Understanding older people's experiences of poverty and material deprivation

By Nicola Dominy and Elaine Kempson

Much is known about the incomes of older people, but less is known about how well material deprivation measures reflect the experience of poverty among older people. Income analysis points towards older people being on lower incomes. In addition, past research using material deprivation indicators suggests that pensioners are less likely to report deprivation than younger people with the same income. This research was therefore commissioned to explore why older people report lower deprivation scores than families of working age even though pensioners typically report lower incomes than the younger group. In addition the research explored pensioner's experiences of pensioner poverty, their patterns of saving and spending, and the impact that support from others had on older people's perceptions of their needs.

The study was qualitative and comprised two stages: focus groups and depth interviews. The focus groups (six) concentrated on older peoples' interaction with 11 of the items, used in the Family Resources Survey, to help tap into child poverty and material deprivation. The depth interviews (42) built on the findings from the focus groups. In addition, they focused more closely on the more sensitive issues of poverty and affordability, and the decisions individuals make when prioritising expenditure.

The research was conducted for DWP by researchers from the Personal Finance Research Centre based within the School for Geographical Sciences at Bristol University[1] .

[1] Readers are invited to note another DWP research report published at the same time which also explores material deprivation measures: *Are 'Poor' Pensioners Deprived?* (ISER, University of Essex, DWP Research Report No 364).

Main findings

Preparation for retirement

Most people living on Pension Credit had been unable to make adequate provision for their old age. The reasons for lack of preparation were wide and varied, and often interlinked, reflecting the complexities in people's lives. Some had lived on low incomes for some considerable time. These included: people who had always been in low paid employment; people who had been divorced or widowed when their families were young; people who had had to stop work because of ill-health; and people who had been made redundant earlier than the statutory age. A smaller number had been better off before retirement, but made inadequate provision. These included: people who had not made adequate provision through poor financial planning; and people who had not provided adequately for retirement because of a disruption in their lives. These tended to be younger and in their sixties, always single, and spenders rather than savers.

Current standard of living

A sizeable minority felt better off in retirement or had always felt comfortable. However, a larger number felt worse off in retirement or felt that they had always struggled financially. People's assessment and understanding of their current standard of living, in comparison to their life before retirement was explained by three inter-related factors: the level of financial assistance (usually from other family members) they received (in addition to the retirement pension and Pension Credit); people's quality of life and incomes during working age; and whether or not they had additional financial commitments.

Expectations for retirement

Expectations for retirement were surprisingly low, with the overwhelming majority having low expectations or a feeling that they would have to cut back financially and lower their expectations. Those with low expectations of retirement, had tended to have always experienced financial hardship, and retirement was purely about making ends meet and surviving. Those who had to lower their expectations had experienced varying levels of prosperity throughout their working lives and had had to make adjustments to their retirement plans because of their lack of preparation and lower income on retirement. A smaller number, who were more financially secure, had higher expectations for retirement. These typically included the pursuit of hobbies, leisure activities and travel.

Spending

Pensioners' approaches to money management can be classified into three groups: careful money managers, poor money managers, and those who no longer had responsibility for money management. The overwhelming majority were extremely careful money managers, adopting meticulous approaches to monitor their expenditure. They had adopted this approach because of four key factors: living within a new fixed lower income; concerns about debt and using commercial credit; protecting savings. A much smaller number were not managing their finances well. These people had always been poor money managers, and seemed unable or unwilling to change their behaviour on retirement. In addition a very small number, all very elderly, had now relinquished all or most of their money management responsibility to their children. Those who made the biggest adjustment in money management were those who had worked all or most their lives and had fallen on harder times in retirement, many of who had not monitored their finances too closely whilst working.

Saving

Most people had some savings. The amounts saved ranged from £50 to £60,000. Most had savings of between £1,000 and £5,000. The people with savings were not necessarily those who had been better-off in the past. However those with larger amounts saved over (£10,000) had been better off during their working lives.

The overwhelming majority of older people were currently saving, although most of these were saving informally (for example, in current accounts or in their homes). A minority of them did, however, save into an account, and a smaller number used a combination of these two methods. Amounts saved ranged from five pounds to £250 per month. The much smaller number not actively saving, had always had a low inclination to save, preferring to spend rather than to save for rainy days.

Informal and formal savings served very different functions. Formal savings were viewed as emergency funds, which older people were very reluctant to use. They tended to be used primarily for household maintenance, and replacing essential electrical items (i.e. for unexpected expenditure). Informal savings on the other hand, were usually viewed as being more accessible and for short-term needs, were used more frequently, mainly for paying household bills (i.e. for lumpy expenditure) and leisure activities, holidays, Christmas and presents (i.e. for planned expenditure).

Health and mobility

A wide variety of health complaints were represented and included: heart conditions, arthritis, lung conditions such as emphysema, high blood pressure, diabetes and dementia. These adjustments had emotional, social and financial implications. People who experienced slight restrictions because of their health, found it impacted on their ability to undertake: household maintenance and decoration; transport; hobbies and leisure; and food. The impact was even greater for people who were severely restricted. These people had to make adjustments to many aspects including: house decoration; transport; hobbies and leisure activities; food; household tasks; money management; personal hygiene and holidays.

Family and friends influences on pensioners' financial situation

Nearly half those interviewed received some help from family and friends. This help was often not direct financial help, but given as presents of useful or needed items. In order of prevalence these included: giving electrical items (most common), clothes, holidays, car, furniture, bills and food. In addition many received practical help, such as decorating (most common), transport, shopping, food, gardening and cleaning (This support is listed in order of prevalence).

