HELP THE AGED WE WILL

Debt and Older People

How age affects attitudes to borrowing

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Your Money Matters
The Your Money Matters programme is designed to improve the skills, confidence and financial situation of older people by providing basic money management and debt advice.

Many people, as they become older, face changes in their circumstances which can impact on their financial situation and ability to manage money. This Help the Aged three-year UK-wide programme of 18 projects aims to support over 30,000 older people and their carers to better manage their money. The programme is supported by Barclays, whose staff are helping older people to manage their finances in times of change and plan for their futures.

The programme will not only meet the needs of those currently struggling with money issues but also help to prevent future disadvantage and the possibility of debt.

In association with
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Debt and Older People

How age affects attitudes to borrowing

Stephen McKay, Elaine Kempson
Adele Atkinson and Mark Crame

Personal Finance Research Centre
University of Bristol

Help the Aged

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Help the Aged
207–221 Pentonville Road
London N1 9UZ

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Foreword: Help the Aged commentary and policy remendations

Help the Aged believes that:

- Financial education should be for all, not just for young people and people of working age. The Government's plans for financial education must meet the needs of older people.
- Voluntary sector initiatives to promote financial education and tackle bad debt (such as the Help the Aged/Barclays Your Money Matters programme) must be supported and resourced in order that they can be sustained.
- Unless the issue of problem debt is tackled across all age groups, the Government's aims to tackle pensioner poverty will be undermined.
- The Government should introduce a strategy to ensure the necessary progress in tackling pensioner poverty, in accordance with the commitments it made in Public Service Agreement 17 to tackle poverty and promote greater independence and well-being in later life, and should introduce automatic payments of benefits to those believed to be eligible for them.
- Age discrimination legislation covering goods, facilities and services should be introduced and upper age limits for access to credit should be illegal. Age should not be used as an arbitrary way of assessing whether someone should be granted credit.
- The Social Fund should be radically overhauled so that it meets the needs of the poorest pensioners. The budget for the Social Fund should be significantly increased and it should be made easier for older people to access it.

This publication pulls together, for the first time, the evidence base on issues relating to borrowing and older people.[1]

This research findings are mixed. On the one hand, older people are less likely than other age groups to access credit, and are more likely to see themselves as savers rather than spenders. They tend to be good money managers.

On the other, there remains a small proportion of older people with mortgages into their 80s, there has been an increase in the proportion of income in outstanding credit agreements by older people (the fastest growth across all ages was for those aged 55–59 and 60–64) and there are a small number of older people with very high levels of outstanding debt.

It is clear from this research that while many older people are living in poverty and others are struggling to manage make ends meet, only a tiny proportion are using the sources of credit/loans which may be available to them, including the Social Fund and equity release.

And while, for example, the proportion of households owing money in unsecured credit has not increased in the 1990s, the amounts owed have increased markedly.

[1]The sources of evidence for the research are the 2005 Baseline Survey of Financial Capability (covering UK); the 1999–2005 British Household Panel Survey (covering GB), the English Longitudinal Study of Ageing (covering England) and the Family Resource Survey (covering UK now but GB before 2002–3). The commentary provided is a generic one based on the findings of the research but we accept that there may be differences across the nations of the United Kingdom and indeed within English regions.

Attitudes of older people

The report highlights that older people are more likely to see themselves as savers rather than spenders and few would describe themselves as impulsive shoppers. It also describes how older people tend to have more negative attitudes to borrowing and many do not feel comfortable using credit.

The report highlights how the majority of people in receipt of a state pension are extremely careful money managers who monitor their expenditure meticulously. The report also highlights that there was a small number who were not managing their finances well.

Help the Aged is very concerned that there remain small numbers of the older population who are not managing their finances well. We welcome the recent initiatives such as the DWP campaign (Now Let's Talk Money) and initiatives by the FSA to raise levels of financial capability among older people, but we believe that older people continue to receive scant support compared to other age groups when it comes to financial education.

Government, the private and voluntary sector must invest in financial education for older people as well as for other age groups. For example, there needs to be a generic financial advice programme which is accessible to all ages. We also believe that further research, using the FSA's baseline study, should be commissioned on financial capability and older people (particularly the over-75s).

In 2007, Help the Aged and Barclays launched Your Money Matters to target money management advice at the most disadvantaged (see page 00 for further information.)

Your Money Matters
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The programme will not only meet the needs of those currently struggling with money issues but also help to prevent future disadvantage and the possibility of debt.

Credit levels of older people

The report highlights that people in their 30s are 10 times more likely to have active credit agreements than people in their 70s and it is undoubtedly true that use of credit declines with age. The report highlights that the odds of someone over 75 having a credit commitment were about a third of those for someone aged 55–59.

However, the research also reveals that in 2002 23 per cent of households headed by a person over the age of 60 owed money on consumer credit agreements, as did nearly half of those aged in their 50s. The research shows that 1 in 8 over-60s were repaying a mortgage, as were about half of households headed by someone in their 50s. It is potentially worrying that a small proportion of people in their 70s and 80s still have a mortgage. (4 per cent of people aged 80–84).

It is clear from the research that among older people there are a very small number who appear to owe very high amounts. It highlights small groups of older heavy credit users who owed at least £700 on three or more credit agreements. Of particular concern is that, unlike borrowers in other age groups, they used credit not just to pay for non-essentials but also to cover the costs of bills or even to buy food.

The analysis of the British Household Panel Survey shows a slight increase between 1995 and 2000 in the proportions of people aged 55–64 who owed money. It also showed a large increase in the proportion of annual income owed in unsecured and secured credit by those aged 55+, with the larger increase being among the over-65s.

The research notes that those over-50s who do access credit are more likely to be still working.

Credit use among over-50s was highest among those who had separated or divorced, perhaps indicating borrowing to overcome income shock.

Evidence from advice agencies implies an increase in numbers of people over 50 approaching them for advice and assistance. The CCS reports an increase from 14 to 17 per cent in clients aged over 50 between 1998/9 and 2002/3 and an increase in levels of borrowing to income. More recent statistics, published in 2005, showed that the number of clients aged over 60 has increased from 5 per cent in 2004 to 7.8 per cent in 2006. The report also, interestingly, shows that older people were more likely than average to be recommended to file for bankruptcy.

Across all ages, between 1995 and 2005 the average amount of outstanding debt (for those with any credit) rose three times. The fastest growth was for those aged 55–59 and 60–64.

It is clear from this research that while older people are less likely than other ages to have outstanding credit, there has been an increase over time in the amount of debt owed by older people. Financial education is part of the solution, as is responsible lending by the financial services industry.

Access to credit and other financial services

In addition to not accessing credit through the mainstream financial services industry, the research shows that older people are also not using friends or the Social Fund as a source of borrowing. It is extremely worrying that while about 1 in 5 older people in the UK are living in poverty, only 0.4 per cent have a Social Fund loan. Only 0.7 per cent have equity release products, which highlights the rarity of such arrangements.

The report also shows that the over-80s were (other than teenagers) the most likely group to lack any savings, even in a current account. This may imply some degree of exclusion from mainstream finance which could be limiting the credit options available to this group.

The research also shows that the most common sources of unsecured credit across the adult population were credit cards, personal loans and mail order catalogues (through which goods are paid for in instalments). Use of all these declined with age but personal loans did so most steeply. Therefore, those over-70s with credit commitments tended to have outstanding balances on credit cards or money owed on goods brought on credit from a mail order catalogue. This almost certainly means that older people are paying more for credit than age groups.

The research highlights tentative signs that paying off overdrafts was causing a problem at retirement. Help the Aged believes that the financial services industry should consider this issue and ensure that on an individual basis it is flexible in servicing the financial needs of older people as they move towards and into retirement.

The declining use of credit by age does not necessarily imply that older people do not need credit; instead, it could mean that financial products are not meeting older people's needs, or that lower levels of financial capability in today's marketplace are making it harder for older people to access the products they need. We know that there remain examples of credit which are not accessible to people over a certain age. Help the Aged believes that the Government should develop and implement age discrimination legislation that covers the provision of goods and services. As part of this legislation Help the Aged believes that upper age limits for accessing financial (and other) services should be made illegal.

Given the failings of the Social Fund in terms of older people, Help the Aged also believes that the Government should radically overhaul the Social Fund so that it meets the needs of the poorest pensioners, in addition to raising awareness of its existence. As part of this overhaul, the Government should significantly increase the Social Fund budget and make it easier for older people to access.

Pensioner poverty

The report confirms the concerns of Help the Aged about pensioner poverty, particularly among the oldest people in the population. The findings shows that 60- to 79-year-olds were concentrated in the bottom three income quintiles and that almost three-quarters of those aged 80 and over were in the lowest income quintiles. It also notes that the over-80s are the least likely group to have savings (other than teenagers).

The report highlights the findings by Balchin and Soule (2005) that 56 per cent of older people were worse off after retirement than in the preceding years. At the same time the Baseline survey of financial capability highlights that 1 in 5 (21 per cent) of people who were over retirement age said that their current income was not sufficient to give them the standard of living they had hoped to have in retirement. At the same time, 1 in 20 people in their 60s, 70s and 80s admit to constantly struggling to keep up with commitments or having fallen into arrears.

The research highlights that the level of credit use may also be influencing the timings of retirement. Those who continue to work rather than retiring tend to have higher levels of unsecured debt than those who have retired.

It is important to note that the evidence for much of this report was gained before the 2006 increases in fuel costs and there may well have been a worsening of the situation since then. Help the Aged remains very concerned that problems arising from borrowing among older people could negatively affect government attempts to address pensioner poverty (certainly if levels of borrowing among older people have increased with the national average).

Help the Aged believes the Government should introduce a strategy to continue progress in tackling pensioner poverty and should make payment of benefits automatic for those believed to be eligible for them. We also believe that some work needs to be done in relation to surveys which measure financial hardship using debt as an indicator. It is clear that many older people are in financial hardship but may not be using debt as a way to deal with this issue.

1 Introduction

Levels of consumer borrowing in the UK are attracting a great deal of attention and concern about the potential long-term consequences for both the economy and individual borrowers. Bank of England figures show UK consumers now owe more than £1 trillion – on credit cards, mortgages and loans. About 80 per cent of this figure is in loans secured on homes, typically mortgages.

While the propensity to borrow undoubtedly declines with age (Balchin and Soule, 2005), there is emerging evidence that levels of borrowing among some older people may have increased over time. Indeed, Help the Aged has commented in the media that we may be seeing a first generation of older people going into retirement with outstanding mortgages and unsecured credit commitments and, consequently, facing financial worries. The Charity is concerned that problems arising from borrowing could negatively affect attempts to address pensioner poverty.

But despite the level of interest in these issues, there is no quantitative work that explicitly focuses on whether, and to what extent, older people may be finding themselves with borrowing-related problems. Help the Aged has sought to fill this gap. With financial support from Barclays, it commissioned the Personal Finance Research Centre to undertake a detailed study of the situation as it affects older people.

1.1 The research project

This project explores the extent and nature of borrowing among older people aged 50 and over. This includes analysing the characteristics of those who have mortgage and consumer credit commitments and how they differ from those who owe no money at all. It also ascertains how often older people have financial difficulties and the role that borrowing plays in this. It identifies the extent to which older people consider their level of borrowing to be a burden. Finally, it uses panel data to look at changes over time in the proportion of older people who owe money in unsecured or secured borrowing, and who say that they face financial difficulties or that their borrowing is a burden.

To do this, the project used five different sources of data, each with its own particular strengths:

- **The 2002 DTI data on over-indebtedness (known as 'DTI' in the text)**
  This survey of the credit use and financial situation of 1,647 households in Great Britain was conducted as part of research undertaken by Elaine Kempson on behalf of the Department of Trade and Industry (DTI[2]) (Kempson, 2002). Fieldwork was carried out by MORI between March and May 2002.

- **The 2005 Baseline Survey of Financial Capability (BSFC)**
  The BSFC was undertaken by BMRB on behalf of the Financial Services Authority in 2005, and analysed by the Personal Finance Research Centre (Atkinson et al, 2006). It is a sample of 5,328 individuals in the UK designed to measure levels of financial capability and people's financial behaviour and attitudes.

- **The 1991–2005 British Household Panel Survey (BHPS)**
  The BHPS is a longitudinal study of households that started in 1991 and re-interviews the same people – everyone aged 15 and over within the household – each year. It has become one of the most important surveys in UK social analysis, and contains important data on levels of indebtedness in 1995, 2000 and 2005.

- **The English Longitudinal Study of Ageing (ELSA)**
  This new survey follows up individuals in England aged 50 or over. Data on borrowing was included in the first wave of surveys, which took place in 2002–3. The main advantage of this data source is the very large sample size of older people.

[2]The Department of Trade and Industry no longer exists, having been subsumed into the Department for Business, Enterprise and Regulatory Reform (BERR). However, in this report we use the name associated with the over-indebtedness report, rather than the less familiar name of the new government department.

- **The Family Resources Survey (FRS)**
  This survey takes place each year. It focuses on income, but in more recent years has also covered savings and arrears on household bills. Each year about 25,000 households are included, making it the largest data source used in this report – and one of the largest generally available to data analysts. The main advantage of this data source is the overall high quality of the dataset and the very large sample size.

  The project also draws on existing research wherever relevant to amplify findings.

1.2 Report structure

This report starts with a general section (section 2) setting out the characteristics and attitudes to borrowing of older people in the wider context of the UK population as a whole.

Section 3 looks at unsecured credit use by older people, including levels of use, sources of credit used and amounts outstanding as well as the characteristics of credit users. It concludes with an analysis of the key drivers of unsecured credit use.

Section 4 reviews home ownership, mortgages and housing costs of older people; it includes the characteristics of older mortgage-holders as well as looking at equity release.

Section 5 investigates the relationship between financial difficulty and age and concludes with an overview of the key drivers of financial difficulties.

While these earlier sections look at snapshots in time, section 6 reviews changes over time: in overall credit use (both secured and unsecured) as well as changes in the behaviour of individuals over time. It also investigates changes in individual's ability to make ends meet and the impact of the transition to retirement on people's use of credit.

It is important to note that, throughout the report, a clear distinction is drawn between borrowing and arrears. The term 'debt' is commonly (and misleadingly) used to describe both situations. Some commentators use it to refer to use of consumer credit and having outstanding borrowing to repay, such as on a credit card or a personal loan. Others, however, use the same term to describe people who have fallen behind with the payments on their household bills or credit commitments. In this report the term 'debt' is avoided wherever possible; instead, the report refers to unsecured credit or borrowing, mortgage borrowing and arrears or financial difficulties (which includes bill payments as well as repaying credit commitments).

2 Old and young: different situations, different attitudes?

Older and younger people have quite different social and economic circumstances, and often different attitudes, too. Before exploring in detail their levels of borrowing and financial difficulties, it is worth summarising some of the key differences between older and younger groups. This section looks first at social and economic characteristics, then at attitudes towards borrowing. This provides an important context for the remainder of the study.

Older and younger groups are not only of different ages, but have had different kinds of experience and opportunities (such as in education) and have lived through different time periods (taking in periods of falls and rises in the housing market, for instance). These experiences may help to shape attitudes towards credit, the willingness of different groups to borrow and the amounts, if any, they feel comfortable having on credit.

2.1 Characteristics

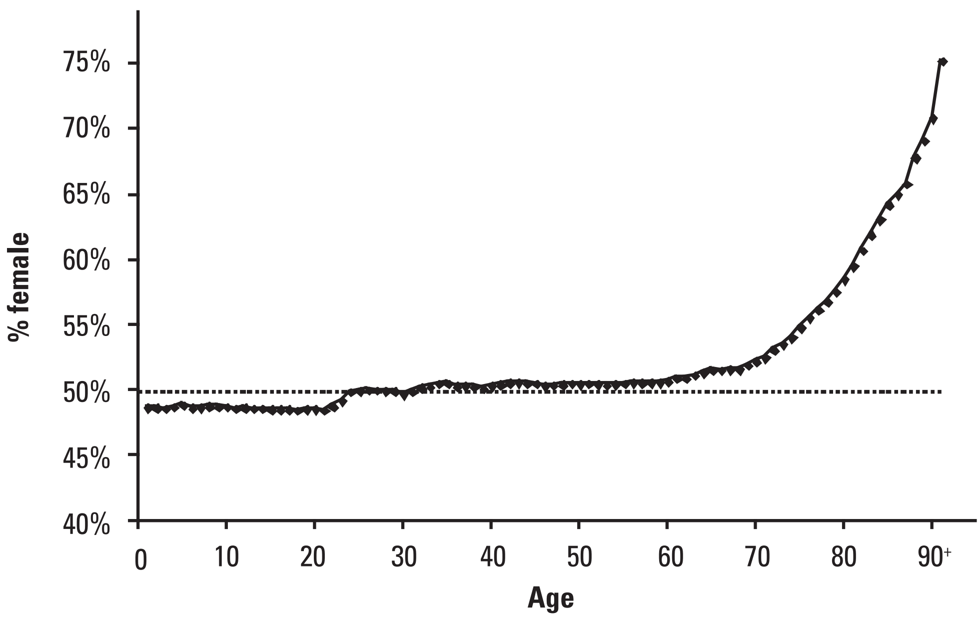
The research looked at differences in gender, size of household, marital status and household savings and incomes. These show some important areas of difference between older and younger groups. There are also important differences in housing tenure among different age groups, to which particular attention is paid in section 4.1.

2.1.1 Gender

More boys than girls are born (by a ratio of about 106:100), but by their mid-20s there are roughly equal numbers of men and women in each age group. This remains true for most of middle age, but from their early 60s women start to outnumber men (see figure 2.1). The proportion of women in the population increases quite rapidly among those aged 70 or older, reflecting the longer life expectancies of women compared to men. Women represent about three-quarters of those aged 90 or older in the UK.

The situations of older people are, therefore, the situations of women to a much greater extent than those of men, and this is increasingly true at older ages. To the extent that women's attitudes and behaviour towards credit differ from that of men, this difference alone is an important component of any comparisons between younger and older groups, particularly at the oldest ages.

Figure 2.1 Gender by age: the rising proportion of women at older ages



Source: ONS population estimates for 2005, single years.

2.1.2 Marital status

There are large differences in marital status across age groups. Few of those under the age of 40 are divorced or separated, and virtually none are widowed. This reflects normal life cycle events. People tend to marry in the greatest numbers in their late 20s and early 30s, and death is increasingly uncommon among those aged under 40. Cohabitation (living in a marriage-like relationship) is most common for those in their 20s (24 per cent) and 30s (17 per cent) but unusual among those aged 50 or older.

People in their 50s are more likely than other age groups to be married, but also most likely to be divorced (figure 2.2). Divorce and separation are less common among the cohorts now in retirement, therefore relatively few of those aged 70 or older state that their marriage has been dissolved.

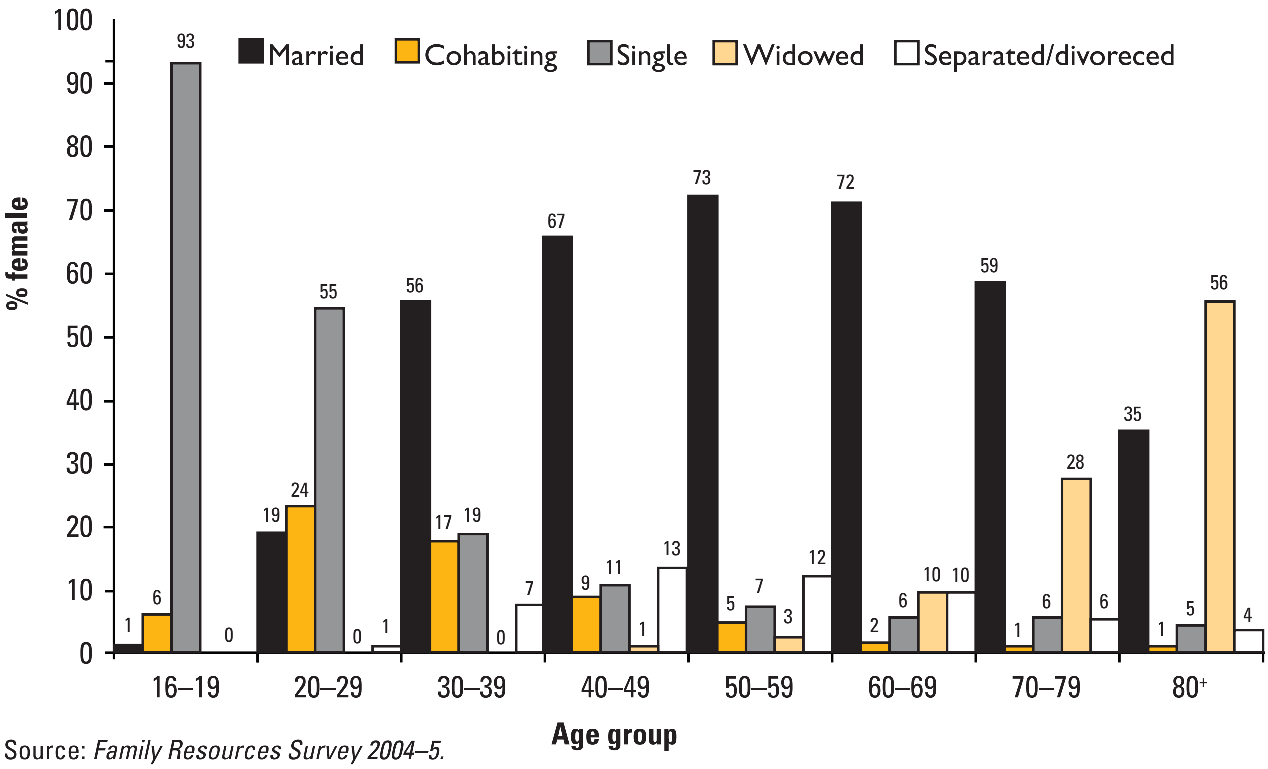
Even so, married people represent the largest group for all those aged between 30 and 80. Approaching three-quarters of those aged in their 50s and 60s are married. From the age of 80, however, widows and widowers form a narrow majority (56 per cent).

2.1.3 Number of people living in each household

As mentioned earlier, there are differences in rates of survival for men and women, particularly at older ages, and these are clearly associated with changes in living arrangements at older ages.[3] Older people are the most likely to be living alone, or with just one other person, and the least likely to be in households with three or more persons (figure 2.3). Among those aged 80 or more, some 62 per cent live alone, and 35 per cent live with just one other person (their spouse in most cases). Even among those aged 60–64, only 16 per cent live in households with three or more members. This contrasts quite markedly with those aged between 35 and 45, where most households comprise three or more people – typically a couple and their children.

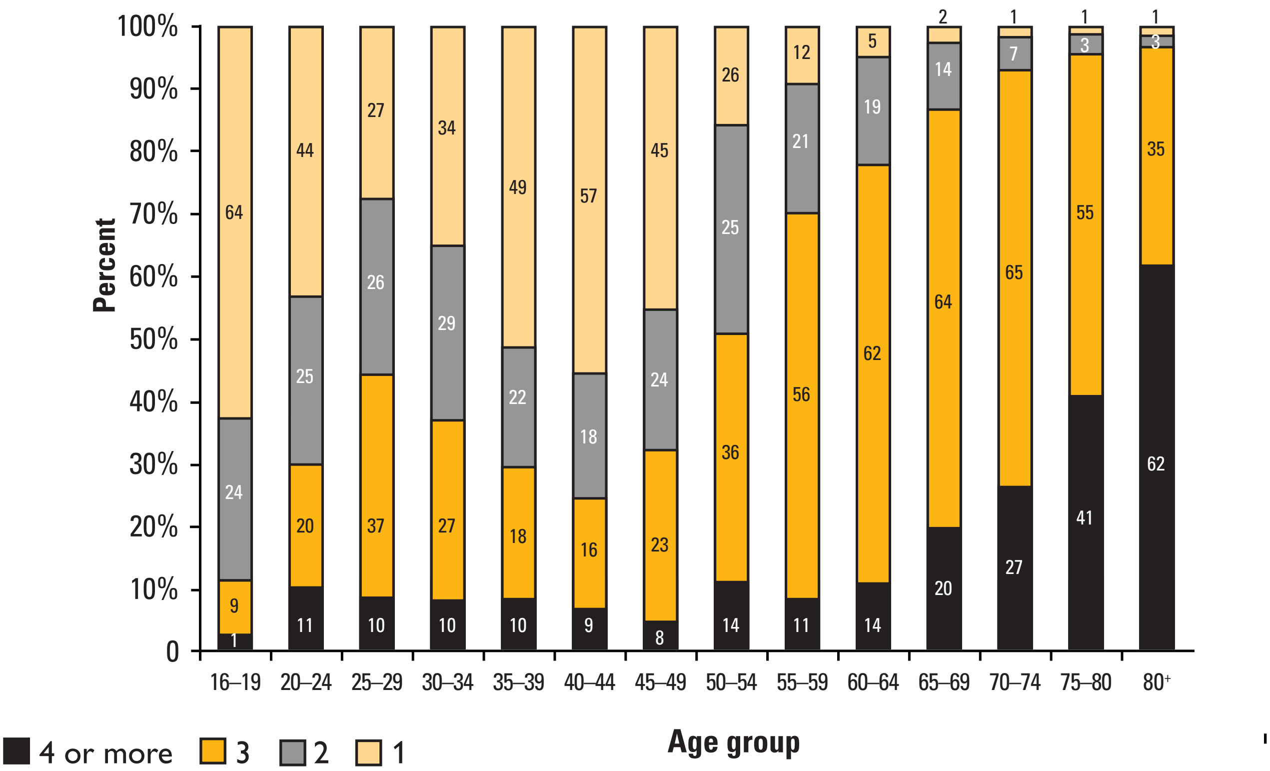
[3]It should be noted, however, that all surveys tend to exclude people living in institutions such as care homes.

Figure 2.2 Marital status by age



Source: *Family Resources Survey 2004–5.*

Figure 2.3 Number of people in household, by age



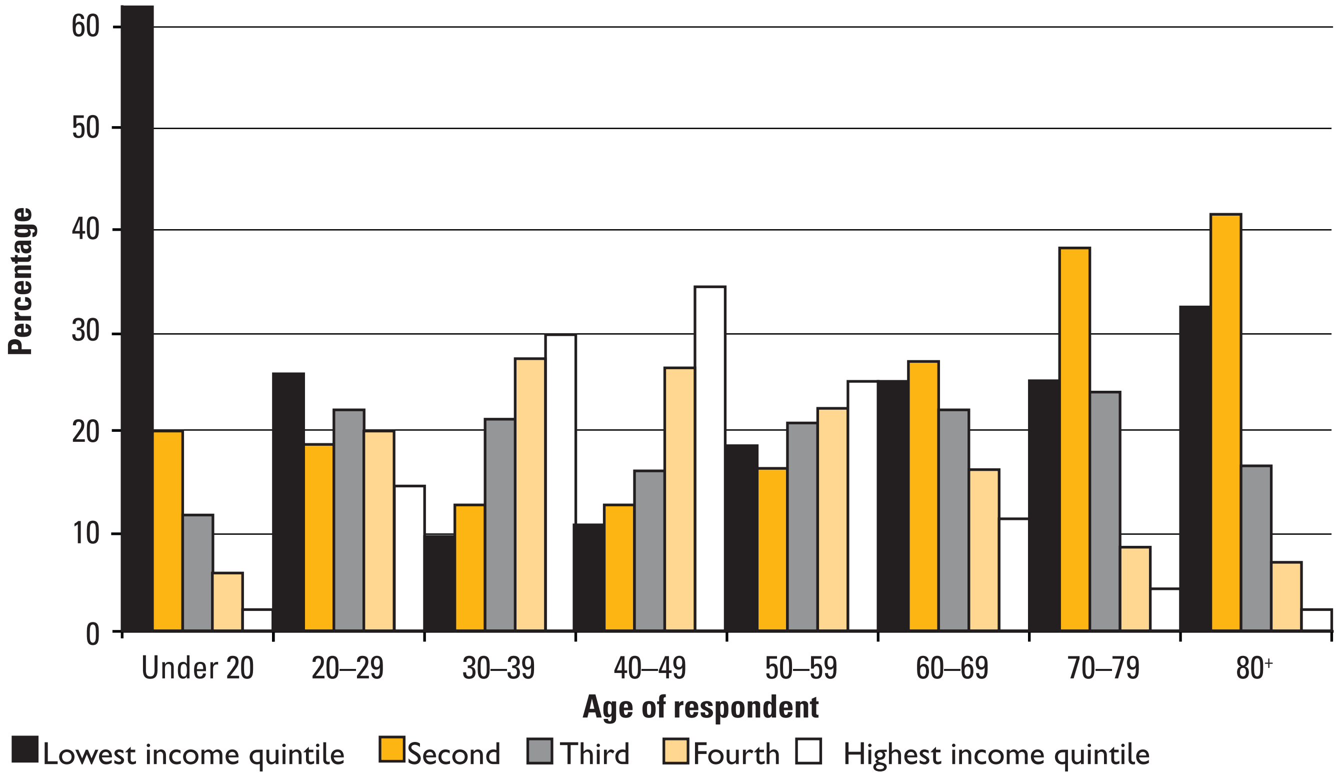
Source: *BHPS 2005.*

2.1.4 Household income

Above retirement age household income might be expected to reduce with the age of the head of household, since pensions typically provide a reduced income, and households are more likely to be made up of just one person. Older age groups are among those least likely to have benefited from either good occupational or personal pensions following a full working life, or from the maturing of state additional pensions (which happened quite recently). Women in their 80s are especially likely to have only the basic state pension since many of them will have had only very short working lives prior to having a family. Indeed, figure 2.4 shows that 60- to 79-year-olds were concentrated in the bottom three income quintiles while almost three quarters (74 per cent) of those aged 80 and over were in the two lowest income quintiles.

