The effect of the pandemic on expected retirement resources

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EXECUTIVE SUMMARY

The COVID-19 pandemic has caused a significant financial shock for many households. Among those close to retirement the negative financial impact risks being felt into and through retirement. The English Longitudinal Study of Ageing COVID-19 Substudy provided an opportunity to evaluate older people's own perceptions of the effect of the crisis on both their current income and wealth, and on their future retirement incomes.

We find that although many have avoided hits to their income and wealth from the pandemic, a significant minority have been adversely affected. One-in-seven (14%) had lower incomes in November/December 2020 than they had before the pandemic, and one-in-five (20%) thought they had lower financial wealth than if the pandemic had not happened. It is striking that almost half (45%) of those in paid work before the pandemic thought that their total income in retirement would now be lower as a result of the crisis. This percentage is higher (by 11 percentage points) among those who were struggling financially before the crisis compared to those who were not, increasing concerns about widening financial inequalities. 12% of those not yet retired are now planning to retire later as a result of the pandemic, with two thirds of those also expecting their future retirement incomes to be lower.

These analyses highlight that the pandemic will have a long-lasting detrimental impact on many people's finances, and the importance of government policies to support older workers to remain in, or return to, employment.

Key findings

— The pandemic continued to depress the household incomes of some older people in late 2020. Over half of those who reported that their household income was lower than it was before the pandemic in June/July 2020 continued to report this in November/December 2020. In total 14% of respondents in November/December reported that their household income was lower than it was before the pandemic.

— Those respondents who reported having lower household incomes in both June/July and November/December were more likely to be drawing on savings in order to weather that shock by the latter period.

— 9% of respondents perceived that their financial wealth was now higher than it would have been in the absence of the pandemic. 20% reported that their financial wealth was lower.

— Nearly a third of respondents reported that their retirement income in future would be lower as a result of the pandemic. Among those in paid work before the crisis this proportion was nearly one-half (45%).

— The proportion expecting their retirement income to be lower is 11 percentage points greater among those who were managing less well financially before the crisis, increasing concerns about widening financial inequalities. 57% of those who were in work but managing less well before the pandemic expect their future retirement income to now be lower as a result of the crisis.

— Those who have retired since the start of the pandemic were 10 percentage points less likely to report having lower retirement income in future than those still in paid work.

— Among those not yet retired, 12% are planning to retire later than they were previously planning as a result of the pandemic. Two-thirds of these individuals expect to have a lower retirement income in future as a result of the pandemic – in other words, 8% of those in paid work are both planning to retire later and expect to have a lower income.

Introduction

The COVID-19 pandemic has caused a significant financial shock for countless households. Lockdown restrictions have affected the ability of many people to work, reducing incomes, while falls in some asset prices have reduced the value of some people's wealth. For older households these shocks may have lasting implications for their retirement security. The years leading up to retirement may have been key years of planned saving, and falls in incomes may have reduced individuals' capacity to save. Some have drawn on savings, even pension savings, in order to weather the crisis, and these individuals may not be able to replenish their savings before they had planned to retire. Conversely, others may not have been so adversely affected. Many have continued in their pre-pandemic employment and earning similar incomes, and these individuals may have seen their saving rates increase, as social restrictions have reduced consumer spending. Such individuals may feel financially better placed for retirement.

Here we examine the extent to which older people feel their retirement incomes will have been affected by the pandemic. We examine how that varies across individuals with different characteristics and experiences of the crisis, and explore what role changing retirement plans may have in ameliorating any long run negative effects on retirement incomes. We do so using data from the second phase of the ELSA COVID-19 Substudy. This data was collected in November/December 2020 from a representative sample of men and women in their late 50s and older. The first phase of the Substudy collected data in June/July 2020.

