Can Granny Spend It Fast Enough?

A report on the growing wealth of retired people in Britain

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SUMMARY

- Contrary to common perceptions about poverty among the elderly, a new analysis of official UK statistics shows that most pensioners are not only comfortably off but are getting wealthier as they get older. Retirees tend to conserve their wealth, and add to it by continuing to save through their retirement years. As a result most pensioners are destined to die with more assets than they retired with.
- 57% of pensioners have incomes that consistently exceed their outgoings. The average retired household ends each week with £30 of the week's income left over, amounting to 13% of their disposable income.
- There is no sign that the surplus income is ever spent: 90% of the time, the surplus income is simply kept, mostly in bank accounts. On top of this 'accidental' accumulation of funds, more than half (52%) of pensioners also consciously pay into planned savings.
- Pensioners save more the older they get, because while their incomes tend to decrease with age, their outgoings decrease even faster. The average household headed by a 75+ year-old under-spends income by 20%, leaving a £55 surplus each week. Only 8% of people aged 85+ ever manage to spend their entire week's income.
- Pensioners' housing wealth has increased substantially as a result of rising property prices in recent decades: most pensioners (63%) not only own their own homes but own them outright, ie free of mortgage. There is no sign that this additional source of wealth has been drawn done and spent – as with their excess income, pensioners tend to conserve their housing wealth.
- For most retirees, post-retirement savings are compounding onto an already large pool of assets. More than half of retired people have household wealth in excess of £250,000. 25% have more than £500,000.
- It is unclear why retirees continue to accumulate assets. Logically, it might be expected that their wealth is a nest egg, built up during their working lives, to be drawn down during retirement. But the evidence shows this is not the case: retirement wealth is conserved, not 'dis-saved'.
- Researchers in the US suggest that pensioners are conserving wealth to self-insure against the risk of long-term or terminal health care – the reductions in wealth that do affect a minority of pensioners are apparently due to the costs of care. We ask if self-insurance is the best strategy to address this risk.
- The built-up capital may be intended to be left to heirs; if this is true, we question why retirees prefer not to do this more tax efficiently, before death, rather than present their heirs with unnecessarily large inheritance tax bills.
- Over-large retirement funds carry a real human cost for the retired and their families: millions of people scrimped and saved unnecessarily, worked more years than they needed to, forwent holidays and missed out on spending time with their families.
- If 'excess' retirement wealth is more accidental than deliberate, it indicates a systematic over-estimate in the amounts people set aside for their retirements. With an at least 5 million people affected, such a miscalculation has occurred over many years and on a massive scale.

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FOREWORD

By Simon Mansell, Temple Bar IFA

Can Granny Spend it Fast Enough? Apparently not. More to the point, Granny usually doesn't want to. This report confirms what many IFA's have long known from personal experience – the priority for most retired people is to conserve their wealth, not to spend it. The unexpected outcome is that millions of retired people have more assets than they literally know what to do with.

So what? What is the problem? Those with the wealth, and those hoping to inherit it, can take comfort that it's easier to retain wealth than to create it in the first place. Easier, but not easy - it needs a plan. Granny's wealth has not gone unnoticed by cash-strapped government agencies, local authorities, care homes and tax officials, and they all want first bite.

'Excess wealth' may be a nice problem to have for the retirees, but there are hard lessons to be learned for those of us still in work. Behind many a prudent parent is a complacent offspring thinking how easy it all looks. One of the reasons today's workers are so uninterested in retirement planning is the continual sight of their retired parents living the good life. If it worked out so nicely for Granny, why not for me?

> *"Granny's wealth has not gone unnoticed by cash-strapped government agencies, local authorities, care homes and tax officials, and they all want first bite"*

The sobering fact is that the conditions that helped Granny to accumulate her wealth with such apparent ease are not likely to prevail for the next generations – we can no longer rely on rising house prices, bull stock markets, final salary pensions and a protective state. Today's workers need to take responsibility for their own futures, and work harder at it too. If this report spurs someone somewhere into think seriously about planning for retirement, then it will have done its job.

Perhaps the main lesson to learn is that planning for retirement is too important to be left to the would-be retirees. Millions of today's pensioners, in hindsight, got it wrong. How many of them intentionally planned to retire with too much money, set on a course where they would die with more assets than they retired with? The fortune now sleeping in pensioners' bank accounts and housing stock did not get there at nil cost. It arose in the first place through millions of dream holidays not taken, millions of man-hours worked that could have been spent with families, and millions of forgone opportunities for enjoying life. Would they have gone through all that scrimping and saving if only they had known?

Our hope is that this report will encourage today's workers to take good professional personal advice about what kind of retirement they want, and what resources they actually need for it. There are no universal rules, no set formulae for planning an individual's future – we all have our own unique journeys to take, but it is very good idea not to attempt the journey alone.

1 HOW POOR IS 'POOR OLD' GRANNY?

There is little published research about the financial health of Britain's retired population. What there is, and what reaches the media, often focuses on the condition of the poorest, which may give the impression that poverty among the elderly is the norm.

