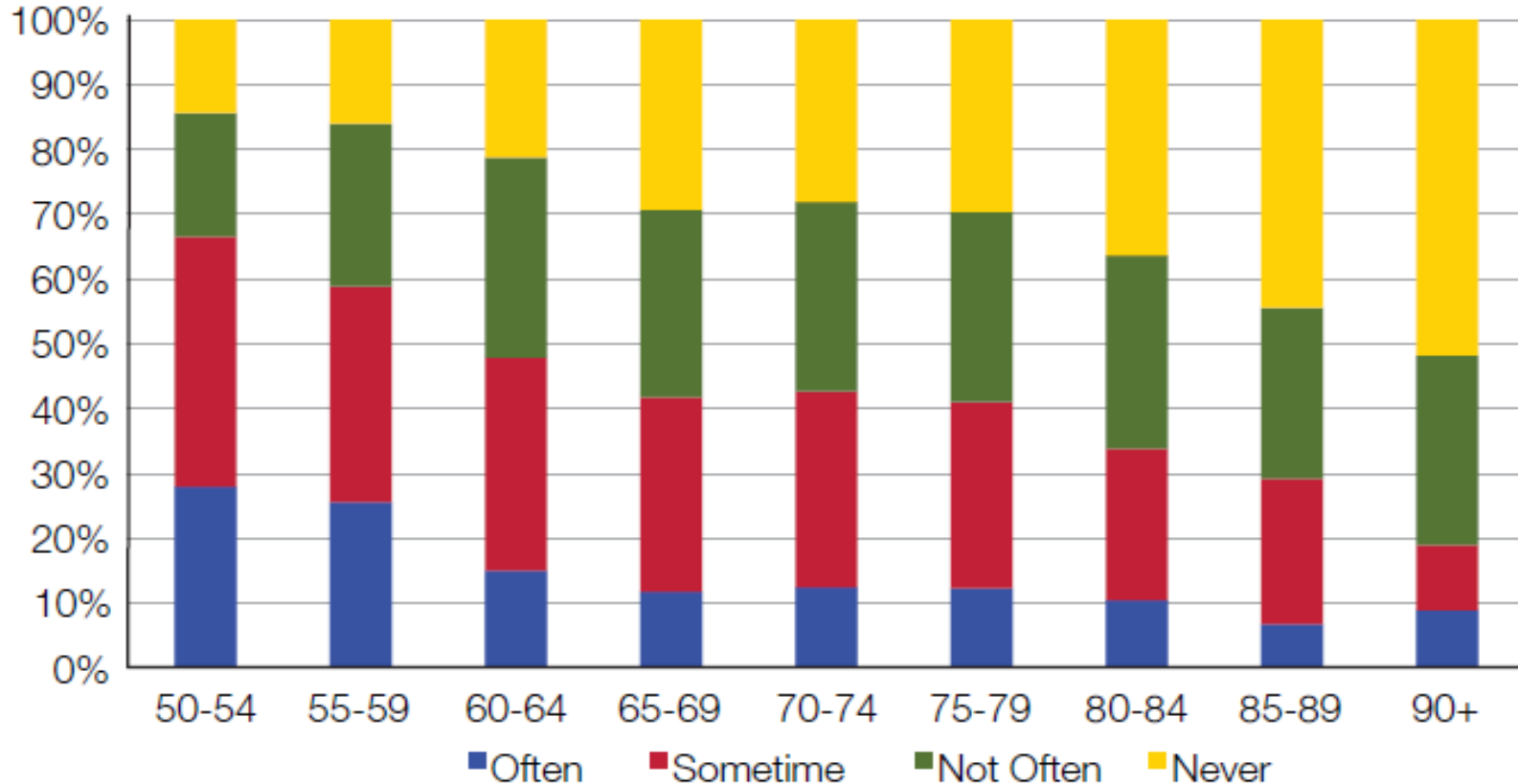
Source: ELSA Wave 6 (2012/13)

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# Financial constraints do not appear to explain the consumption puzzle

How often do money shortages stop people from doing things?



