Summary
• Around two million UK pensioners are living in poverty.
• Women, single people, ethnic minorities, the self-employed, those with disabilities and those that are still paying for housing costs in retirement are at greater risk of being in poverty as a pensioner.
• The number of pensioners in poverty is expected to rise in the near future.
• The industry can help reduce the number of pensioners in poverty by raising awareness of the benefits of increasing contributions while saving, highlighting the range of options available at retirement and signposting potential eligible state benefits.

On the rise: Pensioner poverty

Laura Blows explores why the number of pensioners living in poverty is increasing, the impact of this trend, and what the industry can do to help tackle the problem

Over two million pensioners in the UK are currently living in poverty.

Of these 2.1 million pensioners, 55 per cent are in deep poverty and 29 per cent in very deep poverty, the Centre for Ageing Better states.

The story is similar with Independent Age's findings. It puts the number of older people in poverty currently at around two million, with a further million hovering just on the edge and unable to make ends meet.

"That's 16 per cent of all older people in poverty, or one in six of everyone in later life," Independent Age head of policy and influencing, Morgan Vine, says.

"There are different measures of poverty, but this number is defined by those who have a household income of 60 per cent of the average in the UK, after housing costs," she explains.

According to the Department for Work and Pensions' (DWP) March statistics, there were 16 per cent of pensioners in 'relative' low income after housing costs at year end 2023, with 19 per cent being so before housing costs.

Meanwhile, 12 per cent were in 'absolute' low income (having 60 per cent below the average for year-end 2011, adjusted for inflation) after housing costs, and 15 per cent before housing costs.

And then, in even greater poverty, are the 8 per cent at year-end 2023 found to be in 'material deprivation' – being unable to afford 'items and activities deemed to be necessary for an acceptable standard of living'.

Increasing levels

Whichever poverty statistic you wish to use makes for grim reading, and, for many, the situation is getting worse.

For instance, those in 'material deprivation' – 8 per cent – is two percentage points higher than it was in 2020 and is at its highest level since end 2016. According to the DWP, it is the first recorded increase in the measure since 2014.

Hargreaves Lansdown head of retirement analysis, Helen Morrissey, notes that the two million pensioners in poverty – or 18 per cent of the retired population, according to the Joseph Rowntree Foundation's (JRF) statistics she quotes – "is far less than the 29 per cent estimated in the mid-90s but also a big uptick to the 13 per cent back in 2011/12".

Weak income growth amongst poorer pensioners triggered the increase in the level of pensioner poverty seen since 2011, the IFS research, published in July, states.

The research, which was funded by the JRF, shows that pensioner incomes increased much faster than incomes of working-age people from the early 2000s until 2011.

But since then, average incomes of pensioners have grown no faster than anyone else's, with the incomes of both pensioners and those of working age growing by 12–13 per cent between 2011 and 2022.

However, it also finds that, over the same period, incomes at the 10th percentile grew by just 5 per cent, meaning that the gap between poorer pensioners and those on average incomes grew.

According to PLSA interim head of DB, LGPS and investment, Justin Wray, "the poorest pensioners have not benefited from wage rises or private pension income, and, although they have received increases in the state pension, it has been offset by falling levels of other benefits, such as means-tested support".

It is little wonder that Scottish Widows' latest *Retirement Report* finds that 8 per cent of retirees are very pessimistic about the remainder of their retirement, the company's head of policy, Pete Glancy, says.

Wray also notes that "although incomes for pensioners have risen, these incomes have become more stretched, with poorer households particularly more challenged by recent issues such as the cost-of-living crisis".

Just group communications director, Stephen Lowe, states that 1.2 million retired households in the UK are largely dependent on the state pension for their retirement income.

However, he notes that the Pensions and Lifetime Savings Association's (PLSA) calculations show that the annual minimum income standard for a single pensioner should be £14,400 a year.

"With the state pension currently £11,502.40 a year, pensioners reliant on the state pension would fall short of this standard by around £3,000 and need to bridge that gap in order to achieve a minimum quality of life in retirement".

Indeed, the Centre for Ageing Better puts this minimum shortfall at £80 a week for couples, and £50 a week for single pensioners, which more than doubled for pensioner couples and almost quadrupled for single pensioners since the start of the cost-of-living crisis.

According to Lowe, single pensioners account for the majority of households largely reliant on the state pension, "with a clear gender imbalance, as three times as many women (580,000) as men (180,000) rely primarily on the state pension".

"The highest poverty rate among adults in this country is now among adults aged 60 and over who are heading towards retirement, which indicates the worst may yet be to come"

At-risk

Social factors mean that women are more vulnerable to an impoverished retirement (with 17 per cent of women in later life currently in poverty, compared to 15 per cent of men, Vine says), as are those that are disabled or self-employed.

Single people are also at risk – 25 per cent, compared to 14 per cent of couples, are in poverty at retirement, the Centre for Ageing Better research finds.

It also highlights regional differences, with 15 per cent of pensioners in relative poverty in the south-west of England, compared to 23 per cent in London, for example.

A similar number of pensioners from ethnic minorities also face an impoverished retirement – 25 per cent of Asian and Asian British older people are in poverty, as are 26 per cent of those of a Black/African/Caribbean/Black British background, Vine says.

