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Changes to work and income around state pension age

Analysis of the English
Longitudinal Study of Ageing



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Date: December 2013

Prepared for: Age UK

Many people retire from paid work as they approach or reach state pension age. This pivotal event can have a major impact on household finances as households rely less on earnings and more on their pension income. This research briefing explores the changes to work and income that happen around state pension age - with a particular focus on households that move into and out of low income. The briefing ends with some important conclusions about pension planning and provision.

Key findings

- In this research we look at people's work situation and household finances when someone in the household is nearing state pension age (SPA) and compare this to their situation soon after the household member has reached SPA. We found that reaching state pension age is indeed a major event marking the start of retirement for many households. Three quarters of households with someone nearing SPA had at least one person in work. In the early years after a household member had reached SPA this had fallen to one third of households.
- Overall, 20 per cent of households had a low income before SPA and 25 per cent of households had a low income after SPA. However there was movement both in and out of low income with only 11 per cent having low income both before and after SPA.
- Before SPA, single person households not in work were particularly at risk of low income: two-thirds of single people who were sick or disabled had low income, as did half of single people who were retired or unemployed.
- Stopping work around state pension age can see some households fall into low income. The highest risk of having low income after SPA was among single non-working households (42 per cent), and couple households where neither partner was in work because one was retired and the other was looking after the home and family (34 per cent).
- Low income households that remained poor after reaching state pension age were characterised by: not having private pension savings; not working before and after SPA, or working in routine or manual occupations in their most recent job; long-term illness or disability; no qualifications; being single and living in rented accommodation.
- Households that entered low income after reaching state pension age were characterised by: not having private pension savings; stopping work; having worked in an intermediate occupation, and becoming single, through bereavement or separation.
- Households that exited low income were characterised by: having private pension savings; not working before and after SPA, and being single households.
- Stable middle/high income households were characterised by: having private pension savings other than the state pension; being stable couple households; having a managerial or professional background; being highly educated, and having at least one household member remain in work.

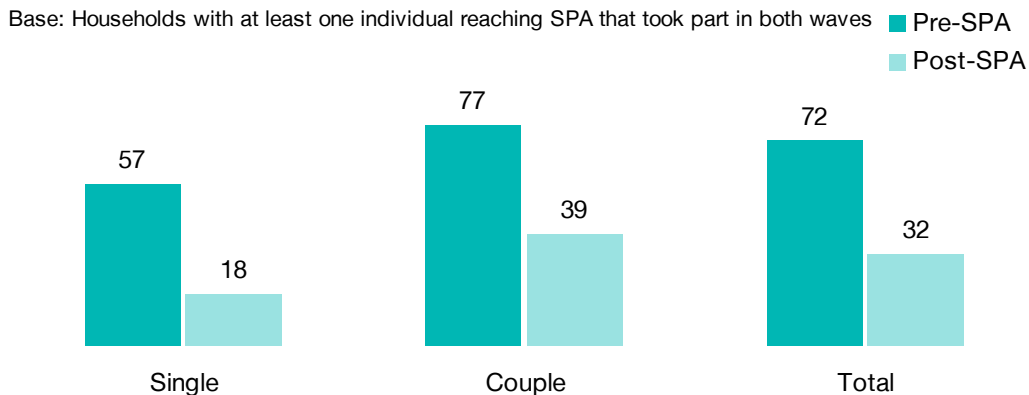
Changes to work and income around state pension age

This brief evidence paper draws on analysis of the English Longitudinal Study of Ageing (ELSA) to explore changes to work and income around state pension age. ELSA is a large-scale household survey of people aged 50 and over living in England. It interviews the same people every two years about a range of issues related to ageing in later life; such as employment, leisure, income and health.

What is the economic activity of households before and after SPA?

We begin by exploring the economic activityⁱ of households where at least one person reached state pension age (SPA) between 2002/03 and 2010/11. We compare their status before and after someone in the household reached SPA (on average four years before and four years after SPA). SPA in this study is 60 for womenⁱⁱ and 65 for men.

