# Topic 2
# The personal life cycle

**Learning outcomes**

After studying this topic, students will be able to:

- distinguish between the key stages of the personal life cycle; and
- analyse the effect of key influences on it.

## Introduction

People at different stages of their life have different financial circumstances. They will probably have different amounts of money coming in (collectively called incomings or income), such as pocket money when they are a child, an allowance in their teens, earnings or benefits when they are an adult, and a pension when they are retired. How they use their money will vary throughout their life as well, depending on what they spend, save, and repay on debt. When they live at home with their parents, for example, young adults will not have financial responsibility for paying household bills. Once they have left home, they will have to pay for rent or a mortgage and other bills such as electricity, water and food.

A person's life cycle starts when they are born and ends when they die. The details of each person's life are different. There are stages of life, based on age, that we all travel through, however, and life events such as getting married and having children that happen to many of us.

When planning current and future finances it is useful to consider the financial circumstances that tend to apply to each life stage and the financial consequences of possible life events. Young adults may want to plan to leave home, for example, to become independent of their parents, or to move to a different town to look for work or go to university. This may involve investigating sources of money coming in and possible outgoings such as paying day-to-day costs, for example mobile phone charges and saving for the future. Mature adults may plan to start a family, to buy a car or to realise an ambition such as travelling. Adults in late middle age may want to plan for their old age while offering whatever financial support they can to elderly relatives and children.

Financial services providers such as banks, building societies, credit unions, friendly societies and insurance companies offer products that are designed to enable people to pay for the life events that tend to happen at different life stages.

The birth of a baby is a key life event that has a long-term financial impact.

## 2.1 The life cycle

Life cycles are broken down into life stages based on age. The exact age at which someone begins school or retires, for example, will vary from person to person. Considering typical life stages for certain life events can help people plan their finances, not only for themselves but for others whom they support. Parents, for example, may plan how they will pay for or contribute towards the expenses of their children's life events such as learning to drive, living away from home or getting married. Table 2.1 outlines the typical life stages (there is some overlap in age ranges at the teenager / young adult stage because a person is legally an adult from the age of 18 but is still a teenager).

**Table 2.1 A typical life cycle**

| | |
|---|---|
| Birth and infanthood | 0–2 years old |
| Childhood (preschool) | 2–5 years old |
| Childhood (school) | 5–12 years old |
| Teenager | 13–19 years old |
| Young adult | 18–25 years old |
| Mature adult | 26–40 years old |
| Middle age | 41–54 years old |
| Late middle age | 55–65 years old |
| Old age | 65 onwards |
| Death | Possible at any age but more likely here |

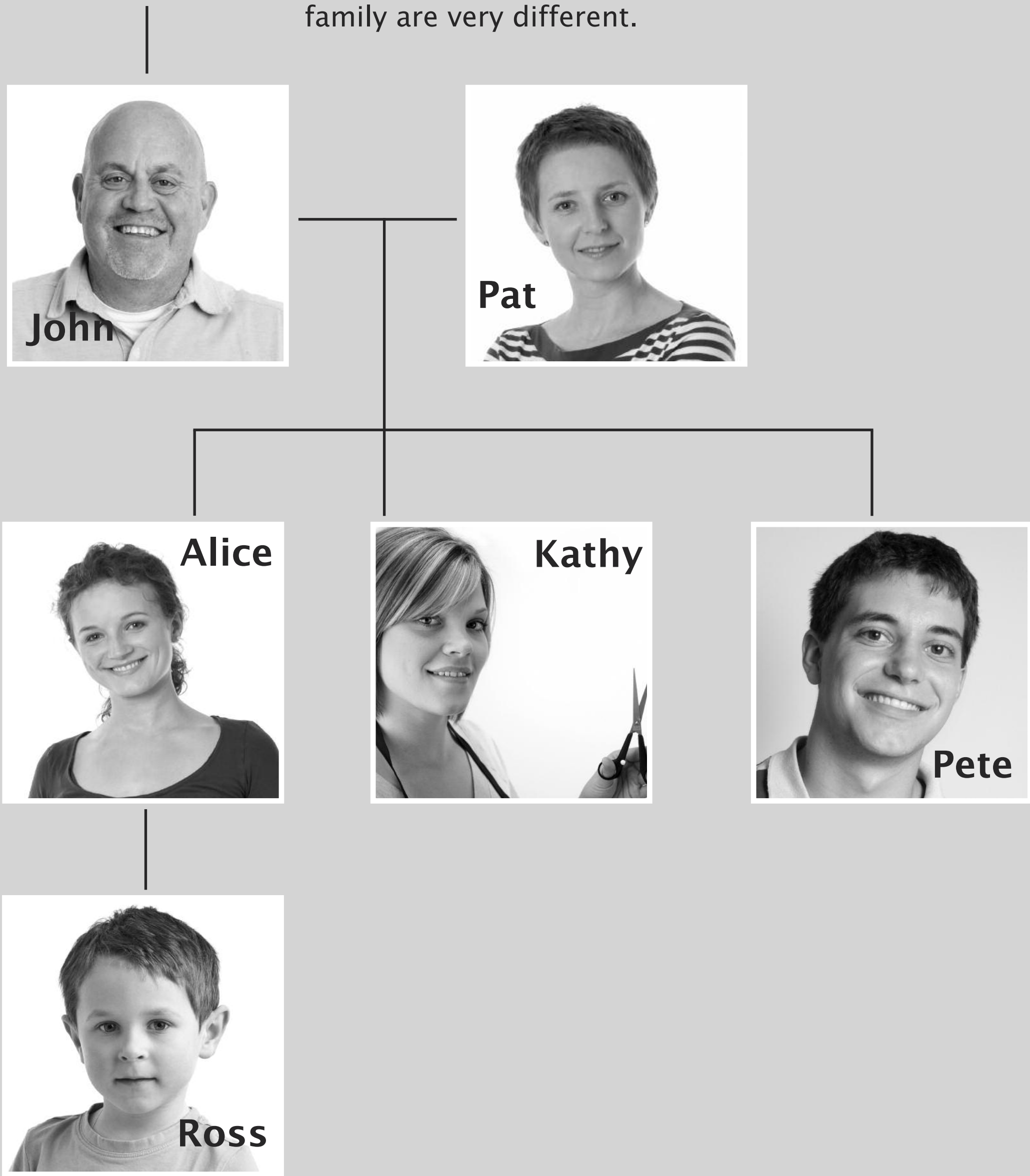
At each stage, people tend to have different:

- life events;
- levels of income;
- levels and patterns of spending;
- amounts of savings and attitudes towards savings;
- amounts of debt held and attitudes to debt;
- family sizes and structures;
- levels of education; and
- attitudes to risk (and to the future).

## Introducing the Martins


Four generations of the Martin family live together. Dora is the great-grandmother, aged 68. Her son is John, aged 45, who is married to Pat, aged 43. John and Pat have three children. The eldest is Alice aged 23, the middle child is Kathy, aged 19, and the youngest is Pete who is 16. Alice got divorced recently and has moved back into her parents' home with her son Ross, aged 4.

The financial circumstances of each member of the Martin family are very different.



**Ross** is 4 years old and is therefore in the childhood (preschool) life cycle stage. He receives pocket money from his grandmother Pat every week. His mother Alice keeps the money until he wants to spend it, usually on toys. Every birthday Ross receives some money as gifts from relatives. Alice puts most of this money into a savings account for Ross at the local building society.

**Pete** is 16 and is therefore in the teenager life stage. He receives a monthly allowance from his mother. His parents buy all essentials for Pete such as food at home, school meals, clothes and travel costs. They also pay for his mobile phone charges as they feel it is vital Pete can contact them in an emergency. However, they expect Pete to repay them for any charges over a certain amount. Pete spends the rest of his allowance on things he wants such as fashion, meals out with friends, music and films. He is saving for a camera he hopes to buy in the next six months.

**Kathy** is 19 so she too is in the teenager stage of the life cycle. She is in her first year of an apprenticeship with a hairdresser. She earns a monthly income but it is not enough for her to leave home yet. Next year her salary will increase and she wants to rent a flat with some friends. She spends most of her money on clothes, shoes and socialising but she is able to save a small amount every month. She plans to use her savings to pay for items she will need when she moves.

**Alice** is 23 so she is in the young adult stage of the life cycle. She does not have a job and her income is from unemployment benefit and from her mother. She also receives some financial support for Ross from her ex-husband. She spends most of her income on Ross. She worries what will happen to Ross if something happens to her.

**Pat** is 43 years old and is therefore in the middle age stage of the life cycle. She works part-time in a bakery and is paid monthly. She spends most of her income on groceries and clothes for the family and allowances for Alice, Pete and Ross. She helps Kathy by giving her as much money as possible. Pat is worried about her old age as she is unable to save at the moment.

**John** is 45 and is also at the middle age stage of the life cycle. He has a full-time job in an office and is paid monthly. He spends most of his income on household bills and repaying a loan he took to buy a car. He also borrowed money to buy their house using a mortgage. The mortgage repayments are a large proportion of his monthly income. He is paying money into a pension that will pay him and Pat an income when he retires.

John also worries about what will happen to his family when he dies. For this reason he is paying into a life assurance policy that will give Pat enough money on his death to pay the rest of the mortgage repayments. This means his family will keep the house if he dies before making all the repayments himself.

**Dora** is 68 and is therefore in the old age stage of the life cycle. She has a small pension and spends most of her money on her grandchildren and great-grandchild. She has saved enough money to have the type of funeral she wants.

## 2.2 Paying for needs, wants and aspirations

The case study on the Martin family highlights three reasons why people spend money:

- to pay for essential items they **need**;
- to pay for optional items they **want** now; and
- to save for items they **aspire** to buy in the future.

The distinction between needs, wants and aspirations is an important one for financial planning.