Yet official statistics suggest the retired are, in general, not badly off:

- 63% of households headed by people aged 65-84 are not only owner-occupiers but own their homes outright - that is, free of mortgage[1]. As most predominantly homeowners, pensioners have benefited most from decades of house-price inflation.
- The average wealth of households headed by someone age 65 or older is now more than £250,000, even excluding the notional capital value of pensions[2].
- Including pensions, the average total wealth for age 65+ households is around £400,000[3].

Pensioners have done well in recent years in terms of their incomes as well as their wealth. Average gross pensioner incomes increased by 39% in real terms between 1994/95 and 2006/07, more than twice the growth in average earnings[4].

Averages of course hide variations in individual circumstances. It is true that significant numbers of the elderly live in poverty, and many who live in care homes and other institutions are invisible to the household-based statistics discussed in this report.

Nonetheless, wealth is more broadly spread among the elderly, and poverty not as widespread as many people probably imagine:

- More than half of retired people have household wealth in excess of £250,000. 25% have more than £500,000[5].
- At the other end of the scale, the number of pensioners in poverty has declined by nearly a third over the last decade, from 2.9 million in 1998/99 to £2m in 2007/08[6], despite a rapidly growing population of elderly.
- There is less inequality of incomes today among retired households than there is among the non-retired[7].

"More than half of retired people have household wealth in excess of £250,000. 25% have more than £500,000"

Logically, it might be expected that the wealth of retired people represents a nest egg, built up during their working lives, which pensioners draw down during their retirement years. But this may not be the case. Our impression is that the old in Britain continue to accumulate non-pension wealth during their retirement years. As we discuss in the next section, most retired people cannot spend their incomes fast enough.

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[1] Office for National Statistics, *Focus on Older People* 2009.
[2] ibid
[3] Office for National Statistics, *Wealth in Great Britain* 2009.
[4] Office for National Statistics, *Pension Trends*, Ch 11, Pension Income & Expenditure 2009.
[5] Ibid.
[6] According to the most commonly used official measure: 60 per cent of equivalised contemporary median income after housing costs. Office for National Statistics, *Pension Trends*, Ch 3, Inequalities and Poverty in Retirement, 2010.
[7] Office for National Statistics, *Pension Trends*, Ch 3, Inequalities and Poverty in Retirement, 2010.

2 THE GENERATION THAT CAN'T SPEND IT FAST ENOUGH

Official statistics show that most retired people routinely reach the end of the month with more money than they began it with.

More than half (57%) of retired people always or mostly have cash left over from their incomes at the end of the week or month, as shown in Figure 1, drawn from the Office of National Statistics Wealth and Assets Survey. Indeed, as a category of employment, the retired are only section of the population in this enviable position – more retired people have surplus incomes than any other group, and by some margin.

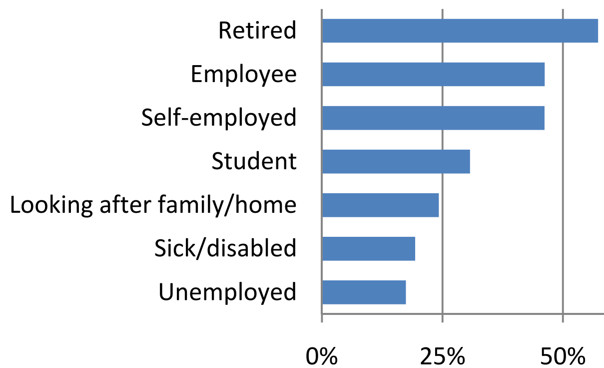

Figure 1

Proportion of population always or most of the time having money left over at the end of the week or month, by employment status[8]

Great Britain

Looking in more detailed at the Retired category, Figure 2 shows that more than three quarters of pensioners report having more income than they spend at least sometimes.

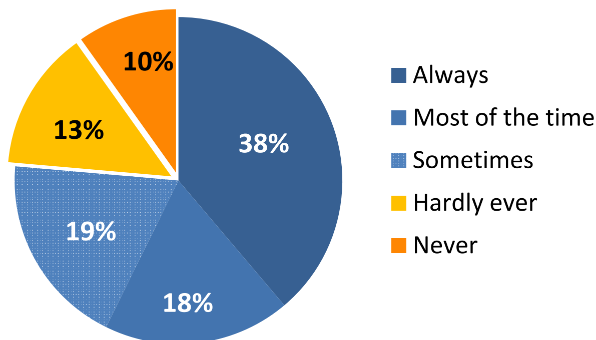

Figure 2

Frequency of retired people having money left over at the end of the week or month[9]

Great Britain

At the other end of the scale, just 23% of retired people never or hardly ever have money left over at the end of the week or month: it is likely that even some of these 'run out' only after having put some money aside as routine savings at the start of their budgeting cycle[10].

[8] Source: Office for National Statistics, Wealth and Assets Survey 2006/08.

[9] Source: Office for National Statistics, Wealth and Assets Survey 2006/08. Excludes Too hard to say/varies too much (2%).