Figure 1 Single and couple households in work, before and after SPA

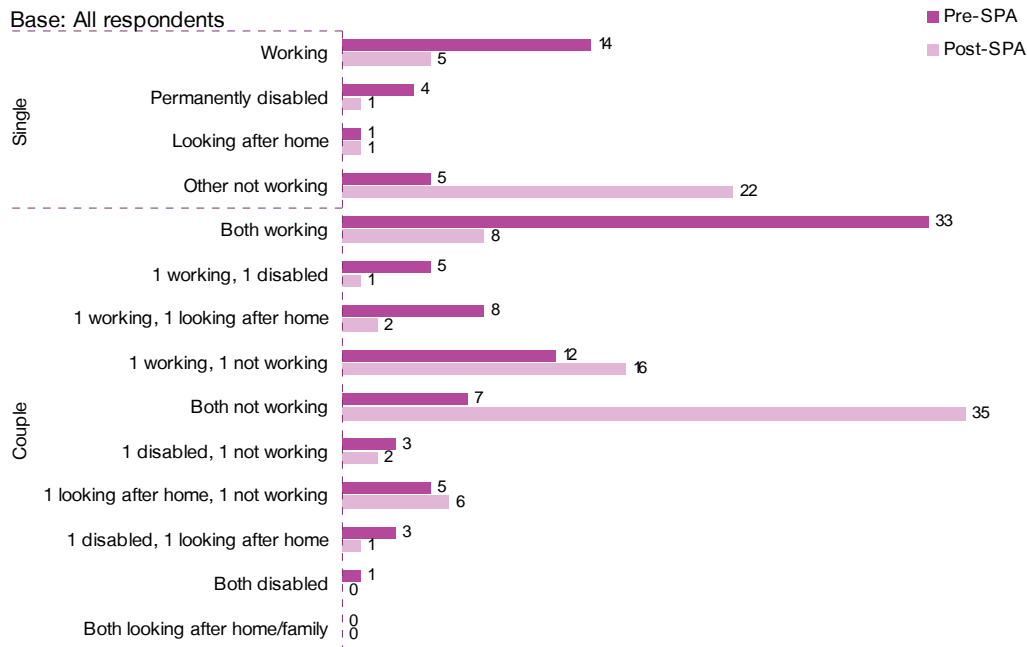


Unweighted bases: Pre-SPA 1,465; Post-SPA 1,476.

As might be expected, before SPA over three quarters of households had at least one person in work (Figure 1). These households were predominantly couples where both partners were in work (33 per cent of all households before SPA), single person working households (14 per cent) and couple households where only one partner was in work (12 per cent) (Figure 2).

After SPA, two-thirds of households contained no-one in work – the most common types were non-working couples (35 per cent of all households after SPA) and non-working single people (22 per cent). However, around a third of households (32 per cent) still had someone in work, including those couple households where one partner was below SPA. Looking at just those households that included only people above the state pension age showed that almost a quarter (23 per cent) had someone continue in work in the early years after reaching SPA.

Figure 2 Detailed economic activity status before and after SPA



Unweighted bases: Pre-SPA 1,465; Post-SPA 1,476.

Note: Bars add to 100% for pre-SPA (darker bars) and post-SPA (lighter bars) respectively.

What are the most common work transitions around state pension age?

In around half of all households where someone reached SPA someone stopped working. The most common work transitions were:

- couple households changing from 'both in work' to 'neither working' (13 per cent of all households) or to a single earner couple household (10 per cent)
- single earner couple households becoming households where neither partner worked (14 per cent), and
- single people stopping work (9 per cent).