Needs relate to items people must have to survive, such as food, drink and a place to live. John Martin is financially responsible for providing a home for his family so he is willing to pay a large portion of his income to a mortgage lender to buy a house. He is also paying into an assurance policy that will make sure his family can stay in the house if he dies, by repaying any remaining debt on the mortgage. John is also responsible for paying the household bills such as electricity, gas, water and for a telephone line. John will pay for these needs before he considers buying optional items he wants. His wife Pat pays for the main food, drink and clothing needs for the family.

Wants are optional items that are desirable but not necessary. Pete Martin is the person in his family who spends most of his money on things he wants, such as going to the cinema and buying music. His parents provide his needs, such as a home, food, drink and clothing.

Aspirations are items or experiences that people wish to have in the future. Kathy's aspiration is to share a flat with friends. She knows she will require money to make this aspiration come true in the future so she is saving towards it now. Dora aspires to a certain type of funeral in the future and has already saved enough money to pay for it.

When planning finances, people pay for needs first. If they have spare income after paying for these needs, they will consider paying for wants and saving towards aspirations.

A car can be a need, but for young people it is often an aspiration – something they hope to have in the future.

## 2.3 Life events

Table 2.2 opposite gives examples of some typical life events in each life stage. There are financial costs associated with many of these events. Some of these costs are needs, such as food and somewhere to live. Other costs are wants, such as spending on hobbies, entertainment and fashion. People may also be saving for future events or experiences to which they aspire, such as a holiday.

In the early stages of an individual's life the costs of needs, wants and aspirations are met by their parents / guardians and other relatives. Children are dependents: people who have to rely on someone else for food, warmth, security, health care, etc. In later life stages the individual is usually responsible for meeting these costs for themselves, although they may become dependent on their family again in old age.

As well as the responsibility for payment, the element of choice passes from parents / guardians to the individual as the person moves through the life stages. Examples from the Martin family include the following:

- Alice Martin pays for her son's clothes and therefore makes the final decision about which ones to buy.
- Pat Martin buys the essential clothing that her son Pete needs such as underwear, shoes and his school uniform. Pete has an allowance and chooses which fashionable clothes and shoes he wants to buy.
- When Kathy Martin moves into a rented flat she will make the decisions on day-to-day needs such as groceries that her mother makes for her now.
- Dora has decided what will happen to her belongings, including her money, when she dies. She has made a will, which is a legal document that sets out a person's instructions for distributing their belongings (their assets) after their death. She has left most of her money to her grandchildren and great grandchild.

### 2.3.1 Location

Where in the world, or in a country, a person lives can influence their life events, such as starting and ending full-time education and getting a permanent job. In Northern Ireland, for example, compulsory schooling starts at age 4, in England, Scotland and Wales it is 5, in Romania and India it is 6 (Eurydice, 2013; Carvalho, 2010), and in Bulgaria, Poland and Sweden it is 7. The ages when people can leave school vary as well: for example, in Bangladesh compulsory schooling ends at age 10 (Unicef, no date). In India it is 14, in Scotland it is 16, and in England children starting school now must be in education or training until they are 18 (GOV.UK, no date). These ages are the legal requirements for schooling. Children may start pre-school at younger ages and continue in education after compulsory schooling ends.

## Table 2.2 Typical life events and financial requirements

| Life cycle stage | Typical age range | Typical events | Examples of financial requirements |
|---|---|---|---|
| **Birth and infanthood** | 0–2 years | Birth<br>Learns to walk<br>Learns to talk | Parents or guardians pay for everything they need. |
| **Childhood (preschool)** | 2–5 years | Nursery and preschool<br>Makes friends<br>Learns through playing with toys and friends | Relatives may save money for the child if they have any spare income. |
| **Childhood (school)** | 5–12 years | Starts school<br>Makes longer-term friends<br>Learns skills such as reading and writing, riding a bicycle, swimming and other sports, playing a musical instrument | May receive pocket money to spend on wants.<br>Needs and some wants met by parents.<br>Relatives may put money into savings for the child's future. |
| **Teenager** | 13–19 years | Puberty and adolescence<br>Starts a part-time job<br>School tests and examinations<br>Goes to college or sixth form<br>Learns to drive<br>Develops closer relationships with peers and adults outside the family<br>May leave home | Income may include an allowance from parents or guardians and earnings from a part-time job.<br>If they leave home they will become responsible for paying for their needs as well as their wants.<br>Likely to save for aspirations such as driving lessons in the future, maybe buying a car. |
| **Young adult** | 18–25 years | Moves away from home<br>Goes to university or training<br>Gains qualifications<br>Starts a full-time job<br>May be unemployed | When they leave home they will become responsible for paying for their needs as well as their wants, eg rent, household bills, food and travel.<br>They may need to take out a loan to pay for further education or training.<br>If they find a job they will have earnings although these might be low. If not they will receive benefits.<br>May find it difficult to save. |

