Managing finances in later life

MANAGING FINANCES IN LATER LIFE

SUMMARY

Progress has been made in reducing pensioner poverty, however, around a third of pensioners do not claim the benefits they are entitled to. Older people have less opportunity to increase their income through paid work and have been particularly affected by rising energy and food prices and reduced income from savings. This paper draws on research with older people aged 65-84 conducted over a two-year period. It looks at what helps or hinders people to manage their finances, what can protect against or help manage change, the impact of benefit receipt and personal skills and attitudes to money.

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Key Findings

The receipt of additional or increased benefits had either increased incomes or balanced out other financial changes in people's lives. A proactive approach and support to encourage and reassure older people towards and through the claim process were particularly helpful. Families and friends played a crucial role in initiating claims highlighting the value of trusted information sources. However, people's lack of knowledge about entitlement and stigma about means-tested benefits could deter them from claiming and supports calls for automatic payments.

Changes in income or outgoings can make an enormous difference to older people's financial well-being whether a single occurrence or a culmination of small changes. The (positive or negative) practical and emotional impact was particularly felt where finances are finely balanced.

Older people's financial well-being depends on the interplay between a range of resources. This includes: having financial back up; support from family and friends; and personal financial knowledge and budgeting skills. Such resources are often accumulated over a lifetime, highlighting that the resources that people have when they enter later life are crucial to them in older age. Those with low incomes who live alone, have no family nearby, and do not know how to access benefits or help are more vulnerable when faced with additional financial demands.

The research highlights the need for information and support covering current and potential future financial needs, but also that older people's changing circumstances, in particular deteriorating health, means this needs to include a range of interlinked issues including housing, travel and care support.

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INTRODUCTION AND BACKGROUND

This paper draws on research conducted for the Joseph Rowntree Foundation (JRF) by the Centre for Research in Social Policy (CRSP). The project, 'Planning and Deploying Resources in Later Life' (RILL), involved in-depth interviews with people (aged 65-84 at the first interview) two years apart to explore their changing needs and resources as they move through later life. The research took a holistic approach to demonstrate the range of different structural, social and individual resources that people drew on to help them manage. As such, the findings cut across many policy areas (Hill et al., 2009). The purpose of this paper is to report on the findings that relate to how older people manage their finances and the interplay between finances and other formal and informal resources. This summary highlights the implications for policies surrounding older people's financial well-being, benefit receipt and take up rates, and access to financial services and information. The paper examines the impact of changes in older people's financial circumstances including:

- what helps or hinders older people in managing their finances;
- how access to resources can protect against the impact of, or help to manage financial change;
- the difference made by benefit receipt;
- the effect of personal budgeting skills and attitudes to money/spending; and
- the need for information and support.

Financial Well-being in Later Life

Pensioner poverty remains a key policy issue. Progress has been made in reducing pensioner poverty over the last decade[1], however, 1.8 million pensioners still remain below the poverty line with certain groups, for example, older pensioners, those living alone, and ethnic minority households at greater risk of low income (DWP, 2010a). While the Labour government monitored pensioner poverty levels as part of their aim to 'tackle poverty' (HM Treasury, 2007a), there have been recent calls to strengthen the commitment to address the issue through introducing clear targets to

[1] Relative pensioner poverty measured at below 60 per cent of the median income. In 2008/2009 this figure was 2.3 million before housing costs and 1.8 million after housing costs representing a fall of 0.5 million (BHC) and 1.1million (AHC) since 1998/1999 (DWP, 2010a).

reduce and eradicate pensioner poverty (Age UK, 2010). However, the new Administration's agenda suggests a reluctance to embrace such centralised target-setting.

Pension Credit has been a key strategy to combat pensioner poverty, and means-tested benefit levels for pensioners have increased in real terms in the last decade. However, despite targets to increase take-up, there remains around one-third of pensioners who are entitled to the benefit but not claiming it and furthermore, around 40 per cent of pensioners not claiming their Council Tax Benefit (DWP, 2010b). The drive to increase take-up continues with strategies including integrating the claims procedure to enable access to a range of benefits through a single telephone call, and proactively trying to reach people through letter and regional campaigns (HM Government, 2009; House of Commons, 2009). A further step would be automatic benefit payments, which it is thought would be more effective as this eliminates the need for people to claim (Age Concern and Help the Aged, 2009). Indeed, DWP plan to conduct a pilot during 2010 which will involve a period of automatically paying Pension Credit based on existing data (DWP, 2010c).