For a large minority of households (29 per cent) their economic activity status remained the same before and after SPA.ⁱⁱⁱ

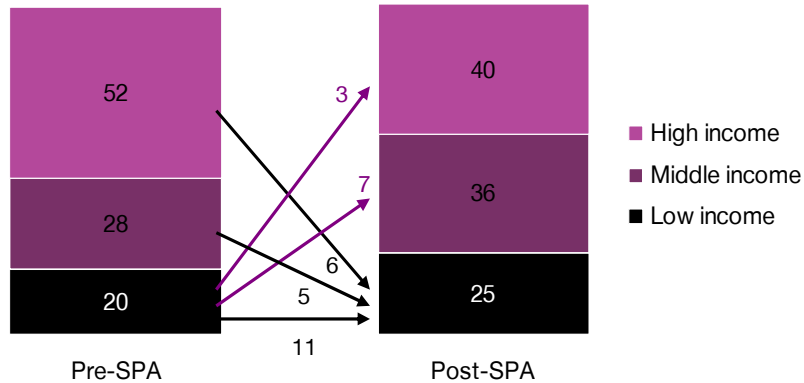
Which households experienced low income before and after SPA?

Overall, 20 per cent of households had a low income^{iv} before SPA and 25 per cent of households had a low income after SPA (Figure 3). However, this varied greatly by the economic activity of the household members.

- Before SPA, single person households that were not in work were particularly at risk of low income; 67 per cent of single people who were permanently sick or disabled and 48 per cent of single people who defined themselves as retired or unemployed had an income below the low income threshold.
- Conversely, while overall about half of all households before SPA were in the high income category, dual-earner couple households were particularly likely to belong to this group; 76 per cent of dual-earner couples had a high income compared with 52 per cent of all households.

Figure 3 Per cent of households in each income band before and after SPA and per cent making low income transitions

Base: Households with income recorded both pre- and post-SPA



Unweighted bases: 1,229 households

Note: Households with income close to the boundaries could move income categories without their income changing sufficiently to make a difference to their living standards. For this reason, we have recorded income transitions (depicted as arrows) only where the household has entered a different income category and their income has changed by at least 10%. This definition of a 'transition' means that the arrows into and out of low income in Figure 3 do not add exactly to the proportion in low income at each time point. For example, around 6% of households experienced a less than 10% reduction of income which took them below the low-income threshold but which we did not record as an income transition.

- The highest risk of having low income after SPA was among single non-working households (42 per cent), and couple households where neither partner was in work because one was retired and the other was looking after the home and family (34 per cent).
- Again, couple households with at least one partner in work (62 per cent), and particularly households with both partners working (74 per cent), were most likely to be in the high income group after SPA (compared with 40 per cent overall).

Low income: less than £293 per week for a couple or less than £197 per week for a single person

Middle income: between £293 and £480 for a couple or between £197 and £321 per week for a single person

High income: £481 or more per week for a couple or £322 or more per week for a single person

Source: HBAI 2010/11

How does household income change after reaching SPA?

Whilst the total proportion of households in low income increased after reaching SPA, this hides a fair amount of movement into and out of low income. Around half of previously low income households escaped low income after SPA and a similar proportion had entered low income (transitions into and out of low income are depicted as arrows in Figure 3).

A tenth of households (11 per cent) had low income both before and after reaching SPA. These households may be at high risk of experiencing persistent poverty in older age. We look at the key characteristics of these households in the next section.

What types of households make low income transitions?

Many households that stopped working experienced a drop in income. Over a quarter (27 per cent) of couple households where both partners stopped working saw their income drop from high to middle, and 22 per cent moved into low income. Twenty-two per cent of single person households also moved into low income after stopping work.

In this section we categorise households into four groups; i) those who remained in low income, ii) those who entered low income, iii) those who exited low income, and iv) those who remained in middle/high income – and compare their main characteristics before SPA and any changes in circumstances.

Stable low income households were characterised by:

- never having made pension savings other than the state pension (60%)
- not working before and after SPA (66%);
- having at least one member with a long-term illness or disability (67%);
- having no qualifications (51%);
- being from a routine or manual occupational background (33%, compared with 15% overall); and
- being single person households (45% compared with 20% overall);
- living in rented accommodation (47% compared with 16% overall).

Households that **Entered low income** were characterised by:

- never having made pension savings other than the state pension (52%);
- stopping work (69%);
- having belonged to an intermediate occupation such as a skilled trade, administrative work or sales (57%); and
- becoming single, either through bereavement or separation, (14% compared with 7% overall).