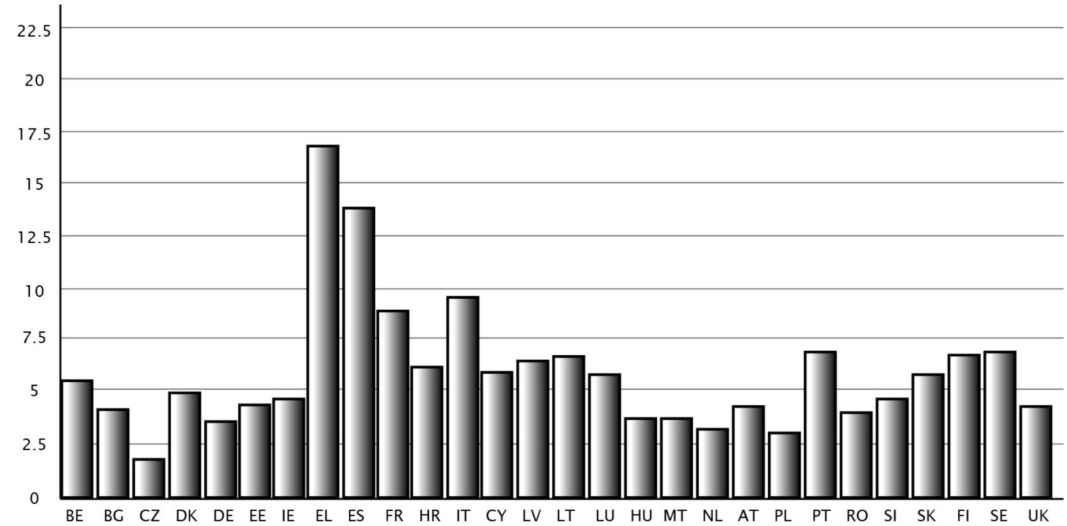
| | | | |
|---|---|---|---|
| **Mature adult** | 26–40 years | Career promotions<br>Career changes<br>Marriage / civil partnership<br>Children<br>Buys property<br>Buys a car<br>Travels abroad | Earnings may increase if they are employed.<br>They may wish to pay for a wedding or civil partnership celebration and honeymoon.<br>Couples without children may be able to save for aspirations.<br>Buying a home and / or a car usually involves borrowing money from financial services providers and sometimes relatives. |
| **Middle age to late middle age** | 41–60 years / 55–65 years | Career promotions<br>Career changes<br>Children leave home<br>Pays off mortgage and other debts<br>Early retirement | In late middle age, people may find they have paid off their debts and their dependents have left home. They can save for old age.<br>Career changes may involve being made redundant and retraining for a different role.<br>Early retirement may be voluntary or because of poor health. |
| **Old age / retirement** | 65 onwards | Retirement<br>Part-time job<br>Leisure interests and hobbies<br>Care home | Income may be the state pension and any other pension arrangements they have made while working.<br>They may supplement their income with a part-time job.<br>If their health is poor they may need to pay for a care home. |
| **Death** | At any time but most often in old age | In preparation for death people:<br>◆ make arrangements for their funeral<br>◆ make a will | People may buy a life assurance policy to repay debts and pay money to their dependents when they die.<br>They may pre-pay for their funeral. |

The decision about when to leave full-time education will often depend on whether or not their family can afford to send the child to school rather than to work. Rupa, for example, lives in Bangladesh and is aged 9. Her family would like her to stay in school but the money she can earn selling tea at the roadside is needed to buy food for the family. She will therefore leave school next year and start full-time work. In contrast, Steve lives in England and will stay at school until he is 18. He then wants to do a full-time degree in sports science. This means he will reach the life event of looking for a full-time job when he is about 21 years old, more than twice as old as when Rupa starts working full-time.

Opportunities to work can vary from country to country and from region to region within a country. In 2020, for example, Greece had the highest rate of unemployment in the European Union (EU) at 16.5%, with Spain the second highest at 13.7%. By contrast, the lowest unemployment rate in the EU was the Czech Republic at 2%. The UK's unemployment rate was 3.7% (Eurostat, 2020). These figures suggest that, other things being equal, people who cannot find a job in Greece or Spain might decide to look for work in other EU countries, such as Austria and the UK.

**Figure 2.1 Annual unemployment rates in the European Union, 2020**

Source: Eurostat (2020)




| | | | | | |
|---|---|---|---|---|---|
| BE | Belgium | HR | Croatia | PL | Poland |
| BG | Bulgaria | IT | Italy | PT | Portugal |
| CZ | Czech Republic | CY | Cyprus | RO | Romania |
| DK | Denmark | LV | Latvia | SI | Slovenia |
| DE | Germany | LT | Lithuania | SK | Slovakia |
| EE | Estonia | LU | Luxembourg | FI | Finland |
| IE | Ireland | HU | Hungary | SE | Sweden |
| EL | Greece | MT | Malta | UK | United Kingdom |
| ES | Spain | NL | Netherlands | | |
| FR | France | AT | Austria | | |

## 2.3.2 Income

The amount of money people have coming in from earnings, benefits, a pension or other sources and the financial circumstances of the family into which the person is born influence the options they have at different life stages. Some life events may be delayed compared with other people or previous generations.