Low income is associated with a lower standard of living, of course, though this must be qualified by a range of factors, particularly the housing costs and other commitments faced by households in different circumstances. Many older people, even on lower incomes, do not spend all of their income (see Finch and Kemp 2006). Moreover, borrowing is not automatically associated with lower incomes. Previous research has shown that while there is a link for people under retirement age, the same is not true for those over this age (Kempson, 2002). On the other hand, having a lower income may well be an important factor in any difficulties being experienced in relation to repaying household bills and credit commitments, and unexpected drops in income (from whatever level) may give rise to financial stress. Middleton et al (2007) and Hill et al (2007) provide more detailed discussion about the measurement of resources in later life, and how they affect older people's opportunities. Both reports were conducted as part of a programme for the Joseph Rowntree Foundation.

Figure 2.4 Quintiles of household income, by age



Source: BSFC 2005.

2.1.5 Household savings

It is, of course, quite common for people both to borrow money and to have some savings. Credit is not simply used by those without savings, but is used by many people for particular purchases or to help manage their money. However, having an adequate level of savings is a solid form of protection against falling on harder times and being unable to repay credit.

There is considerable diversity in the level of savings people have obtained by different ages. As shown in figure 2.5, the older groups are distinguished by having the largest proportions with both the highest and the lowest levels of savings. [4] The age group most likely to have £40,000 or more in savings is those aged 60–64, for whom 23 per cent had this level of savings.

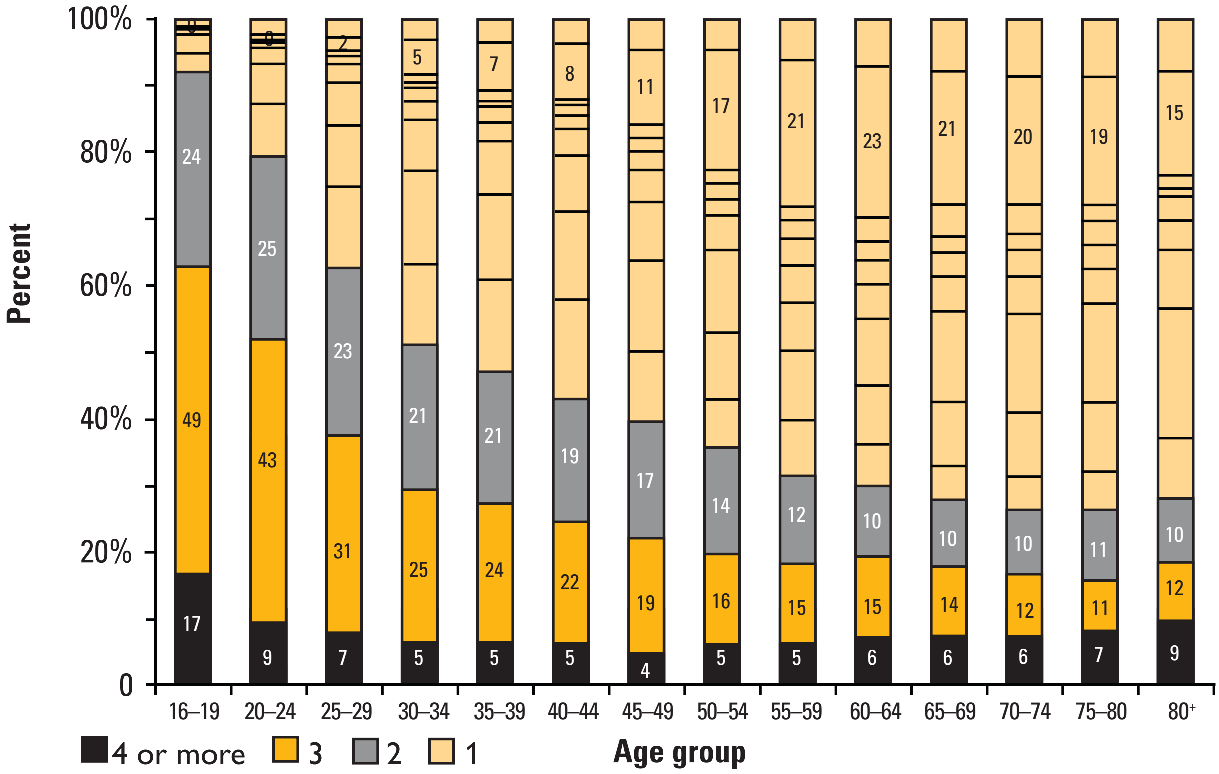
Those age 80 years or over were, with the exception of teenagers, the most likely to lack any savings even in a current account (figure 2.4). This suggests at least some degree of exclusion from the mainstream of finance, which could be due to personal choice, and would limit the range of credit options available to this group.

2.2 How attitudes to spending and borrowing vary by age

There is a general perception that older people view using credit rather differently from younger generations. A variety of surveys reflect such differences, including the British Social Attitudes Survey. One study (Rowlingson and McKay 2002) found that younger people consistently had a more favourable view of borrowing than did older people. Many of those over 65 (a majority, in fact) believed that credit should be more difficult to obtain than it was at the time of the study (2001).

[4] The FRS asks about savings, at least initially, using a banded question of this kind where amounts are grouped. It is possible to show fewer categories, but not possible to calculate a true average since the exact level of savings is not known.

Figure 2.5 Levels of saving in family unit



Source: Family Resources Survey 2004–5.

The BSFC makes it possible to consider whether older people have attitudes to borrowing and spending that set them apart from the rest of the population. Respondents were presented with a range of statements characterising their use of money. Four key statements were as follows:

- I am more of a saver than a spender
- I am impulsive and tend to buy things even when I can't really afford them
- I prefer to buy things on credit rather than wait and save up
- I would rather cut back than put everyday spending on a credit card I couldn't repay in full each month.

After being presented with these statements, respondents were asked if they agreed strongly; tended to agree; tended to disagree; or strongly disagreed. The results for different age groups are shown in table 2.1.

This shows that older people were very likely to agree that they were savers rather than spenders, and the proportions agreeing increased with age. Hence, 86 per cent of those aged 80 and over tended to agree or agreed strongly, compared with 48 per cent of people aged under 20.

Few elderly people described themselves as impulsive shoppers. Nearly 4 in 10 of the under-30s agreed that they were impulsive and tended to buy things even when they could not really afford them. The proportion agreeing with this statement decreased steeply with age to under 1 in 10 of the over-60s.

It might be expected that older people would also be less likely to say that they would rather buy things on credit than wait and save up, but while this was found to be the case it is perhaps surprising that there were so few people of any age agreeing strongly with this statement (from a minimum of 2 per cent of the 70- to 79-year-olds to 7 per cent of the under-40s). Likewise, remarkably few people of any age disagreed with the statement *'I would rather cut back than put everyday spending on a credit card I couldn't repay in full each month'.* In both cases, however, the strength of disagreement was higher among older people.

Table 2.1 Attitudes to spending and borrowing, by age

Percentages	Under 20	20–29	30–39	40–49	50–59	60–69	70–79	80+	All
'I am more of a saver than a spender'									
Agree strongly	15	13	13	16	21	24	27	44	19
Tend to agree	33	27	34	35	40	44	51	42	37
Tend to disagree	28	38	34	35	28	25	16	12	30
Disagree strongly	24	22	17	14	9	6	4	1	13
Don't know		0	1	0	1	2	1	1	1
'I am impulsive and tend to buy things even when I can't really afford them'									
Agree strongly	15	13	8	6	5	3	2	3	7
Tend to agree	22	23	20	15	10	6	5	4	14
Tend to disagree	29	33	33	33	31	25	20	14	29
Disagree strongly	34	30	39	45	54	66	72	79	50
Don't know		0	0	0	0				0
'I prefer to buy things on credit rather than wait and save up'									
Agree strongly	7	7	7	5	4	4	2	3	5
Tend to agree	12	16	18	19	18	12	7	5	15
Tend to disagree	26	29	29	35	30	26	18	15	28
Disagree strongly	55	48	45	42	46	58	72	76	51
Don't know	1	0	0	0	1	0	0	1	0
'I would rather cut back than put everyday spending on a credit card I couldn't repay in full each month'									
Agree strongly	61	51	54	59	63	68	75	83	61
Tend to agree	23	30	27	24	21	21	15	6	23
Tend to disagree	7	12	11	11	9	4	4	4	9
Disagree strongly	9	7	7	5	6	6	5	5	6
Don't know	1	1	1	1	1	1	2	3	1

Source: BSFC 2005.

3 Unsecured credit

In general, the proportion of households owing money in unsecured credit did not increase in the 1990s, but the amounts owed (both in money terms, and in inflation-adjusted real terms) by borrowers have increased markedly (Department of Trade and Industry, 2006). The DTI's over-indebtedness monitoring paper for Q2 2006 indicates that while unsecured lending is still increasing, the growth has slowed from about 14 per cent in early 2004 to approximately 6 per cent. This is backed up by evidence from the Bank of England, which stated that there has been a deceleration in unsecured borrowing within the UK. Annual growth in unsecured borrowing is now at its lowest rate since 1993 (Bank of England 2007).

For some time researchers have commented on the different levels of borrowing across age groups. In 1992, for example, Berthoud and Kempson noted that 'age is the single most important factor associated with household's use of credit'. They went on to note that 'use declined steadily with age… so people in their 30s had ten times as many active credit agreements per household as those in their 70s'.

The 2002 survey *Over-indebtedness in Britain*, commissioned by the DTI, confirmed this pattern and showed that one-quarter (23 per cent) of households headed by a person over the age of 60 owed money on consumer credit commitments, as did nearly half (46 per cent) of those in their 50s (Kempson, 2002). Moreover, 1 in 8 (12 per cent) of the over-60s were repaying a mortgage along with about half (49 per cent) of the households headed by someone in their 50s.

A Bank of England study at much the same time found that although the credit participation rate for those aged 65 and over was much lower than for younger age groups, the mean borrowing-to-income ratio of these older credit users was much higher (Tudela and Young 2003).

Analysis of the British Household Panel Survey by the Bank of England showed a slight increase between 1995 and 2000 in the proportions of people aged 55–64 who owed money; use of credit by those aged 65 or more, however, remained static. More importantly, it showed a large increase in the proportion of annual income owed in both unsecured and secured credit in both these groups of older people, with the larger increases being among the over-65s (Cox et al 2002).

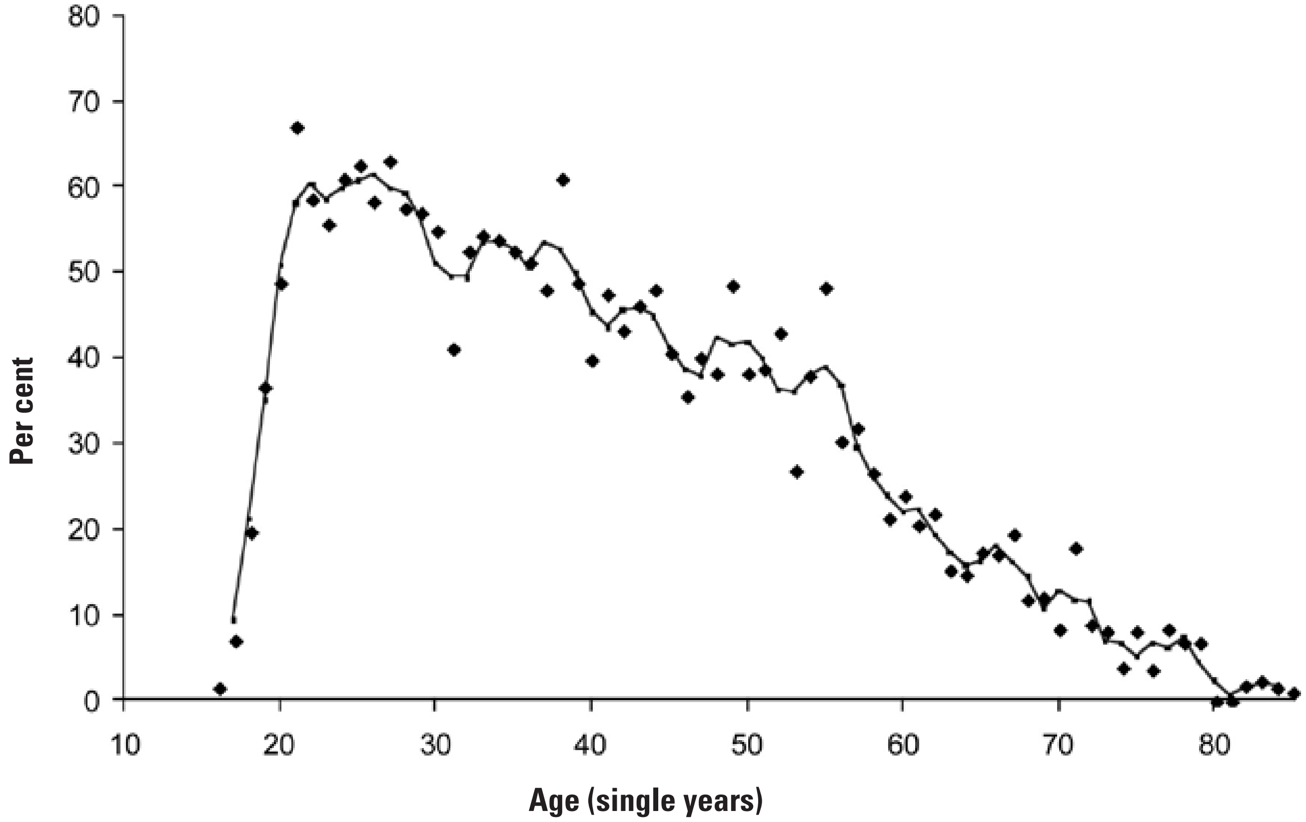
In qualitative work carried out by Kempson et al (2002), it was found that among older people generally attitudes to borrowing were negative. Only a small proportion of the older people they interviewed felt comfortable about using credit. However, there was a small group of heavy credit users who owed at least £700 on three or more credit agreements. Of some concern is the fact that, unlike borrowers in other age groups, they used credit not just to pay for non-essentials but also to cover the cost of bills or even to buy food. Many of those who did borrow did so despite holding anti-credit attitudes. There were two main reasons for this: either they felt that using credit was unavoidable in their present circumstances or they did not consider the type of credit they used to be borrowing (such as using mail order catalogues and paying for items in instalments over a fixed or hire purchase). The generally negative attitude to borrowing among the older age groups was also found in a recent Help the Aged study (Help the Aged 2006).

3.1 Overall levels of credit use

The British Household Panel Survey (BHPS) asks about use of credit every five years, with the most recently available data relating to 2005. It includes questions about a range of different kinds of active credit, including credit cards, overdrafts, personal loans, Social Fund loans, hire purchase agreement, and goods in instalments from mail order catalogues.

Figure 3.1 shows that, in 2005, active unsecured credit use was at its highest for those aged in their 20s and early 30s. Thereafter, there was a slow rate of decline up to the mid-50s, at which age there was a rather steep decline. Even so, there was some use of credit even among the oldest respondents, tailing off to almost no credit among those aged 85 or older.
The most extensive information specifically on credit use by older people comes from the English Longitudinal Study of Ageing (ELSA).

Figure 3.1 Outstanding credit, by age



Source: BHPS 2005.

Note Points show figures for actual years, and the solid line is a three-year moving average smoothing out differences between years to give a more general trend.

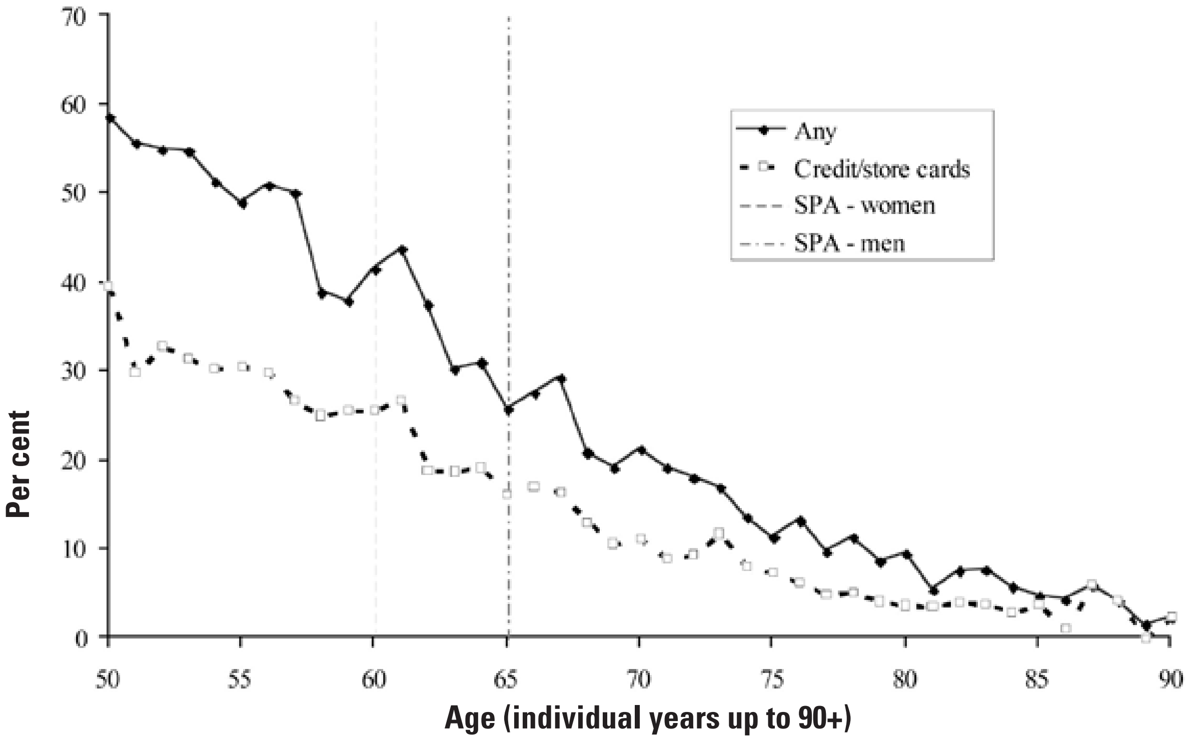
Close to 12,000 people aged 50 or over were interviewed in the first wave during 2002–3. Analysis of ELSA confirms the decline of use with age. The downward trend by age (figure 3.2) applies both to having any outstanding credit[5] and to having a balance on credit or store cards – the most common source of credit.

The vertical lines mark the state pension ages for men and women, although these are not necessarily good predictors of when people do actually retire. Most people in recent years have ceased work earlier than this, for reasons such as ill health or early retirement, while others continue to work longer (Smeaton and McKay 2003). There are, however, some indications of an upturn in levels of credit use around these points in people's lives.

ELSA also includes questions about money owed to friends, DSS Social Fund loans, and loans from moneylenders. The latter three kinds of borrowing were relatively uncommon, the first being cited by 1 per cent of respondents, and the remainder by rather less than one person in every hundred (0.4 per cent and 0.2 cent respectively).

[5]Defined as credit/store cards; money owed to individuals (including family), hire purchase agreements; personal loans (from bank, building society or other financial institution); overdrafts; mail order catalogue agreements; DSS Social Fund loan; loan from a money lender or 'tally man'.

Figure 3.2 Unsecured credit use, and credit cards, by age (including credit card not paid off and current overdraft)



Source: ELSA wave 1 2002–3.
SPA statutory pension age

Table 3.1 Average number of active credit commitments, by age

	Number of active unsecured credit commitments (mean)	Base (weighted)
18–49	1.9	1499
50–54	1.8	190
55–59	1.7	172
60–64	1.4	120
65–69	1.3	76
70 and above	1.1	61
All	1.8	2159

Source: BSFC 2005.

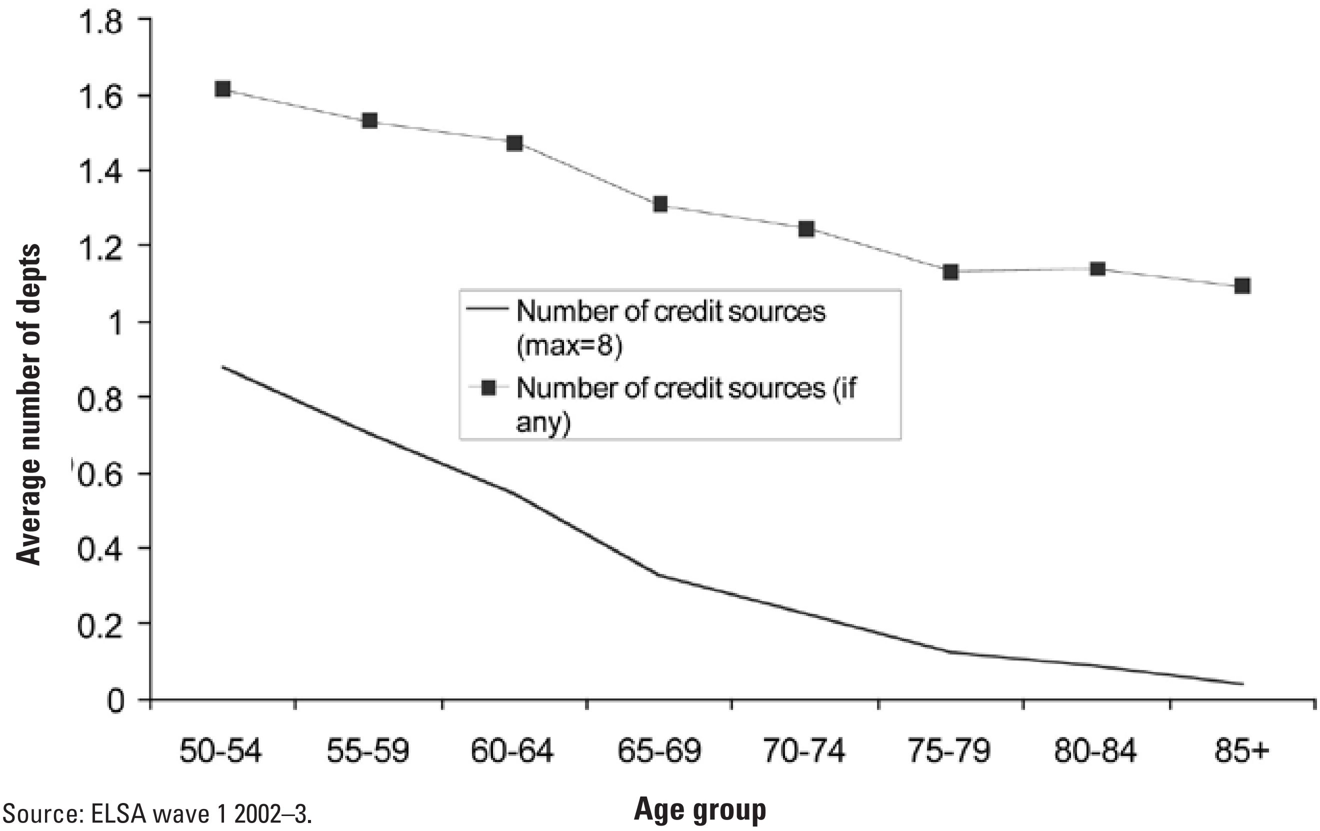
3.1.1 Numbers of credit commitments

The Baseline Survey of Financial Capability (BSFC) makes it possible to calculate the number of credit commitments people had. It showed that, on average, UK adults had 1.8 active credit commitments, including overdrafts and credit cards that were not always paid off. This ranged from an average of one commitment among the over-70s to 1.9 among the under-50s. The number of active credit commitments declines noticeably over the age of 60.

Once again, ELSA provides a larger sample of older people for analysis. In this case, however, it is not possible to identify the number of credit commitments, although it is possible to sum the eight different kinds of borrowing it covers to see how many different kinds of credit were being used. It is important to note that this refers to the number of different types of credit, and not to the number of active accounts – for instance, it does not distinguish between those with one credit card and those with half a dozen or more. However, using this approach does provide some idea of the different number of sources of credit being relied upon.

People aged 50 or older, as well as being fairly averse to credit, tended to use relatively few sources (see figure 3.3). Even among those with any source of credit, on average they were using only 1.5 different credit sources. This varied from 1.6 different sources among credit users aged 50–54 to 1.5 among those 60–64, and to as few as 1.2 among those aged 70–74. This implies something of a concentration on fewer sources of credit among the minority of older people who do use credit: that is, they tend to borrow increasingly using just one source of credit, while those in their early 50s were more likely to be using two different sources of credit.
Analysis of the ELSA dataset (figure 3.4) confirms this changing pattern of use of different types of credit and, additionally, shows that, like personal loans, use of overdrafts also declines very steeply with age.

Figure 3.3 Average number of types of credit commitment (for all, and for those with any), by age



Source: ELSA wave 1 2002–3.

Table 3.2 Active credit sources currently held in own name or joint names, by age

Active credit sources	16–49	50–54	55–59	60–64	65–69	70–74	75–79	80–84	85+	Total
Credit card (not paid off each month)	30	28	20	15	10	9	6	5	4	23
Personal loan	20	17	11	6	4	2	1	1		14
Credit union loan	1	1	*	1	*	*	*			1
Social fund loan	4	1	1	*		*				2
Hire purchase, credit sale or rental purchase agreement	5	6	5	1	2	1	1			4
Store card (not settled in full each month)	6	6	7	3	3	1		1	1	5
Mail order catalogue, paid off in instalments	13	10	10	10	6	6	2	3		10
Base (weighted)	*3,010*	*400*	*434*	*391*	*346*	*280*	*232*	*164*	*70*	*5327*

Source: BSFC 2005.

Blank cells have no observations; * refers to a percentage of less than 0.5.

3.2 Types of unsecured credit used

According to the BSFC in 2005, the three most common sources of unsecured credit across the UK adult population were credit cards, personal loans and mail order catalogues. Use of all three declined with age – but personal loans did so most steeply. Consequently, if people aged over 70 had any credit commitments at all they tended to be outstanding balances on credit cards or money owed on goods bought on credit from a mail order catalogue (table 3.2).

3.3 Inactive credit sources

Some people hold overdraft and credit card facilities that they do not use as an active source of credit. They may retain them for only occasional use – financial emergencies and unexpected expenditures. Or, in the case of credit cards, they may pay off the balance in full at the end of each month.