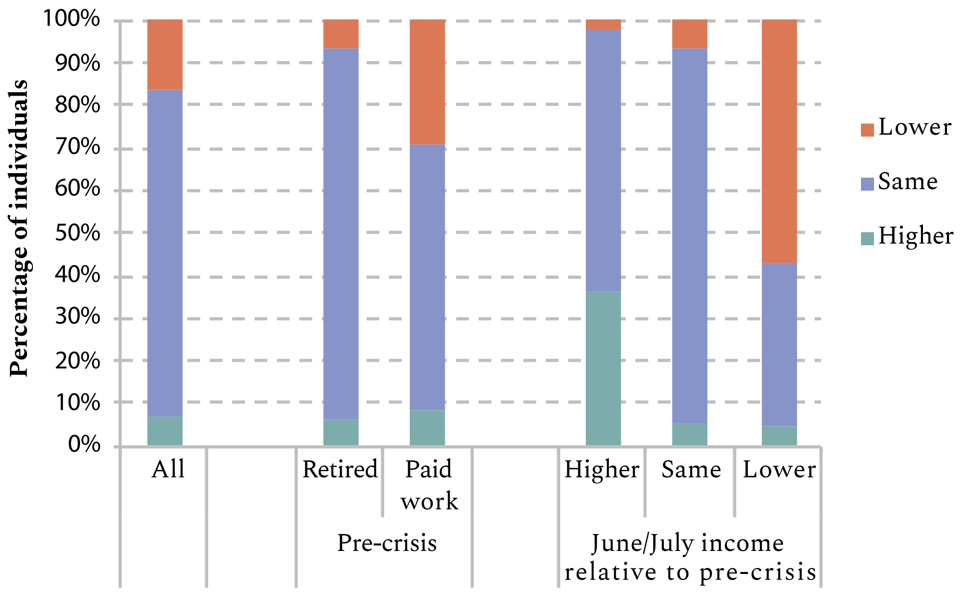
Results

There were 6,794 respondents to the ELSA COVID-19 Substudy in November/December 2020, of whom 5,558 were core ELSA members. Of these core members, 5,299 also responded to the first COVID-19 Substudy which took place in June/July 2020. This analysis was carried out primarily using the full core sample, but where noted the sample is restricted to those who responded to both surveys. All data are weighted using cross-sectional or longitudinal weights, as appropriate.

Household finances in November/December

The pandemic continued to depress some household incomes among older people in late 2020. In June/July 2020 20% of respondents to the ELSA COVID-19 Substudy reported a lower household income than before the crisis: 31% among those working pre-crisis and 8% of those not (Crawford and Karjalainen, 2020). In November/December 2020, 14% of respondents reported that their household income was lower than it was before the pandemic (shown in **Figure 1**). These people are predominantly those who were working before the crisis: among those in work immediately before the pandemic 31% reported that their household income was currently lower, compared to 7% of those retired before the pandemic.

Figure 1. How does income compare to before the coronavirus outbreak?



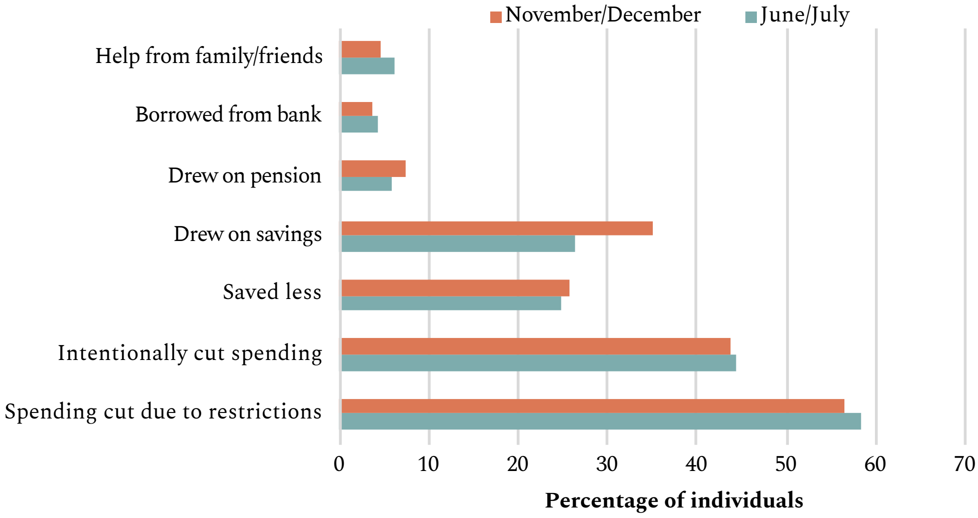
Notes: Where individuals are grouped according to how their income in June/July compared to pre-crisis the sample is restricted to those who responded to both Substudy waves.
Source: ELSA COVID-19 Substudy (Nov/Dec 2020 and Jun/Jul 2020). Weighted data.

Restricting attention to those who responded to both Substudy surveys, the majority (69%) of people reporting lower incomes in November/December also reported having lower incomes in June/July, but 31% had not reported an income drop in June/July.

Viewed another way, over half (57%) of those reporting lower incomes in June/July also reported lower incomes in November/December. In other words, for slightly more than half of older people the income hit arising from the pandemic has been persistent throughout the latter half of 2020.

