Understanding Retirement: A deep dive into financial capability among older people

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Executive Summary

Older people– those over state retirement age or retired – are an important and growing audience. Our analysis shows that on the whole older people are financially capable and manage money well day to day. However we have identified several key factors that impact this group's ability to make the most of their money.

1. **Many older people are digitally-excluded, especially those over 75, less affluent and female.** Those not online are much less likely to check they're on the best deals. Shopping around offline is a much more onerous process and as a result, many older people might not be getting the best deals. As more financial services move online this could impact older people's access to banking. There may be a role for families, friends and the wider community to help address digital exclusion. But solutions may need to be more innovative than simply encouraging older people online.
2. **Older people aren't planning for long-term care.** There may be an optimism bias at play. People tend not to think about negative life events. However, planning ahead is important for better outcomes. We need to investigate what might help older people plan better and make them feel more empowered, as well as consider the role families and other intermediaries can play providing support in this area.
3. **Older people are less likely to talk about money.** This isn't a generational or cultural issue. It's a lack of opportunity. While those living as a couple can turn to their partner, those living alone are much less likely to discuss their finances with anyone. This particularly affects women aged 55-74 living alone and men who live alone. We need to consider how these groups can be encouraged to discuss their financial situation.
4. At an overall level, **older people show high levels of financial confidence**. However, **financial skills and knowledge decline significantly with age.** This may be due to cognitive decline. We need to establish what support, guidance and advice older people need as they face new decisions in retirement, such as accessing equity in their property and funding long-term care.
5. **While, older people generally manage money well day to day**, and few struggle with bills or debts, **a sizeable minority find bills a burden**. In particular, older people with a mortgage (generally retired aged 55 to 64) are more likely to be struggling, perhaps adjusting to a lower income in the early years of retirement. We need to investigate the impact of the support available to ease the impact of this and other transitions on people's ability to stay in control of their finances

It is important to note that **older people aren't a homogeneous group**. Several important sub-groups face specific challenges. Women over 75 have the greatest number of financial capability issues; they tend to live on low incomes, have the lowest skills and knowledge and are least likely to shop around. Men over 75 and those over 75 on below average incomes face many of the same challenges, although not to the same extent. We need to consider the best way to support these more vulnerable sub-groups.

Whether all of these issues are specific to the current cohort of older people or a factor of age is harder to discern. Our data focuses on a specific point in time and suggests what issues older people are facing today. We will continue to monitor this situation as more data becomes available.

Introduction

The Money Advice Service carried out the Adult Financial Capability in the UK survey in 2015. A summary of the survey's findings was published in October 2015. It concluded that more in-depth analysis was required around particular groups of the UK population with specific financial capability needs. One of these groups was older people.

The Financial Capability Strategy for the UK concludes there is a need to develop the evidence base around older people's financial capability

Older people are an important audience. There are 11.4 million people aged over 65 in the UK and 3 million of these are over 80.[1] These numbers are predicted to grow. The number of people over 85 in the UK is predicted to double in the next 20 years.[2]

The representativeness of our Adult Financial Capability in the UK survey sample

To draw conclusions from this deep dive, we need to be confident our sample is representative of *all* older people. The total survey sample was 3,457 interviews, weighted to reflect the general population. These were split between online interviews (74%) and face-to-face interviews (26%). Of the older people in our sample, this split was 54% online and 46% face-to-face. This reflects lower internet access among older people, especially those 75+ and less affluent. More details on the sample and how it was collected are in the Appendix.

We are confident our sample broadly reflects the older population.

a) **Internet use.** 62% of our older people sample have internet access. Ipsos Connect data shows 70% of 65+ men and 56% of 65+ women use the internet.[3] In total, we interviewed 159 people aged 75 or over and of these, 66% hadn't used the internet in the past week.
b) **Income.** We know that the median gross income for pensioner households is £18,353.[4] In our older people sample, 53% have a household income of below £17,500. From this, we can be confident our sample doesn't reflect a more affluent segment of older people. We also have 16% of our sample below the Pension Credit threshold, with household incomes of below £7,500.

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[1] Financial Capability Strategy quoting mid-2014 Population estimates, UK (ONS, 2015)

[2] Financial Capability Strategy quoting national population projections, 2012-based (ONS, 2013)

[3] Ipsos MORI (2016), Connect TechTracker Q1 2016 report (15+ GB adults): https://www.ipsos-mori.com/Assets/Docs/Publications/Ipsos_Connect_Tech_Tracker_Q1_2016.pdf

[4] DWP (2014) The Pensioners' Income Series United Kingdom 2012/13: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/325315/pensioners-incomes-series-statistics-july-2014.pdf

This report aims to understand the financial capability issues facing older people based on the 2015 Adult Financial Capability in the UK survey

The report comprises three different strands of research:

1. A deep-dive secondary analysis of the Adult Financial Capability in the UK survey data
For the purposes of this report, we have defined older people as those over the state retirement age or, if younger, those who have nominated themselves as primarily ‘retired from paid work’. In total, there are 684 complete responses from older people in our sample.

2. Review of external research
We draw on external sources of research and data to help us fully understand the financial capability issues facing older people.

3. Primary qualitative research
We conducted ten in-depth, face-to-face qualitative interviews with older people across the UK (in Eastbourne, Bristol and Glasgow). Some verbatim comments and case studies from these interviews are used throughout the report to illuminate particular findings in the data. A full explanation of our qualitative methodology and how participants were selected can be found in the Appendix.

The report focuses on the areas of financial capability where older people showed markedly different traits to the working age population. In particular, the report focuses on seven key areas:

a. Day-to-day money management
b. Financial resilience, savings and debt
c. Financial confidence, knowledge and skills
d. Discussing money
e. Digital exclusion
f. Shopping around to maximise income
g. Financial goals and planning for long-term care

These different areas of focus and how they map to the Financial Capability framework are shown in Table 1 below.

Table 1: Links to the Financial Capability framework

	Elements of the Financial Capability framework	Sections in this report
Behavioural domains	Managing money well day to day	Day-to-day money management Shopping around to maximise income
	Preparing for and managing life events	Planning for long-term care
	Dealing with financial difficulties	Financial resilience, savings and debt
Financial Capability Influencers	Connection: ease and accessibility	Digital exclusion
	Mindset: attitudes and motivations	Financial confidence Discussing money Digital exclusion Planning for long-term care
	Ability: skills and knowledge	Financial skills and knowledge

How we talk about income

Within the older people population, we see big differences in Financial Capability by income. However, our sample sizes do not always allow us to drill down into granular levels of income within specific sub-groups, for example women over 75 with incomes under £7,500 per year.

To make sure we are always using robust sample sizes, we talk about income in two ways. We use these terms consistently throughout the report.

1. **Below average income (under £17,500 household income per year) and above average income (£17,500+).** The median gross income for pensioner households is £18,353.[5] Above and below £17,500 are closest we can get to this figure within our survey categories. Dividing our sample into these two groups allows us to examine groups within groups while keeping sample sizes robust, for example over-75s on below average incomes.
2. **Low income (under £13,500), moderate income (£13,500 to £29,999) and high income (£30,000+).** A couple living on the state pension alone would have a combined household income of around £12,500. Hence, our low-income group captures all pensioner households relying just on the state pension – whether a single- or double-income household. Using these three groups allows us to look in more detail at the effect of income on financial capability among the older population.

[5] DWP (2014), 'The Pensioners' Income Series United Kingdom 2012/13': https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/325315/pensioners-incomes-series-statistics-july-2014.pdf

The scope of the report

In our analysis, **we move away from talking about older people as a single group, and focus on particular sub-groups within the older population.** The report examines several key sub-groups with particularly low levels of financial capability in certain areas. For example:

- Those living alone (317 responses within our sample of 684)
- Women 75+ (82)
- Men 75+ (77)

Some areas of older people's financial capability are beyond the scope of this report. We do not focus on:

- Retirement planning – this is covered by a separate stream of work
- Efficacy of financial capability interventions – the Money Advice Service commissioned and the International Longevity Centre (ILC) have conducted a comprehensive literature review of the evidence in this area which is available on the Money Advice Service website.
- Some groups within our sample of older people where base sizes are too small for any meaningful analysis of the Financial Capability in the UK survey data e.g.
    - Those still working in retirement (57 responses within our sample of 684)
    - Those who are 'over-indebted' (34)
- We have not been able to explore whether there are differences in financial capability of older people in the devolved nations due to small sample sizes (within the sample we have 55 in Scotland, 51 in Wales and 26 in Northern Ireland).

Day-to-day money management

Most older people aren't struggling with bills and commitments

In general, bills and commitments aren't a concern for the majority of older people:

- 76% of older people say keeping up with bills and commitments isn't a burden and 24% say they are somewhat of a burden or a heavy burden.
- In contrast, 41% of the working-age population say they aren't a burden and 59% say they are somewhat of a burden or a heavy burden.
- Similarly, **83% of older people say they keep up with all bills and commitments without any difficulties**, compared to 51% among those of working age.

While these definitions of 'struggling' were defined by the respondent, we also know that, in the previous six months, **only 3% of older people have fallen behind on, or missed, any payments for credit commitments or domestic bills for any period of three or more months.** This is 11 percentage points lower than those of working age (14%).

While not obvious in our sample, we note that those on the lowest incomes may be going without or living frugally to meet their bills and commitments rather than incurring debt. They may have adapted their lifestyle to be able to accommodate a certain level of income and expenditure and so do not consider themselves to be struggling.

But a sizeable minority of older people *do* struggle

The 17% who say they are struggling, falling behind, or have fallen behind with bills and commitments, reflects the percentage of pensioners Age UK says are living in poverty; 16% of pensioners (or 1.8 million people).[6]

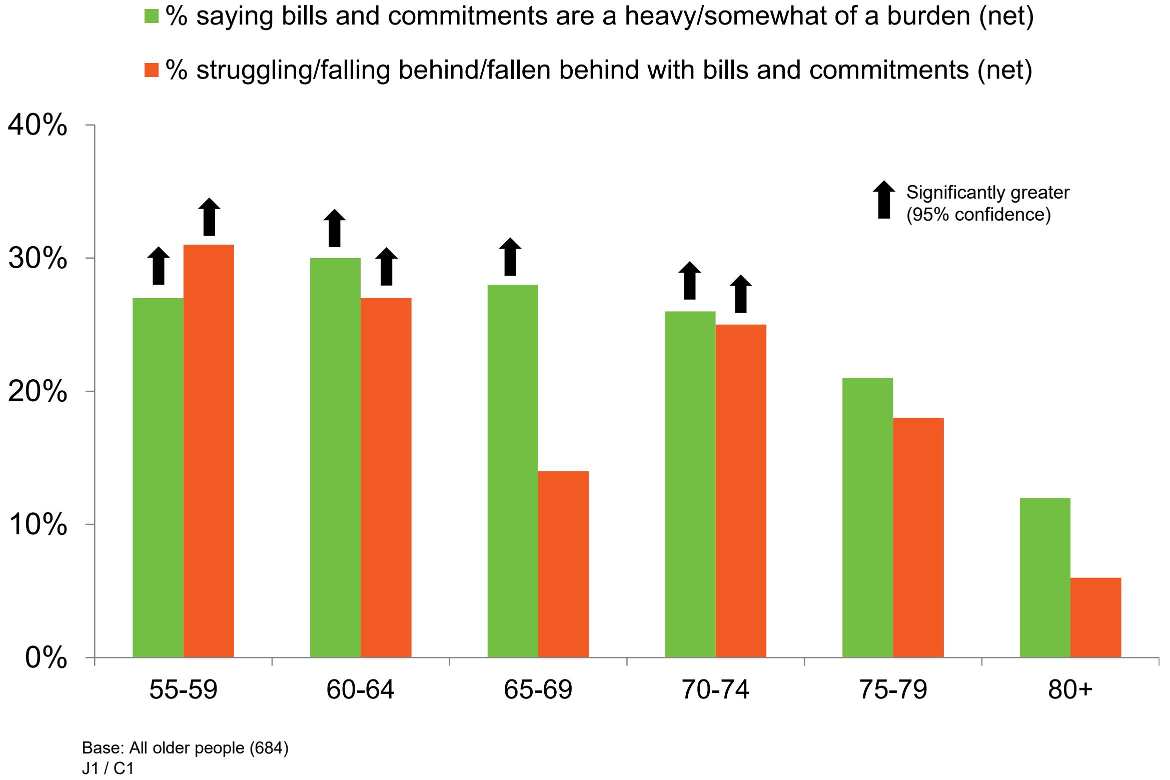
While not a huge sample, the 'struggling' and 'burdened' groups are remarkably similar. Both are slightly more likely to be:

- on below average incomes of under £17,500 (59% of those struggling and 57% of those burdened, compared to 53% of this income band in our sample);
- women (59% of those struggling and 56% of those burdened, compared to 52% of women in our sample).