Since 2006, rises in energy and food prices have particularly affected pensioners, with the oldest and poorest being hardest hit, as such spending takes a greater share of their budgets (Leicester et al., 2008). Furthermore, low interest rates affect the incomes of those with even modest savings. To compound matters, these same households are less likely to benefit from the falls in average inflation led by cuts in mortgage rates (IFS, 2009). Older people are more susceptible to fuel poverty than other household types due to a combination of low fixed income and energy inefficient homes (Help the Aged, 2008). Despite steps taken to help older people heat their homes, for example, Warm Front grants, Winter Fuel and Cold Weather payments, the number of fuel poor households has increased and is expected to rise further (Department of Energy and Climate Change, 2009). The impact on older people's finances of the change in government and austerity measures are yet to be seen. The new government's commitment to re-link the state pension to earnings with a 'triple guarantee' (to keep it in line with the higher of earnings, prices or 2.5 per cent), and a matched protection of Pension Credit is intended to have a positive effect on pensioners incomes (HM Treasury, 2010a). However, this is against a backdrop of an increase in VAT and potential cuts in services.

A further important issue is the provision of financial information and support, for example, to help people claim benefits, manage their money, make financial decisions and access financial services. Policies include the goal to increase financial inclusion and capability for the most vulnerable (HM Treasury 2007a; HM Treasury, 2007b), and the launch of a national money advice service (HM Treasury, 2010b). Again the impact of government spending cuts of the provision and delivery of such services remains to be seen.

THE RESEARCH FINDINGS AND IMPLICATIONS

The RILL research involved interviews with 78 households across a range of financial circumstances. Nearly half (38) of the households were in receipt of means-tested benefits and 28 received health-related benefits. While a minority of participants in the study were financially very comfortable, this paper focuses predominantly on the experiences of those with low/middle incomes, including some who were in constrained financial circumstances. Further information on the sample and method can be found in the full research report (Hill et al., 2009). It should also be noted that the interviews took place in summer/autumn 2005 and 2007, hence before economic recession.

What Helped Older People to Manage their Financial Well-being

The longitudinal nature of the research provided an insight into the sort of financial changes that older people in the study had experienced and how this could have a positive or negative effect on their financial circumstances.

The impact of receiving benefits

The receipt of additional or increased means-tested or health-related benefits, had made a huge difference to participants with low incomes. For some this meant having spare income which now covered more than just bills. This improved their lives, by enabling them to buy everyday items that they would previously have been unable to afford, and the ability to spend money on enjoyment – holidays or 'treat' themselves to things that, for them, were previously seen as unaffordable such as a meal out. It also enabled saving for larger items and, although not accruing savings for later old age, having a little 'back up' provided medium term security and 'peace of mind'. This freedom from financial worry was especially important to those who had previously lived from week to week – *'it's like a tonic'*. A few participants in constrained circumstances, noted the difference made by receiving an extra £100 Winter Fuel Payment after turning 80, highlighting that even fairly small amounts of additional income can make a difference when finances are finely poised.

Additional benefit income had also balanced out other financial changes in people's lives, so while not necessarily bringing an overall improvement in financial well-being, the receipt of benefits could protect against a deterioration in a financial situation. This included making up lost income when people had stopped or reduced paid employment, or cushioning increased spending in other areas such as paying for additional health-related needs, or general increases in the cost of living.

Accessing benefits

A proactive approach by the Pensions Service/Council[2] did lead to claims for means-tested benefits (Pension Credit, Council Tax Benefit, and Housing Benefit) which people were unlikely to have made otherwise. Telephone calls 'out of the blue', home visits or a link from another benefit claim were crucial to initiating applications for these participants already on some (other) type of benefit. There was also evidence of the Citizens Advice Bureau assisting with a Pension Credit and Council Tax Benefit claim. Furthermore, the application process was often not as daunting as people had perceived – participants praised the approach and helpfulness of staff on the telephone and through face-to-face visits.