Many young adults, for example, do not have the option of leaving their parents' property to rent or buy their own home because their income is not large enough and their family is unable to help them financially. However, their income may increase by the mature adult stage so they may be able to rent or buy a home at a later life stage. Similarly, people may delay getting married and having children because of low incomes.

### The Pattersons

**Kyle Patterson** was 24 when he got engaged to **Gail Jenkins**, then aged 23, so they were both in the young adult life stage. They were both working full-time as nurses in a large general hospital. When they got engaged Kyle and Gail wanted a wedding reception with all their friends and family, to buy a house of their own and to have two children, but they could not afford everything they wanted in the short term. So they got married and had a small reception for close family and friends only. They rented a one-bedroom flat for three years while they saved enough money to put down the deposit needed to buy a two-bedroom flat. During this time, they both studied for further nursing qualifications and were promoted to more senior roles with better pay.

When Kyle was 27 and Gail was 26 (both in the mature adult life stage), they bought their flat. The mortgage repayments were such a large proportion of their joint income that Gail needed to work for another two years before they could afford for her to take maternity leave. Their daughter Maggie was born when Kyle was 29 and Gail was 28.

Kyle was promoted to senior staff nurse in the emergency department of the hospital one year later and received a significant increase in pay. Kyle and Gail decided to move to a three-bedroom house with a garden; they also agreed that Gail would take a career break to care for Maggie full-time.

Four years later, they have two children: Maggie aged 5 and Bruce aged 3. Gail (now 33) is hoping to get a part-time job at a local doctor's surgery when Maggie starts full-time school next year. Kyle (now 34) and Gail are planning a big party for their tenth wedding anniversary, just like the reception they wanted but could not afford when they got married. All the life events they hoped for when they got engaged have happened. A key factor in why it took ten years to reach this stage is their level of income.

### 2.3.3 Health

People who suffer from long-term poor health or disabilities may have a shorter life expectancy than others. They may need ongoing medical treatment and specialist equipment and may be unable to work. In the UK, there is free or low-cost health care available from the National Health Service, and people with medical conditions may get an income and other financial assistance from the government through various benefits. This support means that people with health issues can have the best possible life expectancy and can participate in many of the same life events as others.

Dave Lewis, for example, was born with cystic fibrosis 50 years ago. When he was an infant his parents were told it was unlikely that he would live to be a teenager. When he was a young adult he was warned that it was unlikely he would ever be able to work or to have a family of his own. Yet with advances in medication and regular physiotherapy Dave not only worked part-time as an accountant, he also got married, had a child and held a private pilot's licence. Now in the middle-age life stage he is looking forward to becoming a grandfather soon.

### 2.3.4 Status

As a person moves through their life cycle, their social status changes, not just because of their age but also because of the life events that they experience. To illustrate this point, consider Sandra Bell, who is in the middle-age life stage. Different people see her as a mother, an employee, a home-owner and a fundraiser for her local animal shelter. They see her husband Frank as a successful manager of a business and as a family man who enjoys taking his children to support his town's football club.

People's status within the life cycle can change, however. When Alice Martin got married at the age of 18 she left her parents' home. She rented a flat with her husband Sam and instead of doing a paid job she looked after their son, Ross. Her husband provided for her needs and she had a measure of independence. When Alice and Sam got divorced, she became more dependent on her parents again and now feels many of the same restrictions on her finances and personal choices as she did when she was a teenager.

Another change that can affect an individual's status in the life cycle is the early death of a relative. When Luke Chan's parents were killed in a car accident he became a surrogate parent to his teenaged brothers and sisters. He was only 21 and so in the young adult stage of life, yet he had to assume the responsibilities usually associated with the mature adult or middle age stages. Another example is Greta and Hans Schwartz, who were in the late middle age stage when they became 'parents' to their young grandchildren because their daughter died.

### 2.3.5 Unforeseen circumstances

A person's status within the life cycle can be affected by all kinds of unforeseen circumstances. These can be positive. For instance, an unexpected inheritance, promotion at work or a lottery win could mean that aspirations such as starting a business, travelling extensively or retraining for a new career can be fulfilled.

Sometimes, however, the unforeseen circumstance is a negative one, such as those experienced by Alice, Luke and the Schwarz family in the section above. Even an apparently positive change in financial circumstances, such as winning millions on the lottery, may still have negative impacts. Family and friends may become jealous of the winner's good fortune and resentful if they feel the winner has not given them enough of the money. Previously strong relationships can break down and the winner can find themselves isolated. People can also feel concerned about how best to manage large amounts of money to secure their future and the future of their dependents.

Some unforeseen circumstances are linked to the economic situation, and again they may be positive or negative. When the economy is growing, a person might be offered a new and better job; in a period of low economic growth or no growth, someone who is made redundant might struggle to find another job and have to move back in with their parents. The impact of the economic situation on people's opportunities is discussed in more detail under socio-economic trends below. Other unforeseen circumstances are accidents and the results of taking risks, which are discussed below.