[6] Age UK (2011), 'Living on a low income in later life – an overview' report: http://www.ageuk.org.uk/Documents/EN-GB/For-professionals/Research/Living_on_a_low_income_overview.pdf

However, age is the largest determinant of whether an older person is 'struggling' or 'burdened'. These two groups are significantly more prevalent in those aged 55 to 75. Of this group, no particular age band appears to be struggling more than another.

Figure 1: 'Struggling' and 'burdened' - by age



This seems to be an age effect. ILC research shows that older people over 75 have lower spending generally. More likely to be isolated by ill health, they have fewer opportunities to spend on non-essential items.[7] Hence, they feel less burdened.

However, the higher levels of older people feeling burdened by bills between 55 and 74 suggests there may be a particular issue with managing the shift in income into retirement. Many older people may be 'struggling' to adjust to lower incomes, for example living on two-thirds of their previous salary if they have a defined benefit pension scheme. These issues present significant policy challenges, but they are not universal among the older population.

[7] ILC (2015) 'Understanding Retirement Journeys' report: http://www.ilcuk.org.uk/index.php/publications/publication_details/understanding_retirement_journeys_expectations_vs_reality

Generally, older people are happy with their approach to budgeting

Unlike many in the working population, older people say they manage their money well day to day: **79% think their approach to keeping track of their income and expenditure works well,** compared to 55% among those of working age.[8] Almost half of those retired (46%) say their approach works very well. Of course, our data cannot tell us whether older people's day-to-day budgeting *does* work, only that they feel it works for them in their current circumstance.

Our qualitative interviews suggest this better management of day-to-day money may be because older people's income and expenditure in retirement is relatively predictable. Many people in retirement have paid off their mortgage, their pension income is predetermined and regular (whether it's a state pension or private pension), and their hobbies and interests are relatively low-cost.

> *"I have very low outgoings. I bought the house. It was well paid-for years ago. No mortgage, no rent. I don't smoke, I don't drink. My hobbies are cheap... I've got unlimited access to the leisure centre. Walking's free. Lunch with my friends is probably my biggest expense. And if I have lunch with friends, I don't bother with an evening meal. I have a sandwich. So it actually evens itself out."*
> 75-year-old woman, single, below average income

> *"You can lead a life like this by being frugal. Knowing what your priorities are. Life is not difficult because we're not the sort who particularly enjoy going out for meals. That level of activity just doesn't feature. It feels like throwing money away to us."*
> 74-year-old man, married, moderate income

As shown in Table 2, the most common recent life events among older people are different from those experienced by the working age population. All other listed life events affected less than 2% of older people.

Table 2: Life events in last three years

Life events	Working age	Older people
Retired	1%	19%
Moved house	20%	8%
Partner/spouse died	1%	5%
Made redundant or lost a job	8%	2%

The 2015 Financial Capability Survey asked about experiencing illness, or injury but the question wording related the impact of this to being unable to work. This appears less appropriate for older people, so there may be grounds to revise the question wording in future waves of the survey to allow us to explore how changes in health affect older people's ability to manage their money day to day.

[8] The percentage rating their approach as between 8 and 10 where 10 means this works very well.

However, the survey did ask whether people have a disability or long-term condition. Older people are more likely than the working age population to than have a long-standing physical or mental impairment, illness or disability. One third (32%) of older people say they have one, compared to 14% of working age people. As many as one in five (21%) of older people say they have a mobility impairment. This matters because of the extra costs incurred as a result of living with disability create additional challenges for living on a largely fixed income in retirement.[9] Some of these extra costs result from accessibility issues, a key area of concern for the Financial Conduct Authority (FCA).[10]

Older people's good money management may also be due to their financial experience. Older people have had years of running a household budget and have found a system that works for them.

> *"I usually do my ingoing and outgoings… I write it down usually. I don't budget it by looking at, I've got £100 this week, this is what I can do with it. I tend just to write down what I have paid out and what I will probably have by about Friday, when everything's been paid. I don't get myself too worked up these days because I only have to wait until Monday. I think one of the issues with working was that I had even bigger bills… Now, I know that if I have bread and milk and some pasta in the fridge. As long as I have something to eat, and the dog's got food, which she always has, I know I don't have a problem until Monday. I've got food to eat and a roof, so I don't have a problem as such."*
>
> 66-year-old woman, single, below average income

Indeed, the Adult Financial Capability in the UK survey deep-dive report into young adults concludes that those who have accumulated most financial experience (e.g. left home, rented, started a job, gone to university) tend to be better at managing their money.[11] Perhaps older people demonstrate a natural extension of this point. They have a lifetime of experience to draw upon and as such, generally, are good at managing whatever money they have.

Conclusions: Overall, older people show high levels of financial capability when it comes to their day-to-day money management. Older people who do struggle with budgeting or find bills a burden tend to be 55-74, perhaps adjusting to a reduced income in retirement. Any interventions to improve day-to-day money management need to be carefully targeted at this group.

[9] Extra Costs Commission (2015) http://extracosts.org/Extra-Costs-Commission-Final-Report.pdf

[10] Financial Conduct Authority (2016), Occasional Paper 17: Access to Financial Services in the UK https://www.fca.org.uk/your-fca/documents/occasional-papers/occasional-paper-17

[11] Money Advice Service (forthcoming), 'Young Adults' Financial Capability'

Financial resilience, savings and debt

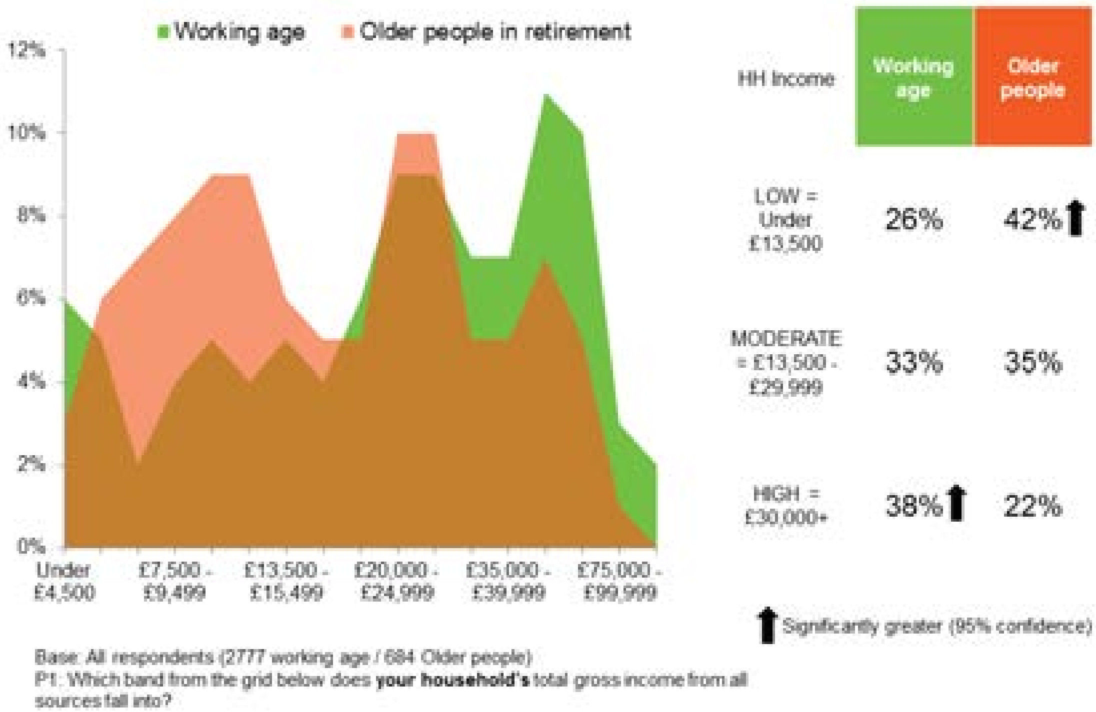
Older people show good financial resilience despite limited incomes

As a group, older people believe in saving. Almost half (46%) see 'saving for a rainy day' as very important, compared to 38% of the working-age population.

However, they are less likely to be saving at the moment – 36% save every month compared to 43% of workers. This may be because older people's incomes tend to be more limited than younger groups and don't allow for a surplus at the end of each month.

As Figure 2 shows, older people's income is significantly below their working-age counterparts. Four in ten (42%) have low household incomes below £13,500 per year and just over one in six (16%) have very low household incomes below £7,500 per year.

Figure 2: Gross household income per year



While older people might have limited incomes, and might not save at the moment, they have generally accumulated savings in the past. For some, this may have been from a lump-sum cash payment when they retired.

Over half (57%) have three or more months' household income in savings compared to only 28% of the working-age population. This is perhaps less difficult given three months of an older person's income is likely to be lower than three months of a working-age person's income. However, their accumulated savings do also seem to be higher than those working. Among older people, **78% could pay a £300 bill from savings or their own money without cutting back on essentials.** This compares to 64% of working-age people.

Most older people don't rely (or want to rely) on credit

This savings buffer and a potentially lower level of outgoings could cumulatively mean that most older people aren't forced to rely heavily on credit.

Older people's lack of reliance on credit may also be a result of attitudinal differences between generations. **Older people are more likely to agree "I hate to borrow – I would rather save up in advance."** Among older people, 84% agree with this statement. This is significantly lower (72%) among the working-age population.

The net result is that older people are much less likely than their working counterparts to rely on credit or debt.

- Only 7% of older people revolve their credit-card or store-card balances from one month to the next and only make the minimum payment each month. This is 20% among the working-age population.
- Less than 0.5% have used high-cost short-term credit (for example, payday loans), a pawnbrokers' loan or other short-term credit in the past year. This compares to 9% among those of working age.

Among our survey sample, 22 out of 684 older people see their debts as a 'heavy burden'. That's not to say that debt isn't an issue among older people. It's just less common than for the rest of the population. Given our small sample of those dealing with debt issues, we are not able to analyse their attitudes, motivations and behaviours, for example their engagement with advice services.

Only a minority of older people still have mortgages

For the working-age population, a mortgage is often their largest debt. Our data shows that few older people have a mortgage in retirement: **only 8% have a mortgage.** However, there is evidence that the number of people having mortgages in retirement will grow in the future, with one-third of mortgages being taken out today extending beyond the borrower's 65th birthday.[12]

Our sample shows older mortgage holders are more likely to be:

- those with very high incomes over £50k (23% of this group have a mortgage);
- those under 65; aged 55-59 (21%) and aged 60-64 (20%); and
- those who feel they are 'struggling' or 'falling behind' (19%).

While this group might be most able to pay down this debt (with their high income), it's concerning that they are also more likely to be struggling to meet their bills and commitments. This suggests that defaulting may be a possibility for these older people who have retired in their 50s and early 60s.

[12] Council of Mortgage Lenders (2015), 'Retirement borrowing: reality, perceptions, projections and potential' report: https://www.cml.org.uk/documents/retirement-borrowing-report/

Debt in older people is concentrated

Research by the International Longevity Centre in 2013, and summarised by Age UK, showed that the proportion of people aged over 50 with debt had fallen and debt is falling most quickly among the over-65s. However, at the same time the amount owed by older people with debt has increased substantially.[13]

This suggests that debt among older people is becoming more concentrated. Many older people may not be able to get credit as they aren't working. The particular challenge for older people with debt is that their debt levels tend to be higher than other groups and their ability to make repayments is constrained by having a fixed income.[14]

In our primary research, we interviewed two individuals who were both struggling with debt – one with an unaffordable interest-only mortgage and another with a growing debt problem from various streams of lending.

Man, 72, widowed

- Gets state pension plus pension credit. Lives in rented sheltered housing
- **Accumulated debts of c.£35k** in past – interest only mortgage, household appliances on credit, loan, cars in finance, unpaid income tax and unpaid council tax
- Income is £170 per week but expenditure is £250 – so **debt continues to grow**
- **Bankruptcy is a very real possibility** but he can't afford the £200 it would cost him
- He joked:

"There's too much week [sic] at the end of the money!"