The persistence of the shock to household incomes has changed how some people have had to respond to it. **Figure 2** illustrates how people reported reacting to their lower income in june/July and November/December 2020, for those who reported having lower income than pre-crisis in both periods. In particular, the proportion of individuals drawing on their savings has increased by 11 percentage points (statistically significant at the 5% level) in November/December compared to June/July.

Figure 2. Changes in responses to reduced household income for those reporting lower than pre-pandemic income in both Jun/Jul and Nov/Dec



Note: Rows sum to more than 100 as people can respond in multiple ways.
Source: ELSA COVID-19 Substudy (Nov/Dec 2020 and Jun/Jul 2020). Weighted data.

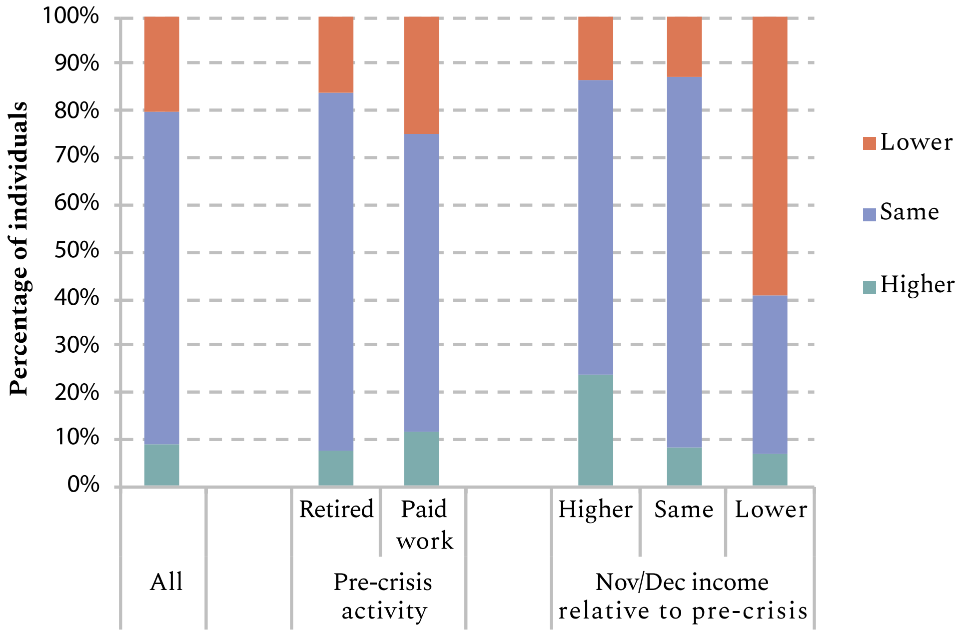
Many older people have not, however, been adversely affected by the crisis in financial terms. As shown in **Figure 1**, 77% reported their incomes in November/December as being about the same as before the crisis, and 7% reported higher incomes (63% and 8%, respectively, among those working before the pandemic). Many of these individuals will be accumulating savings due to government restrictions on social activities reducing household spending. Aggregate national accounts data shows that the household savings ratio has increased markedly since the pandemic began, as has the total amount of household deposits in bank accounts (Francis-Devine, 2021).

To examine this, respondents were asked "*Thinking about the amount your household holds in any savings and investments (not including pensions), less any debts you might have. How does the current level of your financial wealth compare to the level it would have been without the pandemic?*" **Figure 3** shows that across all individuals, 9% reported that their financial wealth was currently higher. This was slightly higher among those in paid work prior to the crisis compared to those who were retired (12% compared to 8%). Even among those who reported that their income was currently higher than pre-crisis, or who reported that their income was around the same, the proportions reporting their financial wealth to be higher were only 24% and 8% respectively. This stands somewhat at odds with the large increase in savings observed in aggregate data, and could point to a misperception about the full effects of the pandemic on personal finances, or a reluctance to report improvements in financial position.

It is striking, however, that some 20% of people, and 60% of those who reported having lower incomes than pre-crisis, reported having lower wealth as a result of the pandemic. That chimes with the responses to lower income documented in **Figure 2** –

that many people reduced their rate of saving, or drew on accumulated savings.

Figure 3. How does the current level of your financial wealth compare to the level it would have been without the pandemic?