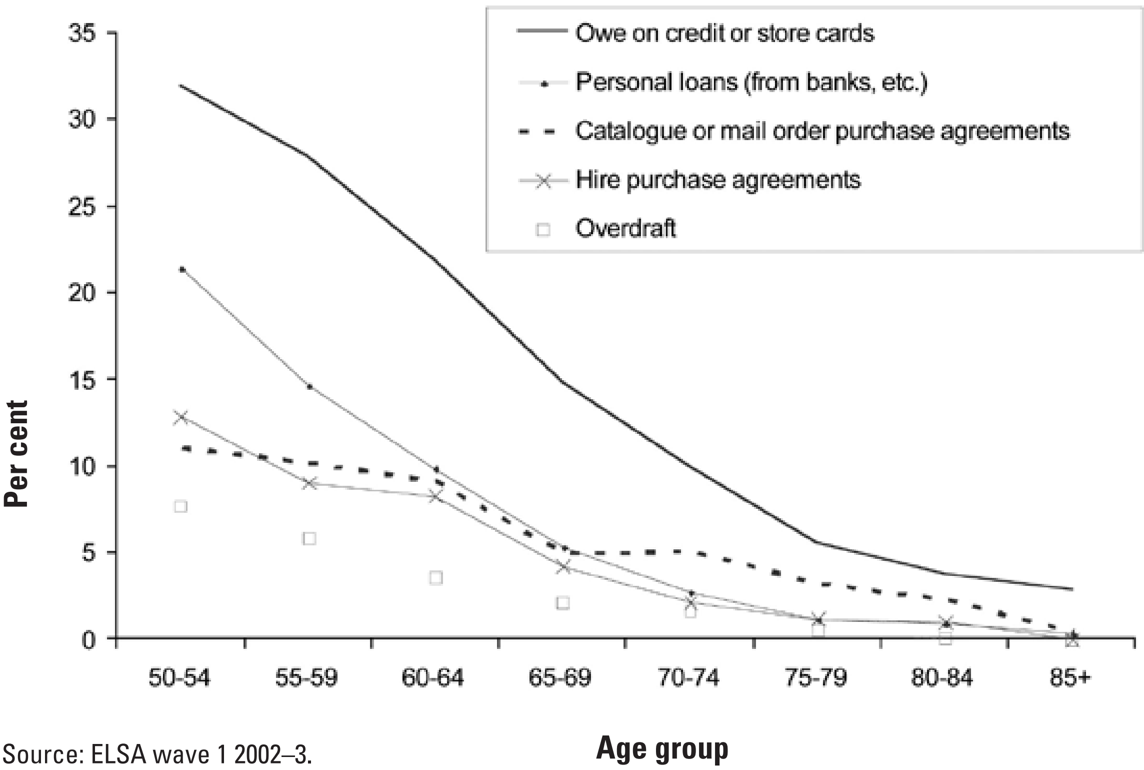
The DTI data allows us to explore the levels of active credit use and also to identify people with inactive credit (albeit on a small sample). It shows that levels of both active and inactive credit fell with age, both among those who only had one or the other and those who had a mixture of the two (see figure 3.5). More importantly, though, older people appeared less likely to be using all the credit at their disposal, reflecting the findings of a recent qualitative study of borrowing at three key life stages (Finney et al, forthcoming).

Of interest is the fact that there was a steady decline with age in the proportion of people with a mix of active and inactive credit sources. Beyond the age of 65, in particular, credit users tended to polarise into people with only active credit sources and those with only inactive ones. There was a concomitant steep increase, beyond the age of 70, in the proportion of people with no credit facilities whatsoever.

3.3.1 A focus on credit cards

As mentioned above, credit cards represent an increasingly important form of borrowing among older credit users. Moreover, it appears that many more elderly people had a credit card than carried an outstanding balance on them. The BHPS data shows that over half (54 per cent) of

Figure 3.4 Unsecured credit use, and credit cards, by age (including credit card not paid off and current overdraft)



Source: ELSA wave 1 2002–3.

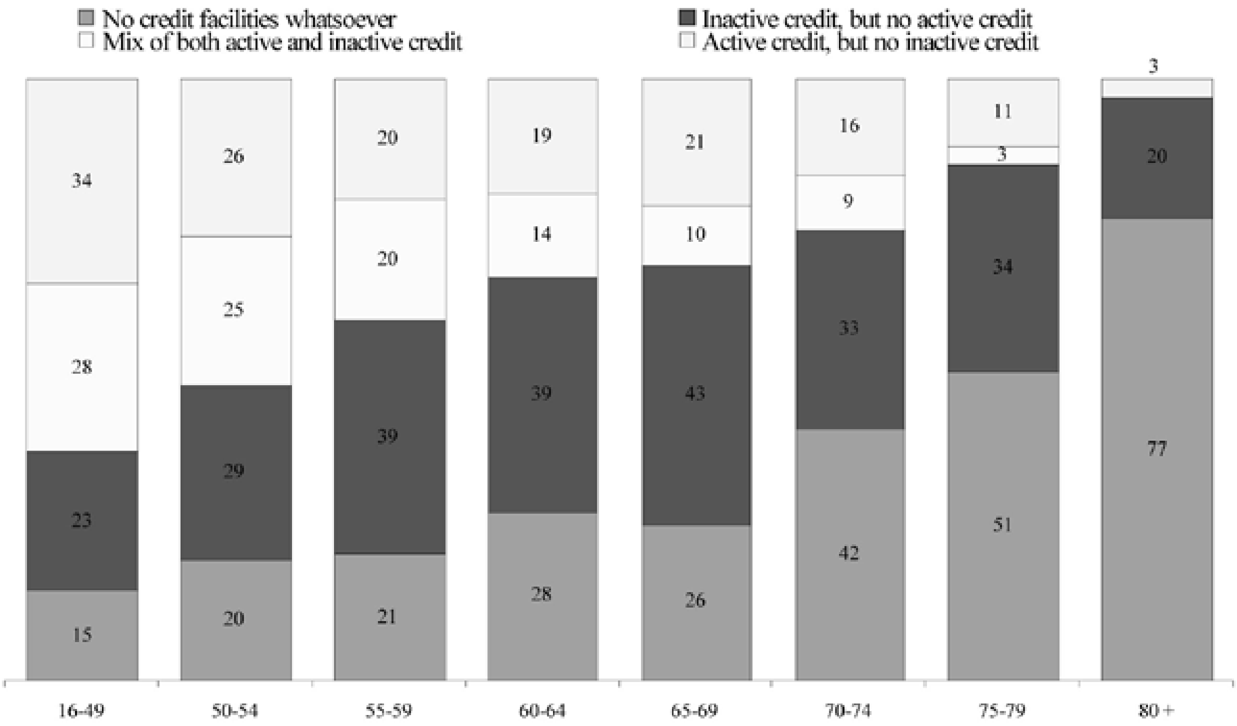
those aged 70–74 said they had a credit card, as did about 3 in 10 (29 per cent) of those aged 80 or older – see figure 3.5. It is important to note that this chart is showing possession of such a card; the person may not be using the card to borrow money, either because they clear the balance each month or resort to using such cards only in times of emergency.

A further point to note from figure 3.5 is that, among people aged over 60, credit card-holding was more common among men than it was among women. Indeed, above this age credit card-holding by men was about ten percentage points higher than for women of the same age. In contrast, this gender gap was far smaller, or non-existent, among younger people.

Further analysis of the BHPS data also shows that older people use their credit cards in different ways from those who are younger. Overall, some 9 per cent of all adults with credit cards said they usually had nothing to pay (that is, they did not normally use their card), while just over half (54 per cent) said that they paid in full each month. However, among those aged 50 or older, rather higher proportions settled their accounts in full each month (see table 3.3). This means that, overall, almost 4 in 10 (37 per cent) of card-holders normally carried an outstanding balance on their cards.

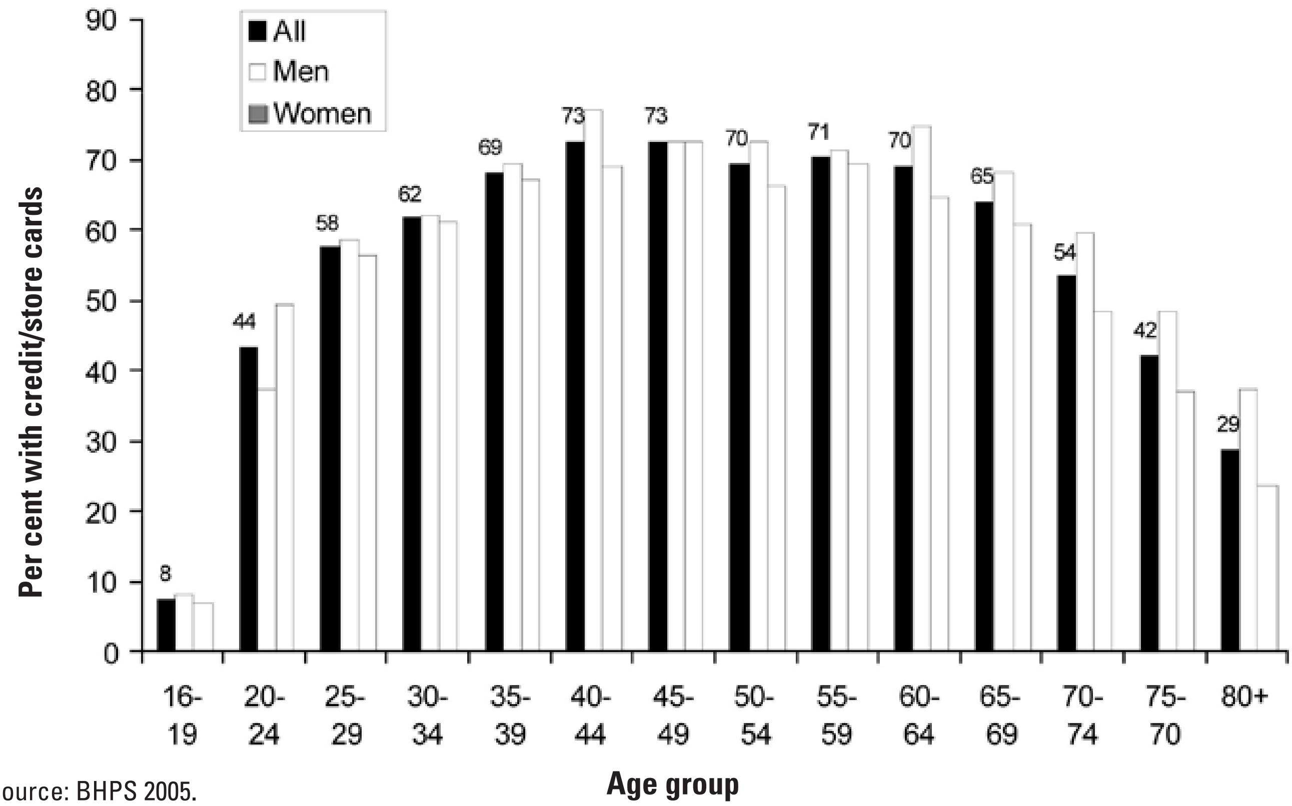
The proportions of people carrying outstanding balances on their cards fell steeply after the age of 60, with a further large drop at the age of 70. For example, only a quarter (25 per cent) of credit card holders aged 60–64 carried balances over from one month to the next and in the 70–74 age group it was only 6 per cent. In fact, the proportion of people paying off their credit card in full each month levelled off at age 70; at the same time, people aged over 75 were much more likely than the average to have a card they did not normally use. In other words, among older people – and especially those over retirement age – credit cards seem to be used much more as a payment mechanism than as a source of extended credit. This point is further explored in section 3.5 below.

Figure 3.5 Unsecured credit use by age



Source: DTI 2002.

Figure 3.6 Credit/store cards by age and gender



Source: BHPS 2005.

Table 3.3 Use of credit cards, by age group (percentages)

Age group	Base	Zero to pay	Pay in full	Pay >min.	Pay min.	Pay min. or less	Some-times cannot pay	Other
16–19	*46*	*24*	*52*	*5*	*7*	*5*	-	*7*
20–24	266	13	32	37	8	9	2	1
25–29	386	9	33	40	11	7	-	1
30–34	445	9	42	36	8	4	1	*
35–39	492	9	40	39	8	4	-	1
40–44	581	6	46	32	9	6	-	2
45–49	509	6	53	27	8	5	1	1
50–54	407	9	56	26	6	3	*	1
55–59	443	7	64	23	3	3	-	*
60–64	356	10	66	20	2	2	1	-
65–69	228	9	74	13	2	2	-	-
70–74	188	11	82	4	1	*	-	2
75–79	123	13	78	8	1	-	-	-
80+	131	18	78	4	-	1	-	1
All	4601	9	54	26	6	4	*	1

Source: BHPS 2005. Base is those with credit or store cards.

Note Results for 16–19 age group are based on fewer than 50 people, and are therefore unreliable.

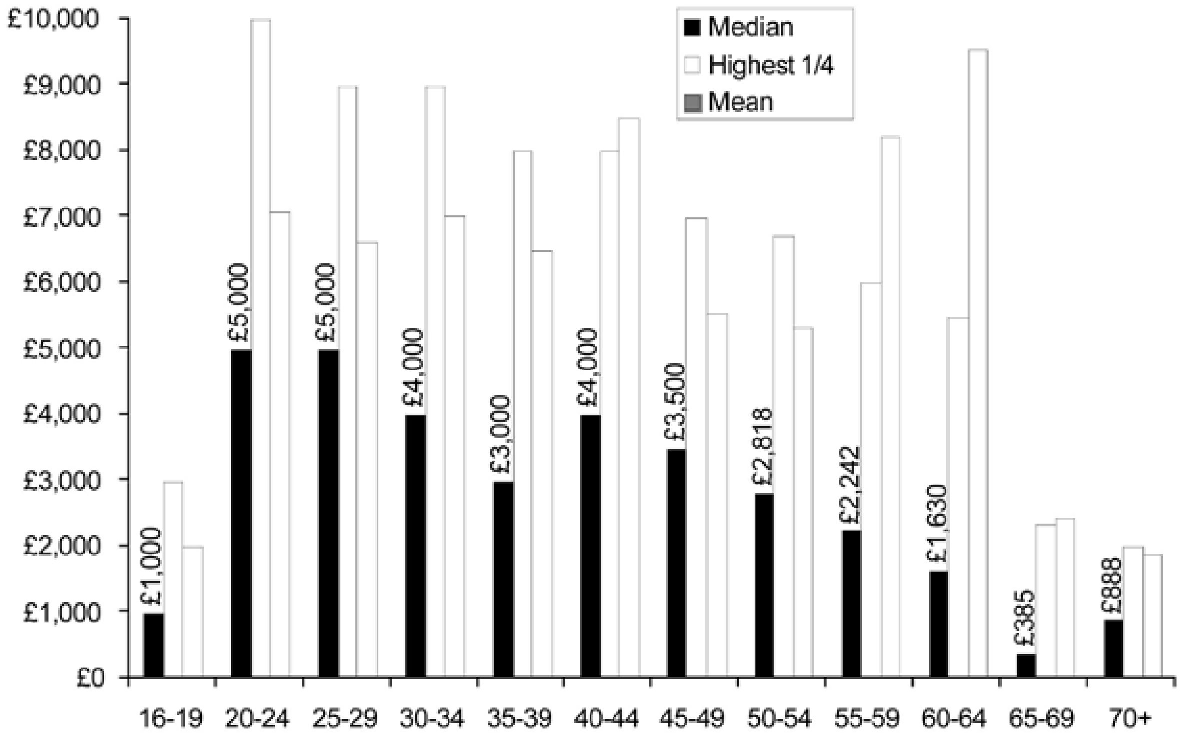
3.4 Amounts outstanding in unsecured credit

The British Household Panel Survey, conducted in 2005, provides information on the amounts outstanding on unsecured credit commitments. Some summary figures by age are shown in figure 3.5, including the median amount owed (the amount that splits the borrowers into two equal groups – half owe more and half owe less); the value for the top quarter; and the mean (the total borrowed divided by the number of borrowers).

A number of different features emerge from the data, in particular that among those with any outstanding credit (i.e. excluding the zeros):

- the highest median amount owed was among young people in their 20s, for whom borrowing was also the most common
- the highest mean amount owed was for those in their late 50s and early 60s, with averages exceeding £8,000 in 2005
- high amounts were often owed by the most heavily borrowed quarter of borrowers in each age group. Moreover, the figures suggest quite a range of amounts owed by younger people, in particular
- among older groups, a few individuals appear to owe very high amounts, contributing to a mean level of credit that exceeds that owed by more than 75 per cent of the debtors in that age range.

Figure 3.7 Amounts of unsecured credit by age group



Source: BHPS 2005.

3.5 Unsecured credit repayments

The BSFC includes information about the amount that had to be repaid each month on unsecured credit,[6] and also collected details of total household income. This information has been used to calculate the percentage of income spent each month on unsecured credit repayments. The bases are relatively small, therefore wider age categories have been used for this analysis. The findings show that, among those with unsecured credit commitments, the average (median) percentage of income spent on repayments decreased with age. So while the under-50s paid an average of almost 8 per cent of their income on such commitments, 60- to 69-year-olds spent 1 per cent less, and those aged 70 and above spent just 4 per cent of their income.

3.6 Characteristics of older people who borrow

This section considers whether any particular socio-economic characteristics are associated with the use of unsecured credit among older people, aged over 50. It starts by looking at each of a range of characteristics in turn. It then considers the results of a regression analysis to convey a better understanding of the relative importance of each characteristic independently in explaining the likelihood of having unsecured credit, when other factors are taken into account.

3.6.1 Socio-economic and personal characteristics

Analysis of ELSA indicates that use of credit by people aged over 50 was more common among those still in work than among those who had retired (see figure 3.8). People aged in their 60s who were still in work were rather more likely to have outstanding credit than retired people of the same age. For both groups (workers and retirees) credit use tended to decline over time, as was consistently found for different types of credit and across different sources of data.

[6] The amount that had to be repaid included the minimum monthly repayment on a credit card, not necessarily the amount actually being repaid.

Table 3.4 Percentage of monthly income spent on unsecured credit repayments, by age group

Age group	Percentage of monthly income spent (median)	Base (weighted)
Under 50	7.9	1316
50–59	8.0	267
60–69	6.8	137
70+	3.8	62

Source: BSFC 2005. Base: all those with credit repayments and non-missing income data.

However, the changes in credit use between the ages of 65 and 74 for those with the same work status are rather equivocal, suggesting that the overall decline in credit use observed at this age is more to do with people retiring from work than directly with ageing.

Additional analysis of the BSFC also showed that people aged over 50 living in households with two earners were more likely to have active unsecured credit commitments (51 per cent) than those with one worker (44 per cent) and considerably more than those where nobody worked (22 per cent).

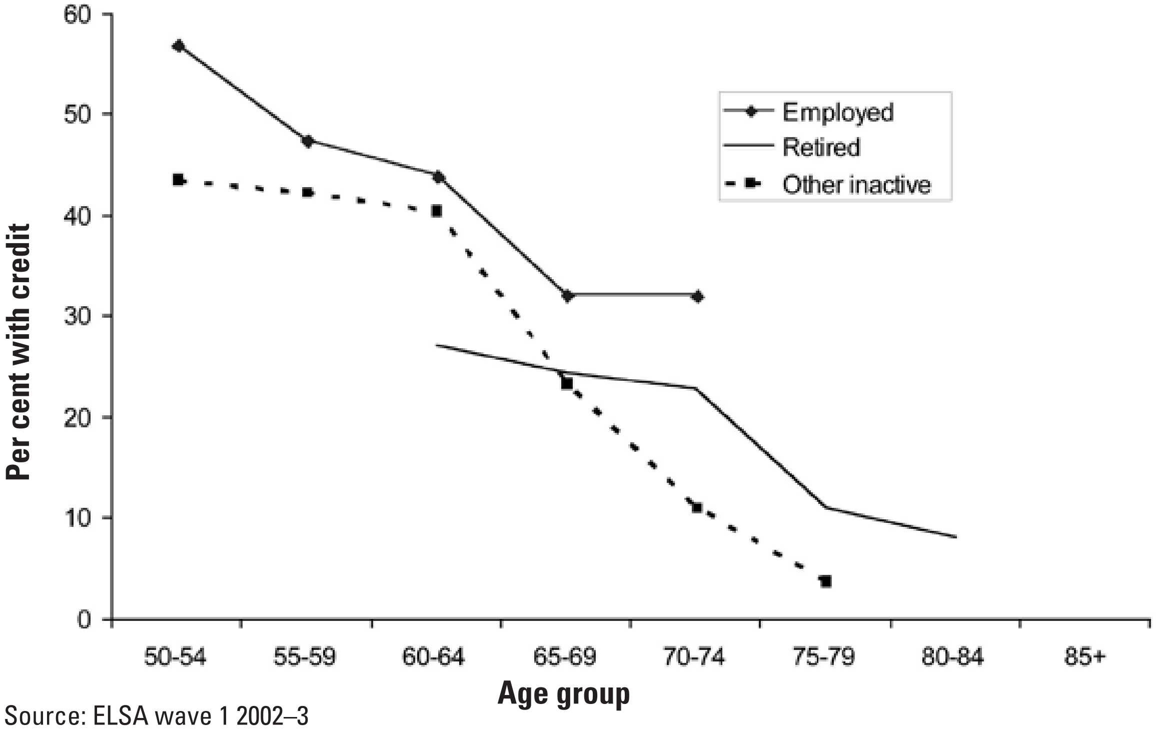
Among the over-50s, people with the highest household incomes were most likely to be accessing unsecured credit, perhaps indicating that credit was being used to fund extras, rather than essential purchases (figure 3.9). Credit is not of itself a 'bad thing', and for those with solid financial resources it provides a convenient means of spreading the cost of commitments. However, it may be of some concern that almost a quarter of people aged 50 or over in the poorest 40 per cent of households (which will include many single adult households) were using unsecured credit.

There was also a strong link between housing tenure and use of unsecured credit. Among people aged over 50, those with outstanding mortgages were the most likely to have outstanding unsecured borrowing (see figure 3.10). Those who owned their homes outright were the least likely to have credit, with tenants falling somewhere in between, indicating that it is not home ownership itself that increases the likelihood of borrowing in this way.

The link between having secured lending (a mortgage) and also having unsecured credit may be read in a number of ways. It could be indicating financial pressure that requires borrowing (so both kinds of credit are being exploited); conversely, it may be that having a mortgage puts strain on the household budget, necessitating the use of unsecured credit too. But it may also be signalling an ability to access (or propensity to be sold) financial products. Couples aged over 50 with dependent children were the most likely to be using unsecured credit, but (unsurprisingly) they were also likely to be younger and to have larger household incomes than others aged over 50 (figure 3.11). Because family circumstances were so strongly related to age (see section 2.1.3), this factor has not been included in the regression analysis reported below.

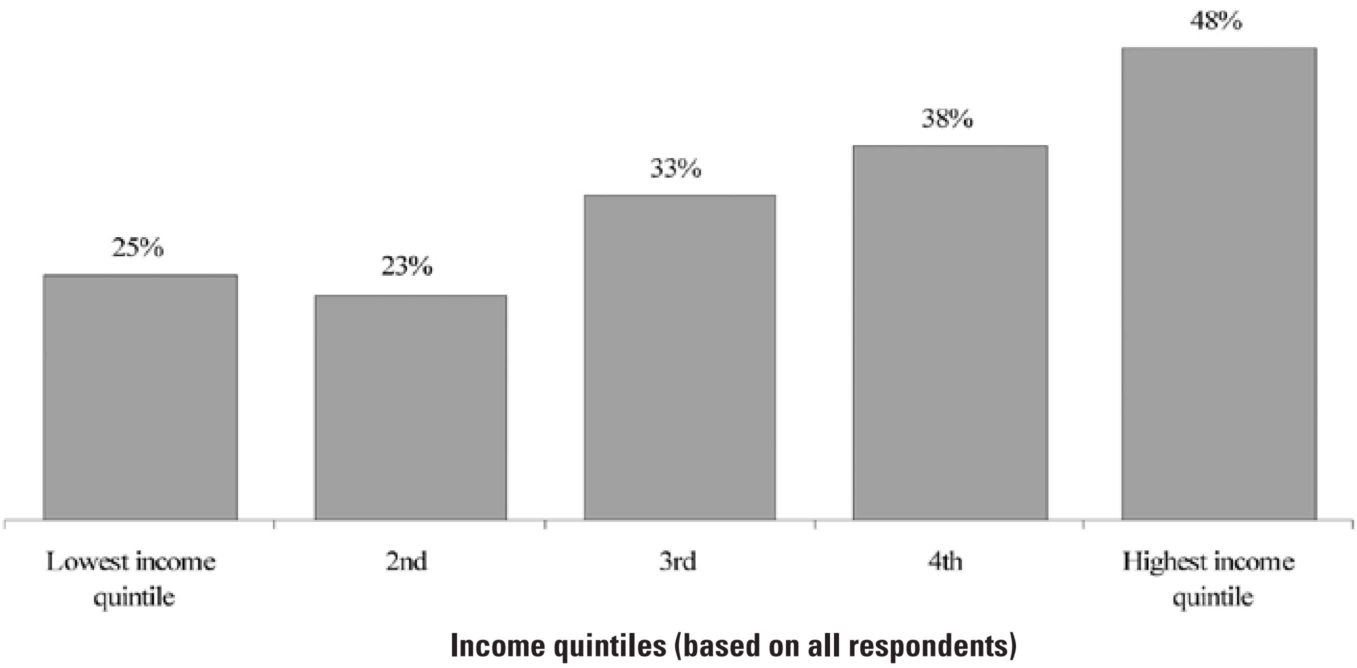
Figure 3.12 shows that credit use was highest among those who had separated or divorced, perhaps indicating that they were borrowing to overcome an income shock (although there is no information on how long it had been since the separation took place). Widowed adults,

Figure 3.8 Unsecured credit use, and credit cards, by work status (including credit card not paid off and current overdraft)



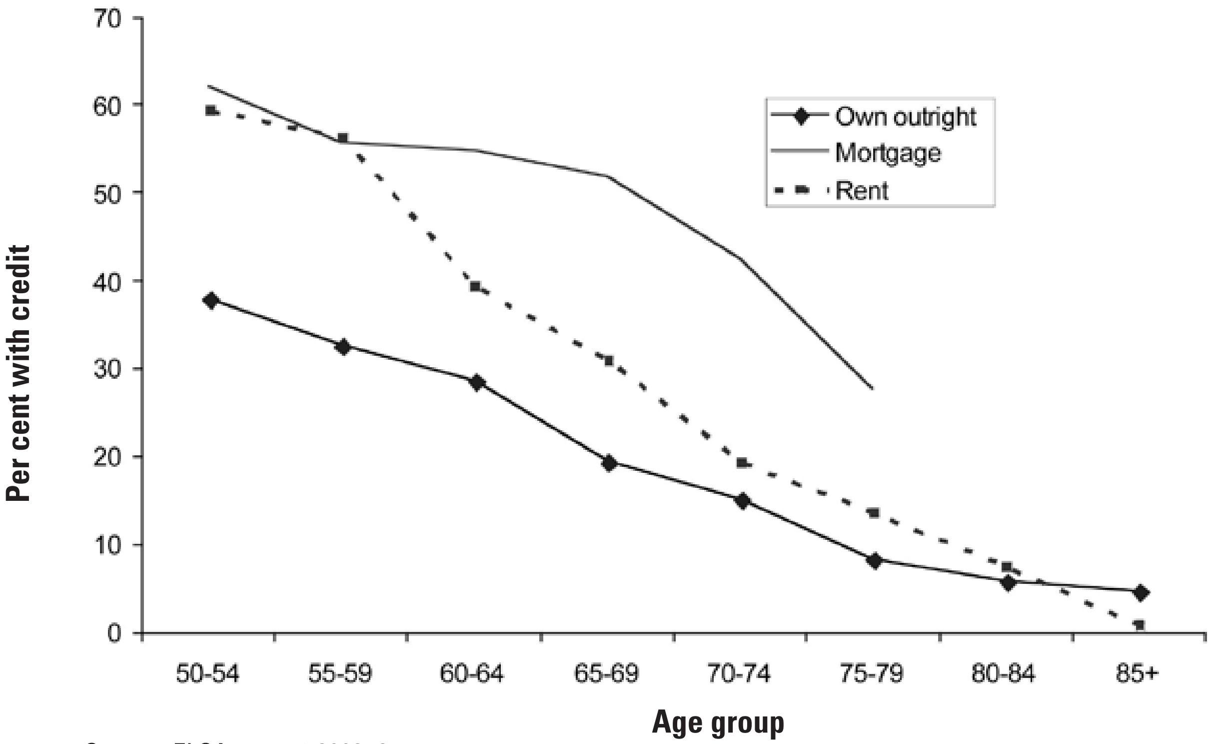
Source: ELSA wave 1 2002–3

Figure 3.9 Proportion of people aged 50+ with active unsecured credit commitments, by income



Source: BFSC 2005. Based (weighted) 2,318.