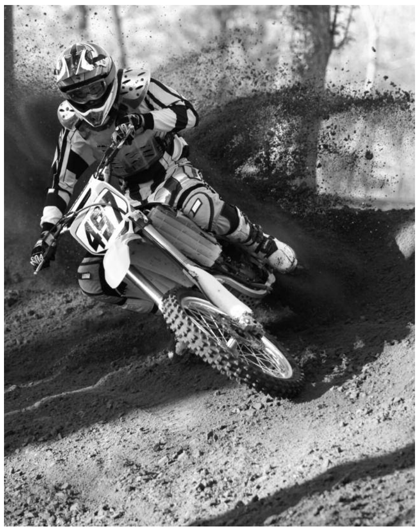
## 2.4 Attitudes to risk and financial choices

Attitudes to risk vary from person to person and can change over the stages of the life cycle. Some people avoid taking risks in all aspects of their life. This is termed being risk averse. Other people are willing to take more risk and this is termed being risk tolerant. There are four categories of risk.

### 2.4.1 Physical risks

Physical risks include hazardous sports and activities such as parascending or bungee jumping. They also include more subtle risks, such as drinking alcohol, sunbathing or smoking, which have the potential to cause long-term damage to health.

Some people are willing to take greater risks with their personal safety than others. This attitude may be linked to life stage, with younger people often more willing to take physical risks than older people. This is partly because of their physical fitness but also because, often, they have no dependents. Once people are responsible for others they tend to reduce the risks they take and seek to protect their dependents from the financial consequences of the breadwinner or main care-giver being injured or killed. For instance, a person who races motorbikes might want to carry on with their sport once they become a parent but they might decide to take out insurance against injury or death to protect their children's financial interests.



Often, people become less willing to participate in hazardous sports as they get older and their responsibilities increase.

## 2.4.2 Emotional risks

Emotional risks include trusting other people, such as friends, partners and spouses, and so risking being hurt by that person. People may try to minimise the financial consequences of these risks by, for instance, making pre-nuptial arrangements that keep their finances separate when they marry.

## 2.4.3 Risk to reputation

An example of risk to reputation would be borrowing money and not repaying it on time: the borrower's behaviour affects the way they are regarded by other people. This can have an impact on the amount of money that the person can borrow in the future and at what cost. For example, Rachel White has missed the last three repayments on her bank loan. Her bank shares this information with other providers via her credit record. When Rachel applies for a credit card she is turned down because she has a history of missed repayments.

## 2.4.4 Financial risk

An example of a financial risk would be putting money in an investment that might fall in value, or gambling. An example is Tom Carpenter, who wanted to earn the maximum rate of return on his money and was considering investing in company shares. His mother warned him that there is more potential risk in buying shares than in saving money in a safer option such as a building society account. This is because when someone buys shares in a company they become a part-owner of that company. The value of shares is mainly determined by how much profit the company makes: their value can rise but they can also fall if the company is not profitable.

Tom decided that he was willing to take a risk because the return he might get on his shares was much greater than the return offered by his building society. Three years later, Tom's shares had grown in value so he decided to keep them for a while longer.

Now, Tom would like to sell his shares, but, unfortunately, the price has dropped significantly. If he were to sell them now he would make no profit. So he decides to keep them for a few more years to see if the share price rises again. Investment products are discussed in more detail in **Unit 2**.

## 2.4.5 How attitudes to financial risk relate to the life cycle

People's attitude to risk can be influenced by the stage they have reached in the life cycle. In the Martin family case study, John Martin is concerned with the risk to his family if he dies. So he is spending money now on a life assurance policy to protect them from having to repay the mortgage themselves in the future.

Certain events are more likely to happen at certain stages. For example, older people are more likely to suffer from poor health. This means that paying for health insurance may be more important to people in late middle or old age than it is to people in the young adult stage.

The consequences of risks can also be more damaging at different stages of the life cycle. Someone who loses all of their investment in a company when they are a young adult, for example, has many potential years of earnings to rebuild their savings. If the same loss happened to someone in late middle age, they would have just a few working years left to save for old age.

Often, people want to take less financial risk as they move through the life stages. Greater financial demands may be placed on them as they get older, such as being responsible for dependent children and older relatives, and saving for their retirement. Their attitude to risk influences their financial decisions – for example, they may be less willing to borrow money because of the risk they may not be able to repay it.

Some people, on the other hand, become more risk tolerant as they move through the life stages. They may take the view that many of the situations that might have presented a risk to them – for instance, illness, accident or redundancy – have not arisen so far; or, if they have arisen, they have survived them. They may also have financial arrangements in place that cater for most of their needs and so may be more willing to take a risk with any money they have remaining.