[10] Office for National Statistics , *Wealth in Great Britain* 2009 p91 "Unexpectantly, 12 per cent of people [not just retired] who had previously said they never had money left over went on to say they had saved in the last 12 months. This group is likely to include people who saved routinely (for example using a regular standing order) at the start of their budgeting cycle."

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Older pensioners are more likely to have surplus incomes.

Perhaps surprisingly, the older people are, the more likely they are to have money left over from their incomes, as shown in Figure 3. The balance shifts, and sharply so for people at around retirement age: over the age of 55 and more people have a weekly or monthly surplus than not.

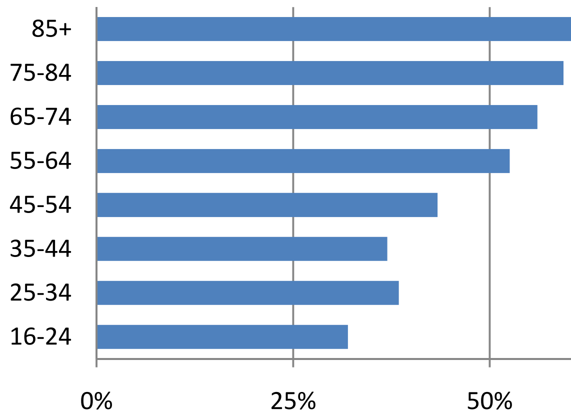

Figure 3

Proportion of population always or most of the time having money left over from income at the end of the week or month, by age. [11]

Great Britain

Among the elderly, the frequency of having surplus income increases with age. No less than 60% of people aged 85 and over usually or always end the month with money left over.

To look at it another way, as suggested by Figure 4, only 8% of 85+ year-olds ever manage to dispose of their entire week's or month's income.

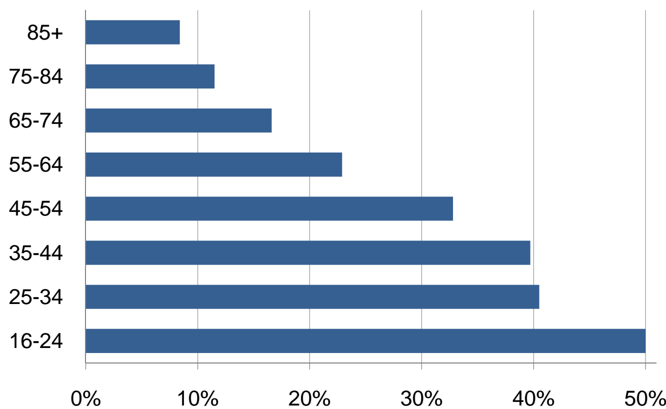

Figure 4

Proportion of population sometimes or more often running out of money, by age. [12]

Great Britain

We need to take care in interpreting Figures 3 and 4: the Wealth and Assets Survey is not a longitudinal study - it is not describing what happens to the same cohorts of people as they age. Nonetheless, the trend is compelling; taking Chart 4 on its face value, the older we get, the more likely we are to find ourselves with a surplus, until in our retirement years it becomes more likely than not.

[11] Source: Office for National Statistics, Wealth and Assets Survey 2006/08.
[12] ibid. Includes times when respondent has run out of money and used a credit card or overdraft to get by.

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3 HOW MUCH DO THEY HAVE LEFT OVER?

While it seems clear that most pensioner households do have surplus incomes, it is not so easy to measure the amount of the surplus.

If not ideal, the best source available to quantify the money left-over is the Living Costs and Food Survey, from the Office for National Statistics, which measures weekly incomes and outgoings for UK households. As defined by LCF, disposable incomes include pension income, and exclude the drawing down of savings and other assets. Expenditures include amounts spent on home maintenance and housing costs, and exclude money put into savings or invested in capital works like home improvements. By comparing the incomes against expenditures, we can take a tentative view of the average weekly surplus or deficit experienced by groups of UK households[13].

"retired households on average find themselves with about 12% of their disposable incomes left over"

By this analysis, as shown in Figure 5 below, retired households on average find themselves with about 12% of their disposable incomes left over, worth more than £30 per week.

This average of course hides widely differing experiences among the retired: the poorest (those depending on state pensions and other benefits, representing some 24% of retired households) do little more than break even. Nonetheless the large majority (76% of retired households are not dependent on state aid) seem to end the week with, at the average, some 13% of their incomes unspent, amounting to more than £40 a week[14].

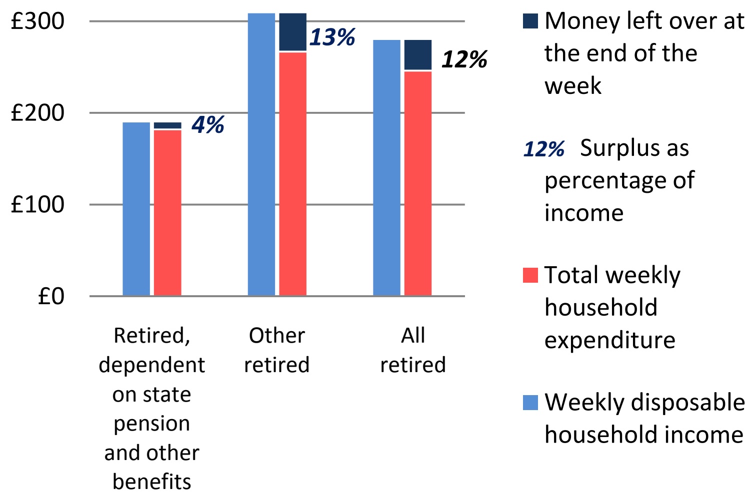

Figure 5
Surplus weekly disposable income, by type of retired household[15].