However, the findings also reveal that lack of knowledge about entitlement and stigma about claiming benefits could deter people from claiming. A key issue is negative attitudes towards benefit receipt. Some, especially older, participants, saw

[2] One participant said that they were contacted by the council but others were not clear about who had telephoned them.

benefits as a handout rather than entitlement – quite differently to the Winter Fuel Payment or free bus travel. Some people felt 'on the cadge' or 'guilty' about claiming. Knowing others who received benefits and justifying it against years of taxpaying helped. Encouragement from friends or family could be crucial to making an application, especially for health-related benefits where people were hesitant about applying or uncertain whether their mobility was sufficiently impaired. The rejection of a claim could be 'belittling', especially if people had been hesitant about applying or this was their first dealing with the benefit system, and could deter future applications. However, having prior knowledge of benefits, or contact with staff seemed to foster a more positive attitude towards reapplying where claims had been unsuccessful.

A further issue is that uncertainty could exist even after claims were made. Participants were sometimes unclear about the progress of an application, what benefit they were receiving, its permanence, or impact on other benefits.

Implications for benefit service provision

The findings highlight several issues that could be helpful to debates on increasing take-up and administering benefits to older people more generally.

- The success of proactive measures to facilitate benefit claims highlights the ability to increase take-up through linking of benefits/sharing information. A few participants who had not initially been aware of their eligibility felt that PDCS should use data to alert people to potential entitlement and initiate claims indicating support for moves towards automatic benefit payment. While some people may have concerns around privacy and data sharing, this research supports the view that these issues can be overcome if approached with care (Kotecha et al., 2009; Age Concern, 2009).
- Several issues reiterate the importance of support and human interaction in facilitating a claim. Participants' positive accounts of help from staff highlights the importance of personal contact and support with the procedure (via telephone or face-to-face). Receiving encouragement from friends and family could help people overcome the stigma they associated with claiming benefit

and demonstrates the crucial aspect of providing reassurance when negotiating the claims process.

- The findings highlight that older people require multi-level support in accessing and claiming benefits to help them feel more confident and able to approach and fully engage with the benefit system. This includes: raising awareness that a benefit even exists, providing information about entitlement to get the message across that it might apply to them, support in making an application – both practically with filling in forms, but also through reassurance and encouragement to see an application through. Furthermore there is a need for support beyond just the application – this should include provision of information to help people understand the process, the sequence of events and the implication of receiving any benefit.

The impact of other resources

People in the study drew on a range of formal and informal resources which had implications for maintaining their financial well-being. These could protect against change and/or were used as a 'managing mechanism', to help people adjust to, and cope with change, and to maintain financial stability.

Financial resources

Having reasonable savings and income made it easier for people to deal with increased living costs or unexpected outlay – in some cases rises in occupational pensions or returns on investments were felt to balance out increased outgoings. However, having even a small cushion, or some surplus income (including from benefits) allowed 'breathing space' and provided a degree of security. Furthermore, financial back up helped people maintain independence, even in the face of increasing expenditure due to declining health, through being able to pay for help or aids in the home, or for taxis.

Families and friends as a resource

Families and friends were a source of direct and indirect financial support through:

- paying for items (from household goods to holidays) that people were unlikely to have afforded otherwise;

- providing practical help which could negate paying for external services and support; and
- generally providing advice, support and assistance with banking, decision to claim benefits, applications for adaptations to help with deteriorating mobility, or grants which enabled improvements to the home environment (and efficiency).

Personal skills and attitudes to money

Careful budgeting skills were an essential resource for those managing in constrained circumstances and required knowledge, discipline and effort. For example, people shopped around for special offers, prioritised spending and 'squirreled away' money to cover bills. Occasionally this involved people changing their behaviour, for example, using the bus (which was free since the introduction of free local bus travel) rather than a car. Small factors, that may not necessarily be significant to people with higher incomes, combined to make a noticeable difference where finances were finely balanced.

People's attitudes to money and spending also helped them manage their finances – 'living within your means', a desire for value for money, and having a non-materialistic outlook were often influenced by lifetime values (especially older participants) and past experiences of hard times (across ages). Several mentioned adapting aspirations and downplayed their needs which, although not improving their situation, could help them deal with not being able to afford things or cope with a situation they felt unable to change. However, while such attitudes were essential to managing on a low income, there is a danger that some older people could resist spending money in circumstances where their developing needs require expenditure. A few participants were reluctant to pay for formal help, not because they could not afford the service, but because they did not feel that the cost was justified.