Households that **Exited low income** were characterised by:

- having at least one household member who had pension savings other than the state pension (64%);
- not working before and after SPA (56%); and
- being single person households (34% compared with 20% overall).

Stable middle/high income households were characterised by:

- having at least one household member who had pension savings other than the state pension (72%)
- being stable couple households (77%);
- having a managerial or professional background (50%);
- being highly educated (56% of households had at least one member with qualifications equivalent to A-levels or above); and
- having at least one household member remain in work (39% compared with between 7% and 21% in the other groups).

Unweighted bases: Stable low income 104; Entered low income 118; Exited low income 96; Stable middle/high income 813.

Which factors are associated with entering low income?

To better understand the risk factors associated with entering low income on reaching state pension age, we compare households that made this transition to those that avoided low income both before and after reaching SPA. This helps us to understand how those who enter low income are different from those who did not.

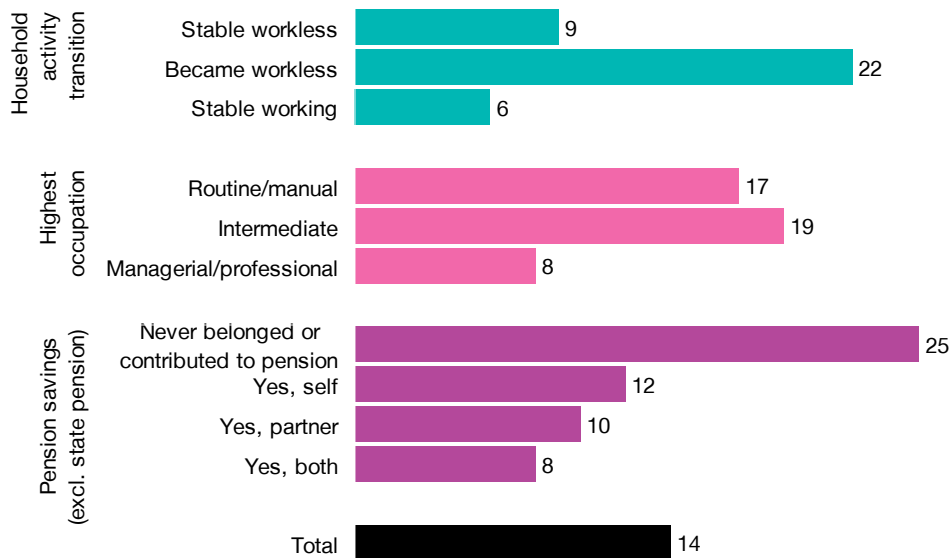
First, it should be noted that the majority of households in both the stable middle/high income group and the transition into low income group had a higher income before SPA. This suggests

that the risk of moving into low income after SPA is associated with circumstances other than previous income. It also implies that some households on a low income after SPA had seen a substantial drop in their income.

Fourteen per cent households with a middle or high income before SPA entered low income on reaching SPA (Figure 4). This was higher among households which moved from working to not working (22 per cent), households with members from a routine or manual (17 per cent) or intermediate (19 per cent) occupational background, and particularly for households in which no one had ever belonged to a private pension scheme (25 per cent).

Using statistical analysis called logistic regression we found these differences remained even when taking into account other factors associated with low income. This showed that households that moved from working to not working were much more likely to move into low income than those where someone was still in work after SPA; those with intermediate occupations were more likely to move into low income than those from managerial or professional backgrounds and those without a private pension were more likely to move into low income than those with. The only other factor that was statistically significant was ethnicity – non-white households were more likely to move into low income than white households although the small number of non-white households in the sample suggests the size of this effect should be interpreted with some caution (see Table A.1 for full results).

Figure 4 Per cent of households entering low income



Base: Households with middle/high income pre-SPA. Unweighted bases: 1,016 (689 for pension savings).

What is the role of pensions in protecting people against low income in retirement?