Great Britain

[13] LCF was not designed for the purpose of balancing income against expenditure, but is the best source available and a reasonable basis. The main drawbacks of the LCF for our purposes are a) the possibility that responders may understate their outgoings more than their incomes, and b) statistical errors arising from the use of relatively small samples.
[14] Source: analysis of data from Office for National Statistics, Family Spending 2009.
[15] Ibid.

Older pensioners have lower incomes, but a larger surplus.

We have already seen that older retirees are more likely to have a weekly surplus than younger retirees. It seems to be the case that the amount of the surplus also increases with age; as Figure 6 (below) suggests, older retired households have a greater surplus than younger ones.

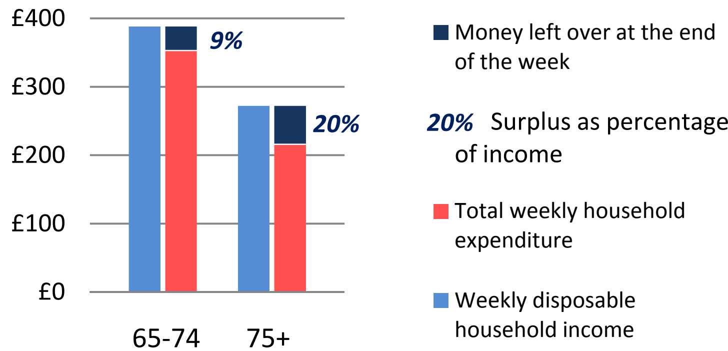

Figure 6

Average surplus weekly disposable income, by age of head of household[16].

Great Britain

Older pensioners have lower incomes than younger pensioner, because of lower incomes from private pensions and investments and lower earnings[17], but their outgoings reduce even faster. For reasons we will discuss later, older pensioners spend less than younger pensioner in almost every category of household expense, the few exceptions including such things as jam, newspapers, spectacles and domestic package holidays[18].

The net effect is that, on average, the weekly surplus rises from 9% of disposable income, or £34 per week, for those households headed by someone age 65-74, to 20% or £55 for households headed someone 75 or older.

"older pensioners spend less than younger pensioner in almost every category of household expense"

There are limitations and caveats to this data. Like the Wealth and Assets survey, LCF is not a longitudinal survey – it is not tracking what happens to cohorts of people as they grow older. And of course the pattern of retired people's spending will anyway be more complicated and diverse than we can read from the averaged data summarised in Figure 6. For example, some researchers have hypothesised a twin-peaked pattern in some pensioners' spending – the first peak of spending occurring early in retirement as people enjoy their new leisure time, and a second peak in later years arising from the possible extra cost of living with a disability[19]. Expressed at the mean, this data set tells us little about the experience of individuals, are there is likely to be some skew in the figures towards a relatively small number of relatively well off pensioners

But whatever the spending pattern, as we have seen, the statistics suggest that most retirees have more than enough income to meet it without having to dip into their savings.

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[16] ibid.

[17] See for example Pension Policy Institute, Briefing Note 51, *Do Pensioners Have Sufficient Income to Meet Their Needs?* June 2009

[18] Office for National Statistics, *Family Spending* 2009.

[19] Pensions Policy Institute, *Retirement income and assets: outlook for the future* 2010.

4 WHAT DO THEY DO WITH IT?

What do retired people do with their left-over money? They are unlikely ever to spend it: Figure 7, drawn from an attitudinal study in the Wealth and Assets Survey, shows that older people have by far the least inclination to spend of any age group and, among the elderly, the orientation towards spending continues to decline with age. Older people are more interested in saving instead.

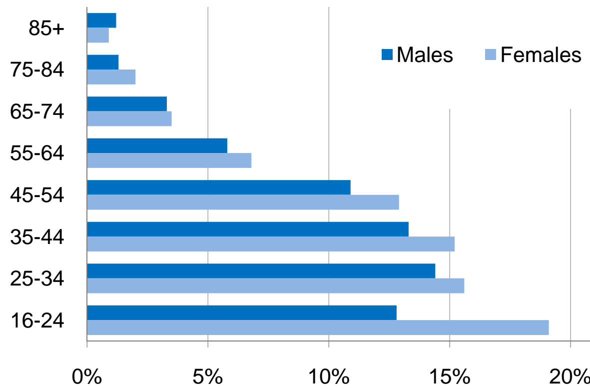

Figure 7

Strong or moderate orientation towards spending, by age and sex.[20]

Great Britain

The shift in attitudes suggested in Figure 7 points to a flaw in the so-called 'replacement rate' approach to retirement planning: most people feel that in order to be satisfied with their level of income in retirement, their income will need to provide them with a standard of living similar to the standard they experienced in the their working life[21]. Figure 7 suggests that in practice, by the time we retire, our attitudes towards spending may have changed drastically. For many others, the onset of disability will prevent older retirees spending even if they wanted to; 40% of total spending by people aged between 65 and 75 is recreational, on things such as transport and restaurants[22], spending which will tail off as people get less mobile.