## 2.5 External influences on the life cycle

The length of the various stages in the life cycle, and what happens during them, is affected by external influences including socio-economic trends. These external influences are outside the control of the individual and can impact on their life events. An example of a key external influence for personal financial planning is the interest rate set by the Bank of England. This rate affects the interest rate that financial services providers pay on savings and the amount they charge for loans. For example, an increase in the Bank rate set by the Bank of England will mean that savers receive more income and borrowers are charged more in repayments. Conversely, if Bank rate is low, savers will receive very low returns and borrowing becomes cheaper. This has an impact on people's ability to save for life events and whether or not they can afford to borrow money. The factors that influence the Bank of England's decision on interest rates are beyond the scope of this topic but are discussed in **Unit 3** of DipFS.

Social trends include demographic changes, that is, changes to population size and structure through births, deaths and migration (the movement of people to live in a different country). Social trends also include changing attitudes and habits, such as attitudes to work, marriage and debt.

Economic trends include periods when a country is producing and selling increasing amounts of goods and services. This is often termed an economic boom. It leads to a greater number of jobs being available and so to lower unemployment and a higher income per person in the country. When a country's production falls for two or more consecutive quarters (that is, for six months or more), the economy is described as being in recession. Fewer jobs are available, unemployment rises and people have a lower income per person. Employees lose their jobs and young adults find it difficult to find a first job. The benefits system is placed under financial pressure, so some benefits are reduced or withdrawn. A particularly poor economic situation in one country will encourage people to move to another in search of better job opportunities and a higher standard of living.

Some of the consequences of these external influences are explored below.

### 2.5.1 Retirement life stage

Trends in life expectancy and the age structure of the country influence when people retire and how long their retirement stage lasts.

The typical life cycle is getting longer because each generation tends to live to an older age than the one before. This is due to factors such as better living conditions, better nutrition and medical advances. These improvements are not spread evenly throughout the population, however, because life expectancy is linked to lifestyle choices (eating, exercise, alcohol consumption and smoking) and the genes a person receives from their parents.

On average, women live longer than men – but both men and women born today can expect longer life spans than those of their great-grandparents. According to the Office for National Statistics, a man born around 1900 lived, on average, between 50 and 60 years. A boy born in 2010, however, has a life expectancy of around 79 years, while a girl's life expectancy is 83 – and both are rising. There are now over 14,000 people aged over 100 in the UK, whereas, in 1911, there were only 100 (ONS, 2018). It is estimated that there will be 110,000 centenarians by the year 2035 (ONS, 2012).

People need to work out what their financial needs will be after they retire.

A longer life expectancy means that people retiring now are likely to be retired for more years than in previous generations. This means they need a source of income for longer. Most people qualify for a state pension paid by the government once they reach a certain age, currently 65 for both men and women, although this is due to change in 2020. The government funds state pensions from the taxes and National Insurance contributions made by people who are currently working. (The details of National Insurance are explained in **Topic 12**.)

By 2050, it is estimated that 19 million people in the UK will be aged over 65, with 8 million aged over 80. This means that by 2050 one in four people in the UK will be aged 65 or over (www.parliament.uk, no date). As a result, there will not be sufficient contributions from working people to pay state pensions to all the people who qualify, using the current age limits. The government is therefore increasing the state pension age to 66 for both men and women by 2020 and 67 by 2028.

People who rely on the state pension for all or part of their retirement income will need to delay their retirement life stage until they reach the new pension age that applies to them. Some people may have additional pension income from other sources. Most employees, for example, are entitled to an occupational pension provided by their employer, subject to certain rules that will be discussed in Unit 2.

The income paid by the state pension and most occupational pensions is relatively modest compared to earnings as an employee, so many people need to work beyond the state pension age. According to the Department for Work and Pensions, in 2016 more than one million people aged over state pension age still worked (GOV.UK, 2016). Many of these people had simply carried on doing the same job for their existing employer. Others had become self-employed, doing either the same type of job (such as an accountant) or changing to a different role (such as a cleaner). Most employers cannot force staff to retire at a specific age, although some can justify imposing a retirement age on grounds such as safety. British Airways, for example, sets the retirement age for its pilots at 60. In situations such as this, an employee has to retire from their job with that employer but they can still look for work elsewhere. Some employers prefer older staff because of their experience.

Another retirement stage trend is pensioners moving to another country to live because of a warmer climate and / or reduced living expenses (see the case study below).

### 2.5.2 Migration and employment opportunities

Migration refers to the movement of people between countries. Those leaving a country are called 'emigrants' by the country that they have left and 'immigrants' by the country in which they settle. People now move between countries much more than they used to in order to find work. Some countries, such as the USA and Australia, control this movement of people through immigration laws. Within the European Union (EU), people can move to live and work in any of the member states. As the EU has tens of member countries, there are many people who can move to any particular country within the EU.

#### Migration

**Elsie** and **Frank** have moved to Spain to live in the sun. Both are in their late 60s. They sold their family home in Yorkshire to buy an apartment on the Spanish coast and a small cottage in the Dales that they rent out to visitors. They hope that their living costs in Spain will be lower than in the UK and that the sun will encourage an outdoor lifestyle that will keep them healthier for longer.