There are implications here for the introduction of personalised budgets. There is a possibility that older people with a keenness for value for money, but who may be out of touch with current hourly rates, could face dilemmas over making decisions about procuring services. The evaluation of Individual Budget pilots suggests that older people were less positive about their impact as they found the process of planning and managing their support a burden (Glendinning et al., 2008). Information, advice and advocacy support are therefore likely to be essential aspects of personalised budgets for older people.

The RILL findings demonstrate that, while income itself is important, being able to draw on a range of other resources can be crucial for older people managing in constrained financial circumstances. Furthermore, this points to the potential difficulty faced by older people who have limited financial and social resources, and so are *not* able to draw on these additional supporting mechanisms.

What Hindered Older People Managing their Finances

Increased living costs and unanticipated outlays

The key issue that people faced was having little margin between income and outgoings, coupled with limited or lack of savings. Some participants whose finances were restricted found it difficult to deal with increased outgoings, as they were not matched by changes in income, and they had little leeway in their budgets. Rises in everyday living costs[3] were often mentioned as putting additional demands on already stretched budgets. These included:

- household bills (most notably gas and electric);
- shopping costs;
- running a car; and
- paying for help or adaptations where health had declined.

Much of this type of expenditure was seen as unavoidable, and difficult to reduce, even for people with well-honed budgeting skills as there was a limit to how far their money would stretch. Furthermore, even where people were able to manage increases, the impact of larger or unexpected outlays, such as house or car repairs could tip the balance as they had no capital reserves to fall back on. People spoke

[3] These interviews took place in summer/autumn 2007, and although the impact of gas, electric, petrol and food prices had been felt, such costs have increased further.

of having to prioritise needs, cutting back or going without for example, not buying clothes or being unable to afford house maintenance. Some had used and were unable to replace their savings and were concerned about their financial security. They felt the strain and worry of managing on ever tightening budgets.

Having no back up

These findings highlight the vulnerability of older people whose finances are finely poised, who have no financial back up and no means to prepare for large or unexpected outlays that can upset the financial balance. Participants in such a situation had often been in difficult financial circumstances earlier in life, because of intermittent or low paid work, ill health, redundancy, being a carer or single parent and therefore, there had been only a limited opportunity to put money aside for older age, reflecting the effect of accumulated disadvantage (EHRC, 2009). In later life people have even less opportunity to improve their financial situation, for example, through earned income, and are therefore more dependent on external support. This underlines the value of support from families as mentioned above, however, for many participants in this study independence and pride made accepting such help an uneasy option. Furthermore, those without families had no such opportunity. Crucially this highlights the importance of ensuring that older people are receiving all of the assistance they are entitled to – in terms of benefit take up, accessing adaptations for health-related needs, and grants to help with housing maintenance.

Financial knowledge and access to information

Participants with substantial savings tended to have the financial knowledge and confidence to get the most from their money. Conversely, where people really did need to maximise their budgets, they did not always make best use of financial services, for example, using expensive methods of bill payment, or letting a State Pension accrue in a Post Office Card Account rather than depositing it in a bank[4]. Although such people were managing on a low income, there remained ways to make their money work better for them that they were not utilising. Furthermore, without the proactive approach of DWP/PDCS or the intervention of friends and

[4] At the time of these interviews, it would have been more advantageous to use a deposit account to gain interest. However, it is recognised that in the current economic climate, attitudes towards saving may well have changed.

family, many of the participants who did access benefits, adaptations or grants, would have failed to do so. This highlights again the barrier that lack of knowledge presents concerning the help that is potentially available to older people.

The research also raised a range of obstacles that older people can face regarding making financial decisions about the future. Aside from having insufficient income or assets to enable planning ahead, sometimes participant's uncertainty about their future health and life expectancy meant that they found it difficult to think about what lay ahead. Uncertainty about what help is available and how it is funded, combined with lack of knowledge about and mistrust of equity release schemes and resistance to the idea of selling property, also impeded people making financial plans.

OVERALL MESSAGES

The RILL findings demonstrate that there is still an ongoing *issue of stigma* surrounding benefits for older people. Initiatives such as changing the name of Council Tax Benefit to Council Tax Rebate (DWP, 2009) may be helpful if it gets across the idea of entitlement, however, the barrier for some was the actual means-tested nature of the benefit – and attitudes towards receipt of welfare are built up over a lifetime. A proactive approach and support to encourage and reassure people towards and through the claim process were particularly helpful in facilitating claims that older people in this research study made.