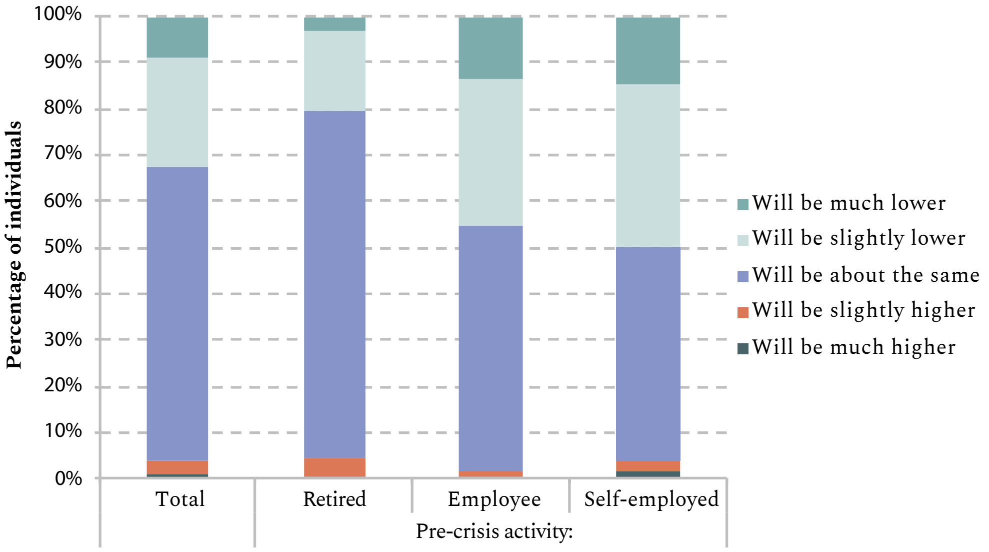
Source: ELSA COVID-19 Substudy (November/December 2020). Weighted data.

To get a sense of the expected persistence of the financial consequences of the pandemic, respondents are also asked "*Thinking ahead 6 months from now. How do you think the level of your financial wealth then will compare to the level it would have been without the pandemic?*" Among those who perceive their current wealth to be higher than it would have been without the pandemic, roughly half (53%) expect that to still be the case in 6 months' time. Among those who perceive their current wealth to be lower than it would have been without the pandemic, a greater proportion (71%) expect this situation to persist and their wealth to still be lower in 6 months' time than it would have been without the pandemic.

Expected retirement income

For some older people these financial shocks may not only affect living standards in 2020, or 2021, but over the longer term as well. To examine individuals' own perceptions of this, respondents were asked "*Thinking about the level of your total retirement income in future, how do you think this will have been affected by the coronavirus pandemic?*" **Figure 4** shows that 32% of individuals think their retirement income in future will be lower as a result of the pandemic. One-in-five who were already retired prior to the pandemic thought this – perhaps a surprisingly high proportion given that many of these individuals will already be in receipt of pension income that would be unaffected by either lockdown restrictions or asset price changes. The picture is even more dramatic for those who were in paid work immediately before the crisis, among whom nearly half (45%) thought that their total retirement income would now be lower (44% of employees and 49% of the self-employed). 14% of those in paid work before the crisis reported that they expected their income to now be much lower. In contrast, very few reported that they expected their retirement income to be slightly higher or much higher.

Figure 4. How do you think the level of your total retirement income in future will have been affected by the pandemic?



Source: ELSA COVID-19 Substudy (November/December 2020). Weighted data.

We examine how individuals' expectations of their retirement income vary according to their characteristics and their reported experience of the pandemic. The results are summarised in **Table 1**. Among those already retired, older adults are much less likely to think the pandemic will reduce their total retirement income – for example, those aged 71 and over were 13 percentage points less likely to report this than those aged 54-59. Among those in work before the pandemic there is little difference in expectations of its impact on retirement income by age, once other circumstances have been controlled for. There is also little difference in expectations between men and women, conditional on other circumstances. There are significant differences, however, depending on how well someone was managing financially before the crisis. Those in paid work who described themselves as 'just about getting by', 'finding it quite difficult' or 'finding it very difficult' prior to the pandemic were 11 percentage points more likely to think that the pandemic had reduced their retirement incomes than those who reported they were 'living comfortably' or 'doing all right' before the pandemic. This raises the concern that the pandemic may have widened income inequalities at older ages.

As one would expect, it is those who have suffered reductions in their incomes, and for whom the pandemic has negatively affected current financial wealth, who are more likely to expect their future retirement income to be lower. This likely reflects both lower capacity to save for retirement than planned among these individuals, and lower accumulated financial wealth (in addition to any private pension saving) which was planned to be used to fund retirement.