Man, 76, married

- Living on **state pension alone, no savings**. Had to leave self-employment as an electrician at 67 due to ill health
- Wife (54) gets pension next year. Previous marriage ended in divorce 20 years ago and lost all claims to jointly owned property
- Service charges on flat are expensive and they are falling behind on interest only mortgage payments. Credit cards are at their limits. **Fears they will have to sell their flat when their mortgage ends in two years** – no means of paying off the capital

Given older people like those we interviewed have few chances to increase their income, and have limited time to correct past decision-making, these examples are a cause for concern.

[13] Age UK (2013), 'Problem Debt Among Older People' report: http://www.ageuk.org.uk/Documents/EN-GB/For-professionals/Policy/ageuk_ilc_debt_report_summary_040613.pdf

[14] *Ibid*.

Conclusion: On the whole, older people show good financial resilience. Most have savings and tend not to rely on credit. However, other research has shown that where debt does exist it can be problematic, particularly given older people's fixed and often lower income. Few older people have mortgages, but those who do tend to be 'struggling' and in the earlier years of retirement (aged 55-64). This suggests widespread debt management support isn't necessary for older people. Targeted interventions at key life-stages are more appropriate e.g. when people retire with a mortgage.

Financial confidence, skills and knowledge

Older people have high levels of financial confidence

As older people tend to have good day-to-day money management and financial resilience, perhaps it's not surprising they show high levels of financial confidence:

- **74% of older people feel confident managing their money** (scoring 8 to 10, where 10 is completely confident). This is significantly higher than the working-age population (52%).
- **65% of older people feel confident making decisions about financial products and services**, significantly higher than the working-age population (41%).
- **71% of older people disagree that thinking about their finances makes them anxious.** This is only 38% within the working-age population.

However, many of the decisions that older people will face in the future go beyond day-to-day money management. Over their retirement, it is possible they will need to consider:

- if they need to use housing wealth, through downsizing or accessing equity;
- how they will fund any care they may need in later life;
- financial planning and inheritance; and
- if they have a defined-contribution scheme and choose not to buy an annuity, the ongoing management of complex pension savings and other investments, potentially in a declining market.

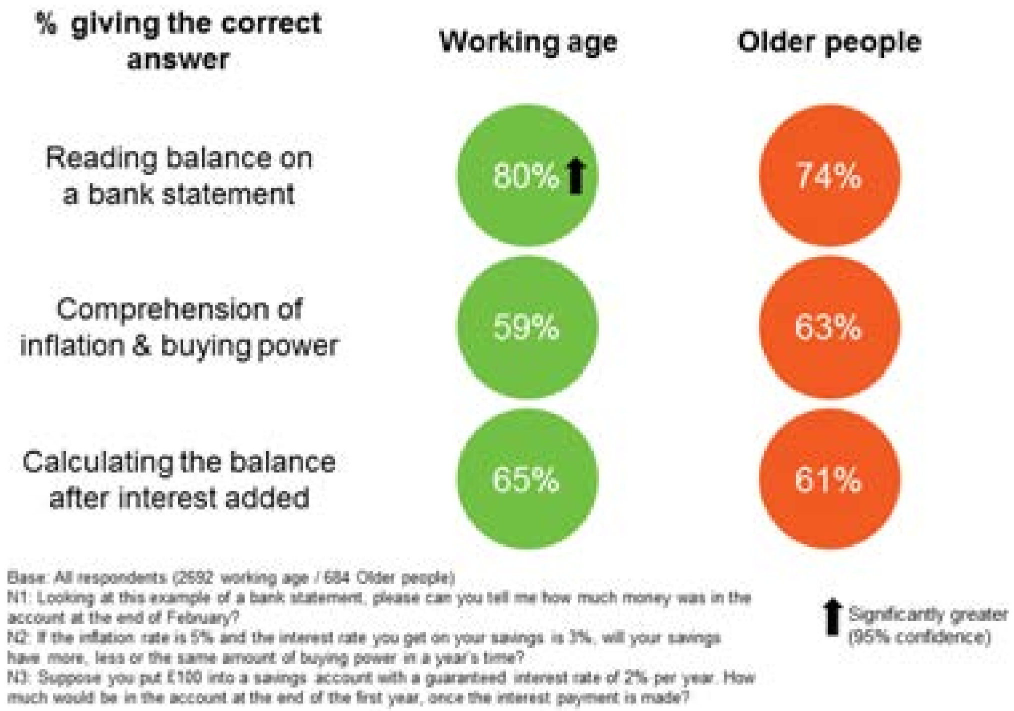
These are all complex decisions and many are irreversible. Many older people won't have been exposed to these types of financial decisions before, so it's important they have the basic skills and knowledge, as well as the motivation and access to whatever support and advice they need, to make the best possible decisions for them and their family.

As a whole, older people have skills and knowledge equal to the working population

In the Adult Financial Capability in the UK survey, participants completed three skills and knowledge 'quiz' questions to test whether they could: read a bank statement balance; calculate the effect of an interest rate on savings; and calculate the effect of inflation.

Overall, older people show skills and knowledge only marginally below or in line with the working-age population. Only the ability to read a bank statement is significantly higher among the working-age population.

Figure 3: Skills and knowledge



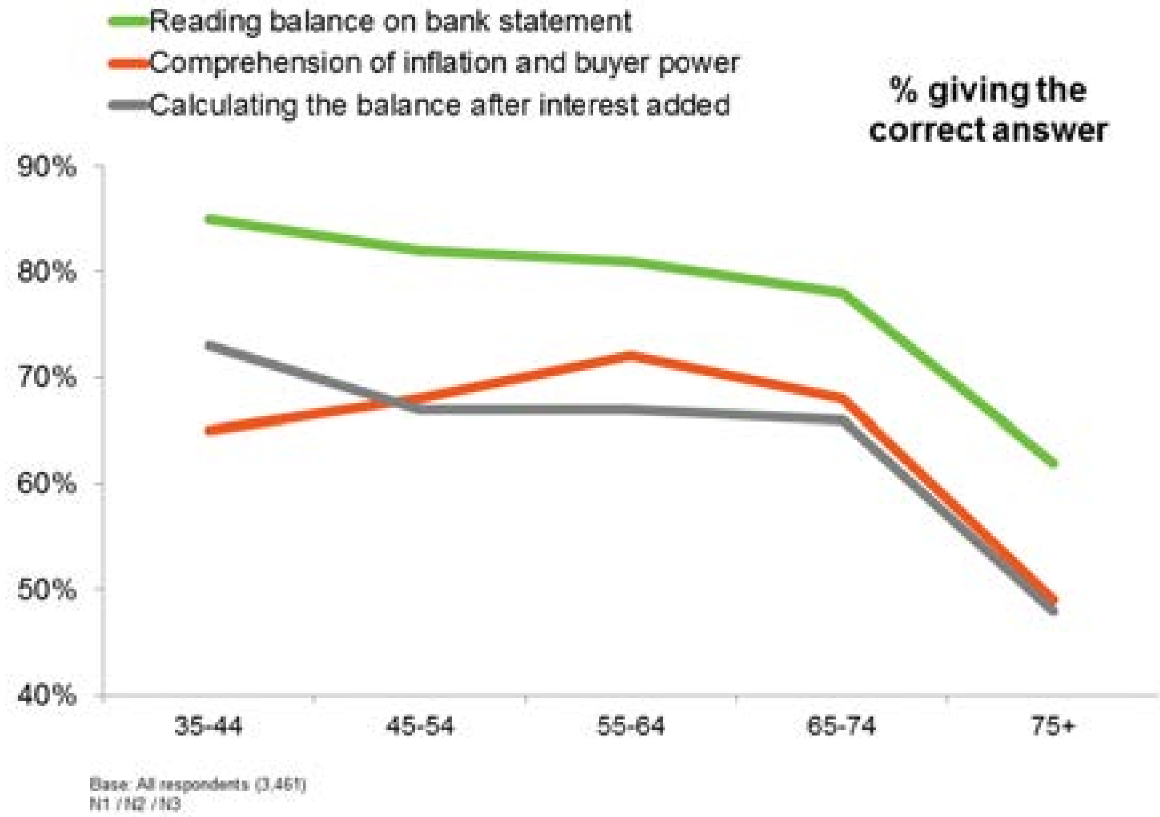
However, this masks a much more complex picture. Many different demographic factors have a bearing on levels of financial skill and knowledge, in particular age, gender and (to a lesser extent) disability.

Financial skills and knowledge decline with age

Those aged 65–74 have skills and knowledge similar to younger cohorts. For example, 78% are able to read a bank balance correctly compared to 82% of 45- to 54-year-olds and 81% of 55- to 64-year-olds. These differences are not statistically significant.

However, as figure 4 shows, **those 75 and over have considerably lower levels of financial skills and knowledge.** Only half are able to calculate the effects of interest and inflation (48% and 49% respectively). And only six in ten (62%) are able to read a bank balance on a statement correctly.

Figure 4: Skills and knowledge by age



A comparable picture is painted internationally. For example, the Canadian Financial Capability survey shows that 'seniors' score very well on confidence measures but less well on knowledge.[15]

This is very likely down to two factors:

1. **Older people have lower levels of literacy and numeracy to begin with.** Financial literacy is low among the general population. A recent study by YouGov shows that a fifth of those over 55 have forgotten how to calculate fractions or percentages.[16] ILC analysis of the English Longitudinal Study of Ageing shows that levels of literacy and numeracy are lowest among the oldest age groups. Older people tend to have lower formal education levels than the young.[17]

2. **Older people also experience cognitive decline.** A study by the Michigan Retirement Research Center concludes that "older people have lower levels of economic rationality and that these

[15] Financial Consumer Agency of Canada (2015), 'Managing Money and Planning for the Future: Key Findings from the 2014 Canadian Financial Capability Survey' report: http://www.fcac-acfc.gc.ca/Eng/resources/researchSurveys/Documents/managing-money-key-findings.pdf

[16] YouGov (2016), Survey for the Oxford Open Learning Trust: https://d25d2506sfb94s.cloudfront.net/cumulus_uploads/document/337211g3j6/YG-Archive-160516-Epiphany.pdf

[17] ILC (2016), Blog article: Financial education – why older people: http://blog.ilcuk.org.uk/2016/01/11/financial-education-why-older-people/

differences are both statistically and economically significant."[18] This is borne out by other studies showing the ability to calculate percentages declines after 60.[19] As noted by the Age UK report for the World Economic Forum, the cognitive change that happens in older age is "less disease and more normal brain ageing".[20]

Our primary research interviews suggest some older people struggle with numeracy, especially when it comes to their finances. Understanding percentages in particular seems more difficult with age.

> *"I don't know what 2% of £100 is!"*
> 66-year-old woman, single, below average income

> *"All my figures have gone now. I have to use a wee calculator, just to make sure"*
> 79-year-old woman, widowed, above average income (previously worked in accounts)

The complexity of some financial products and their associated product literature, also mean low levels of literacy can cause problems in understanding detailed terms and conditions of products.

> *"I have my [funeral cover literature] out at the moment and I'm looking and waiting for someone of half a brain to sit down with me and go through it with me. The bank thing, because it's so simple, and I don't have a lot [of money], that, I understand. The [funeral cover] taking out £2 a month or whatever… The paperwork that's involved and the small writing and the 'if you die, you have to die with one leg in the air and that leg needs to be at 25%.' That, I don't get. And so every now and again I think I need to take out all of my different insurances and make sure I understand. And I don't think my kids will get £20,000 when they'll actually only get £2,000."*
> 66-year-old woman, single, below average

Older people may have accumulated experiences of financial products and decisions over their lifetimes. However, they are less likely to have been exposed to some of the decisions they will face in retirement. Downsizing, equity release, managing ongoing pension savings, funding long-term care and inheritance planning are all decisions they haven't previously been exposed to.

This is a concern because several financial capability issues converge. **Older people may have lower levels of numeracy and literacy to begin with, suffer declining cognitive ability, and may face financial decisions in areas where they have no experience.** This potentially leaves older people vulnerable to poor financial choices and poor outcomes in retirement.