Our findings have reiterated the message that saving towards retirement helps keep households above the low income threshold after reaching SPA. As illustrated in Figure 5, households that escaped low income had a combined pension income that, on average, exceeded their total pre-SPA income level, while the combined pension income of stable middle/high income households on average replaced nearly all of their pre-SPA earnings. Furthermore, among low income households, the state pension accounted for about two-thirds of their post-SPA income. Households that were above the low income threshold after SPA received, on average, less than two-fifths of their total income from the state pension (Figure 6).

As noted in the profile of households above, the stable middle/high income group had a higher proportion of working households than the other groups, and this is reflected in the relatively high

level of earned income post-SPA shown for this group in Figure 5. It should be noted that this group did not have a significantly higher proportion of couple households where one partner was still below SPA so this is explained at least in part by people working beyond state pension age. In fact, overall, 23 per cent of single person households, or couple households where both partners were over SPA, remained in work. Nevertheless, all these households are in their early years of pensionable age and even those that have extended their working lives somewhat will retire fully eventually. It is clearly difficult to avoid low income after reaching state pension age without having a private pension to draw on in retirement.

Figure 5 Level of income and income components before and after SPA by income transition category



Note: Adjusted for inflation (both pre- and post-SPA incomes shown at 2010/11 prices). Base: Households with income recorded both pre- and post-SPA. Unweighted bases: Stable low income 127; Entered low income 163; Exited low income 124; Stable middle/high income 1,026.

Conclusions and key messages for policy

Reaching state pension age is a major event, marking the start of retirement for many. Our findings show that before SPA the majority of households had at least one person in work, whereas afterwards the majority of households were not working. However, not everyone retires from work having reached SPA; nearly a quarter of households containing only adults of pensionable age continued in work. Reaching SPA is also associated with an increased risk of low income. Households were more likely to have low income after SPA with the overall percentage with low income increasing from a fifth to a quarter.

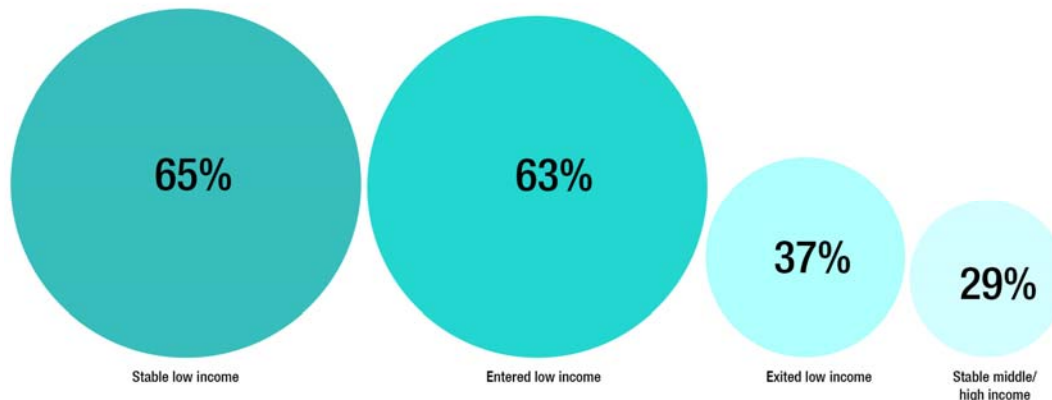
While these findings may be familiar to many readers, by looking at longitudinal data we have been able to show what happens to households before and after reaching SPA. We find that low income before SPA is not necessarily followed by low income after SPA. Some escape low income on reaching SPA, whilst others become poorer^v.

Around a tenth of households had low income both before and after SPA but a similar proportion entered low income after reaching SPA. Over two-thirds of households that entered low income had stopped working and 60 per cent had not saved towards their retirement in a pension scheme other than the state pension. In fact, having private pension savings was the defining characteristic distinguishing those households that were in low income after reaching SPA from those that were not. Among all households, the value of the private pension income was on average £39 per week for a single person household and £77 per week for a couple household after SPA.