Figure 3.10 Unsecured credit use, by age and housing tenure



Source: ELSA wave 1 2002–3.

on the other hand, were only half as likely to be using unsecured credit as those who were married.[7] However, like the other characteristics considered in this report, marital status among the over-50s is related to age – with widows tending to be older than divorcees. It is also particularly relevant in this study, since changes in marital status may tend to be associated with changes in both income and responsibility for financial affairs.

3.6.2 Attitudes to credit

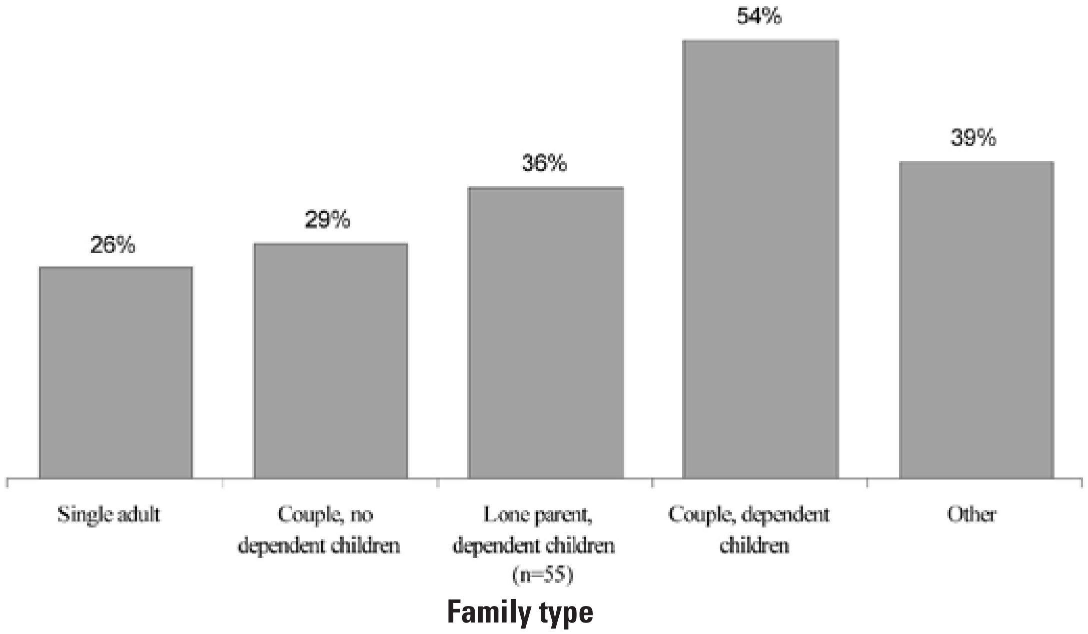
Section 2.2 explains how attitudes to borrowing vary across the age groups. Earlier research has shown that such attitudes are strongly linked to credit use (Kempson, 2002). This section looks specifically at the relationship between attitudes to borrowing and credit use among people aged over 50.

Our analysis of the BSFC data found that credit use among those aged 50 and over did not always reflect their attitudes towards borrowing. On the whole people who agreed that they *preferred to buy things on credit rather than wait and save* were more likely to have unsecured credit commitments than those who disagreed. But those most likely to have unsecured credit were people who tended to agree (rather than strongly agreeing) with the statement.

Similarly, the DTI questionnaire asked 'How do you personally feel about buying things on credit?' and gave a range of options, including *'it's never a good thing'*, *'it's occasionally necessary'*, *'it's a convenient way of buying things'* and *'it's a sensible way of buying things'*. The last two of these have been combined in the present analysis.

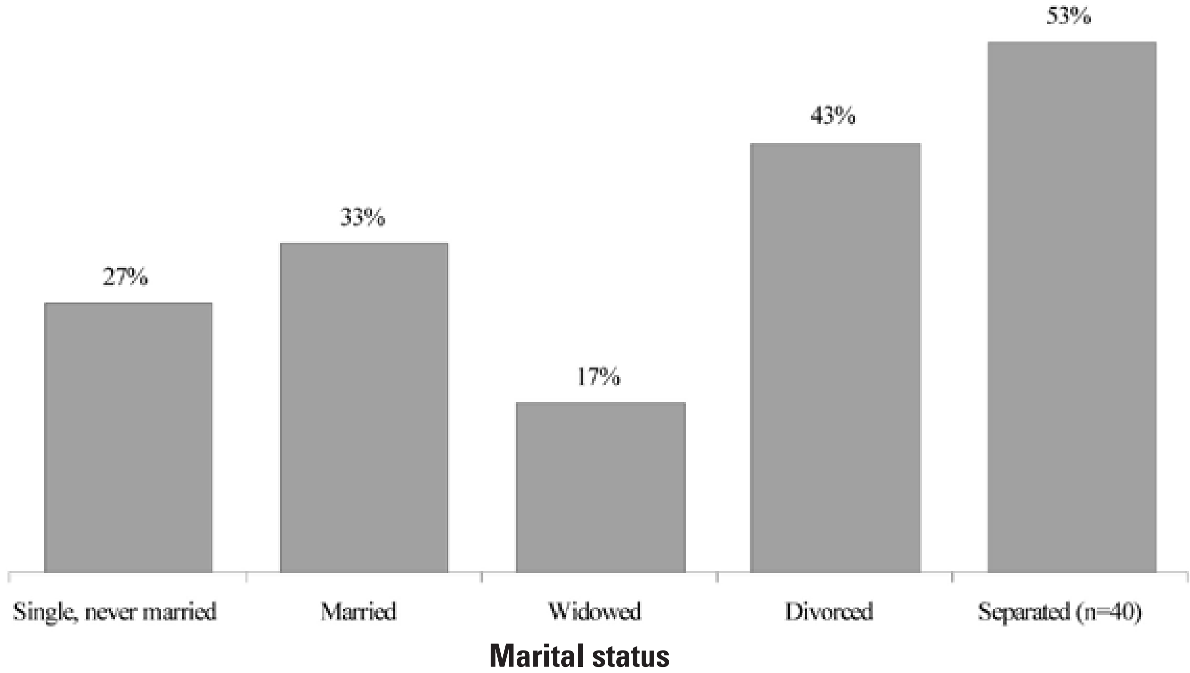
[7]The proportions of those in different marital situation with outstanding credit were very similar in the DTI 2002 report, indicating both (a) little change across the three years and (b) a good deal of consistency in the replies given by respondents in somewhat different settings.

Figure 3.11 Proportion of people aged 50+ with unsecured credit commitments, by family type



Source: BFSC 2005. Based (weighted) 2,318.

Figure 3.12 Proportion of people aged 50+ with unsecured credit commitments, by marital status



Source: BFSC 2005. Based (weighted) 2,318.

Among people aged over 50, there was a strong link between credit use and these attitudes (figure 3.16). Of particular note, however, is the fact that a sizeable minority of older people (13 per cent) had active credit despite believing it was never a good thing.

3.7 Key drivers of unsecured credit use

So far this report has looked at the links between credit use and the analysis has dealt with one factor at a time – such as age, work status or attitudes to borrowing. This section uses a statistical technique known as regression analysis that attempts to look at a range of factors all at once and to take account of the interrelationships between them. This helps to confirm whether the main characteristics associated with credit use have been identified. It may also make it possible to consider which apparent effects arise merely because they are associated with some other factor. For example, economic activity, marital status, age and housing tenure are known to be related to each other, but is any one of these more important than the others for predicting credit status?

The regression results, reported in more technical detail in table 3.5,[8] confirm that age is a significant predictor of having unsecured credit commitments.[9] The odds of someone aged over 75 having a credit commitment were only about a third of those for someone aged 55–59. The regression suggests, in fact, that 75 is a key age at which credit use decreases most significantly, when taking other factors into account.

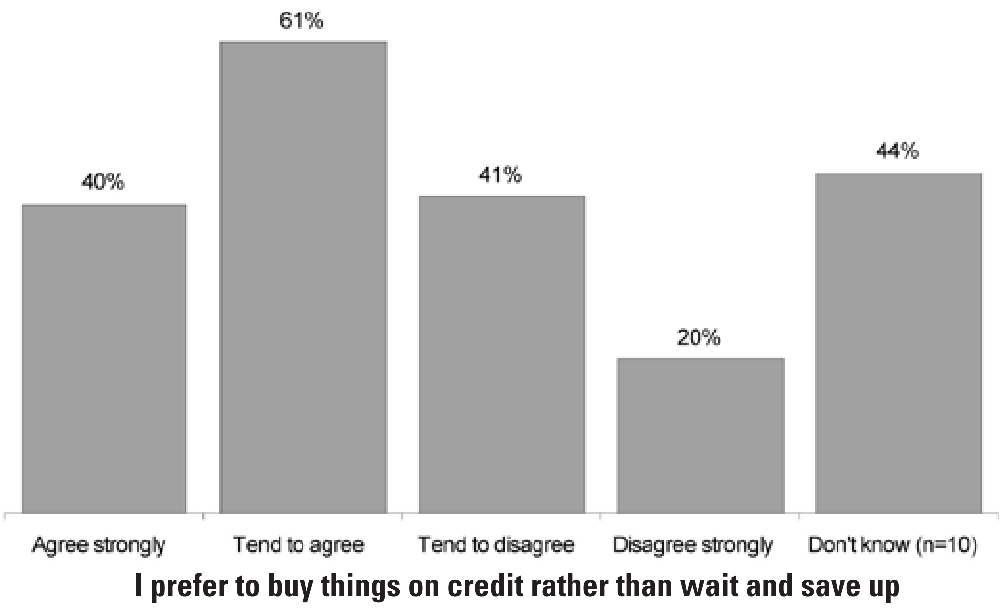
[8]In exploratory work, factors were also included to identify households with retired respondents and/or partners who were retired. However, this factor was heavily associated with age and so did not add any useful explanatory power to the statistical model.

[9]Many readers can safely skip the detail of this table, as the key results are explained in this section of the text.

There is also a moderately significant reduction in the odds of using credit at around the age of 65.

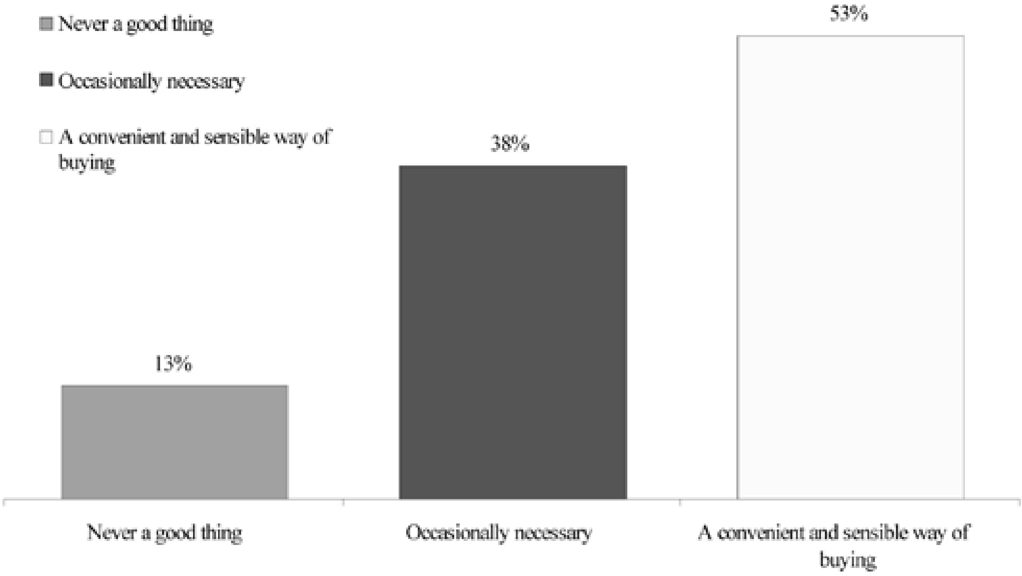
After taking age and other characteristics into account, mortgagors were more likely to have unsecured credit than those with other types of housing tenure. This feature – having a mortgage – doubled the odds that a person would have some unsecured credit. This may be reflecting an overall higher level of affluence among this group, one not picked up in the other variables being

Figure 3.13 Proportion of people aged 50+ with active unsecured credit commitments, by attitude to credit (1)



Source: BFSC 2005. Based (weighted) 2,318.

Figure 3.14 Proportion of people aged 50+ with active unsecured credit commitments, by attitude to credit (2)



Source: DTI 2002

taken into account. It may also be signalling that creditors may be more likely to lend to those people who already have some secured credit. Conversely, it might be indicating that having a mortgage in later life either puts a strain on the household budget that increases the likelihood of needing to borrow for other purposes or reduces the likelihood of people having access to savings.

Income does not appear to be a significant predictor of active credit use. This is true even when alternative specifications of the model are run, excluding either tenure or age (either of which might arguably disguise any income effect). However, the number of earners does predict active unsecured credit use – and again, removing this variable does not increase the predictive power of income. It appears that, after taking other characteristics into account, those with one or more earners in the household had 1.5 times the likelihood of using credit as those with no earners. This either reflects a conscious decision to run down credit use at retirement or constrained access for people without paid employment.

Even after other factors are taken into account, a statistically significant increase is apparent – though a relatively small one (odds of 1.4) – in credit use among those who were divorced, compared with married adults of the same age. Widows, however, did not have increased odds.

As shown above, the attitudes that people had towards credit did not necessarily reflect their use of unsecured credit. Behaviour does not always reflect expressed attitudes, and that is certainly the case with the analysis of credit that was conducted. The regression indicates that the first of the two attitudes tested (*'I prefer to buy things on credit rather than wait and save up'*) is a significant predictor once other things such as age are taken into account. And, as the earlier analysis showed, people who agree strongly that they prefer to buy things on credit are less likely to have unsecured credit than those who only 'tend to agree' with the statement. It is difficult to explain this finding, [10] but one possibility is that such people are re-mortgaging or using secured credit (rather than the unsecured credit analysed in this section) to fund their purchases.

[10]Exploratory analysis has confirmed that the response is not strongly correlated with other questions used in the regression model. It is a result still in need of explanation rather than being the spurious consequence of a link to other variables observed and included in the model.

Table 3.5 Logistic regression predicting the likelihood of having active unsecured credit commitments

Pseudo-R-squared = 0.279

Description	Independent variables	Significance	Odds ratios
Age	Reference: 55–59	0.000	
	50–54	n.s.	1.211
	60–64	n.s.	0.827
	65–69	0.032	0.663*
	70–74	n.s.	0.691
	75–79	0.001	0.398**
	80–84	0.001	0.318**
	85+	0.013	0.212*
Nation	Reference: England	n.s.	
	Wales	n.s.	1.010
	Scotland	n.s.	0.783
	Northern Ireland	n.s.	1.063
Tenure	Reference: mortgage	0.000	
	Private rent	0.008	0.491**
	Social rent	0.002	0.595**
	Other	0.027	0.346*
	Own home outright	0.000	0.397**
Marital status	Reference: married	0.010	
	Single	0.070	0.680
	Widowed	n.s.	0.830
	Divorced	0.036	1.415*
	Separated	n.s.	1.555
'I prefer to buy things on credit rather than wait and save up'			
	Reference: agree strongly	0.000	
	Tend to agree	0.006	2.266**
	Tend to disagree	n.s.	1.064
	Disagree strongly	0.013	0.502*
Income	Reference: 4th quintile	n.s.	
	Lowest-income quintile	n.s.	0.969
	2nd	n.s.	0.981
	3rd	n.s.	1.190
	Highest-income quintile	n.s.	1.033
Number of earners	Reference is no. of earners	0.017	
	One earner	0.007	1.504**
	Two earners	0.024	1.569*
Constant		0.930	1.031

Source: BBSFC

*Statistically significant (less than 0.05)

**Highly statistically significant (less than 0.01)

4 Home ownership, mortgage and housing costs

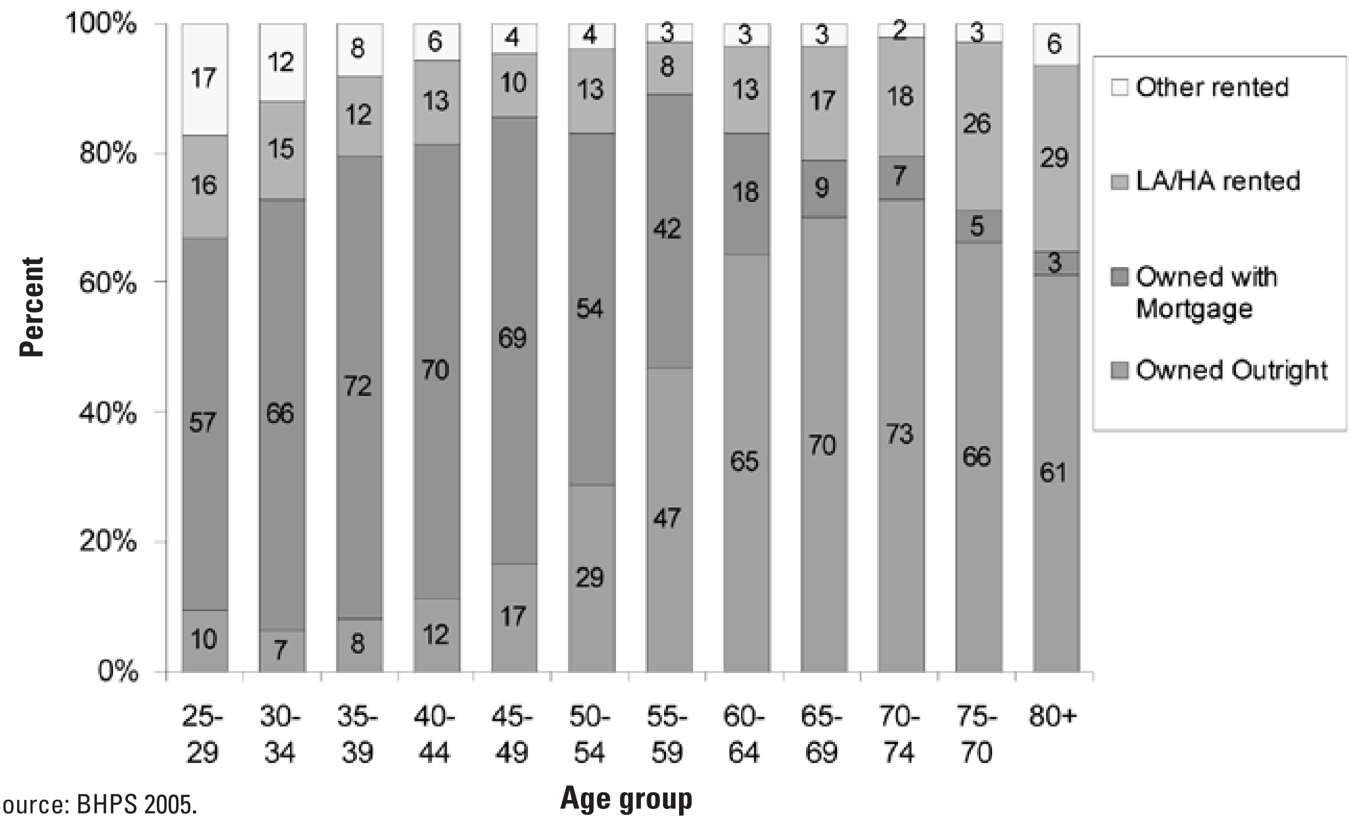
Rates of home ownership and mortgage-holding vary considerably across different age groups. Since it is increasingly possible to raise finance with loans secured on property, this implies that the potential to use secured credit is also related to age, and differentially available to different groups. This section considers rates of home ownership and mortgage-holding among different age groups, and also the ease or difficulty with which housing costs are being met.

4.1 Home ownership and mortgage-holding

Figure 4.1 shows that home ownership is most common among people aged 45–59. It increases from a relatively high base among the youngest home-owners, peaks in the late 50s, and thereafter declines with age from about 60 onwards. People aged 70 or older have lower rates of home ownership than those in their 60s, and it is lower still among those aged 80 or more. This pattern is most probably related to the housing markets in which people grew up. Today's oldest age groups were generally raised when access to home ownership was more restricted. At the same time, the lower rate of home ownership at the older end of the spectrum may also reflect some movement into local authority housing as people age.

Among people younger than 55, the proportion paying off a mortgage is greater (or much greater) than the number who own their home outright. This balance turns around quite sharply among those in their late 50s and early 60s – so that the vast majority of home-owners aged 60 or above owned their homes outright. The expectation has generally been that people pay off mortgages before they cease work. Even so, there was a

Figure 4.1 Housing tenure and age



Source: BHPS 2005.

small proportion of people in their 70s and 80s who still had mortgages. This may reflect the presence of others in the household who were still in work – since the number of people with equity release products would be less than these figures.

Close to one-third (29 per cent) of those aged 80 or older were living in social housing, as were more than one-quarter (26 per cent) of those aged 75–79. As Hills (2007) has recently documented, social housing is increasingly concentrated among poorer people, living in more deprived areas, often with the greatest dissatisfaction with the local areas. It is probable that this high proportion of social tenants at older ages will reduce somewhat, as younger people will have had a greater incidence of home ownership.

Private tenants (paying rent to a private or commercial landlord) tended to be found among younger groups, particularly those aged 25–29 (17 per cent). This is a notable shift from the early 1980s when there was a larger proportion of older people with long-term, protected private tenancies. The shift to shorthold tenancies has led to a higher proportion of private tenancies being held by young people.

Figure 4.2 shows the proportion of people living in houses where someone owns a second home – representing about one person in ten overall. The pattern across the age groups is similar to that for home ownership generally. Second home ownership is least common among people aged 75 or older, while peak rates appear to be among those just below state pension age. Indeed, for some people owning additional property may represent a particular form of retirement provision, especially where access to occupational pensions and trust in personal pensions is low.

Also considered is the value of houses, as perceived by respondents. The median prices quoted people aged between 40 and 74 were remarkably similar – between £190,000 and £200,000. As might be expected, younger people owned lower-value homes, but so, too, did people aged 75 or older. People aged over 80, for example, quoted a median price of just £150,000 (see figure 4.3).

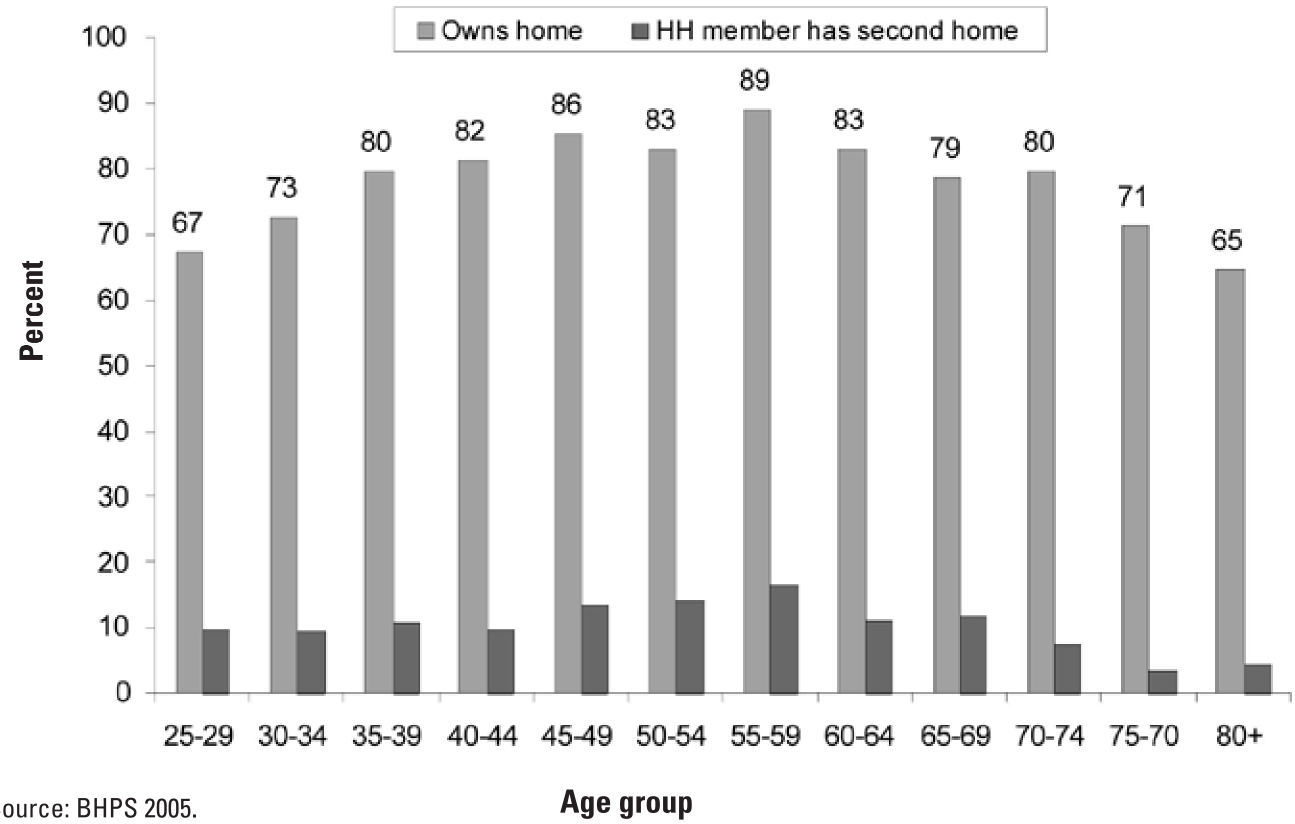
The relative constancy of house values across the age distribution (except for the youngest and oldest people) contrasts with the amounts of outstanding mortgages left to pay. Younger home buyers typically owed more on their mortgages than older respondents. Average figures are shown in figure 4.4. As noted above, the majority of older home-owners had paid off their mortgages. Even so, among mortgagors aged 55–59 the average amounts outstanding were still quite substantial, and for some the burden of a mortgage had clearly continued into retirement. Whether this creates any financial difficulties is considered in section 5.3.

4.2 Characteristics of older mortgage-holders

As shown above, the proportion of home-owners with a mortgage decreases steeply with age among the over 50s: from 70 per cent of the 50- to 54-year-old home-owners, to 4 per cent of the 80- to 84-year-olds owning a home. A slightly higher proportion of home-owners aged 85 and over had a mortgage but the numbers should be treated with caution as there are so few home-owners of this age.