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[18] Kariv, S., and Silverman, D. (2015), 'Sources of Lower Financial Decision-making Ability at Older Ages', Michigan Retirement Research Center: http://www.mrrc.isr.umich.edu/publications/papers/pdf/wp335.pdf

[19] Marson, D. (2016) 'How Do Aging and Dementia Affect Our Capacity to Manage Our Money?' presentation to the WEF 2016, adapted from D. Laibson, D Age of Reason Lecture, 2011

[20] Age UK (2016) 'Managing ageing and cognitive decline: challenges and opportunities for financial services' report: http://www.ageuk.org.uk/Documents/EN-GB/Events/wef-symposium/WEF_global_agenda_council_ageing_symposium_report.pdf?dtrk=true

Skills and knowledge are particularly low among 75+ women on low incomes

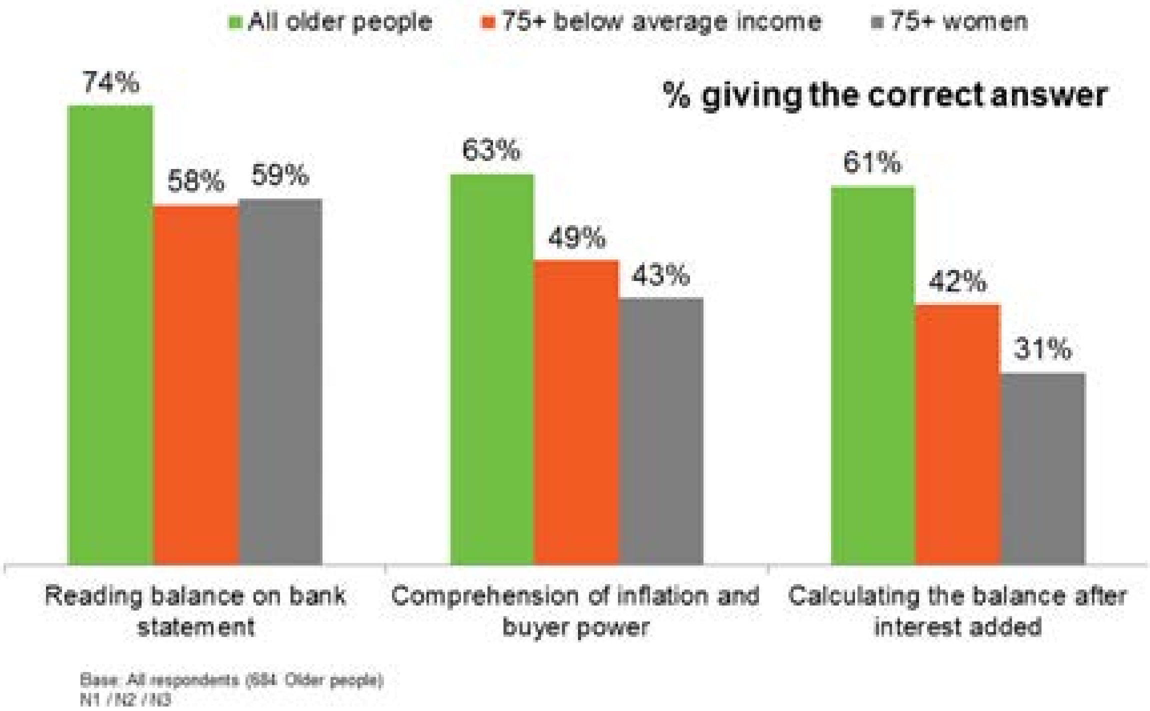
Further analysis of the Adult Financial Capability in the UK survey data shows very different levels of financial skills and knowledge within sub-groups of the retired population.

There is a strong overlap between women over 75 and those over 75 on lower incomes. Almost four in five (77%) women over 75 have below average household incomes (under £17,500 per year) and 70% have low incomes (below £13,500).

This is a function of many women over 75 being single-income households. Four out of five (81%) are living alone and 86% in total are single, widowed, separated or divorced. ONS data shows a similar proportion (72%) of women over 75 live alone.[21]

Skills and knowledge are particular issues for this group. **Financial skills and knowledge are significantly lower among women over 75 and those over 75 on below average incomes (up to £17,500 per year).**

Figure 5: Skills and knowledge by sub-group

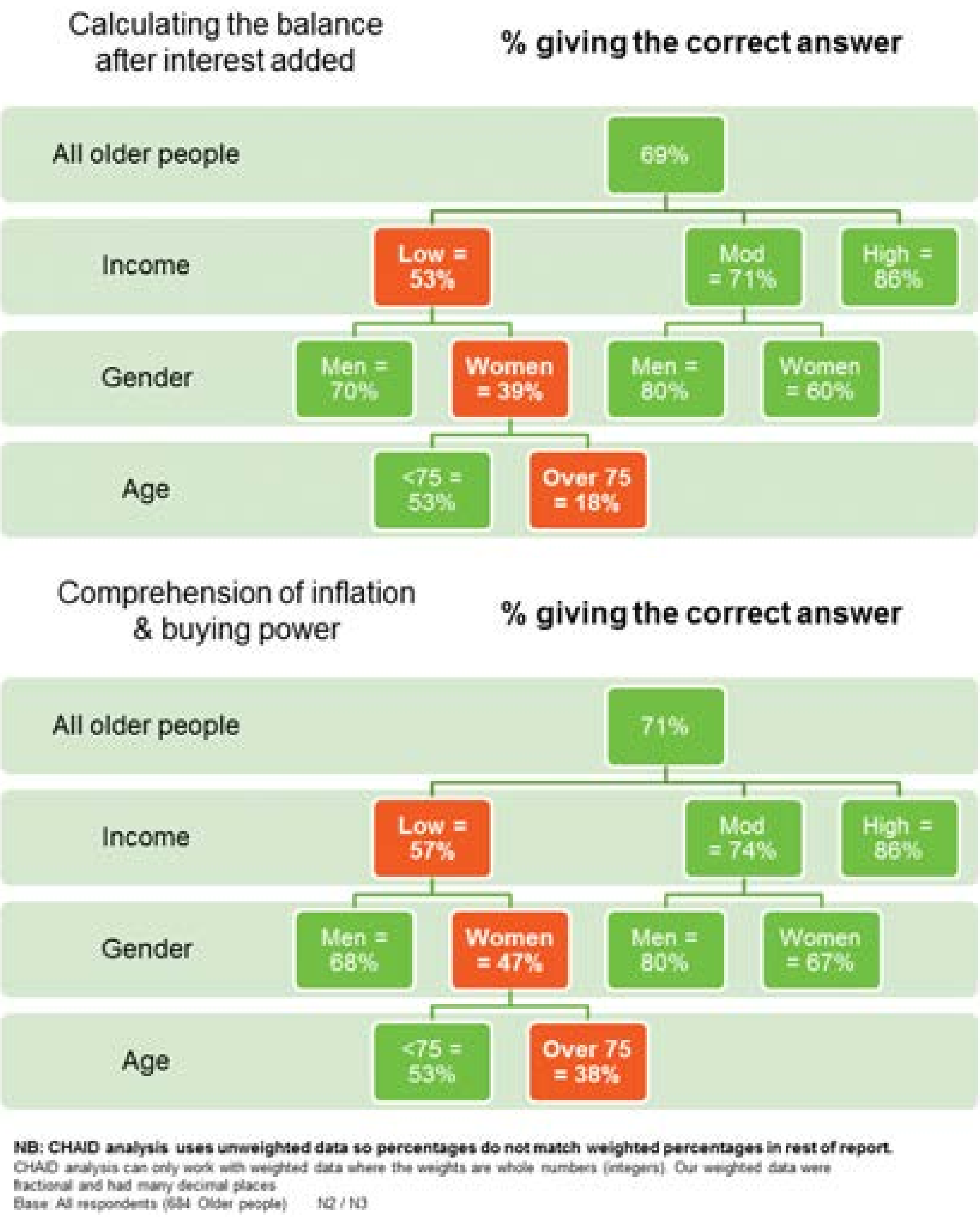


To dig deeper into the interplay between age, income and gender, we conducted some CHAID analysis. CHAID is explained in detail in the appendix, but essentially it looks at which different factors are driving an overall measure, in this case skills and knowledge. Our CHAID here examines whether age, income, household composition, gender, disability or internet use are driving financial skills and knowledge, and which factors are driving them more than others.

[21] ONS (2015) 'Families and Households', 10. Living Alone: http://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/bulletins/familiesandhouseholds/2015-11-05#living-alone

We focus our CHAID analysis on the tests where older people performed least well – calculating a savings account balance after interest is applied and calculating the effects of inflation. Figures 6a and 6b show how the lowest levels of skills and knowledge in our older people sample (the orange boxes) exist among women aged over 75 with a low household income (under £13,500 per year).

Figures 6a and b: CHAID (decision tree) analysis of calculating interest and the effects of inflation



We found some evidence in our primary research that the differences in skills and knowledge between men and women over 75 may be due to traditional family structures.

> *"[When my husband was alive] he was in charge of the finances. Twenty years ago, I wasn't allowed to be."*
> 79-year-old woman, widow, moderate income
>
> *Wife: "I leave it all to him."*
> *Husband: "She doesn't do anything with the money."*
> 86-year-old man, married, moderate income

While older women may have controlled the day-to-day budget within a household, very often their partner or spouse would take overall responsibility for setting this budget. In the ten cases we interviewed, major expenditure and major financial decisions tended to be the domain of the husband, rather than the wife.

Men's life expectancy is shorter than women's. As noted by the ONS, life expectancy for men in England aged 65 years in 2012 to 2014 was 18.8 years, while women at this age could expect to live for an additional 21.2 years.[22] While only a difference of 2.4 years, it does suggest that some older women may be facing difficult financial decisions alone.

We found no evidence that the low skills of these groups leaves them more susceptible to financial abuse or scams. No-one in our ten interviews reported being a victim and we didn't cover this topic in the Adult Financial Capability in the UK survey. However, there is evidence that older people are increasingly being targeted by a variety of scams. Age UK estimate that "between 1 and 2 per cent of people aged 65 or over in the United Kingdom today have suffered (or are currently suffering) financial abuse since turning 65.[23] FCA research shows older men on higher incomes and with large amounts of accumulated wealth are far more likely to be victims of investment fraud than older women or those on low incomes.[24] Of course, it makes sense that those with higher wealth would be targeted. But it is interesting to note that their higher skills and knowledge provide little protection from this type of financial crime.

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[22] ONS (2015) Life Expectancy at Birth and at Age 65 by Local Areas in England and Wales, 2012-14: http://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/lifeexpectancyatbirthandatage65bylocalareasinenglandandwales/2015-11-04#national-life-expectancy-at-birth

[23] Age UK (2015) 'Financial Abuse Evidence Review' report: http://www.ageuk.org.uk/Documents/EN-GB/For-professionals/Research/Financial_Abuse_Evidence_Review-Nov_2015.pdf?dtrk=true

[24] Financial Conduct Authority (2014) 'A quantitative analysis of victims of financial crime' report: http://www.fca.org.uk/your-fca/documents/research/quantitative-analysis-of-victims-of-investment-crime

Physical and mental impairments also affect financial skills and knowledge, but to a lesser extent

An older person's physical and mental health also seem to play a role in their level of financial skills and knowledge, albeit the differences are not as marked as by gender, age and income.

Those with *no* physical and mental impairments are more likely to be able to calculate the effects of inflation and interest. Around half (50% and 55% respectively) of those with an impairment are able to calculate correctly compared to 70% and 64% respectively with no impairment. However, no such differences exist when it comes to reading a bank statement balance.

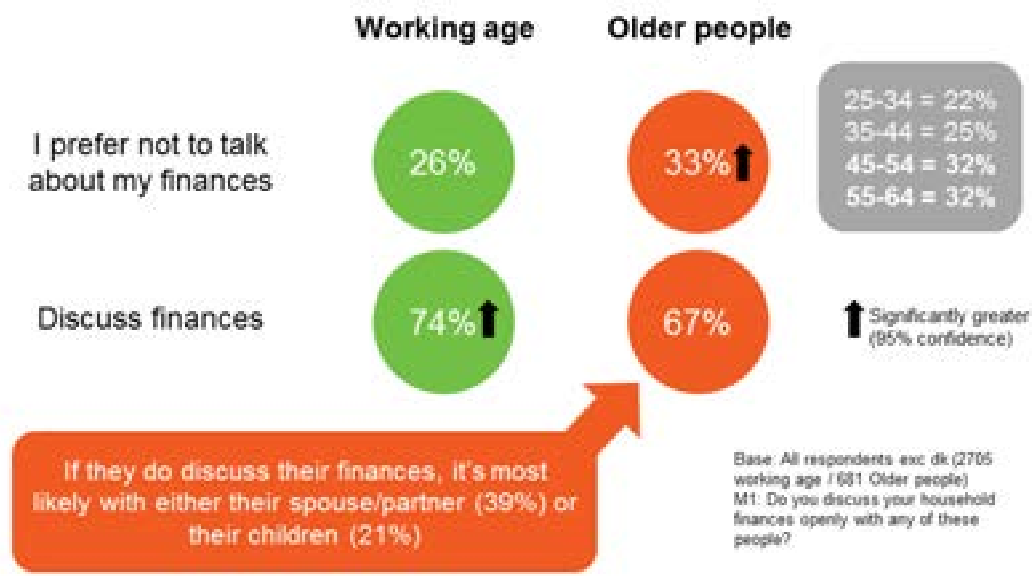
Conclusions: Older people face lower levels of numeracy and literacy, alongside cognitive decline; and important and increasingly complex financial decisions that they haven't been exposed to before. There is a need to ensure that older people have the right support, guidance or advice available to make the best possible financial decisions. Women over 75 on low incomes have particularly low levels of financial skills and knowledge and may benefit most from assistance. However, there is also a need to safeguard everybody from financial crime which can target even those with the highest levels of skills and knowledge.