For those not receiving this help, the main reasons included: they didn't need the help; families busy and living too far away; they had no close relatives; their families were experiencing their own hardship; and they were too proud to ask.

Prioritising the deprivation measures

All interviewees were shown each of the 11 deprivation measures in turn, and then asked to provide a priority rating. This provided some indication of the relevance these indicators have in older peoples' lives. It also helped to determine whether older people would buy these items if they had enough money, and whether people didn't rate a measure because of other reasons such as health reasons.

The four items currently included on the Family Resources Survey that older people were most likely to consider essential were: having two pairs of all weather shoes; keeping their home adequately warm; being able to replace broken electrical goods such as a refrigerator or washing machine; and a hobby or leisure activity. These were also the things that older people interviewed in depth were least likely to go completely without.

In contrast the seven items older people considered less important to have were (in order of importance): having home contents insurance; keeping their home in a decent state of decoration; a holiday away from home for one week a year, not with relatives; replacing any worn-out furniture; having a small amount of money to spend each week on themselves, not on their family; having friends or family for a drink or meal at least once a month; regular savings (of £10 a month) for rainy days[2]. Older people were much more likely to go without these seven items, although, not always because they could not afford it.

[2] Many interviewees interpreted this measure as referring to savings in formal accounts or savings that were rarely dipped into. They did not interpret this as measuring informal saving, and as a result the level of importance given to this measure does not reflect the level of active saving found.

Three factors in addition to income, influence the ways that the deprivation indicators included on the Family Resources Survey work:

- The *decline in people's health* placed many limitations on their daily activities including: getting about and transport choices; buying and preparing food; engaging in leisure activities; taking holidays and even day trips; household maintenance and domestic chores and money management. All of the above impacted on how older people chose or indeed needed to spend their money. Lack of engagement in social activities did on the whole lead to a reduction in discretionary spending. On the other hand some changes led to increased expenditure, for example the reliance on taxis when buses had been used in the past. These shifting needs impact greatly on older peoples' spending decisions and priorities, and need to be looked at carefully when exploring pensioner poverty.
- The family has played a pivotal role in many older peoples' lives, providing a combination of financial and practical and emotional support. Examples of help provided by families included: decorating; transport; shopping; gardening; cleaning; replacing household items; holidays and day trips; and managing money. Indeed many of the people interviewed were leading more active and independent lives because of this help, and in many cases cushioned from financial hardship.
- Lifetime income had an important impact on how people viewed how they were managing financially in retirement. Those on long term incomes tended to feel more comfortable in retirement compared to those who experienced more significant changes in income. Lifetime income affected perceptions and understanding of poverty, and understanding of their current financial situation.

Items people had even though they couldn't afford them

On the whole, where older people did not go without the things captured by the Family Resources Survey indicators it was because they could afford them either out of their regular income or by drawing on savings. There were, however, three indicators where significant numbers of older people did not go without, even though they could not afford them themselves. These were:

- being able to replace broken electrical goods such as a refrigerator or washing machine;
- keeping their home in a decent state of decoration; and
- replacing any worn out furniture.

Most commonly it was because they had these things provided for them by their family. In contrast, those who did go without them because they could not afford them not only had low incomes but also had no family who were able to help them out. This being the case, the link between these indicators and income will be weakened but, arguably, they are capturing a wider aspect of deprivation than income alone.

Other strategies which enabled people to replace electrical items they could not otherwise afford include: using consumer credit, insuring electrical goods against loss, and buying second hand replacements. These were strategies that they had used throughout their lives in response to long-term low incomes. People also bought furniture and shoes second-hand.

Items people could not afford but said they did not need

The depth interviews also showed that older people who had lived on low incomes all their lives had never been able to afford items and over the years had lowered their expectations. This was especially true of holidays away from home, replacing worn out furniture, saving for a rainy day and personal spending money.

There was also a group of indicators where a number of people who could not afford them said, instead, that they went without as a result of their age or ill-health. These again, included holidays and replacing worn out furniture, but also included hobbies and leisure activities and having friends or family round for a meal or drink.

Using the Family Resources Survey indicators

There were real problems with two of the indicators which meant they do not, therefore capture the extent to which older people are able to afford them. These are 'Having a small amount of money to spend each week…' and 'Having friends or family for a drink or meal…' and a third one – replacing any worn-out furniture – was not linked to income in any systematic way. The maintaining adequate heating indicator was less useful, it seemed since the introduction of Winter Fuel Payments as people no longer needed to cut back.

The remaining seven indicators[3] gave a more accurate picture of the extent to which older people could afford them, although they did so with varying degrees of accuracy. We would, however, recommend that further quantitative analysis is undertaken to see whether a measure based on these six indicators is statistically robust.

[3] Holiday away from home for at least one week a year, whilst not staying with relatives at their home; Two pairs of all weather shoes for each adult; Enough money to keep your home in a decent state of decoration; Household contents insurance; Make regular savings of £10 pounds a month or more for rainy days or retirement; Replace or repair major electrical goods such as a refrigerator or a washing machine, when broken; A hobby or leisure activity

The full report of these research findings is published for the Department for Work and Pensions by Corporate Document Services (ISBN 1 84712 045 8. Research Report 363. July 2006).

It is available from Paul Noakes at the address below. You can also download this report free from: www.dwp.gov.uk/asd/asd5/rrs-index.asp

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