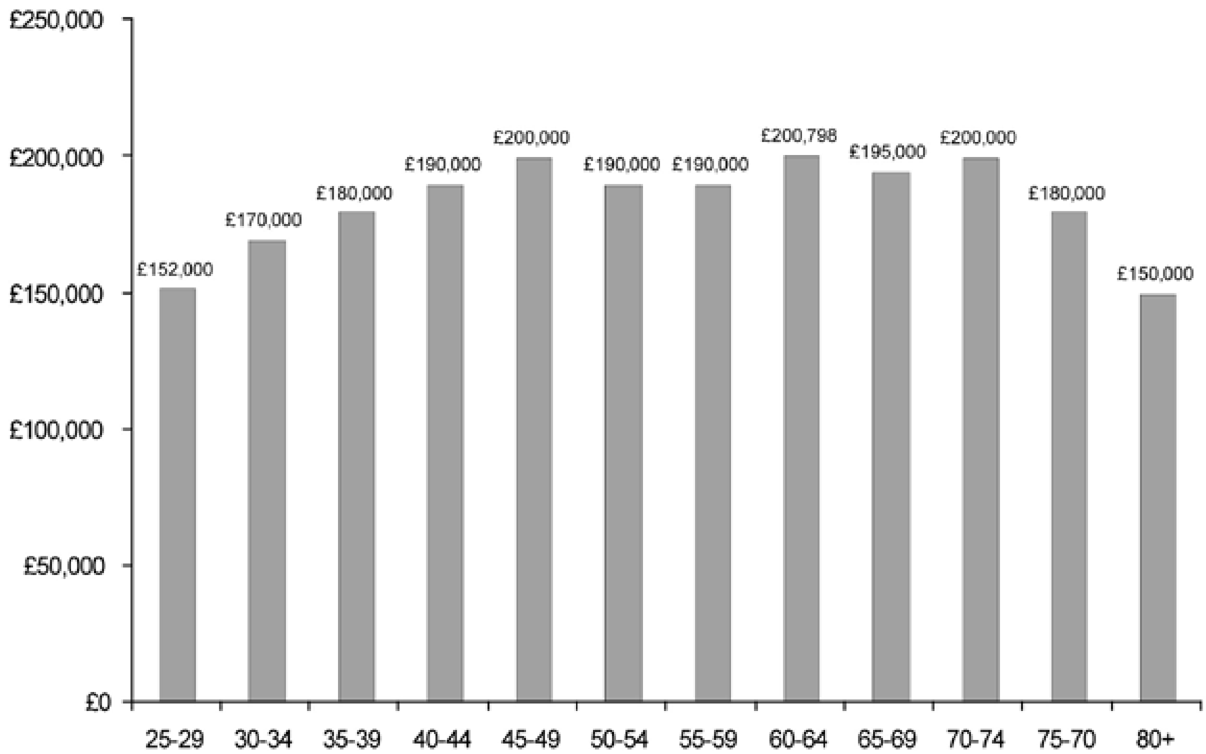
For people aged 50 and over, there was a clear link between income and mortgage-holding: the higher their household income, the more likely people were to hold a mortgage (table 4.1). The differences were in fact quite stark. Only about 1 in 10 people in the lowest income quintile held a mortgage, compared with half of those in the highest income quintile. Focusing on a slightly older age group – those aged 60 and over – the same proportion of people in the lowest three quintiles had a mortgage (7 per cent), but almost four times as many people in the highest quintile still had a mortgage (27 per cent) (table 4.1).

Figure 4.2 Housing tenure and second homes, and age



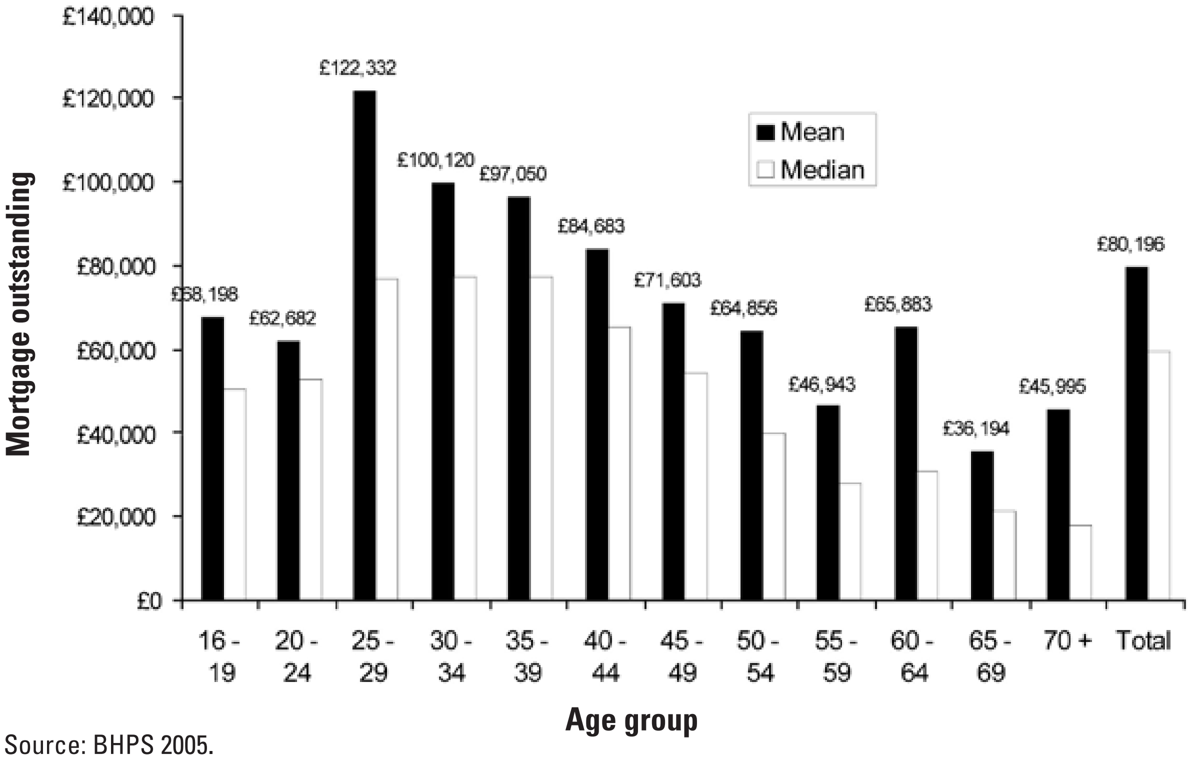
Source: BHPS 2005.

Figure 4.3 Median house values among home-owners, by age



Source: BHPS 2005.

Figure 4.4 Median house values among home-owners



Source: BHPS 2005.

Table 4.1 Quintiles of household income by whether respondent holds a mortgage (either in own name or jointly) (percentages)

Income quintile	Mortgage-holder aged 50+ (%)	*Base (weighted)*	Mortgage-holder aged 60+ (%)	*Base (weighted)*
1 (lowest)	9	*538*	7	*391*
2	10	*616*	7	*495*
3	17	*491*	7	*320*
4	33	*358*	12	*174*
5 (highest)	52	*314*	27	*103*
All	21	*2,317*	9	*1,483*

Source: BSFC 2005.

At the same time, it would appear that, relatively speaking, more of those in the top 40 per cent of household incomes were home-owners who had paid off their mortgage while those on lower incomes included a larger proportion of tenants.

As with unsecured credit, there was a clear link between work status and mortgage-holding. While half (47 per cent) of those aged 50 and above who were still in work had a mortgage, this fell to 1 in 10 (9 per cent) of people who had retired. The small number of people who were not working but not retired (unemployed people and those under retirement age who were unable to work through ill-health or disability) had slightly higher rates of mortgage-holding (20 per cent).

The more earners there were in a household the greater the likelihood of having a mortgage (table 4.2). So 55 per cent of older households with two earners had a mortgage, dropping to 36 per cent of those with a single worker and to just 9 per cent of those with no one in paid employment. The same pattern was apparent among people aged 60 or over, but the level of mortgage-holding was generally lower for people living in households with one or more earners.

Turning now to marital status, 1 in 4 (25 per cent) of people aged 50 or over who were either married or divorced held a mortgage (Table 4.3). In contrast, only about 1 in 20 (5 per cent) of those who were widowed had one – quite possibly because it had been settled with an insurance claim. While the proportion of mortgage holders was generally lower among people aged 60 and over, divorced people were still the ones most likely to have a mortgage, and widows least the likely.

Table 4.2 Work status and number of earners, by whether respondent holds a mortgage either in own name or jointly (percentages) (percentages)

Income quintile	Mortgage-holder aged 50+ (%)	*Base (weighted)*	Mortgage-holder aged 60+ (%)	*Base (weighted)*
Employed	47	*714*	27	*191*
Retired	9	*1,273*	8	*1,181*
Other inactive	20	*332*	10	*111*
2 earners	9	*1,438*	7	*1,200*
1 earner	36	*523*	19	*215*
0 earners	55	*356*	38	*69*
All	21	*2,317*	9	*1,483*

Source: BSFC 2005.

Table 4.3 Marital status and family circumstances, by whether respondent holds a mortgage either in own name or jointly (50 and over only) (percentages)

Marital status	Mortgage-holder aged 50+ (%)	*Base weighted*	Mortgage-holder aged 60+ (%)	*Base (weighted)*
Single (never married)	18	*176*	8	*87*
Married	25	*1348*	11	*810*
Widowed	5	*470*	4	*430*
Divorced/separated	25	*325*	14	*160*
Single adult	12	*751*	7	*565*
Couple no children	22	*1,008*	12	*710*
Lone parent	25	*469*	-	*17*
Couple with children	53	*284*	-	*23*
Other*	-	*40*	13	*171*
All	21	*2,317*	9	*1,487*

Source: BSFC 2005.
- numbers too small for analysis
*mainly households with non-dependent children

Among the over-50s, couples with dependent children had by far the highest level of mortgage-holding (table 4.3) and single-person households the lowest. Among people aged 60 or above there were very few families with children – too few for reliable analysis. In this instance it is apparent that single person households had the lowest incidence of mortgage-holding – less than half the rate among couples and households with non-dependent children.

There was also a strong link between having a mortgage and unsecured borrowing. Among both people aged 50 and over and the older age group (60 and over) credit users were three times as likely to have a mortgage as non-users.

Mortgage-holding was also associated with positive attitudes to unsecured borrowing. People aged 50 and over who agreed that they would rather buy things on credit than save up were more likely to have a mortgage than those who disagreed with the statement.[11] In fact, those who strongly agreed were about twice as likely to be mortgage-holders as those who strongly disagreed (table 4.3). Again, the same pattern was found among people aged 60 and over (table 4.3).

4.3 Equity release

Home-owners may be able to access the value of housing equity through a range of equity release mechanisms (as well as through equity withdrawal in various ways). In the 2002–3 ELSA study, respondents (who owned their homes) were asked if they had '*ever raised any income or capital from the value of your current home*' through any of a range of methods:

- a home income or mortgage annuity plan
- a home reversion scheme

[11] Also considered were the variations in mortgage-holding by responses to the attitude statement '*I would rather cut back than put everyday spending on a credit card I couldn't repay in full each month*', but as few people over 60 disagreed the findings are hard to interpret and are not reported here.

Table 4.4 Proportions of older respondents with a mortgage, by attitude: '*I prefer to buy things on credit rather than wait and save up*' (50 and over only) (percentages)

Response	Mortgage-holder aged 50+ (%)	*Base (weighted)*	Mortgage-holder aged 60+ (%)	*Base (weighted)*
Strongly agree	28	*292*	16	*45*
Tend to agree	36	*572*	17	*139*
Tend to disagree	27	*1,363*	11	*318*
Strongly disagree	14	*91*	7	*977*
All	21	*2,318*	9	*1483*

Source: BSFC 2005.

- a home income or mortgage annuity plan
- a home reversion scheme
- a private arrangement (for example, with a relative) or
- in some other way.

Some 8,820 respondents were asked this question, but only a very small number of them (67) said that they had used any of these equity release mechanisms (0.7 per cent, when properly weighted). This is far too few for any further analysis, and indicates the current rarity of such arrangements.

4.4 Key drivers of mortgage-holding

As for unsecured borrowing (section 3.7), a regression analysis was carried out to identify the key factors that predict mortgage-holding (table 4.5). This shows that there are, in fact, three main factors: age, unsecured credit use and the number of earners in a household.

Age was highly significant statistically, with the odds of having a mortgage reducing markedly with increasing age – but with steep falls at 60 and again at 70.

Unsecured credit use increased the odds of someone also having an outstanding mortgage by two and half. But, as noted above, the explanation for this is not clear.

Having a wage coming into the household also increased the odds of someone having a mortgage, compared to those who were fully retired or not working for some other reason. Even having a single earner almost doubled the odds, while having two earners increased the odds by two a and a half. The effect of income (which is itself highly correlated with the number of earners) was more complex. It was statistically significant, but when the number of earners was taken into account only people in the lowest income quintile had reduced odds of having a mortgage.

Table 4.5 Logistic regression predicting the likelihood of having a mortgage

Pseudo-R-squared = 0.337

Description	Independent variables	Significance	Odds ratios
Age	Reference: 50–54	0.000	
	55–59	0.005	0.650**
	60–64	0.000	0.306**
	65–69	0.000	0.354**
	70–74	0.000	0.150**
	75–79	0.000	0.192**
	80–84	0.000	0.125**
	85+	0.044	0.327*
Nation	Reference: England	0.707	
	Wales	0.808	1.048
	Scotland	0.724	1.072
	Northern Ireland	0.246	1.282
Credit use	User (reference is non-user)	0.000	2.459**
marital status	Reference: married	0.149	
	Single	0.150	0.714
	Widowed	0.032	0.617*
	Divorced	0.365	0.847
	Separated	0.264	0.623
Income	Reference: 4th quintile	0.000	**
	Lowest-income quintile	0.005	0.538**
	2nd	0.122	0.741
	3rd	0.021	0.654*
	Highest-income quintile	0.065	1.410
Number of earners	Reference is no. of earners	0.000	
	One earner	0.000	1.849**
	Two earners	0.000	2.344**
Constant		0.000	0.451

Source: BSFC.

*Statistically significant (less than 0.05)

**Highly statistically significant (less than 0.01)

5 Levels of financial difficulty

At the time of retirement most people find that their incomes fall, which should put them at greater risk of getting into financial difficulty. Indeed, Balchin and Soule (2005) reported that 56 per cent of retired people said that they were worse off financially than they had been in the years before retirement and 38 per cent said that they were worse off than they had expected to be. At the same time a minority reported an improvement in their financial position: 14 per cent said they were better off than they had been before retirement and even more, 17 per cent, said that they were better off than they had expected. The report of the Baseline Survey of Financial Capability notes that 1 in 5 (21 per cent) of people who were over retirement age said that their current income was not sufficient to give them the standard of living they had hoped to have in retirement (Atkinson et al, 2006).

But although older people often have lower incomes than younger people, they often appear to have a higher standard of living. Patsios (2000) found that rates of poverty (measured as low incomes) were high among people over state pension age, and especially the very elderly, but deprivation (as measured by a range of indicators) tended to be low.

Three linked studies were commissioned by the Department for Work and Pensions to consider this point in more detail. One study showed that the strength of the relationship between income age and deprivation was highly sensitive to both the questions asked and the way that they were combined in an index (Berthoud et al, 2006). Using longitudinal data, two seemingly counter-balancing processes were identified:

- a cohort effect (with people born in an earlier generation having lower expectations with regard to the sort of things captured by indicators); and
- a detrimental ageing effect (with ageing restricting people's activities so that they find it more difficult to afford the items included in the deprivation indicator 0).

The second of these studies investigated expenditure patterns among older people and found a clear ageing effect in the proportion of their income that they spent (Finch and Kemp, 2006). The observed decline in spending with age reflected an interrelated set of factors associated with increasing frailty and declining mobility.

The third study, which was qualitative, found that the great majority of people in receipt of a state pension were extremely careful money managers who monitored their expenditure meticulously (Dominy and Kempson, 2006). This was driven by four factors: an adjustment to living on a lower fixed income; concerns about using commercial credit; fears about being unable to pay bills or meet other household commitments, and a desire not to run down savings. Only a small number were not managing their finances well and these were all people who had always been poor money managers and seemed unable or unwilling to change their behaviour when they retired.

Current research indicates that there are considerable generational differences in attitudes both to borrowing and to ensuring creditors can be repaid (Finney et al, forthcoming). This shows that older people were more cautious in their use of credit, tended to cut back its use following retirement, and took steps to ensure they would not get into financial difficulty.

This mirrors research that was carried out as early as 1992, in which Berthoud and Kempson noted that '*pensioners were very rarely in arrears, even though the great majority of them have a standard of living below the national average*'. They went on to note: '*We have also seen that older people adopt attitudes against borrowing and place a high priority on payments. All of these factors would reduce retired people's propensity to borrow, or to fall behind with their household commitments.*'

5.1 Ability to make ends meet

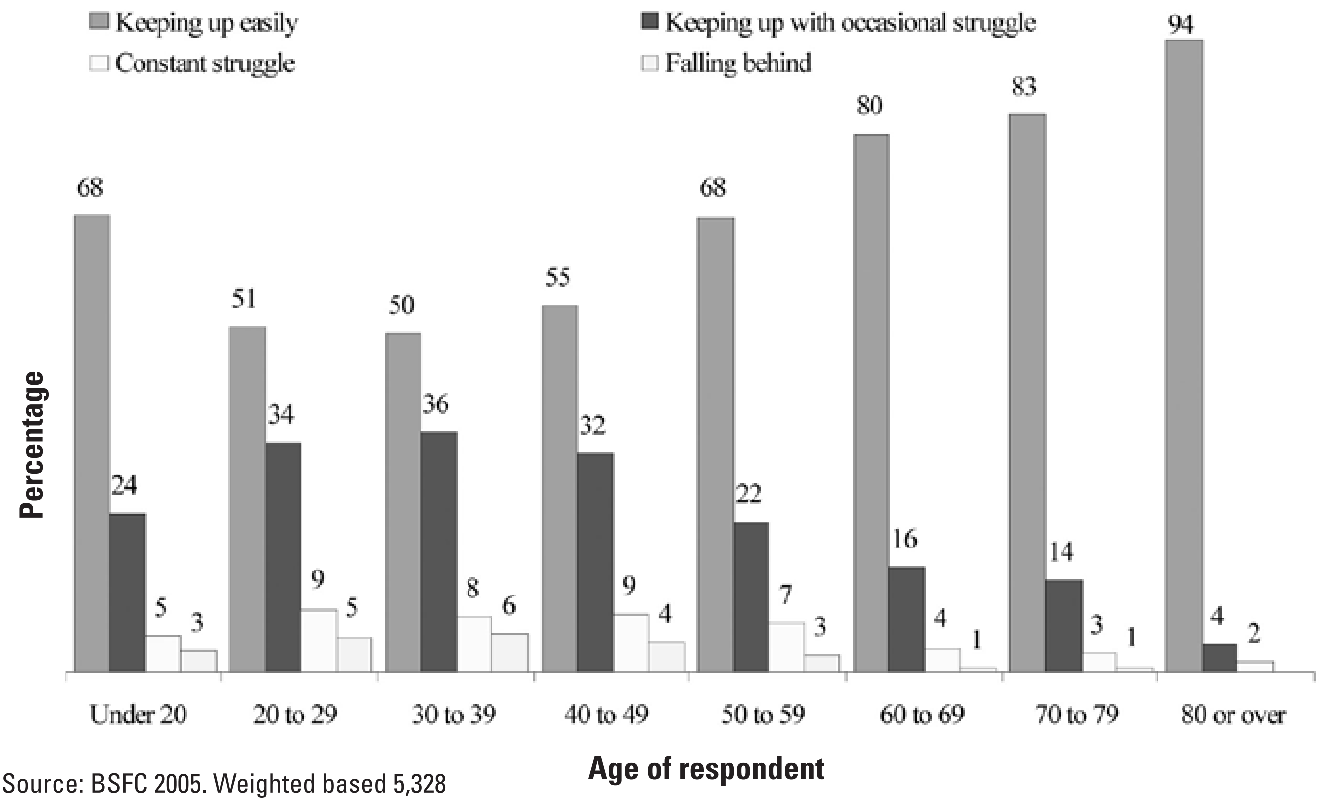
The BSFC includes some subjective measures of how well people feel they are keeping up with bills and credit commitments can be used as an indicator of the financial pressure they are under. Overall, 26 per cent of the UK adult population said that they struggled from time to time; 6 per cent said it was a constant struggle, and a further 3 per cent that they had fallen into arrears.

Analysis of the BSFC data indicates that, compared with their younger counterparts, older people were more likely than average to say that they were keeping up with all bills and commitments without difficulty, and less likely to say they were struggling or falling behind (see figure 5.1). Even so, a small minority (about 1 in 20) of people aged in their 60s, 70s or over 80 admitted to either struggling constantly to keep up with their commitments or to having fallen into arrears – about half the overall average.

The same survey also asked respondents whether they had found themselves in financial difficulties in the past five years. Overall, 15 per cent of the UK population said that they had. Once again, the proportion was highest among young people and declined with age to just 2 per cent of people aged in their 60s (figure 5.2). However, the percentage rose quite markedly to 6 per cent among people in their 70s, perhaps indicating the impact of the reduction of income at the time of retirement. It should be remembered that they were reporting on the previous five years, during which time many of them would have retired from paid work.

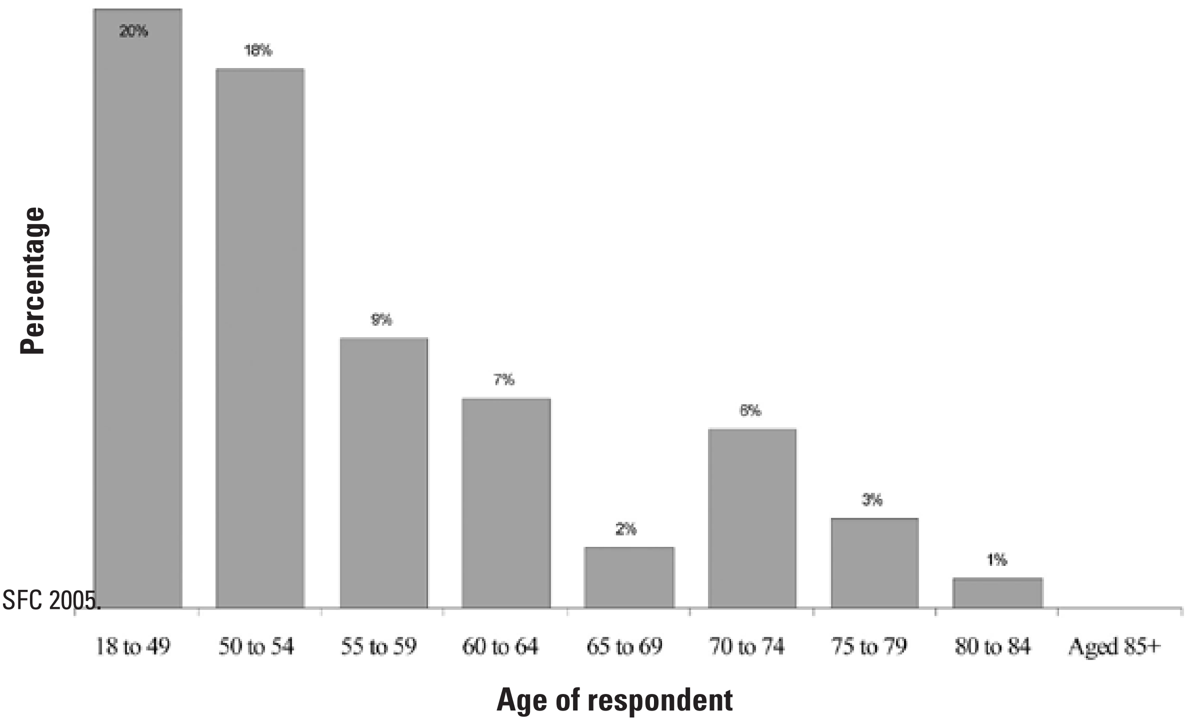
The BSFC also asked a number of questions about overdrafts on current accounts belonging to respondents and their partners. This data has been combined with a subjective question about the frequency with which people found themselves overdrawn. (In some cases people were overdrawn at the time of the interview but did not give a response to the frequency question: these are in the third column of figure 5.3).

Figure 5.1 How well keeping up with commitments, including mortgage, by age



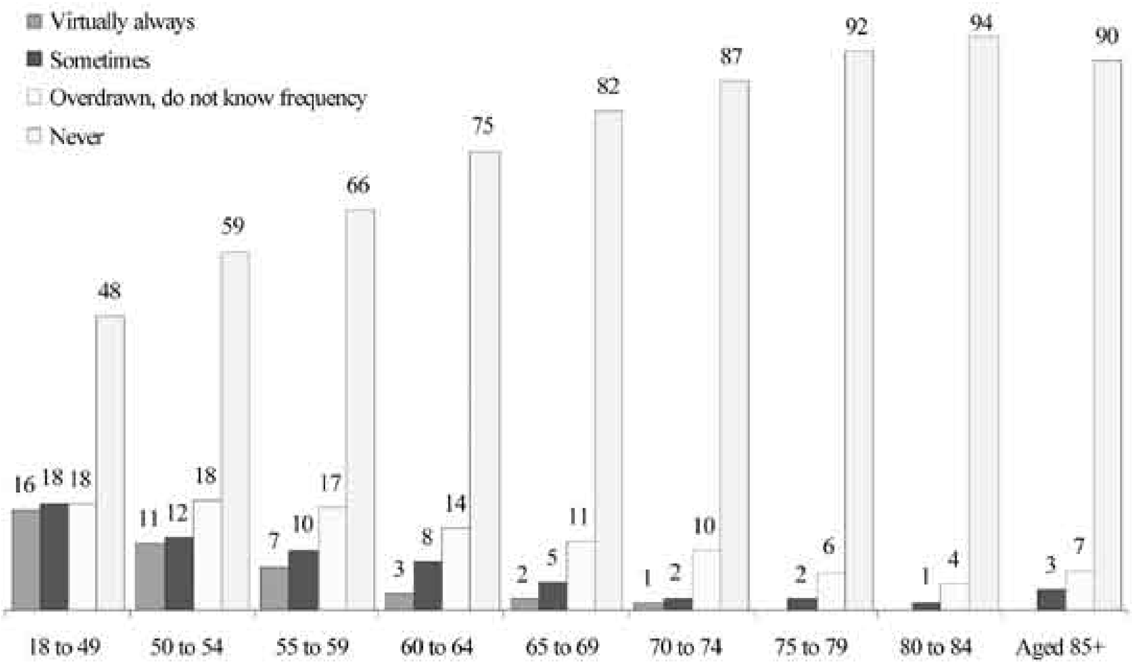
Source: BSFC 2005. Weighted based 5,328

Figure 5.2 Whether respondent in financial difficulties in last five years, by age



Source: BSFC 2005.

Figure 5.3 How regularly respondent overdrawn on current account, of those with an account, by age



Source: BSFC 2005. Base = 4,754 (people with a current account

The majority of people with a current account (61 per cent) were never overdrawn: this proportion increased with age, up to the age of 75, and then levelled out at over 90 per cent. People aged under 49 were the most likely to report either that they were virtually always overdrawn or that they sometimes were. Both responses were very rare among people aged over 70.