Discussing money

Living alone means older people are less likely to discuss their finances

As a whole, older people are less likely to discuss their finances. One-third prefer not to talk about their finances with anyone (partners, spouses, children, friends, or others).

Figure 7: Discussing money



This doesn't appear to be reluctance on the part of older people. They are no more likely than those between 45 and retirement age to say "I prefer not to talk about my finances with any of these people", including friends, family and other members of their community. It's those under 45 who are more likely to talk about their finances.

As with skills and confidence, the overall picture masks something more complex. The most striking sub-group difference is between those older people who are single and those in a couple.

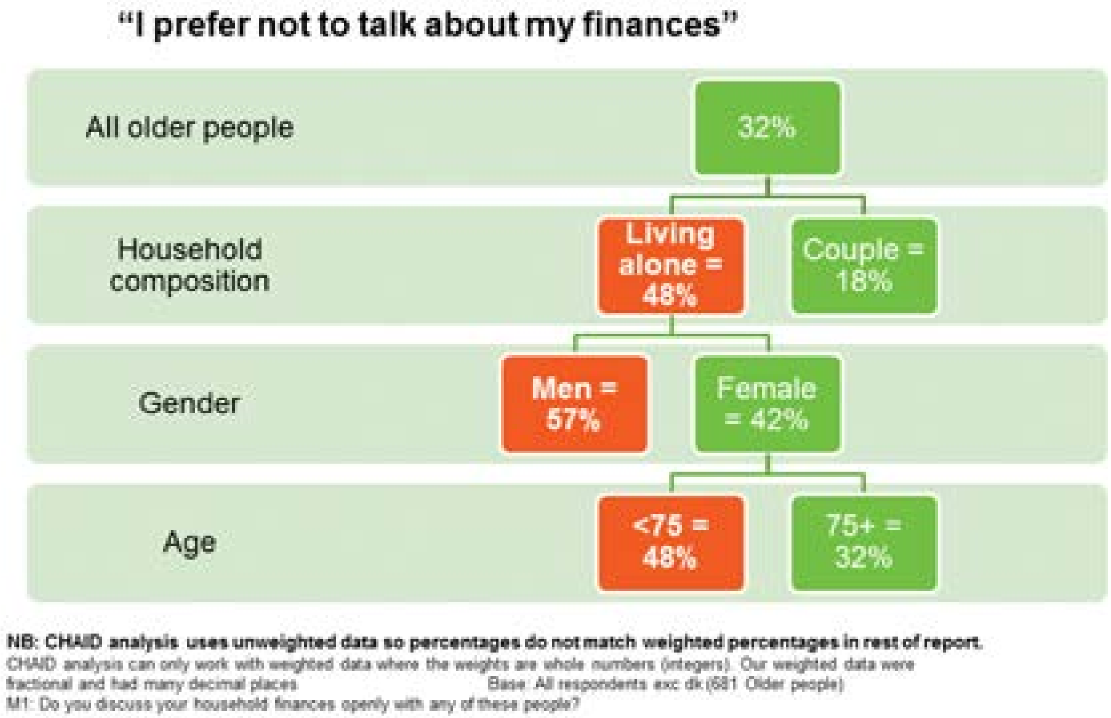
- Only half (54%) of older people who live alone talk to anyone about money
- This rises to four in five (81%) if they are in a couple. Unsurprisingly, for those in a couple, the most likely person to talk to about money is a partner or spouse (76%).

This suggests that not talking about money isn't a generational or cultural issue. It's a lack of opportunity. Those living alone don't have someone to confide in. Most likely, if they do talk to anyone, they talk to their children (30% of those living alone talk to their children about their finances). This is important because we know from other research that those living alone are those most likely to be struggling financially of all older segments.[25]

Further CHAID analysis shows what combination of different demographic factors is driving people not to talk about their finances. We look at the relationship and hierarchy between these factors; household composition, gender and age. Other factors such as income, disability and internet use were included in the analysis but did not produce any statistically significant results.

Figure 8 shows that the primary driver of whether someone "prefers not to talk about their finances" is whether they live alone or not. After household composition, *not* discussing money is most prevalent among older men and among retired women aged 55 to 75. (NB: there are no significant differences by age looking at men living alone. Hence, the CHAID analysis doesn't include another level in Figure 8.)

Figure 8: CHAID (decision tree) analysis of "I prefer not to talk about my finances"



[25] Ipsos MORI and Centre for Ageing Better (2015) 'Later life in 2015: An analysis of the views and experiences of people aged 50 and over' report: http://www.ageing-better.org.uk/wp-content/uploads/2015/12/Later-life-in-2015-Ipsos-MORI-Ageing-Better1.pdf

Older people living alone don't always seize opportunities to talk about money

Our primary research interviews confirmed that many older people living alone don't regularly discuss money. As many feel in control of their finances, they can see little point discussing this with others. Their day-to-day money management is often quite simple, so they feel there is little to talk about.

> *"I just don't discuss it. It's not because it's personal. I don't have enough money to make it personal…. I think it's that I don't feel I've got enough to talk about."*
> 66-year-old woman, single, below average income

When older people have social contact with family or friends, money is not a regular topic of conversation. There is a sense that money isn't important.

> *"We've got better things to talk about… You're the first person I've ever spoken to about this."*
> 77-year-old man, divorced, below average income

For those living alone, when they do have social interaction, talking about money just isn't a top priority. Those living with a partner *would* discuss it within the couple. Which means those living alone might not discuss their finances with anyone.

However, the best examples of positive financial behaviours we found arose when older people living alone *did* open up and discuss money, primarily to younger members of their family or trusted contacts.

Man, 72, widowed

- Accumulated debts of c.£35k and this figure is growing. Bankruptcy is a very real possibility
- Not spoken to children or friends about his situation – *"I keep it to myself… I tend to shut off. I cannae deal with it"*
- Spoke to warden of his sheltered accommodation and he recommended a free local debt advice service. Has a meeting next week and feels more positive about finding a solution

Woman, 75, single

- Her son encouraged her to switch her current account and to call her telecoms provider about getting a cheaper TV/phone package
- She earnt £150 switching her current account and halved her TV/phone payment from £60 to £28 per month
- Now regularly switches energy providers as well

"I feel like I've just woken up!"

These examples show the positive impact opening up to trusted friends and family can have on financial outcomes, from effectively managing debt and bankruptcy, to halving the cost of a monthly telecoms package.

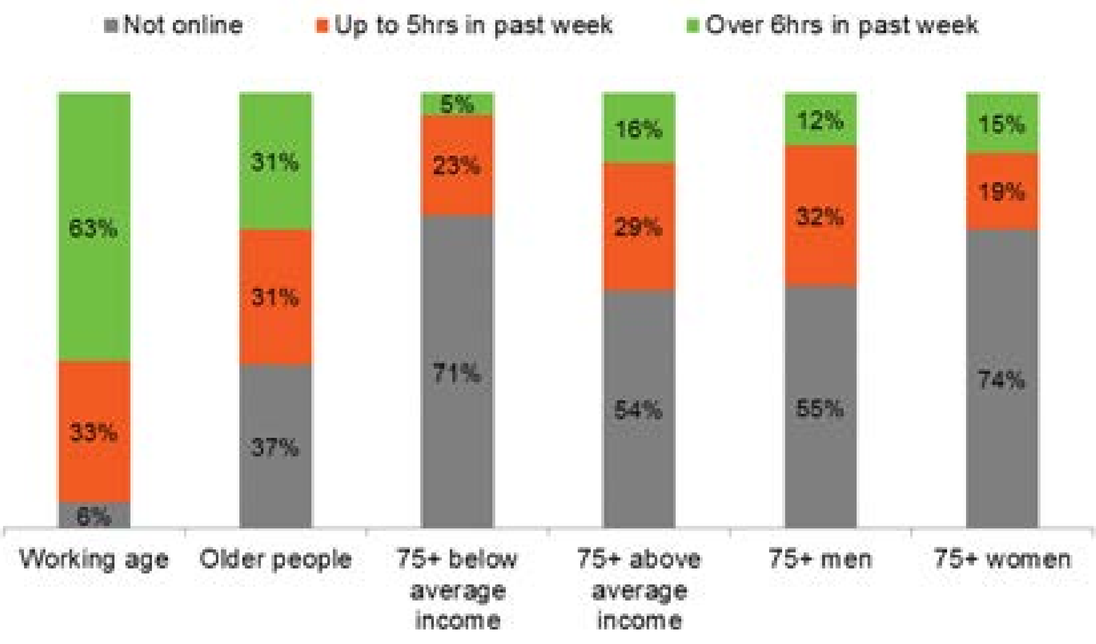
Digital exclusion

Over-75s are least likely to be online

It's little surprise that older people are much less likely to be online. Less than two-thirds (62%) of older people had been online at least once in the previous week compared to nearly all of working-age people (94%). We can't say from our data whether this is an age or cohort effect – it is based on a fixed point in time. But it would be interesting to examine longitudinal data on digital exclusion as it becomes available.

The heaviest internet users within the older people age-group are those at the lower end of the age-range (aged 55 to 74) and those with above average household incomes (over £17,500 per year). As shown in Figure 9, **those over 75, especially those on below average incomes and women, are most likely to be digitally excluded i.e. not online.**

Figure 9: Internet use by sub-group



Base: All respondents exc don't know (2692 working age / 682 Older people)
R9: Approximately how many hours in total have you spent actively using the Internet in the last week (i.e. the last seven days)?

This correlation between age, affluence, gender and internet use is confirmed by Ipsos Connect data.[26] It found that:

- In Great Britain, 70% of men 65+ are online compared to 56% of women 65+.
- Among 65+ men, those in the AB social grade are more than twice as likely to be online as those in the DE social grades (89% versus 41%).
- Among 65+ women, the difference is almost three times; 85% of ABs are online versus only 29% of DEs.

Go ON UK's study of digital skills across the UK shows those over 65 are least likely to have the core digital skills: managing information, communicating, transacting, creating and problem solving. Men are more likely than women to have these skills, and those in the higher (ABC1) social grades are more likely than the lower (C2DE) social grades to have these skills.[27]

Online banking can make monitoring a budget easier, but many old people fear it

In our Adult Financial Capability in the UK survey data, **those over 75 are also the least likely to be happy doing their day-to-day banking online.** Only 39% of older people are happy to do their day-to-day banking online, compared to 70% of the working-age population. This is lowest in the sub-groups least likely to be online; over-75s on below average incomes (10%), women over 75 (15%) and men over 75 (18%).

Older people tend to prefer branch banking for their financial services or products.[28] However, the number of branches has been in steep decline. In 1998, there were over 20,000 bank branches. In the latest available figures, this fell to less than 9,000 by 2012.[29] This means that it is harder for many older people to access their preferred channel to their financial services provider.

> *"Q: How do you keep track of all of the different amounts of money going in and out of your bank account?*
> *A: I'm going to go into the bank. There used to be one in Dumbarton. But they closed that down. So now it's in Glasgow… If I take the car, it's finding somewhere to park it. Cos the parking is really quite expensive. I'm a bit disappointed [they closed my local branch]. It's not that it's much difference mileage-wise. It's just a lot easier to park in Dumbarton."*
> 72-year-old man, widowed, below average income

This highlights how some older people may be unaware of alternatives to branch banking. They might not prefer to use telephone, internet banking or the ATM network, but they didn't appear aware of, or consider the option to use the Post Office network, for example.

