CONSEIL D'ORIENTATION DES RETRAITES
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« Consumption, savings and use of credit from pensioners »

Brief

Prepared by the General Secretariat of the Council, under the direction of the President of the COR

Summary: In addition to the regular monitoring of retirees' standard of living, this report examines how retirees allocate their disposable income between consumption and savings, by also shedding light on the financial aid paid by retirees to their children as well as on retirees' debt. This report updates the work presented to the COR in 2014 and 2015 as part of the 13th COR report on the situation of retirees, published in December 2015.

I – Retirees' consumption and spending

- **Do retirees behave differently in terms of consumption?** Yes, retirees, especially the oldest among them, spend less than the rest of the population outside the home (clothing, cars and transport, hotels and restaurants, etc.), while they devote a greater share of their budget for housing expenses excluding rent (utilities, heating, domestic services, etc.), food, health and personal care (hairdressers, etc.). Most of them are owners and they have no rent to pay, but when they are tenants, rent weighs more on their budget than that of non-retired tenants. Overall, retirees consume on average slightly less than the rest of the population, despite having a slightly higher standard of living (*document no 2*).

- **Is this lower consumption by retirees linked to financial constraints?** Retired people, especially the oldest among them, are less likely than the rest of the population to express difficulties in making ends meet (*document no 2*).

- **What is the source of this lower consumption among the elderly?** Under-consumption is mainly characteristic of the older generations, who suffered deprivation during the war and who kept their consumption habits, as they grew older. The new baby boom generations consume more, especially in the field of transportation or leisure. The drop in consumption by the elderly is also explained by the effects of ageing: after the age of 60, people spend less and less outside of the home as they get older (*document no 3*).

- **Yet health expenditure increases with age?** They sure do, but health expenditures borne by households (complementary health insurance premiums paid by households, excluding employer contribution + remaining costs after reimbursement by basic and supplementary insurance) increases on average only moderately with age: they represent around 3% of the income of working people and 6% of that of retirees in 2012. However, out-of-pocket health care expenses weigh on the budget of older and poorer retirees: 13.3% of income after the age of 75 among the poorest 20% (*document no 4*).

- **What about the expenses related to loss of autonomy?** About 8% of retirees are experiencing a loss of autonomy (GIR 1 to 4), of which 5% live at home and 3% in institutions. For elderly people living at home, long-term care expenses are largely financed by the personalized autonomy allowance (APA), the scales of which have been revised upward significantly by the ASV Act at the end of 2015, as well as by extended tax aids (tax reduction transformed into a tax credit in 2017): thus, the remainder would not exceed € 72 per month on average at the end of 2017. On the other hand, for the elderly in institutions, the remaining accommodation expenses often exceed their resources (as long as the resources are less than around €2,000 per month in 2017 – which is mostly the case) despite housing subsidies, tax reductions and social housing assistance (ASH) to which they can resort under conditions. Thus, unlike other retirees, the elderly in institutions consume a lot and they arguably draw on their assets to meet their expenses (*documents no 5 and 5 bis*).

II – Sharing of disposable income between consumption and savings

- **Do retirees save?** Yes, their savings rate is positive, although lower than that of working people. More specifically, the savings rate, which is relatively high at the end of the working life, decreases after age of 60 because incomes fall when retiring, then rises again after age of 70 because consumption declines among the oldest people. Former managers and self-employed people save more than former blue-collar workers and employees. However, it is difficult to measure savings rates, and these results, which are based on a breakdown by category of INSEE's national accounts in 2011, ignore the diversity of individual situations (*document no 9*).

- **Do retirees help their children or are they helped by their children?** Financial aid between households is mainly directed from the ascendants to the descendants: from the age of 50, aid paid to children and grandchildren represents on average 5% of the income of seniors in 2011. By contrast, retirees - at least those who do not live in institutions - receive little financial aid (*document no 8*).

- **How to explain the consumption and savings behavior of retirees?** According to the life cycle theory, a household should save during its working life, in order to maintain its consumption level in retirement by drawing on its assets (*document no 6*). Yet retirees reduce their consumption and continue to save on average, while helping their children. Consumption also falls in the United States and the United Kingdom during the transition to retirement (*document no 7*). The persistence of a savings effort during retirement - at least in France - seems to rule out the possibility that the drop in consumption is linked to a strong financial constraint.. To explain the observed behaviors, it is necessary to take into account precautionary savings (to face the risks of life, including the risk of loss of autonomy), the will to bequeath to descendants, and above all lower consumption needs in retirement. In particular, the labour market exit leads to costs that are no more professional, an additional domestic production, and the opportunity to consume at reduced prices.

III – The use of credit by retired households

- **Are many retirees in debt?** Retired people are less likely to be indebted and for smaller amounts than the rest of the population (*documents no 10 and 11*). However, they are increasingly taking out loans, over increasingly longer periods. Loan insurance plays an essential role in access to credit for the elderly, the insurance premium increasing exponentially with age, in connection with the risk of death.

- **Are seniors exposed to the** risk **of overindebtedness?** Between 2001 and 2017, the share of households over 65 years of age filing for overindebtedness rose from 4.3% to 10% among all households filing (*document no 11*). However, overindebtedness only concerns a small minority of retirees, which does not call into question the observation that the majority of retirees save.