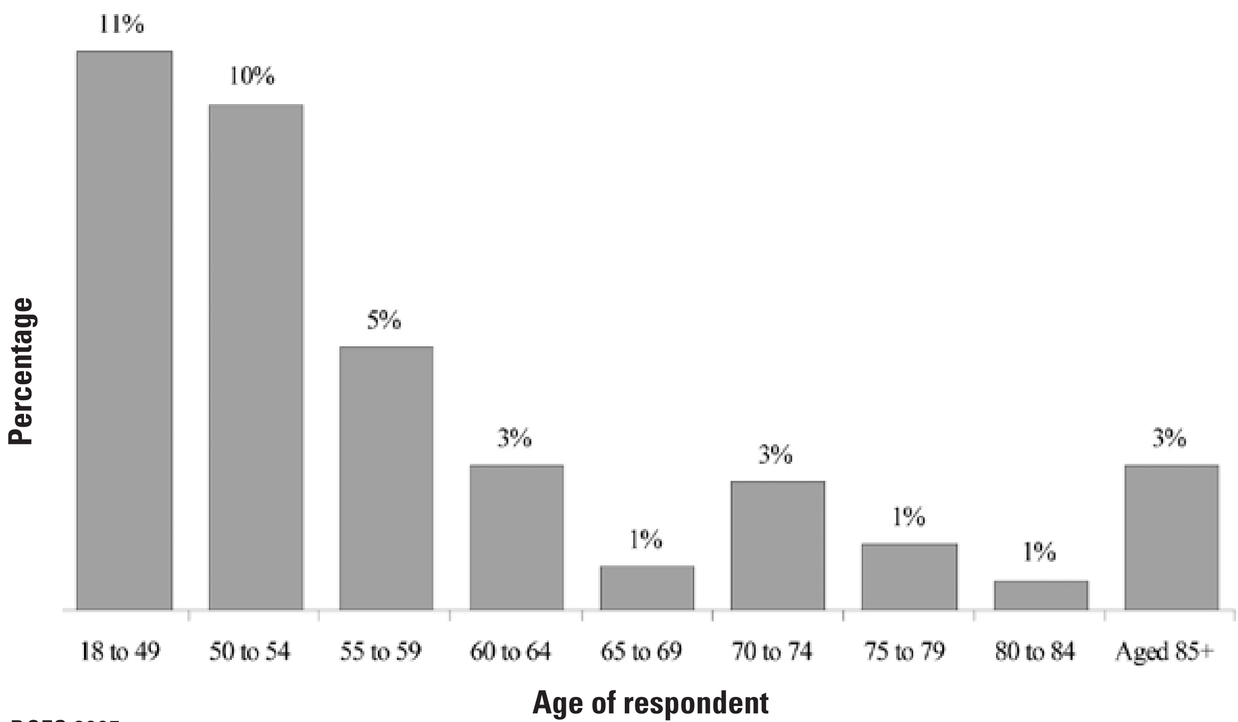
Another potential indicator of financial difficulty is the extent to which people use credit facilities to meet basic needs. Using the BSFC data a variable was created to identify people who had used their credit card to pay for basic items such as food or bills at least six times a year, without settling the account in full at the end of the month. Again, this practice was most common among people aged under 50 and declined steeply with age, up to the age of 69. Only 1 per cent of people aged in their 60s had used a credit card in this way, but the proportion then appeared to increase slightly among those in their 70s.

The findings include the prevalence with which people showed at least one of the three signs of being in financial difficulty that have just been discussed: that is, people who:

- were using their credit card for essentials
- said they were virtually always overdrawn, or
- said they were constantly struggling or falling behind.

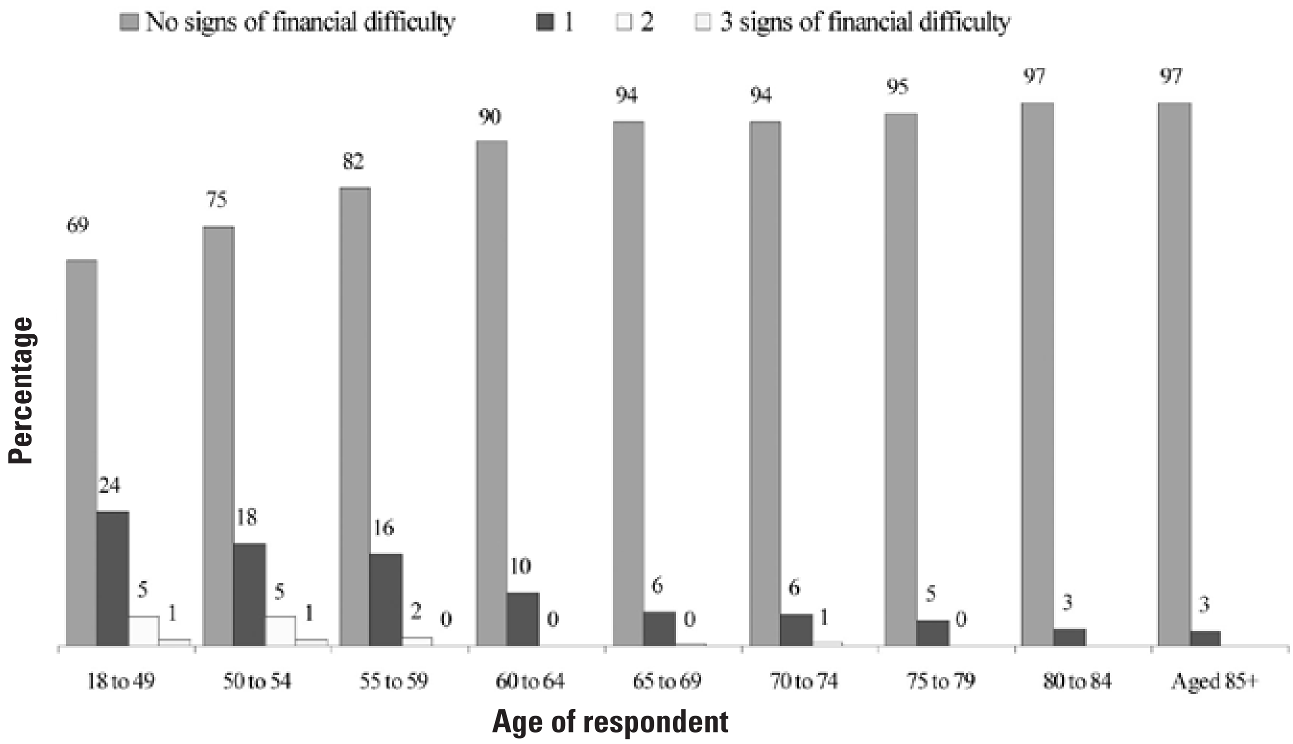
In all, almost a quarter (23 per cent) of the UK adult population showed at least one of these signs. The proportion in different age groups is summarised in figure 5.5. While financial difficulty on this composite measure decreased with age, a very small minority of even the very oldest age groups (3 per cent) were exhibiting some signs of financial strain.

Figure 5.4 Proportion who had used their credit card to pay for basic items at least six times a year, by age



Source: BSFC 2005.

Figure 5.5 Proportions showing financial difficulty in more than one way, by age



Source: BSFC 2005.

5.1.1 Links between people's ability to make ends meet and unsecured credit use

Respondents – of all ages – with some form of credit tended to rate their financial situation as worse than those without any active credit. For figure 5.6 people with outstanding borrowing were divided into three groups of roughly equal size (about 700 respondents) and are described as being people with low, medium or high levels of borrowing.[12]

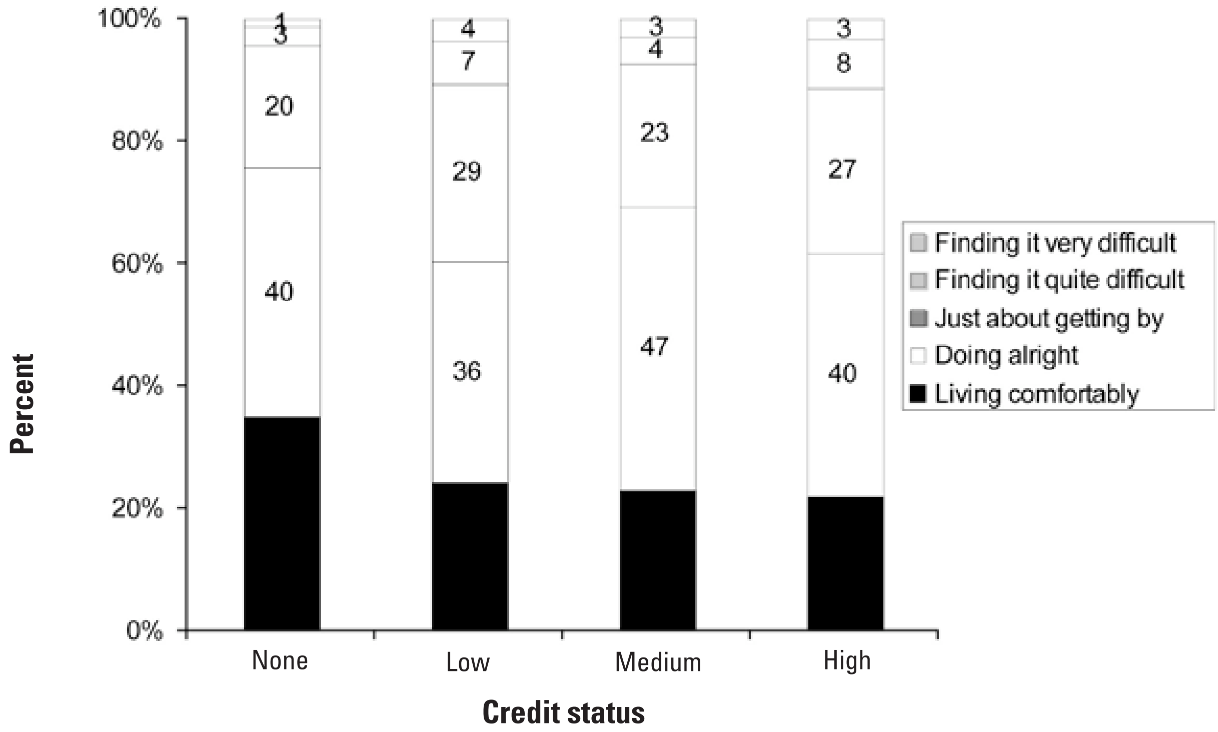
While those with any credit tended to be worse off than those without, there was less of a clear link with the amount of outstanding credit. This may be read in different ways. Even small amounts of credit may be associated with a lower living standard – but there was no evidence of a larger effect as increasing amounts are owed.

5.2 Subjective view of level of borrowing

Chapter 3 showed that high levels of borrowing were rare among older people. Figure 5.7 looks at the extent to which credit users in different age groups considered their level of borrowing to be a burden. As expected, it can be seen that the highest proportion of people who said they had borrowed more than they could afford was among credit users aged under 50, and declined with age. Consequently only 1 per cent of people aged 60 or over felt over-borrowed. The proportion of people who felt that their current level of borrowing was about right also declined with age, with a corresponding increase in the proportion who felt they could afford to borrow more. It is interesting to note, however, that there was then a decrease in the proportion of credit users who were aged 70 or over who said that they could afford to borrow more.

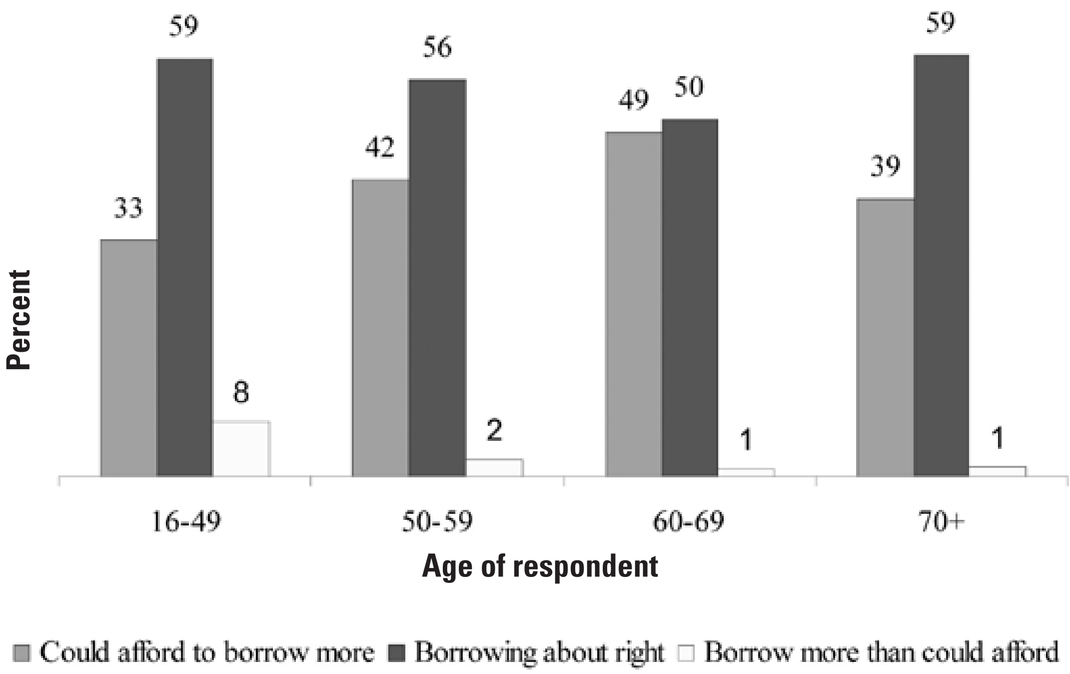
[12]High level of credit begins from £6,000, and medium levels from £1,300.

Figure 5.6 Self-assessed financial situation in 2005: analysis by credit status



Source: BHPS wave 2005.

Figure 5.7 Subjective view of whether over-borrowed, by age of respondent (includes only those who are currently borrowing)



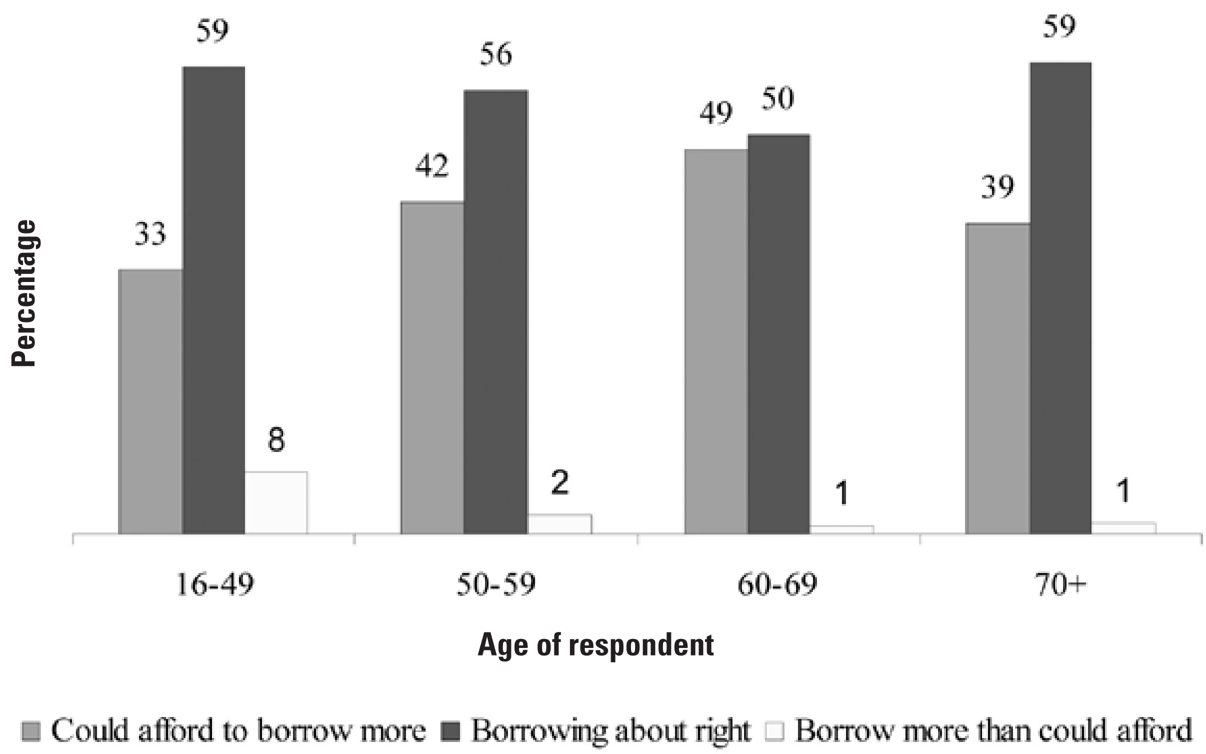
Source: BFSC 2005.

5.3 Subjective view of difficulties meeting housing costs

There were some difficulties paying for accommodation among older people, and particularly if those owning their homes outright are excluded from the picture. The 'normal' picture among older people was that fewer reported difficulties paying for their accommodation at older ages, falling to about 4 per cent for those in their 70s, from about 8 per cent from those in their 50s. This is shown by the lighter bars in figure 5.7.

However, an increasing proportion of older people owned their homes outright at older ages and many had their rent met in full by Housing Benefit. While such a group may have difficulties with particular bills, it is less appropriate to ask about any problems relating to the direct costs of their accommodation. Once these two groups were excluded and attention is focused on those with rent or mortgage to pay, the problems tended to be at least as prominent among those aged in their 60s and 70s as they were among those in their 50s. Difficulties paying for housing – for the decreasing proportion who must meet them – were as significant at older ages as they were among younger people. Indeed, in the age group (65–69) that is likely to have recently retired from work they were more common.

Figure 5.8 ***'In the last 12 months would you say you have had difficulties paying for your accommodation?'*** **– analysis by age group**



Source: BFSC 2005.

5.3.1 Links between difficulties with housing costs and unsecured credit use

People encountering difficulties with meeting housing costs were more likely than average to have some outstanding unsecured credit. Among all borrowers aged 50 or more, 10 per cent were having some difficulties paying their rent or mortgage, compared with half that proportion among people who owed nothing in unsecured credit.

Problems with paying for housing (among those with rent or a mortgage to pay) were clearly exacerbated for respondents who had any outstanding unsecured credit at all ages (figure 5.9), although the impact was especially large among the small number of credit users aged 75 or over. This analysis also provides an explanation of the increase, noted above, in difficulties with housing costs among people aged between 65 and 69. This large increase was also found for users of unsecured credit; with only a small increase among non-users of credit.

5.4 Arrears

Previous research has shown consistently that older people have a low incidence of arrears on their household bills and other commitments. In 1992 a study found that the incidence of arrears fell from 24 per cent among people in their 20s to 6 per cent among those in their 50s and approaching retirement and 5 per cent among those aged in their 60s (Berthoud and Kempson, 1992). There was then a further steep drop to just 1 one per cent of people aged 70 or above.

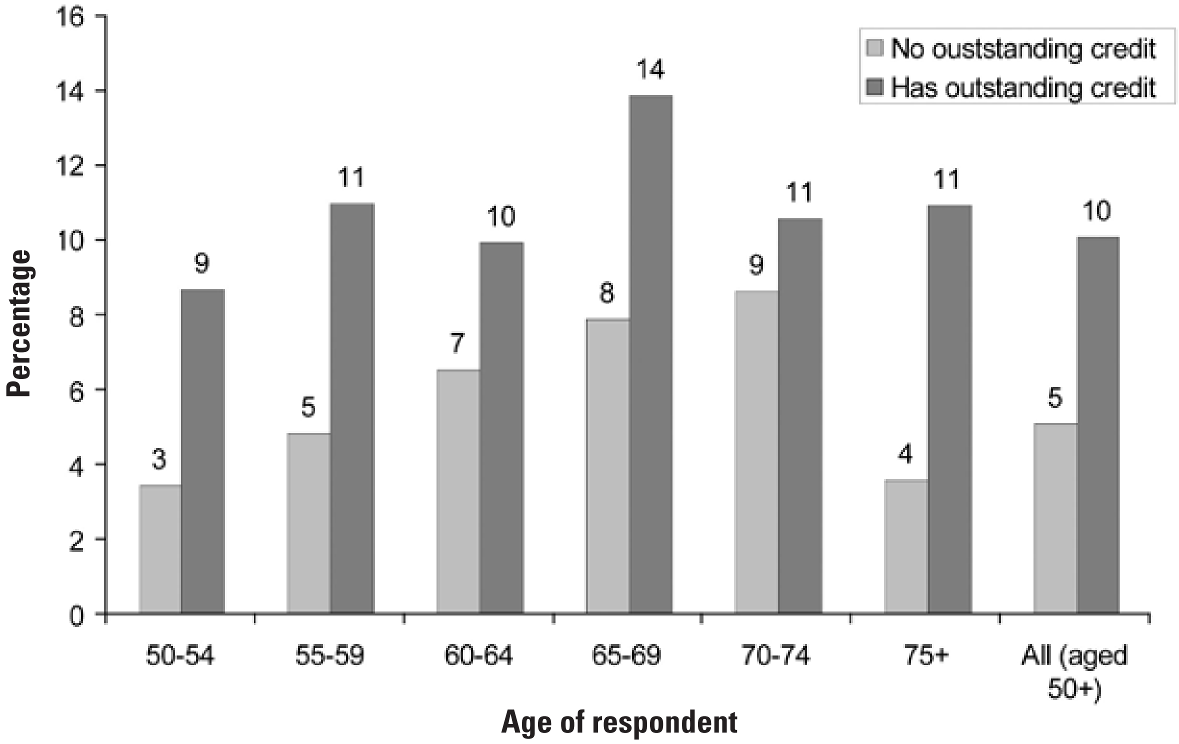
An almost identical study undertaken in 2002 showed that the level of arrears of people in their 20s had risen 6 percentage points, to 30 per cent (Kempson, 2002). The increase was more modest among people in their 50s – 2 percentage points, to 8 per cent, and had stayed about the same among people aged 60 or over, at 3 per cent. Indeed, Kempson et al (2004) found that holding other things constant, people over the age of 60 were only a quarter as likely to have been in arrears in the previous year as adults in their 20s.

At least part of the explanation for the variations in levels of arrears across the age groups seems to be related to differences in attitudes to paying bills. The 1992 study found that the level of priority given to paying bills and other commitments on time increased steadily across the age groups. The incidence of arrears was strongly related to the level of priority given (Berthoud and Kempson, 1992). A subsequent study of arrears on water bills confirmed the link between arrears and attitudes to bill payment, and in multivariate analysis found that both age and attitudes to bill payment had independent effects on the odds of being in arrears (Herbert and Kempson,1995). Moreover, including attitudes in the analysis reduced the effect of age – suggesting that the higher priority given by older people to paying their bills partially explains their lower incidence of arrears. But age itself is still important, possibly indicating lower demands on the household budget or, alternatively, a greater willingness to cut back in order to make ends meet.

Although levels of arrears on credit or household commitments are really quite low among older people, money advice agencies report that there has been an increase in the number of people aged over 50 consulting them for advice and assistance. For a number of years the Consumer Credit Counselling Service (CCCS) has been reporting a growing number of people aged over 50 seeking advice and assistance on problems of arrears. For example, the proportion of CCCS clients who were aged over 50 increased from 14 per cent in 1998–9 to 17 per cent in 2002–3. Over the same time period, the ratio of total borrowing to monthly income had increased from 16.74 to 20.37 for clients in their 50s and from 16.74 to 19.90 for those aged over 60 (CCCS, 2004).

More recent statistics show that there has been a continuing increase in the proportion of older clients. In 2004, 5.0 per cent of CCCS clients were aged over 60, rising to 5.4 per cent in 2005 and 7.8 per cent in 2006. Similar increases were also found among those approaching the age of retirement. In 2004, 35.6 per cent of clients were

Figure 5.9 ***'In the last 12 months would you say you have had difficulties paying for your accommodation?'* – analysis by age group and credit status**



Source: ELSA 2002–3. Base is those with an outstanding mortgage to pay, or rent that is not covered in full by Housing Benefit.

Table 5.1 **Number of arrears, by age (percetages)**

Number of arrears	Under 50	Age 50–54	55–59	60–64	65–69	70–74	75–79	80+	Total
No arrears	80	93	92	93	96	95	99	97	88
One	11	5	3	6	2	3	1	2	7
Two	5	0	2	1	1	1	0	1	3
Three	2	1	2	0	1	1	0	0	1
Four	1	1	0	0	0	0	0	0	1
Five+	2	0	1	0	0	0	0	0	1
Base (weighted)	*842*	*120*	*138*	*121*	*115*	*125*	*89*	*97*	*1647*

Source: DTI 2002.

aged between 40 and 59; by 2006, the proportion had risen to 41.3 per cent (CCCS 2007).

The sums of money owed by older clients of the CCCS also increased considerably up to 2005, but fell back slightly in 2006. In 2004, clients aged over 60 owed an average of £26,965 to their creditors – an increase of 4.9 per cent from the previous year. In 2005 the amount owed had grown a further 24.5 per cent to £33,568 but fell to £31,867 in 2006 (CCCS 2007). A similar pattern was also observed among clients aged between 40 and 59, for whom the average amounts owed increased from £29,908 in 2004, to £34,456 in 2005, but declined to £32,846 in 2006.

The CCCS report also shows that older people were more likely than average to be recommended to file for bankruptcy. Although people aged 60 or over comprised 7.1 per cent of clients in 2006, they accounted for 11.4 per cent of those advised to file for bankruptcy. Similarly, CCCS reports that 9.1 per cent of its clients were aged between 53 and 59, but people of this age represented 12.8 per cent of the clients to whom it had recommended bankruptcy (CCCS 2007).

5.4.1 Levels of arrears

Using the DTI data it is possible to look at the extent to which older people are currently in arrears with any credit or household commitments. Table 5.1 confirms the earlier research showing that the incidence declines with age. It also shows that the severity of arrears also declined and that very few people aged 60 and over had fallen into arrears with more than one commitment.

5.4.2 Types of arrears

For analytical purposes financial difficulties have been categorised into two groups: consumer credit arrears and household bill arrears (being behind in household bills such as rent, electricity etc.). This shows that it was extraordinarily rare for older people to have arrears on both credit and household bills (Table 0.2). People over 65, in particular, either had consumer credit or household arrears, but (almost) never both.

A second feature of these results is that arrears on credit commitments appear to fall more steeply with age than did arrears on household bills. Section 3.1 showed that older people are less likely than younger people to have unsecured credit commitments. In contrast, at least some household bills are universal across all age groups. As a consequence, if people aged 65 or above were in arrears with anything, it was likely to be a household bill rather than an unsecured credit commitment (table 5.2).

Looking at the different types of unsecured credit separately, it seems that none were a particular problem for those aged 60 and over (table 5.3). There are some tentative signs that paying off overdrafts was causing a problem at around the time of retirement and arrears on credit card payments were affecting a minority of people in the run-up to retirement.

In respect of household bills (including rent and mortgage) it appears that if older people are in arrears at all it tends to be on utility bills – gas, electricity and water It is worth noting that the data analysed was collected prior to the significant rises in gas and electricity bills during 2006. More recent research shows that these price increases had a disproportionate effect on people aged over 60, especially if they lived on a low income (Kempson and Atkinson , 2006). Levels of Council Tax have also risen over this period. Another recent study has shown that a quarter of people aged over 65 said that they found it difficult to pay the Council Tax and that they had had to cut back spending on essentials, borrow or get behind with other commitments in order to do so (Talbot, 2007).

[13]It should be noted that people aged 60 and over are entitled to Winter Fuel Payments from the government of up to £200 (or up to £300 if aged 80+). These are to help with the payment of household heating bills, and so it is to be expected that fuel bills are less of a problem for people in receipt of these benefits than they would otherwise be.

Table 5.2 Extent of consumer credit and household arrears, by age

Age	Consumer credit arrears only (%)	Household bill arrears only (%)	Both consumer credit and household bill arrears (%)	Neither consumer credit nor household bill arrears (%)	*Base (weighted)*
16–49	6	10	4	80	*842*
50–54	3	3	1	93	*120*
55–59	2	5	1	92	*138*
60–64	3	3	1	93	*121*
65–69	1	3	0	96	*115*
70–74	0	5	0	95	*125*
75–79	1	0	0	99	*89*
80+	1	2	0	97	*97*
All	*4*	*6*	*2*	*88*	*1647*
50+	*1*	*3*	*0*	*96*	*805*

Source: DTI 2002.

Table 5.3 Types of consumer credit arrears, by age (percentages)

	Under 50	50–54	55–59	60–64	65–69	70–74	75–79	80+	Total
Overdraft	3	0	0	2	1	0	0	0	2
Credit cards	5	2	2	0	0	0	0	1	3
Store cards	1	0	0	1	0	0	1	0	1
Mail order	2	1	1	0	0	0	0	0	1
Hire purchase	1	0	0	0	0	0	0	0	0
Loans	2	1	0	1	0	0	0	0	1
Base (weighted)	*842*	*120*	*138*	*121*	*115*	*125*	*89*	*96*	*1,646*

Source: DTI 2002.