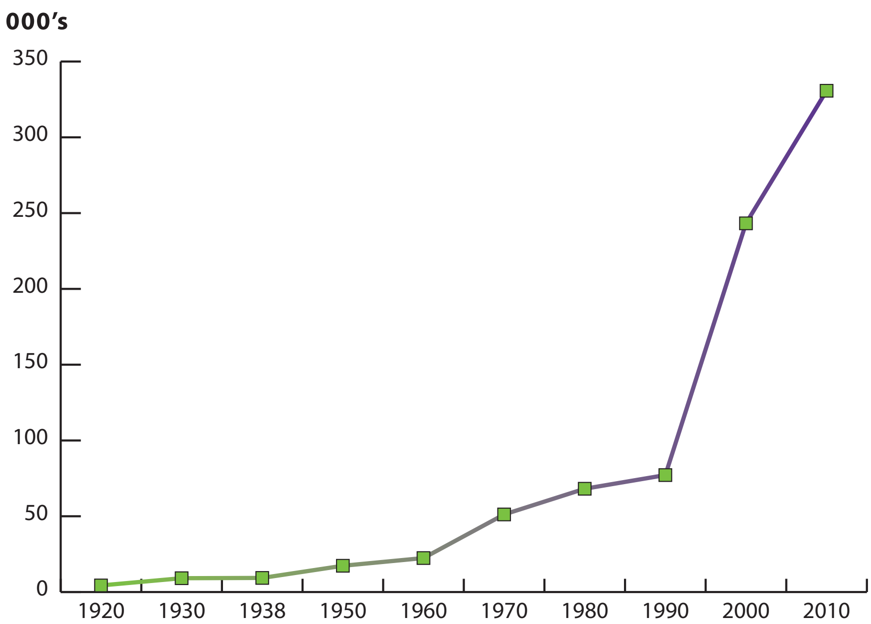
During the same period, **Alphonso** and **Alejandra** moved from Spain to the UK to work. Alphonso ran his own construction company in Spain until the recession in 2008 caused the demand for new homes to reduce significantly. Alejandra taught English to Spanish secondary school students. Now Alphonso is working as a building site foreman in London and Alejandra has retrained to teach Spanish in an English secondary school.

### 2.5.3 Lifelong learning and changes in employment patterns

Access to higher levels of education and training gives people opportunities to get better jobs and have greater career mobility. Career mobility refers to the ability to move between jobs and also to move from one type of job to another – for example, to begin working life as a sales adviser for an estate agent and switch to become a nurse. Better education and training means that people are more flexible, and can take on different roles as the jobs that are available change.

More young adults have access to higher education now than in previous generations, as Figure 2.2 shows.

**Figure 2.2 People gaining a degree in UK**




Source: Bolton (2012). Contains Parliamentary information licensed under the Open Parliament Licence v1.0.

The greater demand for higher education and the economic recession have meant that tuition fees for courses have increased in recent years. Young adults need to decide whether to continue in full-time education or start full-time work. Their decision will be influenced by their personal goals and their academic record, as well as financial considerations such as tuition fees and potential earnings.

Arnav Patel, for example, has decided to become a trainee at a media company rather than go to university to do a media studies course. He argues that he will get paid while he is being trained and he will not have to borrow money to cover the costs of studying. His sister, Ridhi, however, argues that getting a degree will enable her to earn more in the future and so she has decided that borrowing money to pay the tuition fees on an art and design course is worthwhile. As a result of their decisions, Arnav and Ridhi will start the life stage of full-time work at different ages and may experience different career opportunities.

Learning is not confined to the years a person spends at school or university. People have access to a wide variety of learning opportunities, including on-the-job training, apprenticeships and self-study. The culture of lifelong learning is increasingly important as the patterns of employment change. When Dora Martin was born nearly 70 years ago it was usual for people to

stay with one employer all their working life. These days, people have less job security but they also have far greater opportunities for job flexibility, as society does not expect them to work for one employer or in one sector for life. People can seek retraining and learning opportunities to take advantage of new jobs, such as those enabled by new technology. They may take several part-time jobs and / or become self-employed.

### 2.5.4 Changes to the family unit

In the past, it was not unusual for several generations of one family to live in one family home. Nowadays, members of one family generally live in several different homes, sometimes in the same part of the country, sometimes in different parts of the country; some family members may live abroad. This change has come about because people are more likely to move away from home to work, more children are able to afford to live independently from their parents, more marriages end in divorce and more people migrate abroad, either to find work or to retire. These changes mean that there are more ‘single-parent’ and ‘single-person’ households where one person is responsible for meeting household costs such as rent, groceries and power.

## Key ideas in this topic

- Stages in a typical life cycle.
- Needs, wants and aspirations.
- Life events and their financial requirements.
- Personal circumstances that impact the life cycle.
- Attitudes to risk.
- Socio-economic trends.

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