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[26] Ipsos MORI (2016) Connect TechTracker Q1 2016 report (15+ GB adults): https://www.ipsos-mori.com/Assets/Docs/Publications/Ipsos_Connect_Tech_Tracker_Q1_2016.pdf

[27] Go ON UK and Ipsos MORI (2015), 'Basic Digital Skills' report: https://doteveryone-prod.s3-eu-west-1.amazonaws.com/uploads/Basic%20Digital%20Skills_UK%20Report%202015_131015_FINAL.pdf

[28] JGFR / GfK survey (2014/15)

[29] House of Commons Library (2016), 'Common Financial Services Questions': http://researchbriefings.files.parliament.uk/documents/CBP-7262/CBP-7262.pdf

There is a real resistance to online banking among older people, mainly because of fear. For some we interviewed, this was a fear of their limited technical capabilities and the consequences of making a mistake online.

> *"I'm computer-phobic… Everybody keeps telling me that it doesn't really matter. But to me it's a fight. Between me and my computer. It's more intelligent than I am. I'm isolated now and I do worry about doing the wrong thing. I hate the thought, because I'm very strict with my finances, that I'll press something and have run up a bill. I don't want my finances to be out of my control."*
> 75-year-old woman, single, below average income

For others, this was a fear of how secure their data was online and the consequences of identity theft. Many older people we interviewed are extremely concerned about sharing any financial information online.

> *"I have a deep distrust of the whole cyber financial world… About two and half years ago my credit card did come in with about another two thousand pounds on it. Luckily, as the credit card was always in my possession, there was no problem with [the credit card company] writing it off. But I think the dependence of software is worrying."*
> 74-year-old man, married, moderate income

The older people we interviewed tend to rely more on paper statements for checking their balances every month. But of course, paper statements summarise the previous month's banking transactions. For those we interviewed who are on lower incomes, or who are struggling to meet regular commitments, checking a balance regularly is important to help them track where they are against their budget or plan. This is made more difficult for those not online. They rely on monthly statements and aren't always utilising the alternatives, for example ATMs or telephone banking.

Where older people do have access to online banking, monitoring expenditure on a tight budget seems much more manageable.

> *"My wife works it all out. She sits there every night with a pen and paper on the computer, with a calculator… She says we've got this much spare. She says we can't order shopping, because they want a pound out of the bank and we ain't got none in there yet. When Friday comes [and we get our pension] she'll do the shopping then, to cover us for the weekend. Things are tight but we seem to survive."*
> 76-year-old man, married, below average income

Older people who aren't online are less aware of and less likely to use available support and information

Overall, older people who aren't online have lower knowledge of the different services which could offer support.

Table 3: Awareness of providers of advice by internet group

	Older people **online and happy to bank online**	Older people **online but not happy to bank online**	Older people **not online**
Not aware of any of providers of advice[30]	5%	18%	37%

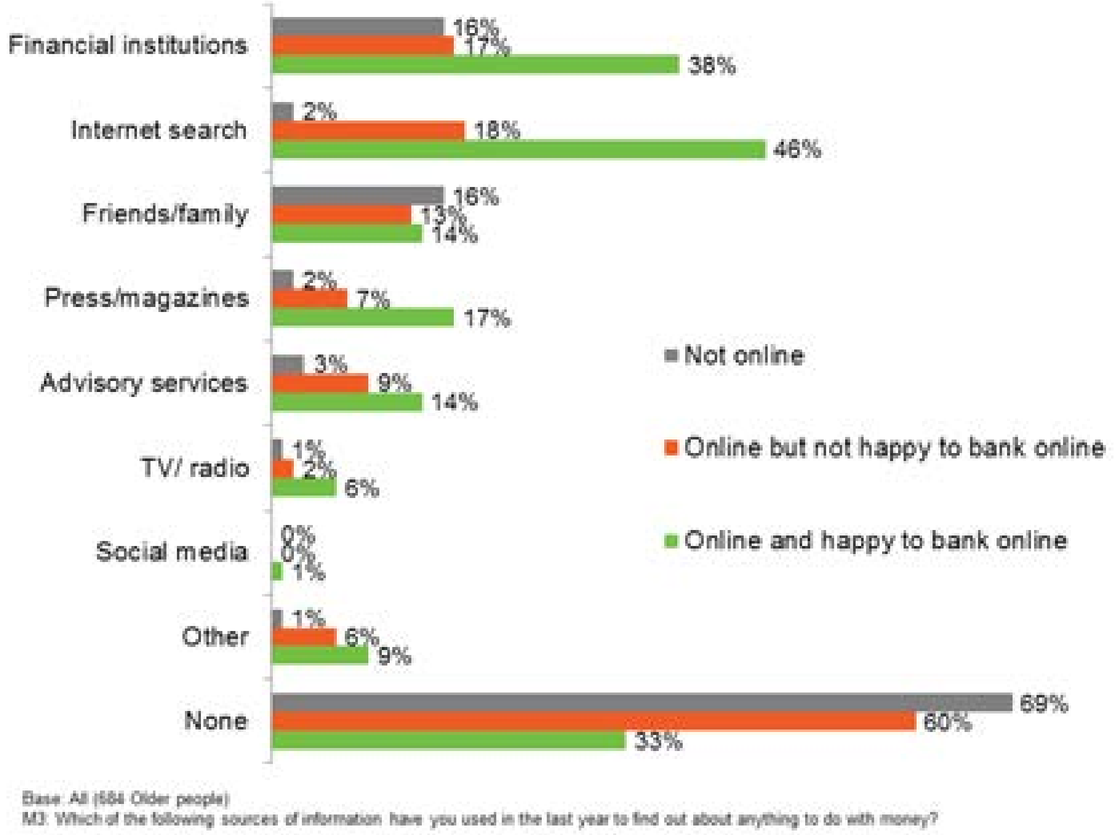
Many of the sources of advice listed were online, which might explain low awareness. But the list did include offline sources as well. The survey does include CAB but did not cover other community-based sources of advice or support, such as debt management charities or charities who specialise in helping older generations.

Many of those not aware of these services may be exactly the kind of people who would benefit most from them. While we have a small number in our sample, 11 of the 19 older people who have missed payments (43%) weren't aware of these services. And a significantly higher number of those who don't know their current account balance to within £50 also don't know about these services – 28% versus 21% of all older people.

[30] Providers of advice listed in question included Money Advice Service, Citizens Advice, Money Sense, Which?, Martin Lewis/MSE, Alvin Hall, Confused.com and StepChange

Figure 10 shows whether someone is online or not makes a huge difference to whether someone *uses* different sources of financial information.

Figure 10: Usage of sources of information by internet group



Indeed, 69% of older people not online haven't used any sources of financial information in the past year. This is still 60% among those online but not happy to use internet banking. But among those online, the figure is only 33%.

This shows how those online have far greater access to a vast array of information about their finances. They will be in a position to make far more informed financial decisions and may experience better outcomes as a result. By the same token, those not online may be disadvantaged. They may not be aware of all the different types of products available in the market, they may not be aware of the best savings rates or the savings they could be making on their insurance premiums. (In the next section 'Shopping around to maximise income', we discuss what difference being online makes to older people's switching behaviour.)

Families can play an important role in getting older people online

In our primary research interviews, we saw examples of family members helping older people go online and get the benefits of online banking. Children or grandchildren spent time with their parents or grandparents to support them through the process for the first time and were on hand if they had any questions. This sort of face-to-face support was extremely valuable and increased the older people's online confidence.

For example, the grandson of an 86-year-old man encouraged him to buy a new computer and set up his home screen with all of the applications he needed to manage his money online. With some support, he's now able to transfer money to his children and grandchildren electronically and very simply.

> *"Our grandson stayed with us for a while, while he was setting up to buy a house. He set up the computer and all that. Everything I want is set up. I've only got to push a button."*

Conclusions: Those over 75, especially women and those on below average incomes, are most likely to be digitally excluded. Being online makes older people more aware of the support services available and more likely to use different sources of financial information. Banking online could make budgeting and simple bank transactions easier, especially for those less able to get their preferred channel, a bank branch. We need to establish whether existing programmes helping older people get online are also helping to improve their financial capability. Further investigation is needed into the role families and trusted friends can play in getting older people online.

Shopping around to maximise income

Older people are less likely to check if they are on the best deals

Given older people tend to have lower incomes than the working population, it's important they make the most of the income they do have. Like the rest of the population, older people believe in shopping around for the best deals. 82% of older people say shopping around in order to make your money go further is important. This is in line with the working age population (84%).

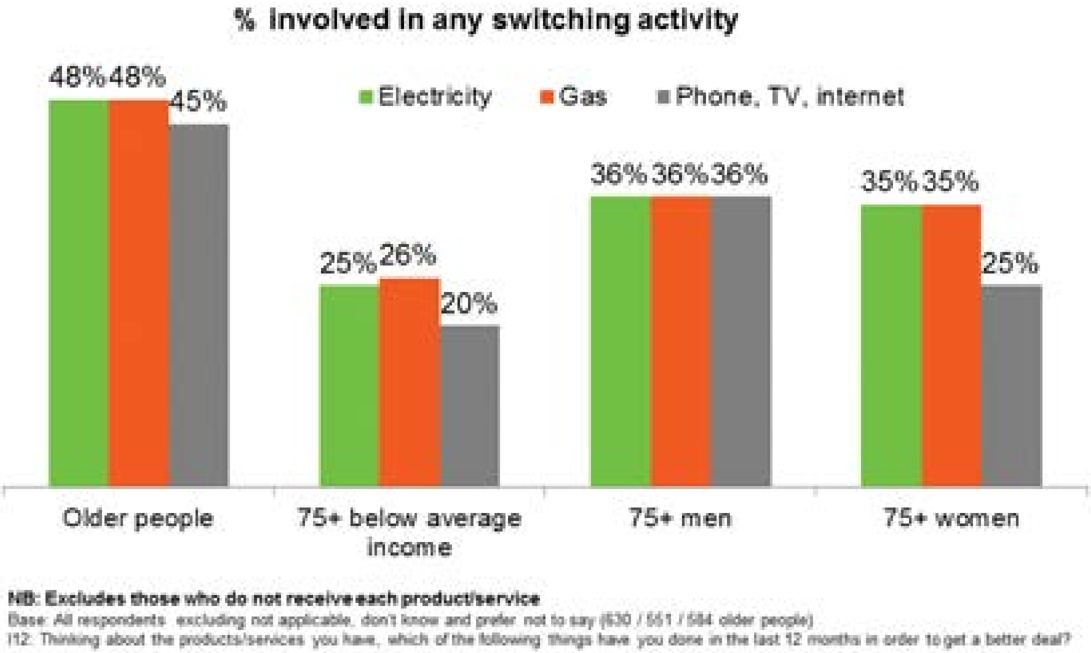
However, older people are significantly less likely to act on this sentiment. Older people are less likely to engage in any switching activity when it comes to energy or their landline, television or internet contracts.

- 52% of older people say they haven't checked whether they're on the best deal for electricity, compared to 38% of the working age population
- 52% haven't checked for their gas, compared to 38% of the working population
- 55% haven't checked for their landline, television or internet subscription, compared to 36% among the working age

This varies by the sub-groups within the older population. We see the highest propensity for any switching behaviours among those aged 55-74 and the more affluent. This includes changing provider, changing tariff with the same provider, or gathering information but deciding not to switch.

Those over 75, especially those on below average incomes, are least likely to have been involved in any of switching activities.

Figure 11: Switching activity by sub-group



The sub-groups with the lowest levels of switching activity are the same sub-groups who say shopping around for the best deals is unimportant (19% of 75+ on below average incomes, 12% of 75+ men and 19% of 75+ women). Perhaps this suggests there is a mind-set among these sub-groups that switching isn't worthwhile.

Indeed, our primary qualitative interviews found many older people think switching providers is too onerous and actually makes little difference to what they pay for products and services. One man had never moved his energy supplier even though he suspected he was paying too much.