So what are the key messages for policy? The research shows that those who remain in low income tend to be disadvantaged in a number of ways. For example, they tend to have long-term illness, no qualifications, routine or manual work background and live in rented accommodation. The majority were not working before SPA and did not have private pension savings. At SPA they can start to receive the state pension and levels of means-tested benefits increase so their incomes increase accordingly. However, their incomes still remain low.

People on low income before SPA will be particularly affected by any future increases in SPA as this will delay the point at which their income will increase through the state pension and old-age benefits. To change this pattern for younger generations, this persistent low income needs to be addressed directly through increased income transfers, or indirectly via measures to tackle health inequalities, improve education, and provide support to enable people to remain in work. In the short-term such individuals will be unlikely to improve their financial situation and it is essential that state pensions and benefits at retirement provide an acceptable living standard and that any plans to further increase SPA do not adversely affect disadvantaged groups.

Figure 6 Proportion of income after SPA accounted for by the state pension by income transition category



A similar proportion (11 per cent) entered low income. Most had stopped work but had no or limited private pension income to replace earnings, relying on their state pension for the majority of their income (Figure 6). These households also saw a reduction in income from other sources, including income from assets and maintenance receipt, and they received the least amount of benefits on average of all the groups after SPA. This group of people might benefit from more information about the benefits they might be eligible for and help with making a claim. Over half in this group had belonged to an intermediate occupation, so probably had fairly modest earnings over their life, and may have had limited access to a workplace pension. Younger people facing this situation should benefit from automatic enrolment with an employer contribution and the state pension reforms - assuming they do not feel their modest earnings cannot stretch to pension savings and therefore opt out. It is important that people understand these policy changes and are encouraged to save where they can.

The research shows that around half of those with low incomes before SPA increased their income to above the threshold after SPA. Like the stable low income group they were more likely to be out of work before SPA. But, in contrast, the majority had private pensions and did not have the same characteristics of disadvantage. This group would therefore include those who have stopped working before SPA whether due to redundancy or through choice and the dip into low income may have been more temporary with the prospect of increasing their income once eligible to draw their state and private pensions.

The final group, making up just over two-thirds of households, had middle or high income before and after SPA. These households were more likely to have a managerial or professional background, be more highly educated and be couples in a stable relationship. These factors will have contributed to the greater likelihood that at least one person has a private pension. The value of their state pension income is broadly similar to the other groups, but in addition to this they have higher levels of private pensions and two fifths continue to have at least one household member in work. It is good news that this group makes up the majority of households, although it needs to be remembered that all the households in the study are likely to be in the first years of retirement – and some households will be couples where one member is still under SPA. Over time, their resources may well fall as those households where some one has continued working in the early years after SPA will eventually retire and income from some sources, such as private pensions and savings, may lose value in real terms.

Summary of key messages for policy

Reaching state pension age can be a major event, marking the start of retirement for most households, whereas nearly a quarter extend their working lives.

Stopping work around state pension age can see some households fall into low income and this group may not be claiming all the benefits they are entitled to.

Financial planning for retirement is vital – other income from a private pension or other savings, in addition to the state pension, helps households to avoid low income.

Low income households may struggle to plan for retirement, so their risk of being poor in older age remains. These households tend to be disadvantaged in a number of ways, including having long-term illnesses and no qualifications.