Accordingly, only a small minority of the elderly get round to spending their surplus incomes, as shown in Figure 8.

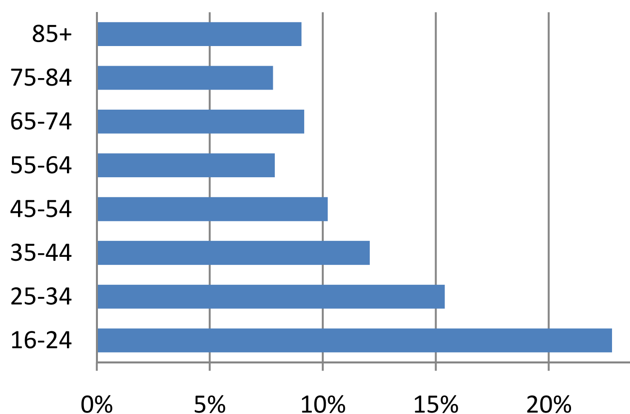

Figure 8

Proportion of population that mainly spends the money left over at the end of the week or month, by age.[23]

Great Britain

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[20] Source: Office for National Statistics, *Wealth in Great Britain* 2009
[21] Pensions Policy Institute, *Retirement income and assets: outlook for the future* 2010
[22] ibid.
[23] Source: Office for National Statistics, Wealth and Assets Survey 2006/08

If they are disinclined to spend it, Figure 9 below shows that even fewer retirees appear interested in giving their left over cash away either; only about 1% of pensioners mainly give their surplus incomes away.

So where does it go? 90% of the time, in one form or another, the left-over money is simply kept.

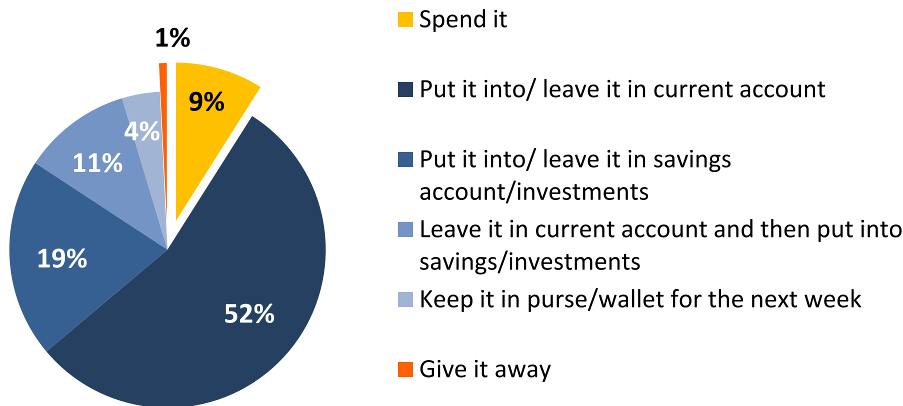

Figure 9

What retired people mainly do with money left over[24]

Great Britain

We can infer from Figure 9 that left-over income is not primarily a matter of planned saving, in the sense of a deliberate setting aside of money for future use. Less than a third of pensioners use savings accounts or investments as the home for surplus income, and for some of these the cash will find its way there only by default. More than half of pensioners do no more with their surplus income than leave it in their current accounts. To this extent, saving is an unplanned outcome – pensioners save because they can't or won't spend their incomes.

We keep saving, even into retirement

Even so, as well as finding themselves at the end of the week with spare money, it appears that most retired people (52%) are also consciously saving in the sense of deliberately setting money aside, as shown in Figure 10. Surprisingly, the frequency of savings is almost as high among the retired population as it is among people still working.

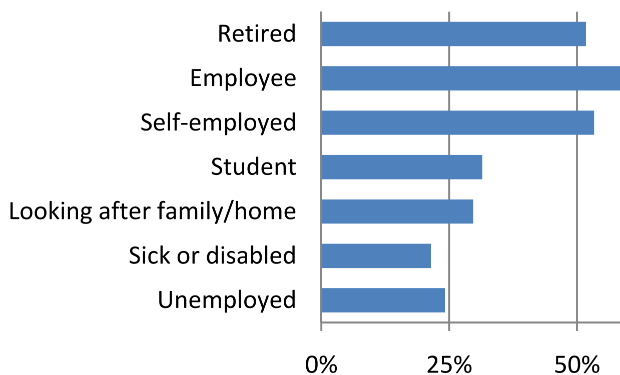

Figure 10

Proportion of population that saved from income in past 12 months, by employment status.[25]

Great Britain

Whether accidentally, deliberately or both, most retirees are saving from their incomes.