There has also been an increase in the number of retirees that rent, increasing the likelihood of pensioner poverty, as, for instance, rent can cost as much as 130 per cent of the average pension income, Glancy says. "Even owner-occupiers may not have paid off their mortgages by the time they retire, significantly adding to their outgoings," he adds.

Consequences

There can be serious consequences for those facing a retirement in poverty.

"Older people in financial hardship tell us about the difficult decisions they have to make every day, including not washing, not using the cooker, not buying fresh fruit and vegetables, and sitting under blankets instead of using the heating, despite having long-term health conditions," Vine says.

"Poverty can increase feelings of loneliness and isolation, as people can't afford to meet friends and family. We also know that not being able to afford the basics in life can be a health and safety risk for people over 65. For example, if you can't afford to eat well, your physical health can deteriorate, and you can be more at risk of falls. We also talk to people who are really anxious that they will need to take on debt or won't be able to pay their rent," she adds.

The Centre for Ageing Better's research finds that 39 per cent of pensioners in poverty are eating less than they should, while 61 per cent are reducing the number of showers and baths they have, and 73 per cent are using the cooker or oven less.

Industry help

Even once a person is retiring and potentially facing a low income, there are still some things the pensions industry can do to help them boost their finances.

"There can be a role for providers to flag the full range of state entitlements and/or proactively signpost people to organisations like Independent Age or Citizens Advice, who can run a benefits check and help people to apply for what they're entitled to," Vine says.

Many older people are not receiving

all the income they should be from state entitlements like Pension Credit (an estimated 1.2 million eligible people are not claiming it), Housing Benefit or, for those with disabilities or health conditions, Attendance Allowance.

"Those missing out can include people with small private pension who have contact with pension providers," Vine adds.

Morrissey agrees that more needs to be done to boost the take up of Pension Credit.

"The Chancellor committed to boosting take up of this vital benefit when she made changes to Winter Fuel Allowance – this needs to be a major priority," she says.

The industry could also help ensure that there is a continuation of income paid from a deceased's pension arrangements, particularly in relationships where one partner has significantly more wealth, or greater pension income, Lowe suggests.

For instance, Glancy highlights how currently 85 per cent of annuities men buy are single-life polices, "despite their female partner, if they have one, being more likely to have a smaller pension provision and to live longer".

Future trends

The pensions industry can have an important role in trying to minimise the number of upcoming retirees facing poverty, especially as future trends are currently looking bleak.

"The highest poverty rate among adults in this country is now among adults aged 60 and over who are heading towards retirement, which indicates the worst may yet be to come," Centre of Ageing Better chief executive, Carole Easton, warned in March.

The Fabian Society's report, *When I'm 64*, released in April, also warns that the UK is facing a "hidden poverty crisis" among 60 to 65-year-olds.

It emphasises that current retirement savings do not make up the gap facing savers in retirement, as 470,000 people between 60 and 65 who are in poverty (40 per cent) are in a household with a private pension in payment.

"Concerningly, if current trends and policies stay the same, the number of older people in poverty could almost double by 2040, to affect almost four million people aged 65 and over, close to one in four," Vine states.

To address this issue, Morrissey emphasises that, while auto-enrolment will help matters as time goes on, "we need to look at how we can boost contribution rates where needed to make sure people retire with a decent amount saved".

She also suggests that more be done by the industry to encourage those who are able to keep working to do so, as this will enable them to keep building up their pension, while supporting their immediate income requirements.

Meanwhile, 'forward-thinking' organisations can provide financial wellness services to their employees, Lowe suggests, to help them avoid poorer financial outcomes both pre-and post-retirement.

After all, as Wray says, "if you are poor before you reach state pension age you are likely to be poor after you reach state pension age".

Written by Laura Blows

Multiple pensioner generations

Over a million families are expected to contain more than one retired generation by 2034, marking a 32 per cent increase on the 813,000 multi-retiree families that exist currently, research from St James's Place (SJP), published in May, reveals.

SJP's analysis finds that multi-retiree families are increasing faster than previously projected, with 813,000 families with more than one generation retired, over 100,000 higher than the 704,000 projected in 2018.

This trend shows no sign of stopping, as the research estimates that there will be between 60,000-100,000 more families than initially expected with more than one generation retired over the next 20 years.

According to the analysis, 963,000 families will contain more than one retired generation by 2029, marking an 18 per cent increase from now, with this figure set to grow to 1.4 million by 2044.

According to Scottish Widows head of policy, Pete Glancy, there are pros and cons to this new demographic trend.

One 'pro' is that a family may have numerous people all receiving state pensions to cover one set of household bills.

"However, older people are more likely to become disabled, "which can require an additional £800-£900 a month in costs", he says.

"Also, if you're in your 60s looking after someone in their 80s, you might you have been hoping to continue working part time post-retirement age to top up your pension, but you may be too constrained with caring responsibilities to do so," Glancy adds.

The industry has a role in highlighting this possibility to members, PLSA interim head of DB, LGPS and investment, Justin Wray, says, and to raise awareness of this phenomenon to savers.