> *"The charges are high; the fuel costs are low. They're still maintaining their high costs. But you've got to have warmth, you've got to have light. I think they're all pretty much of a muchness, when you analyse them. They all look a good deal and then after the first six months [they put their prices up… I just find that they're all the same and I can't be bothered with the hassle of it"*
> 77-year-old man, divorced, below average income

Digitally-included older people are more likely to be involved in switching providers

Internet access makes a big difference to people's ability to maximise their income. Older people who are online are significantly more likely to believe shopping around for the best deal is important and to act on this instinct. **Older people who are heavy internet users show the highest level of switching activity by some margin.**

Table 4: Switching activity by levels of internet use

	Not online	Light internet users (up to 5 hrs per week)	Heavy internet users (6+ hours per week)
Shopping around to make money go further is important	73%	85% ⬆	88% ⬆
Any switching activity (electricity)	27%	40%	80% ⬆
Any switching activity (gas)	28%	43%	81% ⬆
Any switching activity (TV, phone, internet)	22%	33%	76% ⬆

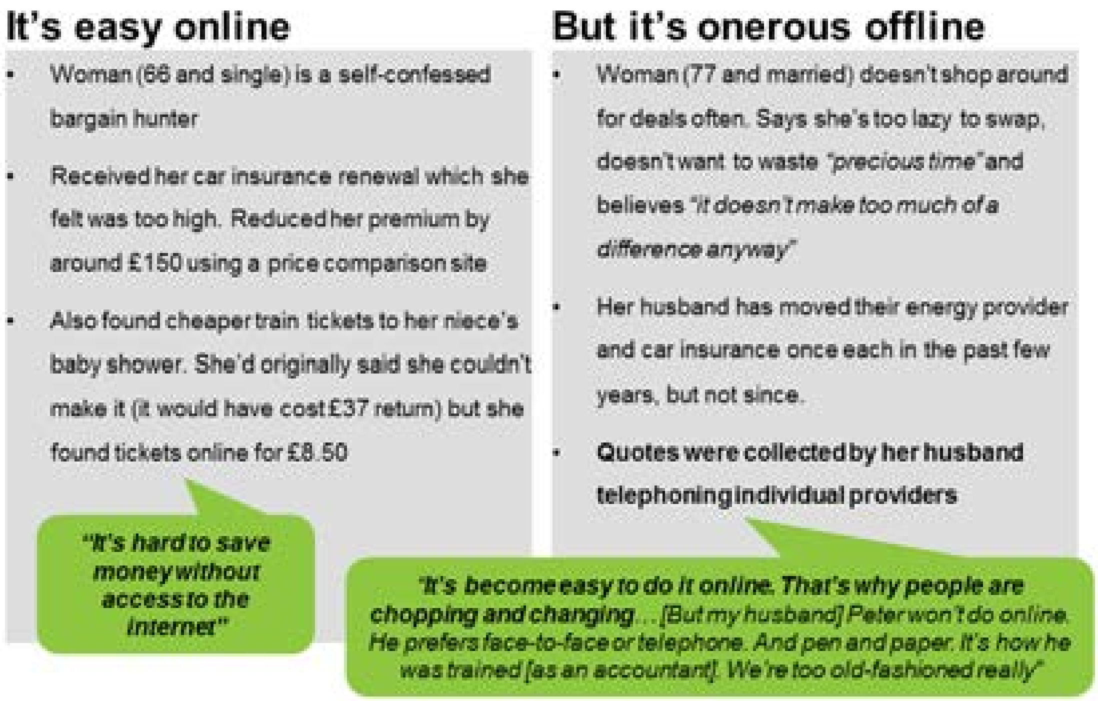
Base: All respondents excluding not applicable, don't know and prefer not to say (630 / 551 / 584 older people)
O3: Thinking overall about your finances, how important, if at all, do you think it is to shop around in order to make your money go further
I12: Thinking about the products/services you have, which of the following things have you done in the last 12 months in order to get a better deal?

⬆ Significantly greater (95% confidence)

We ran further CHAID analysis on what is driving switching activity and in every case (electricity, gas and telecoms), the primary driver is the level of internet use.

Our primary research interviews suggest shopping around is much simpler for those online. This is primarily because of price comparison sites. These websites, while often not showing the whole market, are a useful tool and take away much of the work involved in shopping around.

It's possible to shop around offline (and we saw examples of this) but the process is much more onerous. It involves lots of calls to individual providers, or visits to branches, and manual calculations to compare prices. This process takes much longer than the minutes someone might spend on a comparison site. These two examples show the difference the internet can make to shopping around.



The time taken to shop around offline may be off-putting to many older people who aren't online. This means **digitally-excluded older people aren't accessing the best deals in the market for energy, insurance and telecoms packages.**

This lack of shopping around suggests that older people are more likely to stay 'loyal' to their existing providers. This may not be an issue unless it means they aren't getting the best deals. In our interviews, we saw isolated examples of this loyalty not being rewarded. For instance, one 76-year-old man on a low income saw his car insurance premium rise from £400 to £700 per year (a 75% increase) with what he felt was no explanation from his insurer.

Some of the best examples of older people maximising income using the internet came when family members intervened. They encouraged their parents or grandparents to check prices online or to check comparison sites before renewing a product or service. The example above of a woman (66) saving £150 on her car insurance was prompted by her son buying her an iPad for Christmas and encouraging her to check prices online before accepting her renewal quote.

Conclusions: Access to the internet facilitates switching energy, telecoms and financial products. The process of shopping around offline is more onerous and off-putting to many older people. Digitally-excluded older people are not always getting the best deals available in the market. We need to establish whether more can be done to promote the benefits of switching to older people, especially those over 75 and on below average incomes.

Planning for long-term care

Older people aren't planning for long-term care, including those most likely to have to pay for it

Setting goals and planning are important. Previous Money Advice Service research has shown planning means people are better able to manage potentially stressful life events.[31]

Unsurprisingly, older people are less likely than the working-age population to have any specific financial goals or plans around saving or debt management. They often don't have debt and have accumulated their savings in the past. However, **older people also aren't planning for things that are very likely to affect them, such as long-term care.**

Long-term care is likely to affect many older people. On average, two hours of daily home care per day costs £10,000 per year. A residential care home costs on average £29,000 per year, rising to £39,000 if nursing is also required.[32] Of course, local authorities may be supporting this cost but those with greater accumulated wealth may need to cover the cost themselves.

Yet, older people still aren't making plans for how they will fund this care:

- **58% of older people do not have any plan to fund their long-term care.**
- Only 6% of older people have a specific plan for how they will pay for any long-term care they may need in old age.
- A further 10% have a rough plan and another 14% have a very rough plan.

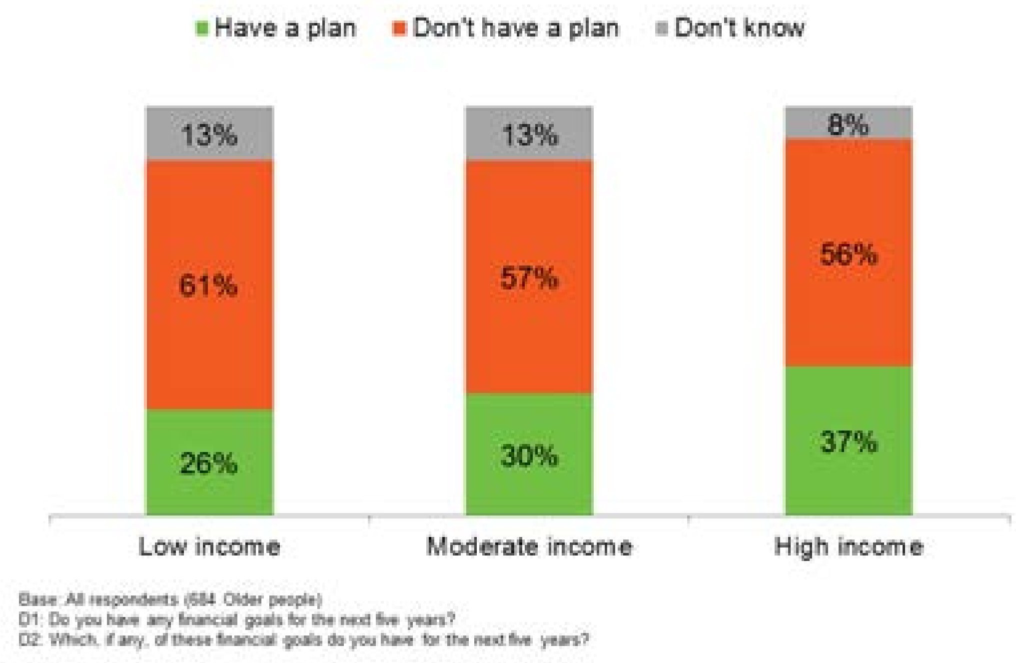
The current threshold for state-funded care is around £72,000 of assets. Only 7% of older people who own a home (outright or through a mortgage) live in properties worth less than £75,000. This means a large number of older people will be unlikely to qualify for local authority support and will have to fund their own long-term care.

[31] Money Advice Service (2015), 'Milestones and Millstones' report: https://masassets.blob.core.windows.net/cms/files/000/000/208/original/Milestones___Millstones_booklet.pdf

[32] Laing & Buisson (2015), 'Care of Elderly People UK Market Survey 2014/15' (based on average figures for the UK and quoted by Partnership): https://www.partnership.co.uk/paying-care-fees/paying-for-long-term-care/how-much-will-care-cost/

As figure 12 shows, few older people across any of the income bands have a plan for funding long-term care.

Figure 12: Plans for long-term care by income



Our primary research interviews found many older people are more focused on living day to day and enjoying their lives. They tend not to think too far ahead.

> *"I'm not thinking that far ahead. Who knows when, and who knows what's around the corner?... I see these adverts asking me to put money away for my funeral. I hate it. I don't even want to think about it… Maybe I shouldn't think like that but I do."*
> 66-year-old woman, single, below average income

Previous Money Advice Service research has shown people don't tend to believe negative life events will happen to them.[33] If people have plans, these tend to be focused on the more enjoyable parts of life, like holidays, cars or home improvements. **People display an optimism bias.**

Perhaps the same bias is at play here. Long-term care may be considered a negative event for many. Our primary research suggests older people often have a vague idea they may need some assistance and, if they don't have sufficient savings or equity in their home, they assume the government will cover the cost.

There may also be a sense of futility at play. Older people very often have a set income and have limited potential to grow their savings or investments now they're not working. In fact, **40% of older people think "nothing they do will make much difference to their financial situation".** Older people may see little point in worrying about something they have little ability to influence.

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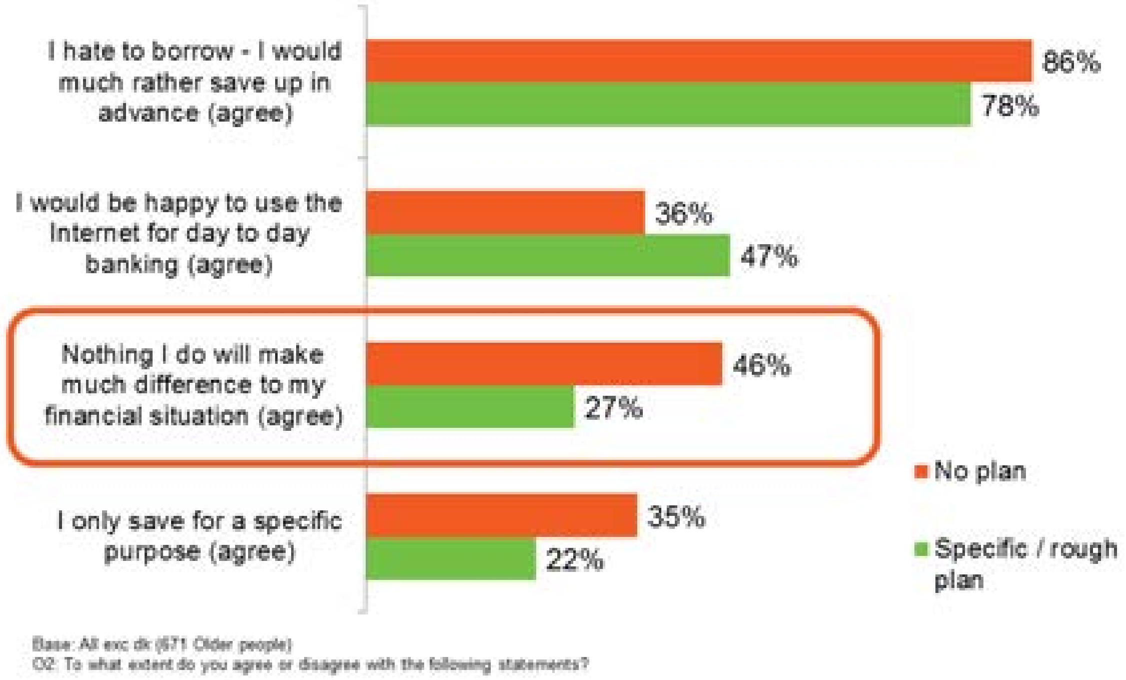
[33] Money Advice Service (2015), 'Milestones and Millstones' report: https://masassets.blob.core.windows.net/cms/files/000/000/208/original/Milestones___Millstones_booklet.pdf

Those who do plan for long-term care are more likely to feel they can make a difference to their situation

Surprisingly, lack of planning for care is not significantly different across any of the sub-groups within older people. **No single sub-group is more likely to plan for long-term care.**

There are also few attitudinal differences. Figure 13 shows the only significant differences between these two groups in terms of their attitudes to money.