It is interesting to note that among those in paid work immediately before the pandemic, those who were retired in November/December were less likely to think that the pandemic has reduced their total retirement income in future than those who were still in paid work (by 10 percentage points) – and much less likely to think that than those currently on furlough or on leave from work (by 23 percentage points). This suggests that those moving into retirement are not, at least in general and as of November/December 2020, being forced by circumstances to retire earlier than they would otherwise have done with worse adverse consequences for their retirement incomes than remaining in work. However, our evidence suggests that this may not be the case were those on furlough (or on leave from work) at the end of 2020 to end up retiring rather than returning to paid work.

Changes in planned retirement ages

One possible response to a negative shock to expected retirement income for those in paid work is to work for longer. Extra months of work both reduce the length of time that accumulated retirement savings need to fund, and yield additional years of earnings, some of which could be saved for retirement. In June/July 2020 8% of older workers reported planning to retire later than they had previously intended as a result of the pandemic. In November/December 2020 the proportion who reported this increased by 50% to 12%.[1]

[1] In June/July 5% reported planning to retire earlier than they were previously planning as a result of the pandemic. In November/December this was reported by 7%.

Table 1. Characteristics associated with expecting lower retirement income

	Those in paid work pre-crisis		Those retired pre-crisis	
	% expecting lower retirement income	Estimated marginal effect	% expecting lower retirement income	Estimated marginal effect
Aged 54-59	46.7	Ref.	43.1	Ref.
Aged 60-65	43.6	-3ppt	33.5	-9ppt
Aged 66-70	43.7	+3ppt	21.9	-11ppt
Aged 71+	35.7	-3ppt	16.4	-13ppt**
Male	47.3	Ref.	21.2	Ref.
Female	43.1	-3ppt	19.0	+1ppt
Not previously struggling financially	43.7	Ref.	19.4	Ref.
Previously struggling financially	57.4	+11ppt**	29.1	+5ppt
Income higher	30.9	-7ppt	15.3	-2ppt
Income the same	38.9	Ref.	17.3	Ref.
Income lower	63.6	+9ppt**	59.8	+21ppt***
Wealth higher	40.1	+12ppt**	13.5	+1ppt
Wealth the same	34.6	Ref.	13.8	Ref.
Wealth lower	75.1	+39ppt***	52.2	+32ppt***
No private pension not yet claiming	40.9	Ref.	18.6	Ref.
Has private pension not yet claiming	49.3	+13ppt***	32.7	+6ppt**
Employee (pre-crisis)	44.4	Ref.	n/a	n/a
Self-employed (pre-crisis)	49.1	-5ppt	n/a	n/a
Currently working	42.8	Ref.	n/a	n/a
Temporarily away	67.0	+13ppt**	n/a	n/a
Now retired	37.4	-10ppt*	n/a	n/a

Notes: Columns 2 and 4 are unconditional % of respondents with each characteristic expecting retirement income to be (much) lower. Columns 3 and 5 are the results of a multivariate probit model that controlled for all characteristics simultaneously. ***,** and * indicate statistical difference from the reference category at the 1%, 5% and 10% level.

Source: ELSA COVID-19 Substudy (November/December 2020). Weighted data.

Table 2 describes the overlap between changes to retirement ages and the expected effect of the pandemic on total retirement income in future. 34% of older workers expected a lower retirement income in future, but had not changed their planned retirement age. 8% expected a lower retirement income despite now planning to retire later. (In other words, over two thirds of those planning to retire later expected a lower income in retirement as a result of the pandemic.) Almost half of individuals reported neither changing their planned retirement age, nor expecting a lower retirement income, as a result of the pandemic.

Table 2. Overlap between planned retirement changes and expectations of changes to retirement income

	% of individuals
Expect lower income, no change to retirement age	34.0
Expect lower income, now planning to retire later	8.3
Expect lower income, now planning to retire earlier	3.1
Do not expect lower income, now planning to retire later	3.8
Do not expect lower income, no change to retirement age	47.3
Do not expect lower income, now planning to retire earlier	3.5

Notes: Individuals in work (or temporarily away from work) in November/December 2020. The small number who reported 'don't know' are included in 'no change to retirement age' and 'do not expect lower retirement income' as applicable.
Source: ELSA COVID-19 Substudy (November/December 2020). Weighted data.

References

Crawford, R. and Karjalainen, H. (2020) Financial consequences of the coronavirus pandemic for older people. ELSA rapid report.

Francis-Devine, B. (2021) Coronavirus: impact on household debt and savings. House of Commons Library Briefing Paper Number CBP9060

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The ELSA COVID-19 Substudy has obtained full ethical and data protection approval and is fully GDPR compliant. For further information, please contact ELSA@ucl.ac.uk

This report and other ELSA publications, including the ELSA COVID-19 Substudy methodological report, are available from www.elsa-project.ac.uk

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