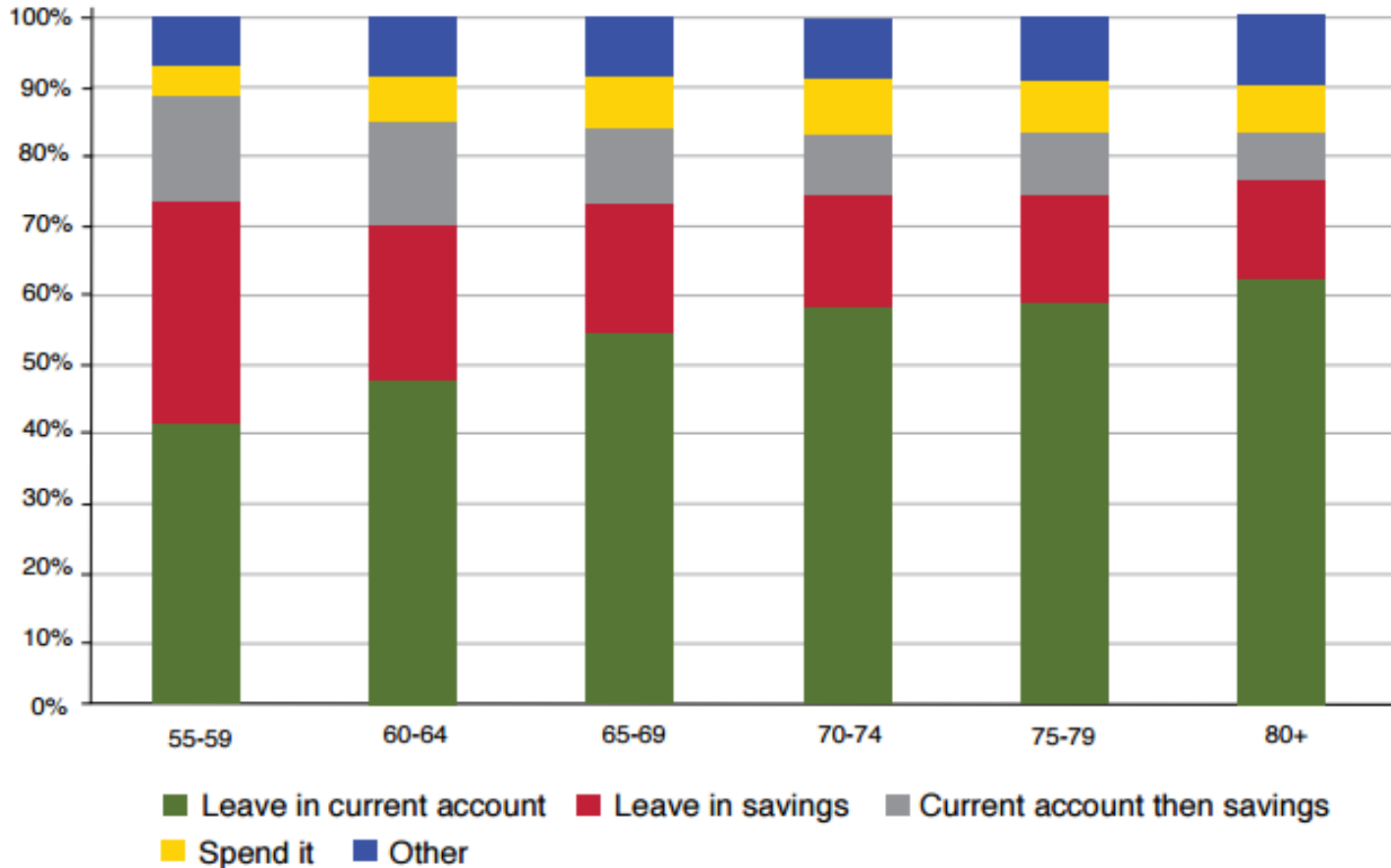
Source: ELSA Wave 6 (2012/13)

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# What happens to all those savings?

What older people did with the money left over?



Source: ONS Wealth and Assets Survey (2012) and author's calculations, data weighted using cross-sectional weights. Note: Other includes: purse for the next week, cash at home, give it to someone else, give it away, something else and depends on the amount

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# What can we conclude?

- While retirees might have more income and wealth than at any time in history, this does not make for an aspirational retirement.
- People struggle to consume their assets in retirement which results in savings in later life contrary to life cycle theory. Many end up staying at home alone and watching television in later life.
- Excess savings made in retirement end up in current accounts – bad for the economy as a whole.

# Options for an aspirational retirement

**Option 1:** Facilitate higher consumption earlier in retirement when individuals are less likely to have health barriers.

**Comment:** “Freedom and choice” makes this easier, but clear risks of income shortfalls in later life. Similarly, a failure to annuitise may result in greater underconsumption as people “self-insure” for longer lives.

# Options for an aspirational retirement

**Option 2:** Reduce health and other barriers for sustained consumption into old age.

**Comment:** While obviously desirable, this may take decades to fully achieve and requires adaptations to every aspect of our society. In addition, it may be the case that reduced consumption at older ages is, in part, due to changes in preferences. Option two may simply never materialise!

# Transitioning to an aspirational retirement

- **Short term solution:**
  - Drawing down on wealth to support spending in early, healthier phase of retirement, tempered by some insurance against living for a long time/social care needs.
- **Over the longer term:**
  - Adapting broader society to an age of older consumers. A massive challenge for govt, society industry etc.



**Many thanks**

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