Figure 13: Significant attitudinal differences between those with plans for long-term care and those with no plan



The most polarising is the feeling that their actions make a difference. Those with a plan for their long-term care are much less likely to agree with the statement “nothing I do will make much of a difference to my financial situation”. This might suggest **those making a plan feel more empowered to take control of their situation.**

Recent exposure to long-term care can trigger older people to plan for it

Of those we interviewed who were planning for their long-term care needs, all tended to have recent, first-hand experience of a family member or friend needing care. This experience made them cognisant of their own potential needs in the future.

> *"Everything I know about funding it beforehand is that the costs are vast, you have to have a lot of money, you really do, to have it sewn up beyond state care. I've discussed it with my wife. She knows that Alzheimer's runs in my family… I've seen a fair few homes. My male cousin, only a little bit older than me, went down with Alzheimer's a few years ago. And over the years I've been in a fair few nursing homes and dementia homes and seen that [a good care home] can make a lot of difference."*
>
> 74-year-old man, married, moderate income

In our primary research, we saw some examples of how planning for long-term care means older people are much better prepared for the future. In many cases, this involved discussing their wishes for later in their retirement with family members.

Man, 74, married

- In good health from regular walking but conscious that his family tend not to live beyond their early 80s
- Aware of the need for care – has seen his elderly mother cared for by his sister – so knows the costs are considerable
- Already releasing equity from property to pay for current lifestyle. Assumes he will use property to pay for his care as well but trying not to think about it too much

Man, 77, low income

- Deteriorating health over past 8 years (pacemaker, arthritis, emphysema, new hip)
- When bought current flat put it in his daughter's name so the state wouldn't be able to use the equity to pay for his care

Man, 86, moderate income

- Daughter is informal carer now (mowing lawn, shopping) and she has promised that he and her mother can live with her when they're no longer able to live alone

Conclusions: Older people don't tend to plan how they'll pay for long-term care. There may be an optimism bias at play and older people don't want to consider this stage of their life. However, we know planning is important for better outcomes. Those who do plan tend to feel more empowered that what they do will make a difference to their financial situation. More investigation is needed into what might help older people plan better for long-term care, how they could feel more empowered, and the role of families and the wider community (trusted partners) can play in providing support.

Appendices

Appendix A: Quantitative methodology

The Financial Capability Survey is a nationally representative survey of adults aged 18+ living in the UK. The survey was conducted mainly (74%) online with some face-to-face interviews (26%) to represent lighter users and non-users of the internet.

The online sample was drawn by blending sample from five different panel providers on GfK's approved supplier list. For the face-to-face interviews, we used a Random Location sampling approach. Random location sampling offers a hybrid between random probability and simple quota sampling, randomly selecting specified areas for interviewers to work in, but allowing a limited degree of flexibility within the specified area.

Interviews were conducted with a UK nationally representative sample of 3,461 adults. Additional interviews were conducted in each of the devolved nations (Scotland, Wales, and Northern Ireland) in order to ensure a robust base for analysis. The same is true of 18- to 24-year-olds, where again 'boost' interviewing was undertaken. In total, 5,603 respondents took part in this research between April and July 2015.

In order to ensure that the findings accurately reflect the UK population, the data were weighted to known population estimates. The variables used for weighting were age, gender, region, working status, internet usage and housing tenure. Housing tenure was substituted for social grade after interrogation of the initial data and comparison with ONS and other data sources

Some respondents did not supply details of household or personal incomes or savings. Missing values for these respondents were imputed based on answers provided at other questions. The imputation model used for this was based on a model used by the survey provider GfK on the GfK Financial Research Survey.

The survey also modelled an estimate of housing equity based on a detailed section of questions about owner-occupiers' mortgages (if any) and property characteristics.

The questionnaire for the survey was developed from previous waves of Financial Capability research, comparison with international surveys such as those run by OECD[34] and ASIC,[35] qualitative research,[36] cognitive testing of the questions and quantitative piloting of some questions.

[34] The Organisation for Economic Co-operation and Development - survey details at http://www.oecd.org/daf/fin/financial-education/measuringfinancialliteracy.htm

[35] Australian Securities & Investments Commission- Financial Attitudes and Behaviour Tracker survey detail at http://asic.gov.au/ regulatory-resources/find-a-document/reports/rep-419-australian-financial-attitudes-and-behaviour-tracker/

[36] Financial Capability and Well being Qualitative Research conducted by TNS BMRB for Money Advice Service, 2015 http://comfy. moneyadviceservice.org.uk//system/comfy/cms/files/files/000/000/213/original/financial-capability-and-wellbeing.pdf

Appendix B: CHAID analysis

CHAID analysis was conducted by John McConnell from Analytical People. CHAID stands for CHi-square Automatic Interaction Detection.

Our primary focus in this piece of analysis was to identify which attributes within the older population (e.g. income or gender) are driving a series of financial attitudes and behaviours (e.g. willingness to talk about their finances or correctly calculate interest).

Traditional, regression-based, Key Driver Analysis (KDA) tells us what the relative strength of each driver (the 'independent' variables) is in the context of the target (the 'dependent' variable). However, it doesn't identify which combination of attribute levels (e.g. older, lower income) lead to high or low outcomes in the targets.

CHAID decision trees do just that. They identify segments from the combination of attributes and levels that are particularly high or low in the context of the target.

There are many decision tree algorithms, e.g. CART, QUEST and C5. We chose CHAID because it is especially good at handling categorical variables (attributes).

CHAID has a technical limitation in that it can only work with weights if they are expressed as whole numbers (integers). The weights on the data file we analysed were fractional and had many decimal places. Nor is it possible to just multiply up the decimal weights to make them whole numbers. This would boost the cell sizes to unrealistic levels and would invalidate the analysis. Hence, our report quotes unweighted data and the CHAID will give slightly different percentages to those quotes elsewhere in the report.

Appendix C: Qualitative methodology

Shed Research conducted ten in-depth, face-to-face interviews with older people. Each lasted 60 minutes and was conducted in the interviewee's home.

Interviews took place across three locations (Eastbourne, Bristol and Glasgow) between 7 and 14 March 2016. Participants were recruited by Leftfield from recruiter databases and 'snowballing'. Participants met the following quotas:

	Below Average Income (under £17.5k)	Above Average Income (over £17.5k)
65 to 74	3 interviews	1 interview
75+	4 interviews	2 interviews

- All were retired from paid work.
- Five were men, five were women.
- Six of those interviewed lived alone.
- Five were struggling to keep up with their bills and financial commitments at the moment.

- Five had a long-standing physical or mental impairment, illness or disability i.e. “anything that has troubled you over a period of at least 12 months or that is likely to trouble you over a period of at least 12 months, including visual, hearing or mobility impairments”.

Appendix D: Qualitative interview discussion guide

1. Introduction (3mins)

- Who Shed is, what our role is
- Explain purpose – research is for the Money Advice Service. We are looking to understand how people around the UK spend, save and generally manage their money and bills both day to day and longer term
- Honesty is key, everything purely for market research purposes
- MRS code of conduct (confidentiality)
- Discussion being recorded but assure anonymity
- Going to be discussing money but only things you’re comfortable discussing

2. Personal circumstances (10mins)

- I’d like to start by learning a little about you. Can you just tell me a bit about you and your household? PROBE ON…
- HOME: Where they live, who they live with, how long they have lived there
- RELATIONSHIPS: number of adults in household, whether they have children? If so, where they live, how old are they and what do they do?
- OCCUPATION: what you did before you were retired, how long ago left paid work, any volunteering or unpaid work now?
- Can you talk me through your average day? For instance, can you tell me what you did yesterday?
- PROBE to get a sense of how they spend their time, with who, what priorities they have, hobbies etc.?
- This is a big question - how satisfied are you with your life? Why? PROBE:
- Which bit of your life do you enjoy most?
- Which do you enjoy least?
- Have there been any big changes in your life in the past few years? PROBE CAREFULLY AND SENSITIVELY HERE – MAY HAVE LOST SPOUSE OR PARTNER:
- What happened?
- How did this affect you?
- How did this affect your finances? PROBE FULLY HERE
- AGAIN APPROACH SENSITIVELY: Do you have any long-standing physical or mental impairments, illnesses or disabilities?
- Tell me about them and how they affect your life?
- And how do you think these affect your finances? PROBE FULLY HERE

3. Managing money (10mins)

- In the main, where do you get money from to pay your living costs? PROBE to find out the mix of pension, benefits e.g. winter fuel allowance, savings, or other sources of money? Is it different if it’s for special purchases, like holidays?

- Who's responsible for managing the money in your household?
- How do you make financial decisions? Talk me through how you approach it.
- Which of these financial products do you have? SHOW STIMULUS A:
- Have you changed provider for any of these products in the past few years?
- IF YES: Which products? How did you go about it? Who else was involved? How was the experience?
- IF NO: Why have you not changed provider? PROBE FULLY
- Do you save at the moment? How?
- How do you budget in your household? What form does it take? How rigid is the budget? Who's involved?
- Do you have any outstanding debts like a mortgage, credit cards, short-term loans, long-term loans, equity release etc.?
- How do they affect your life?
- When do you expect to pay off these debts?
- Any difficulty keeping up with bills and credit commitments? Why? How deal with those? PROBE debt?
- Ever missed payments? What happened? What did you do differently after this happened?

4. Attitudes to money (5mins)

- How confident do you feel managing your money? Why is that?
- How confident do you feel making decisions about financial products and services? Why is that?
- How complicated do you find financial products? Which do you find most complicated and why? USE STIMULUS A IF NECESSARY AND PROBE ON PENSIONS AND INVESTMENTS TOO
- What do you think could be done to make financial products less complicated?

5. Setting goals (5mins)

- What are your goals for the next few years?
- What about for later in your retirement?
- TREAT VERY SENSITIVELY: Have you thought about whether you might need some form of care in the future, whatever care that might be? Do you have a specific plan in place to pay for this?
- IF YES: What is it? Who did you discuss this with? What steps have you taken?
- IF NO: Why do you think you haven't thought about this? What might make you think about it and make plans?

6. Financial skills and knowledge (5mins)

- Do you know your current account balance as it stands today? MAKE CLEAR WE DON'T NEED TO KNOW IT. PROBE
- If not, exactly how accurately?
- How often do you check it?
- How do you check it? Computer, phone, ATM, paper statement?
- STIMULUS C-E: The next few questions are a bit different, they are designed as quiz questions rather than asking about your personal finances. Please do not worry if you cannot answer them, some of these questions are designed to be difficult.

- Discuss how difficult the tests were and why?
- What would have made them easier?

7. Information, advice and shopping around (10mins)

- Who do you talk to about money?
- PROBE IF DO TALK: In what situations? What do you talk about?
- PROBE IF DON'T: Why don't you talk about money to others?
- Where do you get information/advice about anything to do with money - whether that's how to budget or the best product available in the market? SHOW STIMULUS B1-2
- Who do you speak to?
- About what?
- How useful has the information/advice been?
- What do you think about shopping around for the best deals on things like insurance, utilities or savings accounts?
- Do you ever shop around for the best deals?
- If you do, how do you do this? PROBE Online, telephone, face-to-face, or another way?
- How do you make sure you're getting the best deal?
- IF SHOP AROUND OFFLINE: Why do you shop around in this way rather than online?
- IF DON'T SHOP AROUND: Why not?
- What would make it easier for you to shop around for the best deal on things like insurance, utilities or savings accounts?

8. Digital skills (10mins) – some of this may have been covered in sections 4 and 7

- What do you think about the internet?
- How often do you use the internet? What do you use it for?
- How do you access the internet? PROBE:
- Device - PC, laptop, tablet, phone?
- Setting – home, family's home, elsewhere?
- What are your views of banking online? Have you ever done your day-to-day banking online?
- What other financial activities do you do online?
- IF DON'T USE INTERNET AT ALL: What would make it easier for you to use internet? What might persuade you to use it?
- IF USE INTERNET BUT NOT FOR BANKING: Why do you use the internet for other things but not banking? What concerns do you have? What might persuade you to start banking online?
- IF USING INTERNET FOR BANKING: When did you start? What persuaded you?
- What would make it easier for you to do more of your financial activity online? PROBE with ideas like Barclay's Digital Eagles, training etc.

9. Wrap up (2mins)

- What the one thing should I take away from our discussion today?
- IF HAPPY TO SIGN VIDEO CONSENT: Record a short vox pops of the main points to camera.
- Thanks and end interview

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