Technical Annex and Notes

Table A.1 Logistic regression of low income transition

| Base: Households above low income threshold pre-SPA | | | | | Source: ELSA | |
|--|--|--------|-------|--|-------------------------|--------|
| | | B | Sig. | Odds ratio (OR) | 95% Confidence Interval | |
| | | | | | Lower | Upper |
| Intercept | (Intercept) | -4.368 | 0.000 | 0.013 | 0.003 | 0.046 |
| Household activity transition | Missing | 0.877 | 0.432 | 2.404 | 0.269 | 21.482 |
| | Stable workless | 0.747 | 0.070 | 2.111 | 0.942 | 4.729 |
| | Became workless | 1.632 | 0.000 | 5.113 | 2.903 | 9.004 |
| | Stable working (Ref.) | .000 | | 1 | | |
| Relationship status change | Became single | -0.044 | 0.952 | 0.957 | 0.227 | 4.041 |
| | Became couple | -2.021 | 0.083 | 0.133 | 0.013 | 1.306 |
| | Stable single | -0.376 | 0.612 | 0.686 | 0.16 | 2.947 |
| | Stable couple (Ref.) | .000 | | 1 | | |
| Respondent sex and Partner's age | Male, single, changed or missing relationship info | 0.062 | 0.937 | 1.064 | 0.231 | 4.902 |
| | Female, single, changed or missing relationship info | 0.398 | 0.579 | 1.489 | 0.364 | 6.088 |
| | Male, partner <SPA | 0.556 | 0.432 | 1.744 | 0.436 | 6.976 |
| | Female, partner <SPA | 0.508 | 0.090 | 1.661 | 0.923 | 2.989 |
| | Male, partner >SPA | -0.129 | 0.704 | 0.879 | 0.45 | 1.716 |
| | Female, partner >SPA | 0.071 | 0.897 | 1.073 | 0.369 | 3.123 |
| | Both partners reached SPA (Ref.) | .000 | | 1 | | |
| Household disability status | Missing information | 0.671 | 0.561 | 1.957 | 0.203 | 18.88 |
| | Some stopped being disabled | -0.159 | 0.691 | 0.853 | 0.389 | 1.872 |
| | Stable at least 1 disabled | -0.169 | 0.571 | 0.845 | 0.471 | 1.514 |
| | At least 1 became disabled | 0.382 | 0.269 | 1.466 | 0.744 | 2.887 |
| | No one disabled (Ref.) | .000 | | 1 | | |
| Household carer status | Missing information | -0.452 | 0.480 | 0.636 | 0.181 | 2.232 |
| | Stopped being carer | 0.036 | 0.930 | 1.037 | 0.46 | 2.339 |
| | Stable at least 1 carer | 0.027 | 0.949 | 1.027 | 0.453 | 2.33 |
| | At least 1 became carer | -0.06 | 0.838 | 0.942 | 0.532 | 1.667 |
| | No one carer (Ref.) | .000 | | 1 | | |
| Highest occupation | Routine/manual | 0.596 | 0.099 | 1.815 | 0.893 | 3.688 |
| | Intermediate | 0.764 | 0.001 | 2.147 | 1.361 | 3.388 |
| | Managerial/ professional (Ref.) | .000 | | 1 | | |
| Highest education | No qualifications | 0.358 | 0.266 | 1.43 | 0.761 | 2.687 |
| | Qualifications below A-levels | 0.349 | 0.137 | 1.418 | 0.894 | 2.249 |
| | A-levels or above (Ref.) | .000 | | 1 | | |
| Private pension savings | Missing info | 0.264 | 0.621 | 1.302 | 0.457 | 3.714 |
| | Never belonged or contributed to private pension | 1.276 | 0.013 | 3.582 | 1.315 | 9.76 |
| | Yes, self | 0.798 | 0.115 | 2.221 | 0.823 | 5.997 |
| | Yes, partner | 0.314 | 0.539 | 1.369 | 0.502 | 3.731 |
| | Yes, both (Ref.) | .000 | | 1 | | |
| Income before SPA | Middle income | 0.14 | 0.523 | 1.15 | 0.749 | 1.766 |
| | Top two quintiles | .000 | | 1 | | |
| Ethnicity | Non-white household member | 1.491 | 0.001 | 4.441 | 1.789 | 11.024 |
| | White (Ref.) | .000 | | 1 | | |
| Housing tenure | Other | 1.063 | 0.091 | 2.894 | 0.845 | 9.909 |
| | Rent it | 0.293 | 0.321 | 1.341 | 0.751 | 2.395 |
| | Buying with mortgage | -0.092 | 0.675 | 0.912 | 0.593 | 1.403 |
| | Own it outright (Ref.) | .000 | | 1 | | |
| Unweighted Bases: | | 1,189 | | Shaded rows denote statistically significant factors | | |
| Dependent Variable: Income transition (Reference category = Stable middle/high income) | | | | | | |

Note: Table A.1 shows the results of the logistic regression analysis discussed in the report. By focusing the analysis on just those households above the low income threshold, the regression analysis allows us to identify the factors that are related to an increased risk of entering low income when someone in the household has reached SPA, while statistically accounting for differences on other factors. As an example, compared with households where both partners have some private pension savings, the odds of entering low income after reaching SPA were significantly higher among those where no household member had ever belonged to a private pension scheme.