[24] Source: Office for National Statistics, Wealth and Assets Survey 2006/08. Excludes 2% Depends on amount left over/ varies too much to say, and 1% Something else.

[25] Source: Office for National Statistics, Wealth and Assets Survey 2006/08.

3 ARE THE RETIRED GETTING RICHER?

It might be expected that people save for their retirements according to some kind of life-cycle cash-flow strategy – saving up a nest egg during the working years, and then dis-saving it during retirement. At first glance, charts like Figure 11 give credence to the idea, because it is true that older pensioners have less wealth than younger pensioners.

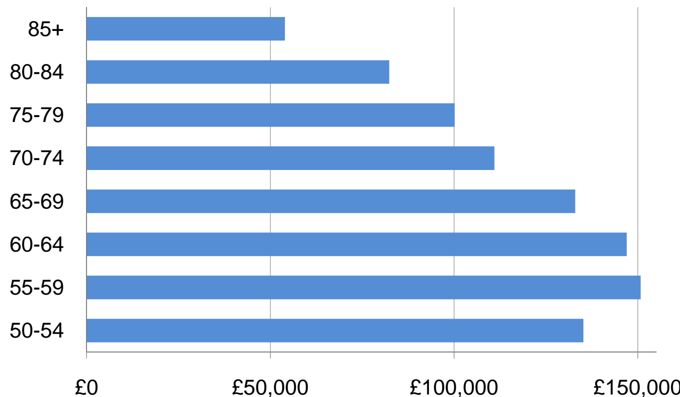

Figure 11
Median net non-pension wealth, by age[26]

England

So, drawing down our wealth during later years, we get poorer as we get older? Not necessarily.

The illusion of the life-cycle cash-flow

All of the charts so far in this report drew from cross-sectional surveys – snapshots of different people of different ages at the time of the study. They are not tracking what happens to cohorts of the same people over the years. Figure 11 does not tell us that pensioners lose wealth as they age; it tells us rather that each generation of retirees is wealthier than the one before.

"Each generation of retirees is wealthier than the one before"

There are so-called cohort effects that can explain the differences in wealth between generations of retirees[27]. For example, younger pensioners will have benefited from the compounding effect of higher earnings - they earned more during their working years than their parents did. Increasing rates of home-ownership will also have an inter-generational effect – recent retirees are more likely to have retired owning their own homes than their parents did.

As we have seen, most retirees, in all age bands, carry on saving through their retirements. Older pensioners are more likely to save, and save more, than younger ones. On that basis, we should expect a longitudinal study to show cohorts of pensioners' wealth increasing, not decreasing, as they grow older.

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[26] Data drawn from Banks & Taplow, *The Distribution of wealth in the population aged 50 and over in England*, IFS Briefing Note, 2009

[27] Source: English Longitudinal Study of Ageing (Wave 3), Ch 4, 2008

Pensioners get wealthier as they age

A rare longitudinal study, ELSA, does show this conservation and accumulation of wealth. The study tracked movements over a four-year period in the wealth, excluding pensions, of cohorts of older people in England. Most of them had become richer, and although much of the enrichment was due to rising house prices, most people had added to their non-housing wealth as well. The median increase in non-housing wealth was 6%, and as shown in Figure 12, non-housing wealth increased for people even into their 70's. [28]

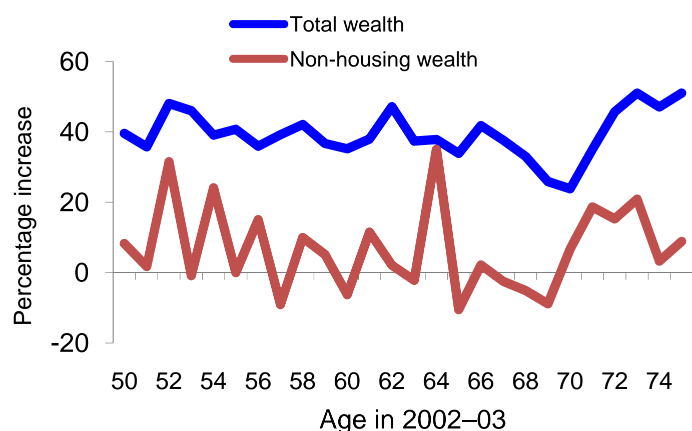

Figure 12

Median nominal percentage increases in wealth between 2002/03 and 2006/07, by age[29]

England

There is no evidence here of a running-down of assets as people age. Interestingly, despite rapidly growing property values during this period, the study found no sign that the elderly took advantage of the windfall and drew down their non-housing wealth: non-housing wealth and housing wealth alike continue to be conserved.

These averages will of course hide a diversity of individual experiences. There are a few exceptions to the overall trend – some groups in their late 60's experienced slight declines in their non-housing assets, but not enough to make much of a dent on their overall capital. For those pensioners with little in the way of savings or liquid assets, a positive percentage savings rate may not translate into much in money value. Nonetheless, the overall pattern is that most people had conserved, or added to, what wealth they had; pensioners do not generally draw down assets, housing or other, during their retirement years.