Table 5.4 Types of household bill arrears, by age (percentages)

	Under 50	50–54	55–59	60–64	65–69	70–74	75–79	80+	Total
Mortgage	1	0	1	0	0	0	0	0	0
Rent	3	1	0	0	0	0	0	0	2
Gas	4	2	3	2	2	2	0	1	3
Electricity	3	1	2	1	0	2	0	1	2
Water	4	2	3	0	2	3	0	1	3
Council Tax	5	3	1	2	1	1	0	0	3
Other bills	4	0	3	0	1	1	0	0	2
Base (weighted)	*842*	*120*	*138*	*121*	*115*	*125*	*89*	*96*	*1,646*

Source: DTI 2002.

5.5 Key drivers of financial difficulties

As in the previous section, regression analysis has been used to aid understanding of the relationship between some of the socio-economic characteristics of older adults and their propensity to face financial difficulties. This was done by looking at models that seek to predict the odds or likelihood of an individual aged 50 or over showing at least one of the three signs of financial difficulty discussed in section 5.1 above.[14] To begin with, the influence of the personal circumstances of people was considered; this shows that the two main predictors were age and housing tenure (table 5.4).

The odds of being in financial difficulty fell steeply with age, so that, for example, people aged 75–79 had one-eighth of the odds of being in financial difficulty compared with people aged 50–55. The effect of mortgage-holding was also considerable. Older mortgagors had three times the odds of financial difficulty compared with outright owners: this may be due to financial pressures when people enter retirement with an outstanding mortgage, or it could indicate that financial strain had prevented them paying off their mortgage earlier.

It is interesting that neither income nor the number of earners in a household were important predictors of the likelihood of older people showing financial difficulty. This confirms the findings of earlier work which found that equivalised income (income per person in the household) was associated with over-indebtedness, but that this was only true of non-pensioner households; pensioner households on low incomes did not show increased levels of arrears or financial difficulties (Kempson, 2002).

Credit use was then added to the model, with some interesting findings (table 5.5, overleaf). First, adding credit use greatly improved the predictive power of the model. Secondly, credit use became the only factor with a high level of statistical significance – and increased the odds of being in financial difficulty 25-fold, compared with a non-credit user. Thirdly, housing tenure ceased to be statistically significant, and the effect of age was much diminished, being restricted to those in their 60s.

[14]This approach, rather than arrears, has been used as the number of older people affected is larger and it is easier to detect the key drivers.

Table 5.5 Logistic regression predicting the likelihood of older people showing at least one sign of financial difficulty excluding credit use (BSFC)

R squared 0.173

	Independent variables	Sig.	Exp(B)
Age	Reference is 50–54	0.000	
	55–59	0.025	0.616*
	60–64	0.001	0.372**
	65–69	0.000	0.228**
	70–74	0.003	0.306**
	75–79	0.001	0.121**
	80–84	0.007	0.059**
	85+	0.067	0.146
Nation	Reference is England	0.140	
	Wales	0.128	0.622
	Scotland	0.078	0.555
	Northern Ireland	0.318	0.720
Tenure	Reference is own home outright	0.000	
	Mortgage	0.000	3.034**
	Private rent	0.133	1.912
	Social rent	0.017	1.919*
Marital status	Reference is married	0.028	
	Single	0.032	0.354*
	Widowed	0.650	1.161
	Divorced	0.219	1.356
	Separated	0.057	2.358
Income	Reference is 4th quintile	0.338	
	Lowest-income quintile	0.604	0.831
	2nd	0.256	1.418
	3rd	0.292	1.353
	Highest-income quintile	0.402	1.265
Number of earners	Reference is no. of earners	0.627	
	One earner	0.765	0.925
	Two earners	0.592	1.182
	Constant	0.000	0.088

Source: BSFC.

*Statistically significant (less than 0.05)

**Highly statistically significant (less than 0.01)

Table 5.6 Logistic regression predicting the likelihood of older people showing at least one sign of financial difficulty including credit use (BSFC)

R squared 0.364			
	Independent variables	**Sig.**	**Exp(B)**
Age	Reference is 50–54	0.045	
	55–59	0.068	0.654
	60–64	0.006	0.433*
	65–69	0.005	0.320*
	70–74	0.053	0.444
	75–79	0.073	0.301
	80–84	0.075	0.148
	85+	0.495	0.464
Nation	Reference is England	0.248	
	Wales	0.114	0.593
	Scotland	0.225	0.650
	Northern Ireland	0.347	0.719
Tenure	Reference is own home outright	0.198	
	Mortgage	0.016	1.831
	Private rent	0.235	1.748
	Social rent	0.163	1.510
Credit use	User (reference is non-user)	0.000	25.874**
Marital status	Reference is married	0.191	
	Single	0.058	0.383
	Widowed	0.536	1.245
	Divorced	0.679	1.117
	Separated	0.247	1.775
Income	Reference is 4th quintile	0.450	
	Lowest-income quintile	0.886	0.947
	2nd	0.152	1.599
	3rd	0.456	1.258
	Highest-income quintile	0.561	1.190
Number of earners	Reference is no. of earners	0.582	
	One earner	0.447	0.812
	Two earners	0.924	1.032
	Constant	0.000	0.011

Source: BSFC.

*Statistically significant (less than 0.05)

**Highly statistically significant (less than 0.01)

6 Changes over time

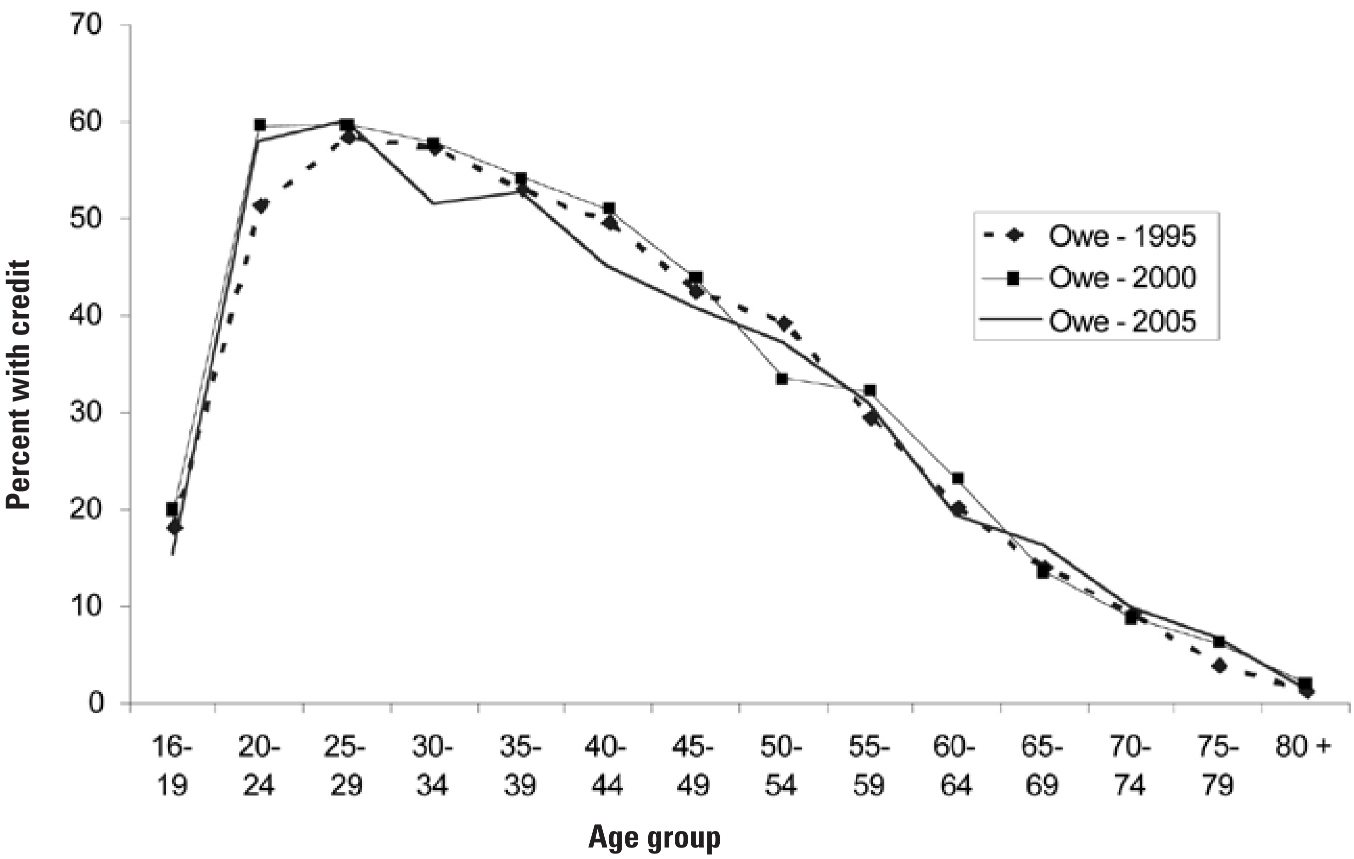
So far this report has looked at snapshots at a particular point in time. In this section BHPS data is used to look at how people's unsecured credit use, mortgage-holding and ability to make ends meet changes over time. This gives an indication both of overall trends, and of how individual people change their behaviour.

6.1 Changes in unsecured credit use

The results shown in figure 6.1 show a remarkably consistent pattern over time, with the three lines in the graph showing credit use in 1995, 2000 and 2005. Over this period, there were few changes in the level of use of credit by people of different ages. The same pattern exists across all three years: the use of credit rapidly rises to reach a peak for those in their 20s, and then falls away with age down to close to zero for those aged 80 or more.

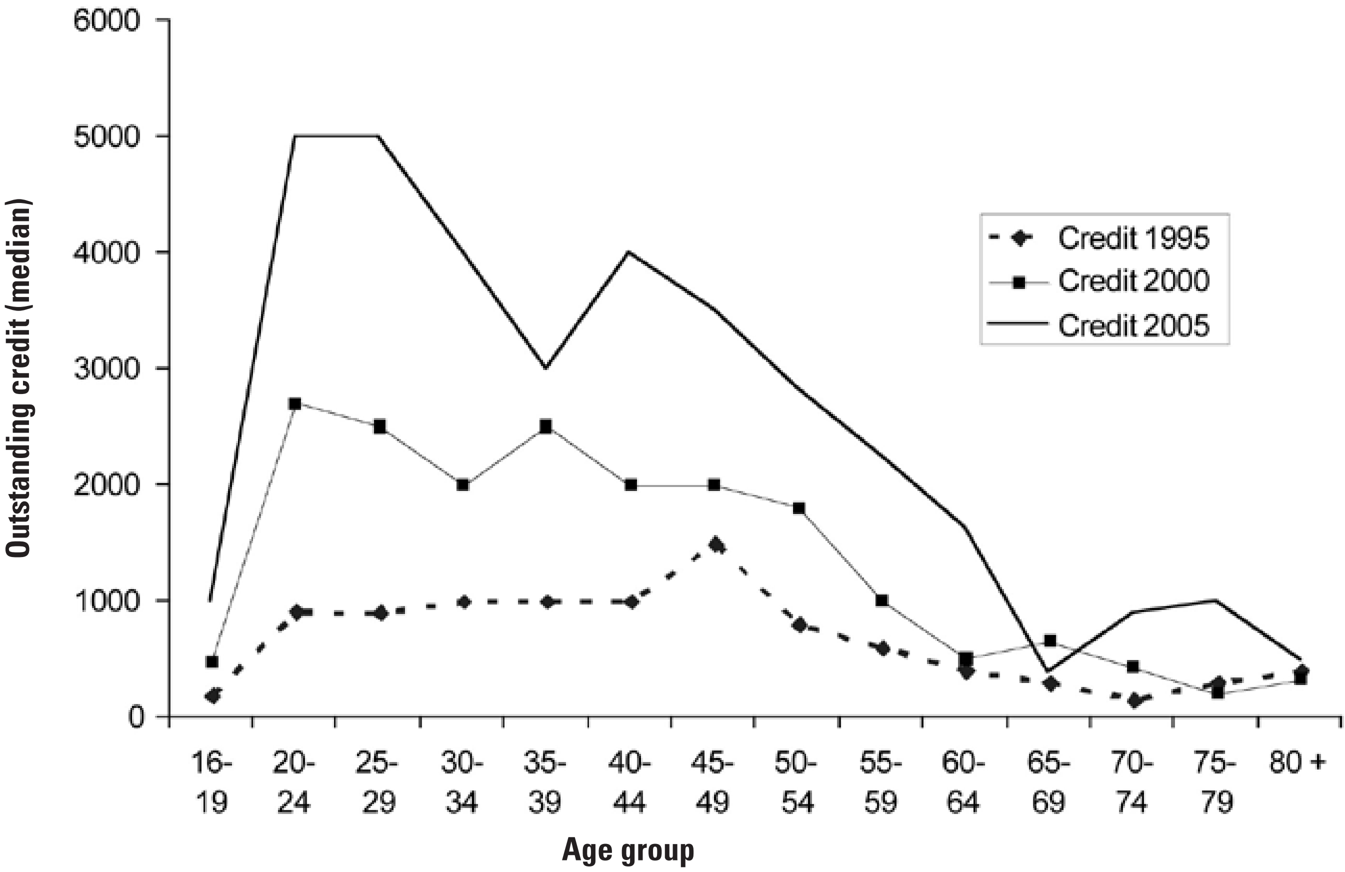
In other words, the proportion of people using credit has remained very similar over time, despite large increases in the amount of outstanding unsecured credit. The reason for the steep increase in aggregate borrowing reported by the Bank of England and others is clear if the amounts of outstanding credit by age are examined (see figure 6.2). This shows that, over the ten years 1995–2005, the sums of money owed have risen quite strongly, especially for people aged up to 60, and confirms the trend reported by the Consumer Credit Counselling Service for increased levels of borrowing by older people.

Figure 6.1 Unsecured credit use, by age



Source: BHPS 1995, 2000 and 2005.

Figure 6.2 Unsecured credit use by age: median amounts owing for each age group



Source: BHPS 1995, 2000 and 2005.

Note: amounts shown are money amounts for each year.

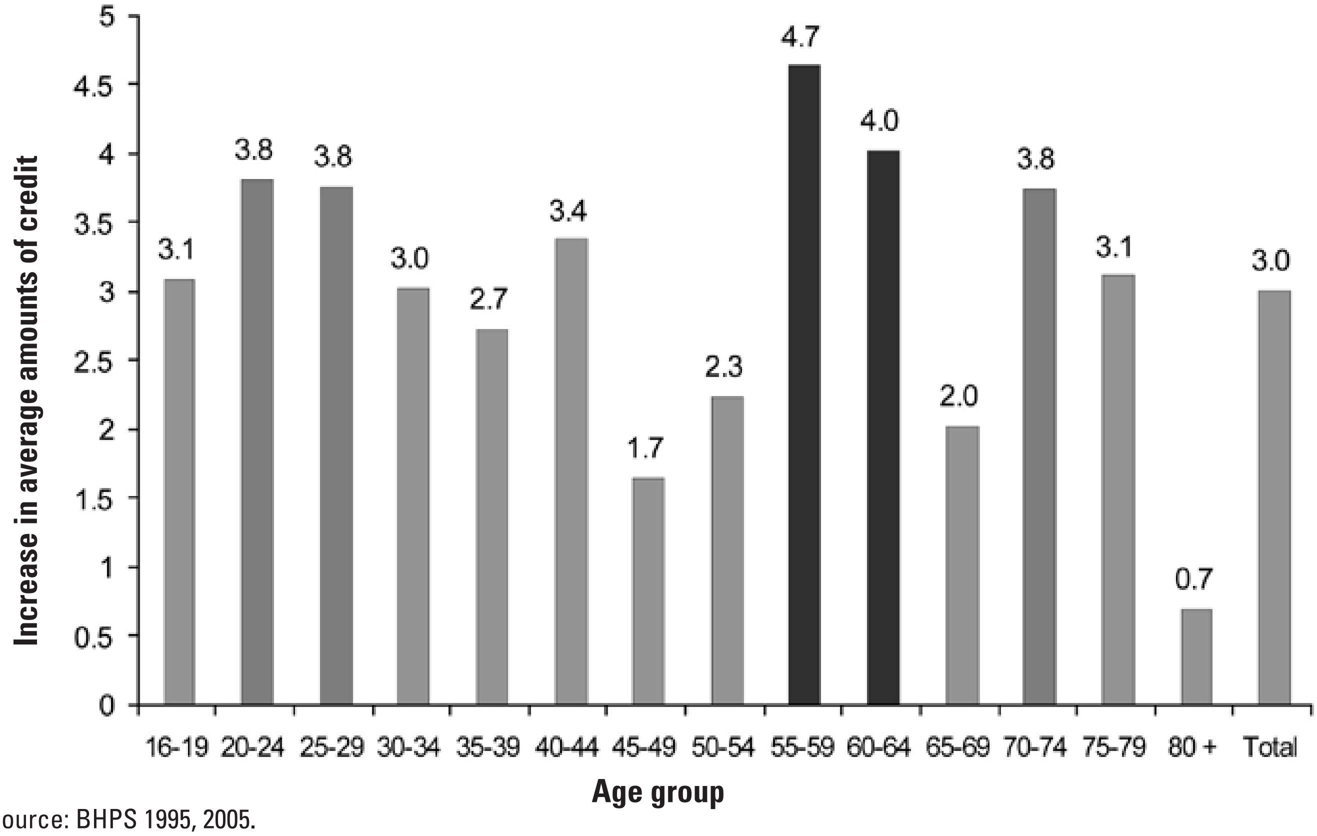
Between 1995 and 2005 the average amount of outstanding credit (for each person with any credit) rose by a factor of three – from about £2,200 to £6,600. Rates of increase by age are shown in figure 6.3. The rate of growth was fastest for those aged 55–59 (increasing almost five times) and those aged 60–64 (four times as much owed in 2005 as in 1995). There was also a faster than average increase for those in their 20s, as the median figures presented above suggested. Results for those aged 70 or older are based on too few borrowers to be reliable.

The UK credit market and levels of credit used tend to mirror those in the United States. It is, therefore, interesting that US research on credit use by older people has produced similar findings – a static proportion of older people with credit, but with much higher amounts outstanding over time, and outstripping any growth that may be attributed to inflation. McGhee and Draut (2004) found that average self-reported credit card borrowing among what they call 'indebted seniors' (i.e. borrowers aged over 65) increased by 89 per cent between 1992 and 2001, to reach $4,041. For those aged 65–69, credit card borrowing increased 217 per cent, reaching an average of $5,844.

6.2 Changes in outstanding mortgages

The level of outstanding mortgages has also increased – from an average (mean) of £38,000 in 1995 to £80,000 in 2005. Clearly the rate of increase is a bit lower than for unsecured credit, but the amounts of money involved are that much greater.

Figure 6.3 Rate of increase in average (mean) amount of unsecured credit, by age, 1995–2005



Source: BHPS 1995, 2005.

Median amounts of outstanding mortgages by age, for 1995, 2000 and 2005 are shown in figure 6.4. The level of outstanding mortgage, on this measure, has doubled over the ten-year period. The fastest rates of growth are seen among those aged 60–69, for whom the level of outstanding mortgage has increased three-fold, from £10,000 to £30,000. The largest money increase was, however, among those in their 30s, though in the context of a smaller proportionate increase.

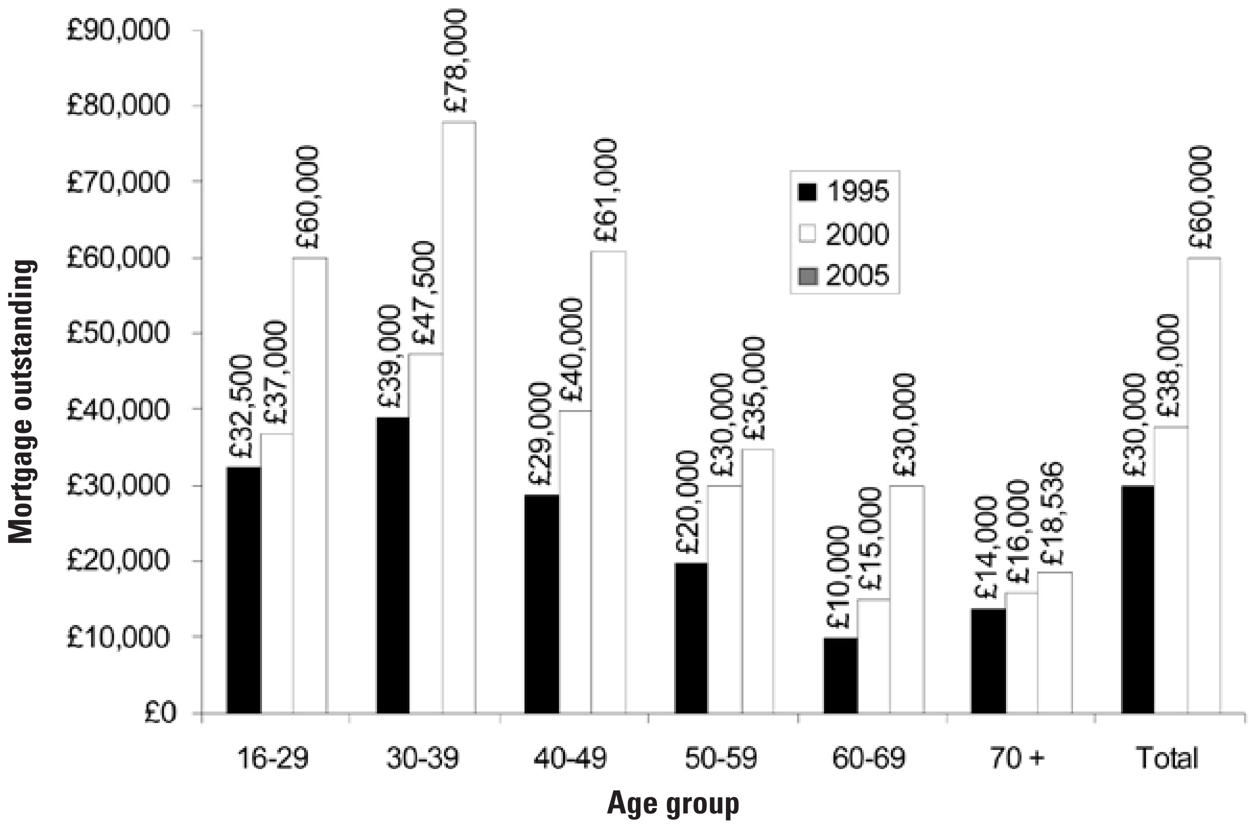
6.3 Changes in unsecured credit use by individuals

The analysis just presented examines the overall incidence of borrowing, and its value, at three points in time – 1995, 2000 and 2005. However, it can also exploit the fact that the BHPS follows the same people over time. This means that for any particular person included in the study their circumstances in these three years can be identified, based on their responses given at the time. There is no need to rely on recall at a later date: the answers given are contemporary and not based on memory or later attempts to reconstruct the situation.

This report therefore considers how different individuals changed their rate and level of borrowing over time. Among those interviewed in both 2005 and 2000, just over half (51 per cent) had no borrowing in either year. However, just over one in five (22 per cent) had outstanding credit in both those years. That leaves about a quarter who either took out credit in 2005, having not owed money in 2000, or did the converse. In fact:

- 16 per cent had credit in 2000, but none in 2005
- 11 per cent had no debt in 2000, but had some outstanding credit in 2005.

Figure 6.4 Outstanding mortgages, by age – median amounts owing (for those with outstanding mortgages) for each age group, 1995–2005



Source: BHPS 1995, 2000, 2005.

When considering the same group of people over time, it is important to remember that they are getting older, a factor associated with a lower use of credit. This is part of the reason why those 'exiting' from credit are more numerous than those taking out credit between 2000 and 2005. What is lost is the group of younger people taking out credit in larger numbers, although this group is included in the aggregate analysis of section 6.1.

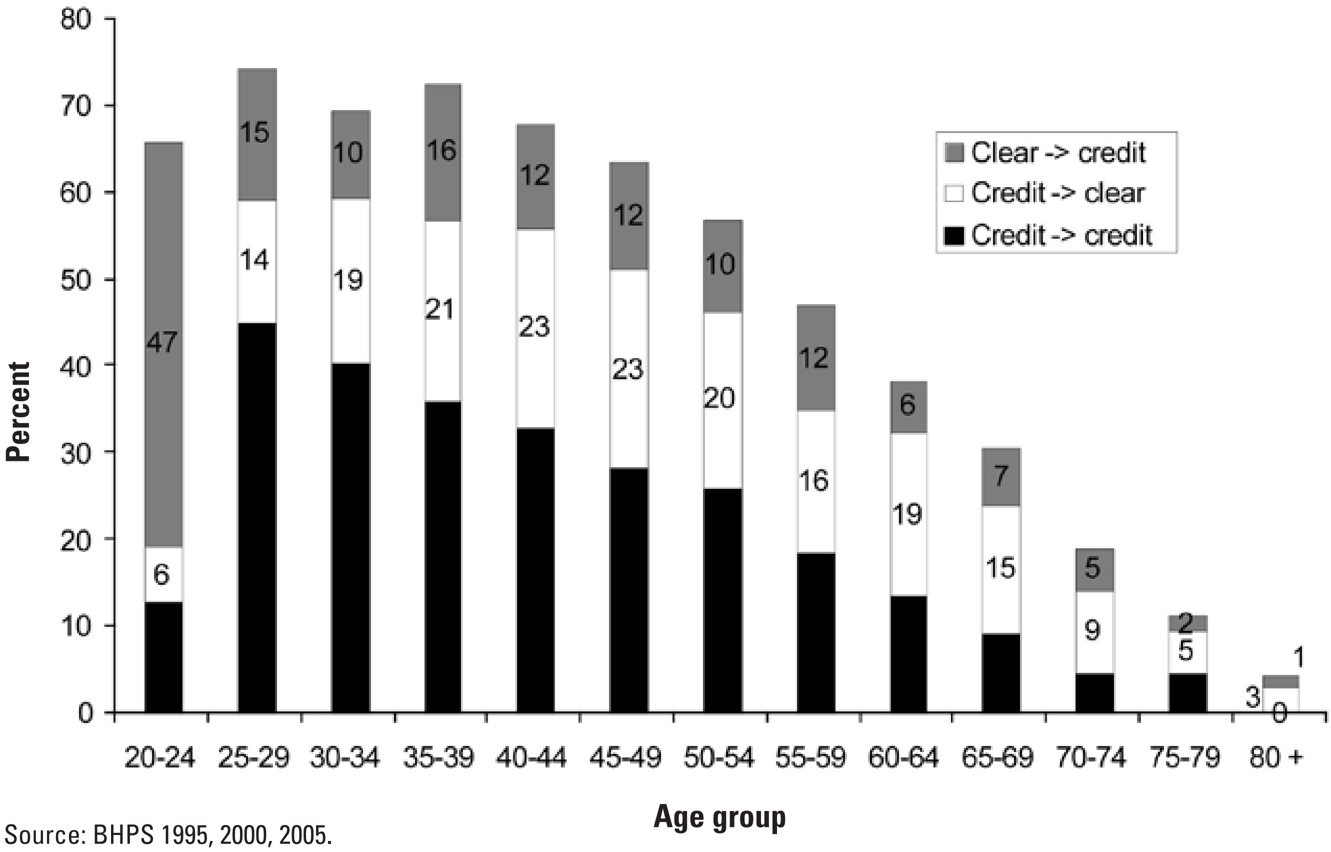
Figure 6.5 shows how these figures for use of credit, between 2000 and 2005, change with age. [15] The sum of the three sets of bars shows the extent of any credit use over the period of five years, and again a similar profile for having any credit in 2005 (or in any given year). In respect of those aged 60–64 (in 2005), over the preceding five years:

- 61 per cent had used no credit in either year (the group not shown in the bar chart)
- 14 per cent had outstanding credit in both 2000 and 2005
- 19 per cent owed money in 2000, but did not in 2005
- 6 per cent did not owe money in 2000, but did in 2005.