The RILL findings support the introduction of *automatic payment of benefits* based on potential eligibility which could help overcome issues of stigma about claiming, lack of awareness about entitlement, fear of the process, and better to reach those older people who are currently 'outside of the system' (see also Kotecha et al., 2009). While in many cases the amounts in question may be small, as demonstrated in this study, this can still make a significant difference to people's financial well-being, and moreover, their receipt can act as a 'passport' to other benefits. This research also suggests value in linking to Housing and Council Tax benefit.

The RILL research also highlights the *crucial role of family and friends* in initiating claims – these are seen as trusted sources of information and support. However, for older people who do not have such networks, there is a vital role for organisations who may be trusted as independent intermediaries where people are unsure about dealing with the benefit system or government agencies directly (House of Commons, 2009; Housing 21, 2010).

This study demonstrates how *small changes in income or outgoings can make an enormous difference* to older people's financial well-being. This is particularly so when their finances are finely balanced as small changes have both practical and emotional impact which can affect people's quality of life. While sometimes a difference was made by a single occurrence, it was often a combination of factors that together made an impact on people's well-being; that is to say the effects were cumulative. This is important in the context of state interventions such as unclaimed benefits (which are often small amounts), rises in pension/benefit levels, Winter Fuel Payments or free bus travel – while to some, the amounts in question may seem minimal, this research demonstrates the real difference that these can make to some older people's lives. However, the findings also show that to maintain the balance in financial well-being in older people's lives, such policy interventions need to counteract the effect of rising living costs, and for some older people, the additional expenditure required to meet the needs of declining health and mobility.

The research also reiterates the fact that the economic, social and psychological *resources that people have available when they enter later life are crucial* to their well-being in older age. Policies to help people to build resources throughout their lives are therefore vital. Measures to increase and encourage making pension provision and saving[5] for those on low incomes earlier in life are therefore essential. Furthermore, maintaining health and developing knowledge about support services are also important before people reach retirement. Policies need to address disadvantages at various stages of life that can result in inequality in later life. This research reflects that this includes issues such as divorce, caring, and poor health, and that policies focussed on getting people into work are insufficient (EHRC, 2009)

More generally the findings highlight the fact that older people's financial well-being depends on the *interplay between finances and a range of other resources*. A key policy focus must therefore be on those older people who are *not* able to access the wide range of informal and formal resources themselves. Living alone, with no family nearby, and lack of financial skills or knowledge about how to access benefits or help can leave older people on low incomes in an ever more vulnerable position when faced with changing needs, for example, deteriorating health and/or additional financial demands. Here, raising awareness and accessing information, advice and support are even more important; as are outreach services in these areas.

[5] Reforms aimed to increase pension provision include introducing automatic enrolment into a National Employment Savings Trust (NEST) and better entitlement to the State Pension for women and carers. Saving Gateway Accounts are being introduced in 2010 to encourage saving for low income working age people.

Overall the RILL findings demonstrate the *need for information and support on a wide range of financial issues covering current and potential future needs*; including benefit entitlement, access to grants and adaptations, use of financial services, making a Will, funding future care, and support with housing decisions. The research also shows how older people's changing circumstances can result in a need for information and support on a number of interlinked levels – for example; deteriorating health impacts on finances as well as housing, travel and care support needs. This indicates a need for joined up approaches such as those trialled in Link-Age Plus pilots (Daly, 2009). The Government funded national Money Guidance Service (Moneymadeclear) and the Firststop internet and telephone advice service on housing, finances and care for older people reflect such needs. The RILL research suggests that personal contact is a valued aspect of service delivery for older people and again, the role of local agencies and advice centres (including development of face-to-face Firststop providers) are still likely to be vital sources of support. The key issue will be not only to raise awareness among older people that such services exist, but encouraging people to actually use them.

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For further information

The full report, **Managing Resources in Later Life: Older people's experience of change and continuity** by Katherine Hill, Liz Sutton and Lynne Cox, is published by the Joseph Rowntree Foundation. It is available as a free download from www.jrf.org.uk.

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