ⁱ The household economic activity status summarises whether household members are working, and if not working, whether this is due to health problems, because they are looking after the home or family, or because they defined themselves as retired. Respondents are asked which activity best describes their current situation. Thus, there may be little objective difference in the activities carried out by someone who defines themselves as retired and someone who is 'looking after the home and family'. 'Not working' includes both unemployment and 'retirement', however the vast majority in this category define themselves as retired. Unemployment accounts for less than 2 per cent of respondents and partners at wave 1, 1 per cent of partners at wave 5 and just 0.1 per cent of respondents at wave 5.

ⁱⁱ A staged increase in the state pension age for women was introduced from April 2010. As the Wave 5 interviews were carried out June 2010-July 2011, there is a theoretical possibility that some of the women in our sample who were 60 years of age at the time of the wave 5 interview (the post-SPA time point in our analysis) had not yet reached SPA but were due to do so in the coming months. In fact there were only very few women (26) in our sample who were aged exactly 60 at the wave 5 interview and so the increase in SPA for women does not affect the results reported here.

ⁱⁱⁱ Furthermore, fifteen per cent of households reported a change in category that did not necessarily involve a change in work activity, for example four per cent of households were single person households that reported being permanently sick or disabled pre-SPA but 'other not working' post-SPA. It should be noted that this transition (and the apparent fall in households with a disabled person in Figure 1) does not necessarily mean an improvement in health or impairment and is more likely to reflect a change in self-definition to 'retired'. In other words, the reason given by a working age person for not working may be their disability, however, once the person has reached SPA 'retirement' may be communicated as the primary reason for them not working even if their health condition or disability has remained unchanged.

^{iv} To allow us to compare the incomes of different household types – a single person needs less income than a couple to achieve the same standard of living – we used equivalised income (before housing costs). This means that the total disposable income for the household has been adjusted for the number of adults and children living in the household. We then split the income distribution into the categories: low income which is income below 70% of the median household income in the population, high income which is income in the top 40% of the total income distribution, and middle income which is income between these two thresholds. Note that we are only looking at disposable household income; we do not consider wealth (either accessible wealth, for example in savings account, or non-accessible wealth, for example tied up in housing).

^v It is important to say that this briefing paper has not equated changes in income to changes in expenditure. It is possible that the reduction in income experienced by households that entered low income is partly offset by a reduction in living costs. For example, many retiring households no longer incur travel-to-work costs and other costs associated with employment. Information on this is collected in ELSA and could be analysed to further add to our understanding of the effect of income transitions around the time of state pension age.

Further information

Please contact Jenny Chanfreau Jenny.Chanfreau@natcen.ac.uk for further details about the research, or Sally West Sally.West@AgeUK.org.uk for more information and advice from Age UK.

This research briefing is the second in a series in the collaboration between Age UK and NatCen Social Research reporting on analysis of the English Longitudinal Study of Ageing. The first research briefing from the series, Poverty in Later Life by Dr Matt Barnes is available on the Age UK website.

http://www.ageuk.org.uk/Documents/EN-GB/For-professionals/Research/Poverty_in_later_life.pdf



ELSA
50+ Health & Life

The English Longitudinal Study of Ageing (ELSA) follows the lives of people in England aged 50 and over. The study revisits the same people every two years and speaks to them about their health, economic position and quality of life. More information on ELSA can be found at www.ifs.org.uk/elsa



Age UK provides information, advice and support on ageing in the UK, and campaigns to raise awareness of the situation faced by many older people. Age UK is also the only UK charity to focus research funds exclusively on later life.

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Published by Age UK, London www.ageuk.org.uk

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Date: December 2013

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