The older the age group, the less likely it is that the person was observed owing money in both 2000 and 2005. So three-quarters (74 per cent) of young people aged 25–29 had used credit in either 2000 or 2005, including 45 per cent who had done so in both the two years. In contrast only 3 in 10 (31 per cent) of people aged 65–69 had used credit in either 2000 or 2005, of whom only 9 per cent had borrowed money in both years. In other words, older people not only have lower levels of credit overall, but their pattern of use appears to be more sporadic.

[15] For this chart the age is taken as that in 2005, rather than in 2000. Either point is possible, of course, and this does not affect the figures just their description.

Figure 6.5 Changes in credit use, among the same people, 2000–5



Source: BHPS 1995, 2000, 2005.

These results can be compared with those from the 1992 Credit and Debt Survey (Berthoud and Kempson 1992), some of whose questions were repeated ten years later in the 2002 DTI survey. Considering the 50- to 59-year-old cohort in 1992, 65 per cent had some form of active credit use. However, ten years later, when this cohort was aged 60–69, active credit use of their peers had about halved to 33 per cent. This suggests that as a particular cohort moves through the life cycle into retirement, their use of active credit dramatically decreases.

6.4 Retirement and unsecured borrowing: transition analysis

Some evidence was found that the level of credit use may also be influencing the timing of retirement. People who continued to work, rather than retiring, tended to have higher levels of unsecured debt than those retiring. For this analysis the focus was people aged 45 and older, and in paid work, in 1995. Of these, the people who had continued to work during 1996–9 were compared with those who said they were retired during 1996–9. This showed that, overall, there was a link between having low (or no) credit use, and retiring.

Among this group (aged 45+ in 1995 and in paid work in 1995), some 22 per cent had retired during 1996–9. This varied from 24 per cent of those with no unsecured borrowing to 14 per cent among those owing £3,000 or more in 1995. Retirement rates were only slightly higher (18 per cent) among those who had owed between £1,000 and £3,000 in 1995.

These results provide some evidence that levels of borrowing are having an effect on when people are able to retire from paid work. Future waves of ELSA will be able to replicate such analysis on a larger sample.

6.5 Individuals' changes in housing tenure

Also considered is how often people change tenure over a ten-year period. How far do people remain in the same tenure? Do they often change from owning to renting, or *vice versa?* How does this vary across age groups? These are the kinds of question that may be addressed using the type of analysis shown in table 6.1, which shows changes in housing tenure between 1995 and 2005, with bold type indicating that no change had occurred.

This is a relatively complex table. The shaded section shows how many of those who were aged 60 or more in 2005 had mortgages when they were ten years younger (that is, in 1995) but had since changed their housing tenures. This shows that only 24 per cent of them still had mortgages (although not necessarily the same mortgage), most (71 per cent) had become outright owners, while 4 per cent had become tenants, evenly split between private and social tenancies.

Across all age groups, there was very strong continuity in home ownership over time, though with a progressive trend toward people paying off their mortgages to become outright owners as they got older. In general, the older people were, the more likely they were to be in the same housing tenure in both 1995 and 2005.

Table 6.1 Tenure changes 1995–2005, by age group (percentages)

Tenure status		Age in 2005			
1995 tenure	2005 tenure	Up to 44	45–59	60+	All
Outright owner	Outright owner	**39**	**84**	**94**	**87**
	Mortgage	45	14	3	8
	Social tenant	2	2	2	2
	Other tenant	14	0	1	2
Mortgage	Outright owner	10	29	71	30
	Mortgage	**81**	**68**	**24**	**64**
	Social tenant	3	1	2	2
	Other tenant	6	2	2	4
Social tenant	Outright owner	2	5	8	5
	Mortgage	32	23	3	17
	Social tenant	**57**	**69**	**88**	**73**
	Other tenant	9	4	2	5
Other tenant	Outright owner	7	10	13	9
	Mortgage	65	41	8	50
	Social tenant	11	9	20	12
	Other tenant	**16**	**41**	**59**	**28**

Source: BHPS 1995, 2005.

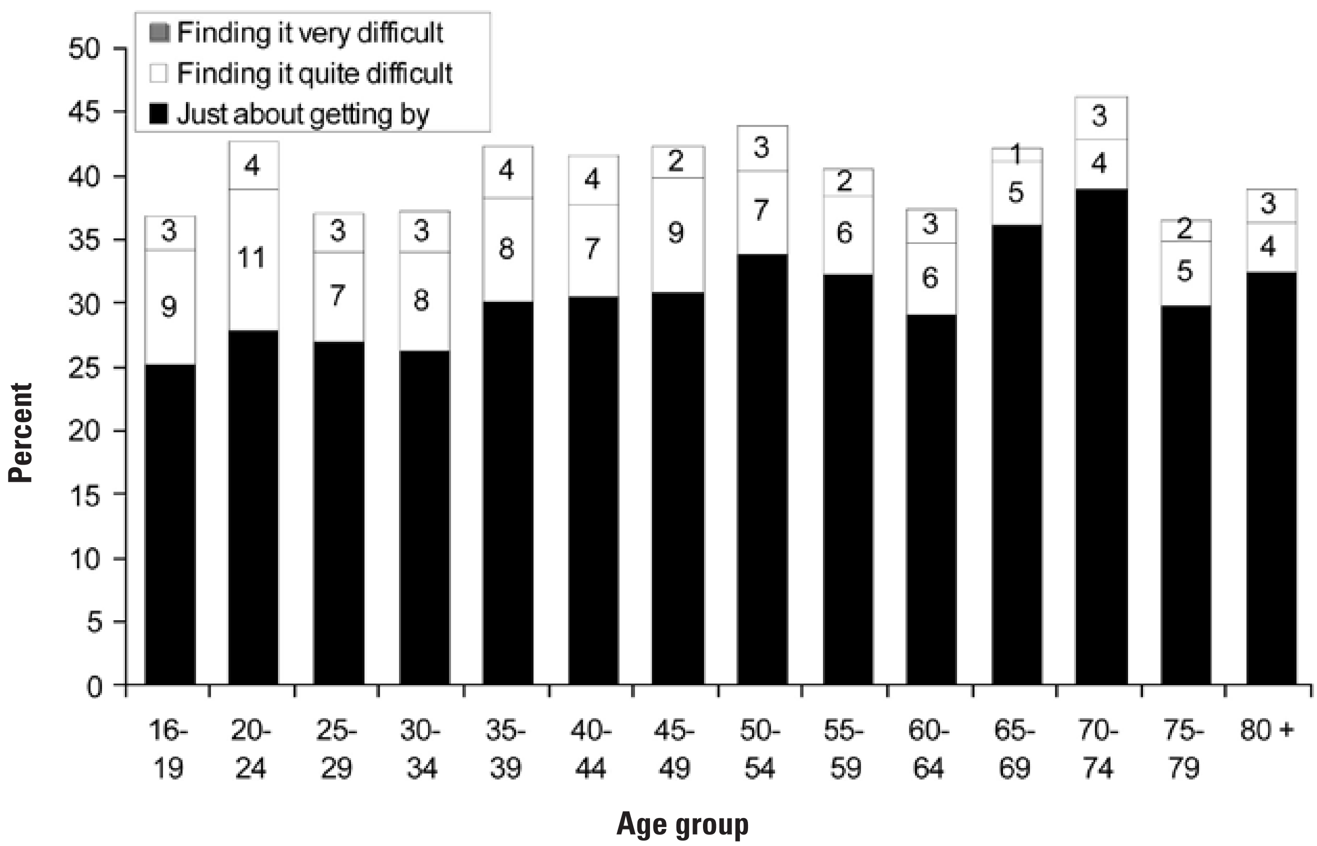
For example, only 6 per cent of people aged 60 or more who owned their home outright in 1995 had switched tenure by 2005 – with equal proportions (3 per cent) having either taken out a mortgage or moved to a rented home by 2005. At the same time, it is clear from the table that older social tenants were also relatively immobile between tenures, particularly if they were older – 88 per cent of people aged 60 or more who had been social tenants in 1995 still rented in the social sector in 2005.

6.6 Changes in financial situation

The BHPS asks respondents to evaluate their standard of living, and place themselves in a category: these ranged from 'living comfortably' to 'finding it very difficult'. Between 1995 and 2005, the proportions of people who were finding life either very difficult or quite difficult reduced substantially across all age groups. This could well be a reflection of the overall rise in incomes over this period. For the older age groups, that will include increases in both private and state pension income, and the introduction of the Pension Credit with support targeted on those with lower incomes.

In 1995 there was little variation within the population aged over 65 in the proportions of people saying that they were finding it either very or quite difficult to manage, but there was rather more variation in the proportions saying that they were just getting by. Consequently, people in the early years of retirement (aged 70–74 or 65–69) were more likely to indicate that they were finding it hard to manage on their income than either those who were coming up to retirement (aged 60–64) or who had been retired for some time (aged 75 and over). Indeed, across

Figure 6.6 Self-assessed financial situation in 1995: analysis by age group



Source: BHPS wave 1995.

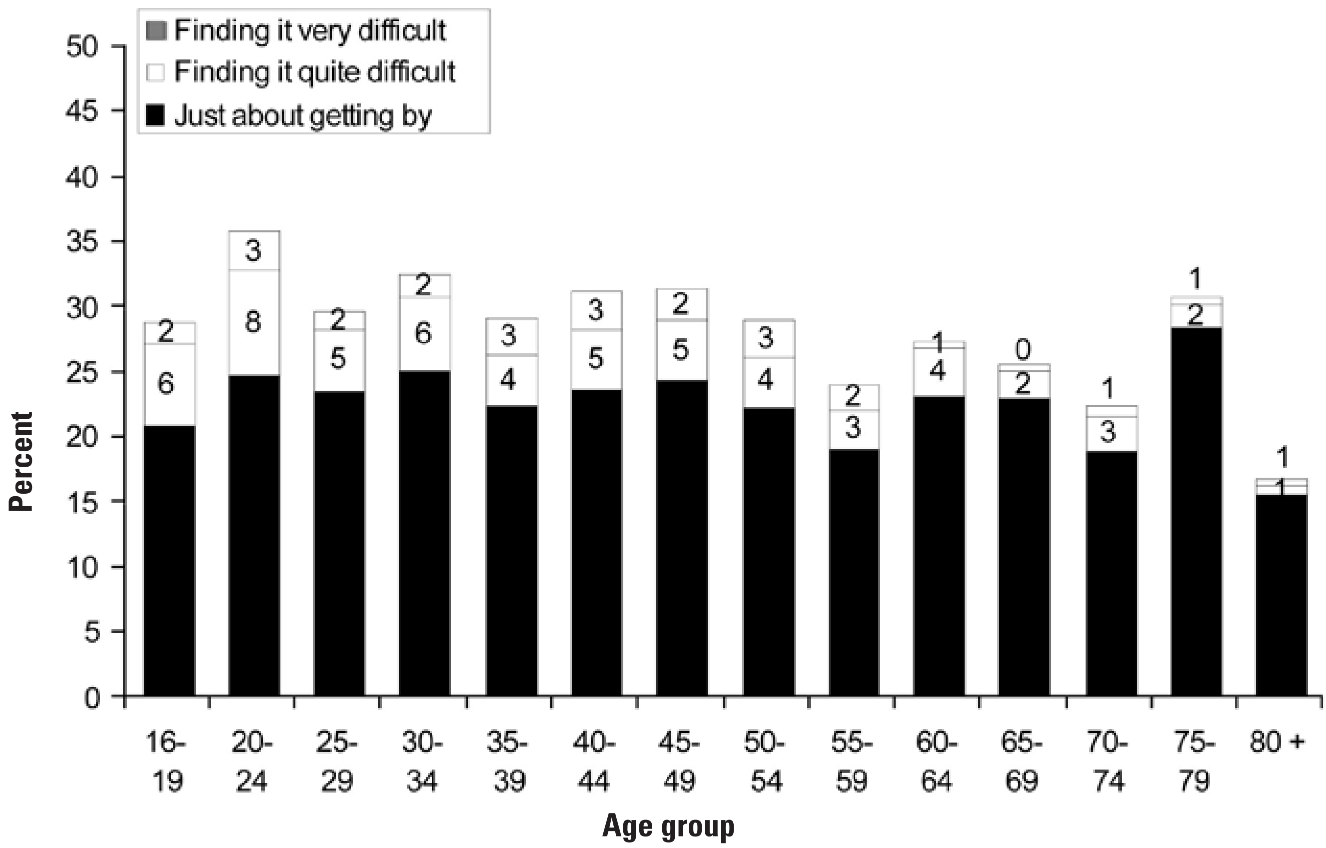
adults of all ages it was people aged 70–74 who had the highest level of reported financial strain.

Moving forward to 2005 (see figure 6.7), people aged 75–79 (who had been 65–69 in 1995) were the ones who were most likely to report that they were finding it difficult to manage on their income – so although things had improved for this cohort, they had not benefited to the same degree as others. The proportion that were either just getting by or finding it difficult to manage fell from 42 per cent to 32 per cent. In contrast, people aged over 80 (who had also reported high levels of strain in 1995, when they were in their early 70s) had seen a substantial improvement in their situations. In 1995 46 per cent of them were, at best, just getting by; in 2005 the proportion in this position had fallen to 18 per cent.

6.7 Individuals' changes in financial situation

Once again, it is possible to use this data to examine changes in living standards for individuals over the period from 1995 to 2005. The BHPS has almost 4,000 individuals who were interviewed in both 1995 and 2005, and for whom it is therefore possible to directly compare changes in living standards. Among this group, self-perceived living standards improved for 35 per cent of people, worsened for 21 per cent, and remained at the same level for the remaining 44 per cent.

Figure 6.7 Self-assessed financial situation in 2005: analysis by age group



Source: BHPS 2005.

Table 6.2 shows how financial situations changed for people of different ages. It should be noted, however, that the comparison being made is between an answer given in 1995 (that the person was living comfortably, just getting by or finding things difficult) and the answer to an identical question asked ten years later, in 2005. Respondents were asked whether their situation had improved or worsened (which would require very good recollection of how they were faring a decade before) but was calculated from their replies.

Overall, there was little association between age (in 1995) and whether financial situation was reported to be better in 2005 than it was in 1995. Most age groups had responses close to the overall average of 35 per cent. There was some evidence, however, of greater stability in living standards (over 1995–2005) among those aged 60 or more in 1995, and therefore aged 70 or more in 2005. Similarly, fewer people of this age gave responses that suggested any worsening in their circumstances.

It is, however, quite likely that the changes observed reflect, at least to some extent, the starting conditions. People with worse-than-average financial situations in 1995 may have been expected to see a faster rate of improvement than those with good financial situations to start with. So, even though there are relatively few differences by age, these may be potentially misleading.

Further analysis did not find any particular link between credit use and later changes in living standards. Nor was there any relationship with whether or not people had had dependent children in 1995. Those who were social tenants in 1995 showed a more rapid improvement in financial situation than other tenures but this partly reflects a lower starting point, as discussed above.

Table 6.2 Changes in financial situation 1995–2005, by age in 1995 (percentages)

Change in financial situation 1995–2005	16–29	30–39	40–49	50–49	60–69	70+	All
Improved	34	35	38	37	32	38	35
Remained same	39	41	42	45	52	48	44
Worsened	26	24	19	18	16	14	21
Base (unweighted)	*1318*	*675*	*522*	*481*	*334*	*372*	*3702*

Source: BHPS 1995 and 2005.

7 Summary and policy implications

Although aggregate levels of borrowing have increased substantially very little information has been received about the extent to which older people have been affected. Older people tend to be disproportionately in the lowest income quintiles, which would indicate a potential need to borrow. On the other hand, they hold attitudes that would make them much less likely to borrow and there is evidence that as most people enter retirement they become more careful with money and attempt to reduce their reliance on borrowing.

7.1 Levels of unsecured credit use

The proportion of people with any outstanding unsecured credit declines steeply with age after the age of 50, tailing off to almost nothing after the age of 80. None the less, about a quarter of people approach retirement with outstanding credit commitments and there are small upturns in credit use in the three years just after age 60 and again at 65, suggesting a temporary increase in borrowing following retirement.

There is a similar decline with age in the number and range of credit commitments held by those in the credit market. If older people have any outstanding credit at all, it is most likely to be money owed on a credit card that is not settled in full at the end of the month. Compared with younger people, however, they seem to use their credit cards more as a payment mechanism than as a source of extended credit. In fact, after the age of 60 the proportion of people with only inactive sources of credit (unused overdraft facilities and credit cards either not used or repaid in full each month) exceeded those with active ones.

In contrast, the mean amounts owed by credit users in their late 50s and early 60s are larger than any other age group, meaning that some people approach retirement owing substantial sums of money in unsecured credit.

7.1.1 Characteristics of older people who use unsecured credit

Use of unsecured credit is more common among older people who are still in work than it is among people of a similar age who have retired. This is consistent with earlier research showing that people try to reduce their reliance on borrowing when they retire. Among people aged 50 or over, levels of use are higher among those with the highest incomes. Even so, it is of some concern that a quarter of the over-50s living in the poorest 40 per cent of households have outstanding credit commitments.

After their mid-50s, people with mortgages consistently have higher levels of unsecured borrowing than either outright owners or tenants. There are a number of possible explanations for this. It could be indicating that some older people experience financial strain that results in both unsecured and mortgage borrowing; conversely it might indicate that having a mortgage puts a strain on the household budget that necessitates unsecured borrowing. But it might also be indicating an ability to access borrowing generally and/or a willingness to do so. In fact, there was a strong link between credit use and holding a favourable attitude towards credit.

Unsecured credit use was higher among the over-50s who had separated or divorced than it was among people who were still married, had never married or were widowed. As might be expected, people of this age who still had dependent children were also more likely to have outstanding credit commitments.

In regression analysis, however, only age, housing tenure and attitudes had significant independent effects on the odds of someone aged 50 or over being a credit user.

7.2 Home ownership, mortgages and housing costs

Home ownership is more common than renting in all age groups, and in the population as a whole most home-owners are buying their home on a mortgage. But among those in their late 50s and early 60s there is a switch from most home-owners buying their home on a mortgage to the majority of people owning outright. There is relative consistency in average (median) house values among home-owners of different ages (except for the over-75s and under-35s whose homes are worth less). This contrasts with the amounts still outstanding on mortgages. Although the majority of home-owners aged over 55 have paid off their mortgages, those who have not still have significant amounts outstanding and some people carry these into retirement.

7.2.1 Characteristics of mortgage-holders aged over 50

The proportion of older home-owners who have a mortgage decreases steeply with age: from 7 in 10 home-owners in their 50s to less than 1 in 20 of those aged 80–84.

There is also a strong link to income, falling from half of the people aged over 50 in the highest income quintile to 1 in 10 of those in the two lowest income quintiles. Likewise, there are strong links to work status and the number of earners in a household.

Married and divorced people are far more likely to have a mortgage than those who are widowed or who have never married. The small number of older people who have dependent children have the highest rates of mortgage-holding.

People with unsecured borrowing are far more likely to have a mortgage than non-credit users, as are people who hold favourable attitudes to borrowing.

Regression analysis identified three key predictors of mortgage-holding that had specific effects that were not independent on other characteristics. These were age, unsecured credit use and the number of earners in a household.

7.3 The relationship between financial difficulty and age

Older people have lower than average incomes, which might be expected to put them at greater risk of financial difficulties. At the same time, previous research has shown that they often appear to have a higher standard of living (as measured by deprivation indicators) than younger people with similar incomes, and to spend less of the money they receive. There would seem to be two, seemingly counter-balancing, processes:

- a cohort effect (with people born in an earlier generation having lower expectations with regard to the sort of things captured by indicators); and
- a detrimental ageing effect (with ageing restricting people's activities so that they find it more difficult to afford the items included in the deprivation indicator).

It is also clear from earlier research that most people who have retired are very careful money managers who take steps to ensure that they live within their means. This is informed by four factors:

- an adjustment to living on a lower income
- concerns about using commercial credit
- fears about being unable to pay bills, and
- a desire not to run down savings.

Only a minority of retired people do not adopt this cautious approach and they tend to be people who have never been careful money managers.

This is reflected in the levels of financial difficulties among older people. On a number of different measures, there is a decline in the proportion of people exhibiting signs of financial strain with age. This includes:

- subjective assessments of how well people are keeping up with paying bills and other commitments
- how often people are overdrawn on a current account

- use of credit cards that are not settled in full at the end of the month to buy food and other essentials or to pay bills
- self-reported financial difficulties in the past five years.

On all four measures, 5 per cent (or fewer) people over the age of 60 are in financial difficulty, with the rate changing little among the very elderly. Levels of difficulty among people in their 50s are about double at about 10 per cent. One deviation from this pattern is worth noting: namely, that there is an increase in the proportion of people reporting that they have found themselves in financial difficulty in the past five years among those currently aged 70–74. This may indicate the impact of the reduction in income when they retired.

Moreover, among older people with a mortgage or rent to pay it appears that difficulties meeting housing costs tend to be at least as common among people in their 60s and 70s as they are among those in their 50s.

A composite index was constructed that combines the first three of the above indicators. This shows that after the age of 50 there is a steady decline in the proportion of people exhibiting some sign of strain: from 25 per cent of those aged 50–54 to just 3 per cent of those aged 80 or over, with the steepest drop occurring in the early 60s (from 18 per cent to 10 per cent). This is consistent with the earlier research, showing that people adjust to living on a reduced income by cutting back and adopting a more cautious approach to money management.

A rather sharper measure of financial difficulty is reported arrears on household bills and other commitments. As might be expected, fewer older people report being in arrears than admit to experiencing financial strain, and this falls with age from 7 per cent of people aged 50–54 to about 2 per cent of those aged 75 or over. Arrears on credit commitments appear to fall more steeply with age than do arrears on household bills, and if older people are in arrears at all it is most likely to be on utility bills (gas, electricity and water). Indeed, other recent research has shown that the rapid rises in fuel costs in 2006 had a disproportionate effect on people over the age of 60 living on low incomes.

Regression analysis again made it possible to identify the older people who are at greatest risk of financial difficulty using a composite index of financial strain. When this was restricted to personal characteristics there were two main (and independent) predictors: age and housing tenure, with having a mortgage trebling the odds relative to an outright owner. Adding unsecured credit use to the model, however, completely overrode the effects of housing tenure and greatly diminished the age effect. This left unsecured credit use as the sole predictor of financial difficulties, increasing the odds by a factor of 25.

It is also interesting that neither income nor the number of earners in a household are important predictors of the likelihood of older people reporting financial difficulty. This is consistent with earlier research, which found that they were only predictive among non-pensioners.

7.4 Changes over time

The above analysis shows that the proportions of older people who use unsecured credit and have a mortgage declines steeply with age. Hence, although some people enter retirement with unsecured credit commitments and/or mortgages this tails off to almost none among the very elderly. Levels of financial difficulty (whether measured subjectively or in terms of the incidence of arrears) decline steeply at around the age of retirement and remain at much the same level thereafter.

These snapshot figures do not, however, reveal how things have changed over time. For this, longitudinal data sets was used whereby the same panel of people were re-interviewed: they were asked the same questions as before, to examine both aggregate trends over time and changes in the behaviour of individuals.

7.4.1 Changes in unsecured credit use

This shows that the proportion of people of all ages using unsecured credit has remained very similar over the past ten years. The steep increase in aggregate borrowing reported by the Bank of England can be explained by a considerable growth in the sums of money borrowed by these credit users – again, of all ages. Credit users in their late 50s and early 60s owed at least four times as much in 2005 as they had done in 1995. In 2005, unsecured credit users in their late 50s owed, on average, just under £3,000; those in their early 60s owed about £2,000 on average. Similarly, the level of outstanding mortgages has also increased. Here the fastest growth was among mortgagors in their 60s, for whom the level of outstanding mortgages trebled in the ten years up to 2005 (from £10,000 to £30,000). This almost certainly explains the increase in the numbers of older people seeking advice from debt advice agencies.

Also considered was how individuals have changed their rate and level of borrowing over time. In general, this shows that older people not only use less unsecured credit as they age but their pattern of credit use becomes increasingly sporadic. For example, three in ten people aged 65–69 had used credit in either 2000 or 2005; fewer than a third of these had borrowed in both years, about a half of them had cleared the money they had owed in 2000 and a little over a quarter of them had not used credit in 2000 but had since taken on commitments.

In addition, some evidence was found that the level of credit use might be influencing the timing of retirement. People aged 45 or over and in paid work in 1995 who owed £3,000 or more in unsecured credit were only half as likely to have retired within the next ten years as their peers who had no credit commitments.

7.4.2 Changes in mortgage-holding

Across all age groups there is a strong continuity in home ownership over time. In other words, once people had bought a home they were extremely unlikely to go back to renting. What is apparent, however, is a shift towards paying off the mortgage. Hence, 7 in 10 people aged 60 or over in 2005 had repaid their mortgage in the previous ten years. In contrast, hardly any outright owners of that age (3 per cent) had mortgaged their home over that time, and the prevalence of social and private tenants in that age group taking out a mortgage was similarly low (3 per cent and 8 per cent respectively).

7.4.3 Changes in financial situation

Between 1995 and 2005 the proportions of people who were finding it difficult to make ends meet reduced substantially across all age groups. This almost certainly reflects the overall rise in incomes over this period including, for older people, the introduction of the Pension Credit to assist those with lower incomes. People in the early years of retirement (aged in their late 60s and early 70s) seem to have benefited to a lesser extent than those who were either younger or older, perhaps indicating financial strain as they adjust to living on a lower income.

Again, it was possible to view how the financial situation of individuals changed over this period, using their reports on how well they were making ends meet in 1995, 2000 and 2005 to form a judgement about whether their situation had improved, worsened or stayed the same. Overall, there was little association between age (in 1995) and changes in people's financial situation, although those aged over 60 did show slightly greater stability in their finances and a lower propensity to have experienced a worsening of their finances.

7.5 Conclusions and policy implications

First and foremost, all the evidence seems to indicate that current anti-poverty strategies for people over retirement age are having an effect. The introduction of Pension Credit, in particular, seems to be ensuring that older people, like those in work, are benefiting from a rise in prosperity. But it would be wrong to be complacent. There are still older people who face financial difficulties and signs that some people struggle to adapt to life on a reduced income when they retire.

The current high levels of both secured and unsecured borrowing in the UK have, however, given rise to concerns about the potential long-term consequences for both individuals and the economy. Historically, older people have tended to have very low levels of borrowing and of financial difficulties. Help the Aged is, however, concerned that if the levels of borrowing among older people have increased in line with the national average, this may be undermining attempts to address pensioner poverty. In particular, there is concern that people may be going into retirement with outstanding mortgages and credit commitments that cause them to get into financial difficulty.

The evidence in this report indicates that, for the vast majority of older people, the situation is largely unchanged from that faced by previous generations. Most people do not enter retirement with either unsecured credit commitments or mortgages. And the proportion doing so has not increased dramatically, as feared. But what has happened is that the people who do owe money when they retire owe substantially larger amounts than did their counterparts ten years ago. Moreover, there is a strong correlation between having a mortgage and owing money on unsecured credit, putting these people at even greater risk. Consequently, both are highly predictive of financial difficulties among older people.

This suggests that there is a need to ensure that older people are included in strategies to raise levels of financial capability. In particular, more general messages warning people about the dangers of over-borrowing need to alert the over 50s to the potential problems they face if they move into retirement still owing money on unsecured credit and/or continue using it once they have retired. The FSA's July 2007 announcement that its next campaign will be with people approaching retirement was therefore welcomed.

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UK consumers now owe more than £1 trillion in secured and unsecured borrowing. Although aggregate levels of borrowing have increased substantially there is little existing information about the extent to which older people are in debt, either in terms of numbers or in respect of the amount borrowed.

While the propensity to borrow undoubtedly declines with age, there is increasing concern that problems arising from borrowing could negatively impact on efforts to address pensioner poverty. Help the Aged, with financial support from Barclays, commissioned the Personal Finance Research Centre to undertake this detailed study of the extent and nature of borrowing and financial difficulties among people aged 50 and over.

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