"pensioners do not generally draw down assets, housing or other, during their retirement years"

Supporting these findings, a recent depth analysis by the Institute of Fiscal Studies using two UK-wide data sets found broadly neutral savings rates among the elderly for non-housing wealth[30] - they neither saved nor dis-saved. If anything, older pensioners appeared to save more than younger pensioners. Very high savings rates were seen once changes in housing wealth were taken into account – this being a result of the steep increases in house prices occurring during the years when the data were collected (2000-2005). There was no sign that any of the new wealth created by rising house values was drawn down and spent.

[28] Source: English Longitudinal Study of Ageing (Wave 3), Ch 4, 2008
[29] ibid.
[30] Institute of Fiscal Studies, The wealth and saving of UK families on the eve of the crisis, July 2010.

Clues from America

Research in the USA may point to the dynamics underlying Figures 11 and 12. The US Social Security Administration commissioned a study to find out to what extent American retirees are drawing down their savings precipitously and are therefore in danger of outliving their assets. The study found that, not only were assets not being run down too quickly, for most retirees they were not being run down at all – wealth was increasing as retirees grew older[31] .

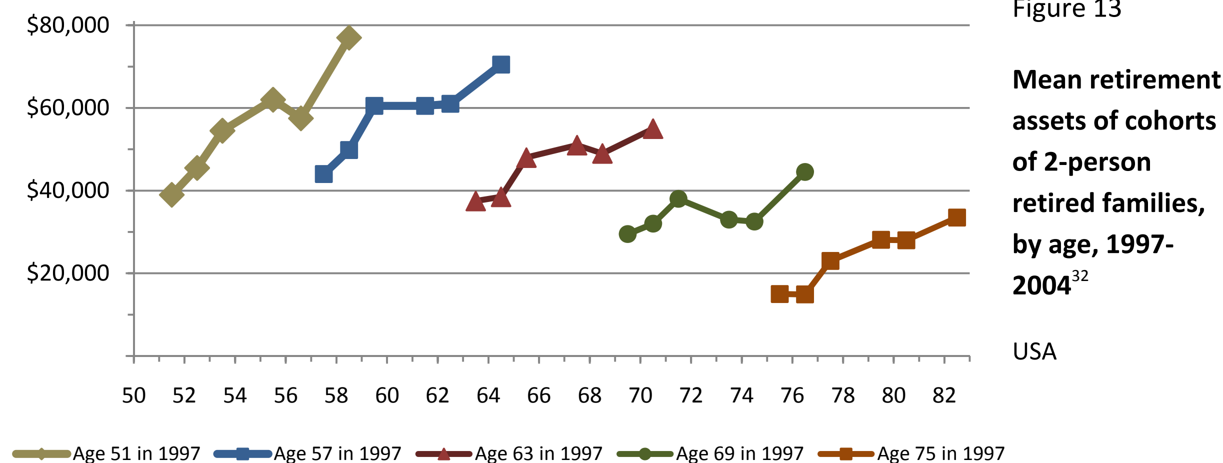

Figure 13

Mean retirement assets of cohorts of 2-person retired families, by age, 1997-2004[32]

USA

Figure 13, drawn from the US report, plots changes in the average retirement wealth (savings schemes specifically designed to provide funds for retirement) of cohorts of 2-person retired families over a 7-year period. The first upward line (top left) left tracks the wealth of people aged 51 in 1997, the next line refers to people aged 57 in 1997, and so on to people aged 75 in 1997. Every cohort shows an upward trend in wealth - even the oldest group, who were in their 80's by the end of the period shown here. The consistency of the pattern is remarkable. The researchers found a similar accumulation underway for total assets, including housing wealth. It occurred at the median as well as the mean, showing that the growth in assets applied to at least 50% of retirees. And wealth grew for all ages of retirees, even through ages as old as 94. The cohort effect that probably underlies Figure 11 is clearly visible in Figure 13 – younger cohorts consistently have more assets than older cohorts. Without the tracking of cohorts over time, it would be easy to misinterpret a de-accumulation rather than an accumulation process underway.

As in Britain, most American retirees grow wealthier during their retirement years, and the US research gives clues to the drivers that create this wealth accumulation. Retired people prefer to live off interest and dividends rather than to draw down capital – typically the withdrawals are less than the return on capital, so the net effect is a growing asset value[33]. Retirees show a strong urge to conserve and accumulate assets, both savings and housing wealth, for reasons we will discuss next.

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[31] Poterba, Venti & Wise, *Tapping Assets in Retirement: Which Assets, How and When* 2008

[32] ibid. Figure 5-7 ("Mean retirement assets of fs22 persons for selected SIPP cohorts"). As an example, this figure shows mean retirement wealth of cohorts of sample families that comprised 2 retirees through the period 1997-2004. The study looked separately at cohorts of single-person retired households, and retiree families which moved from 2- to 1-person or vice versa.

[33] ibid.

4 WHY?

Why do people spend their working lives, and even their retirements, building up savings and other assets they are destined never to spend? Without research we can only speculate, but the most compelling rationale is perhaps saving for a 'rainy day' – self-insurance against a random financial shock, such as the cost of long-term or terminal care.

Self-insurance?

The ELSA study summarised in Figure 12 found no clear link between wealth change and health, but the US research did point to a connection. The growth in wealth was markedly less for retired families which suffered a shock to their family status – moving from 2-person to 1-person households through divorce, separation or widowhood, and there was usually a sharp drop in capital just before the shock. On this basis, it is possible that the cost of terminal care is a primary cause of many cases of reduced wealth. The report's authors suggest that the conservation of funds that continues into retirement can be seen as a way of self-insuring against this kind of financial shock.

Although there are of course differences between US and UK, there appears to be a comparable process of wealth conservation prevailing in both countries. But if the common driver is the need to put a buffer in place against the risk of long-term or terminal care, then more questions arise. Are there not more efficient and effective ways to provide for such a contingency? The likelihood is that real insurance could address the risk at a cost in premiums which is a fraction of the funds currently stockpiled by the elderly supposedly for the purpose. Are the elderly being ill-advised, or are there rational reasons for people to prefer self-insurance?

"Are the elderly being ill-advised, or are there rational reasons for people to prefer self-insurance?"

It would be interesting to find out whether those people who have long-term care insurance tend to conserve their retirement wealth any less than the uninsured.

Leaving something for the children?

It may be that the elderly deliberately conserve wealth with the intention of benefiting their heirs. We would question the strength of this altruistic motive anyway, given the how few pensioners give away their surplus cash while they are still alive (recall Figure 9). But if true, we again wonder if pensioners are being well advised. For the heirs, the inheritance of the surplus capital comes at the price of unnecessarily high inheritance tax liabilities – potentially avoidable if the wealth had been transferred in a planned way before death.

Or just a mistake?

Alternatively, perhaps people are set to die with more assets than they retired with not by strategy, but by accident – the outcome of inadequate planning and an over-estimate in the funds required for the retirement years. If so, with at least 5 million retirees affected, the error has occurred on a vast scale and over many years.

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The state of having too much money in retirement may be seen as a happy accident, but on the other hand it carries with it real costs. There are financial penalties to having inflated retirement assets: where an annuity is bought, a large amount of the capital used for the annuity can simply be lost.

The non-financial costs are possibly more severe, if we view over-inflated retirement capital as the result of many years of unnecessary austerity. Millions of retired people scrimped, saved and worked more years than they needed to, unnecessarily forwent holidays, pursuits and other lifelong dreams, and denied themselves time they could have spent with their families. Would they have made these lifestyle choices if they had known the outcome?

"Millions of retired people scrimped, saved and worked more years than they needed to"

5 IMPLICATIONS AND SUGGESTIONS FOR RESEARCH

The tendency for the elderly to conserve wealth raises many issues in the area of personal finance, in particular for retirement planning, health care insurance, and inheritance planning, as alluded to already in this report.

But the implications also spread wider. For example, the findings raise questions for government policy on several levels. For the 2010 general election all three major political parties campaigned on platforms to increase the basic state pension in line with average earnings (ie, above the rate of price inflation), and pointed to the oldest pensioners as being the most deserving of more financial aid. Our findings suggest that the main result of increasing basic state pensions would be, in general, to channel money into the elderly's already over-funded current accounts. In general, older pensioners appear have the least need for extra financial support.

Implications for macro-economic policy include concerns that the reduced levels of consumption and increased savings of a growing elderly population may be counteracting efforts to stimulate economic growth. Is the wealth accumulating in retired people's bank accounts and other assets acting as an increasingly heavy deadweight on the economy?

How robust are our findings? None of the data sources we have used were designed to address this specific issue, and should be treated with caution. Nonetheless, the fact that several datasets point to the same conclusion can give us confidence that the elderly, in general, conserve their wealth rather than spend it, and we can make tentative estimates of amounts at the average. Much beyond that it is hard to go. Research specifically to measure savings rates among Britain's elderly would be a valuable next step in clarifying the picture.

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About the author and publisher

The author, Clifford Soper, has 28 years' experience in the financial services industry. Educated at Emmanuel College, Cambridge, he holds an MBA from London Business School and is a member of the Securities Institute, London. He was an FSA-authorised and regulated financial advisor before moving into specialist freelance financial research and market analysis. Clifford Soper has undertaken freelance consultancy work for many large financial institutions, including Nationwide Building Society, Scottish Equitable and NatWest.

Temple Bar Independent Financial Advice was established in 1999, specialising in Estate Planning to enable an individual or nuclear family arrange assets in the most tax efficient manner. Temple Bar's founder and managing director, Simon Mansell, a lawyer by background, has more than 30 years' experience in financial services. He has written and contributed towards many articles and publications including Financial Times, Money Marketing, The New Model Adviser and has given evidence to The House of Lord Select Committee on the Constitution 2003-04.

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