

## **Retirement income and assets: the implications for retirement income of Government policies to extend working lives**

On 24 April 2012 Aviva hosted a seminar to launch a new report published by the Pensions Policy Institute (PPI), *Retirement income and assets: the implications for retirement income of Government policies to extend working lives*.

The research draws together the latest information on current patterns of work and retirement in the UK. It describes the Government's policy agenda to extend working lives and looks at the lessons the UK can learn from international experience. Using the PPI's modelling capability, the research also considers how much longer individuals may need to work beyond State Pension Age if they wish to meet target levels of retirement income solely through state and private pension income.

Around 60 people attended the event which was chaired by Niki Cleal, Director of the PPI.

**Adrian Richards, Deputy Director at the Department for Work and Pensions** set out the Government's position on extending working lives. The Pensions Commission set out three choices for improving adequacy of pensioner income in retirement: save more, tax more (and increase state benefits) or work longer. He highlighted policy developments, including the increases in State Pension Age resulting from the Pensions Act 2007, the subsequent acceleration of the increases under the current Government, and the abolition of the default retirement age aimed at removing age discrimination by employers.

There is a wide variance in activity rates for people aged between 55 and 64 across countries. The UK is somewhere in the middle at just under 60% of people aged 55-64 in employment. The variation between the countries is a result of a wide range of employment policies around the world, including tax and benefits, skills investment, labour market interventions and industrial and regulatory policies.

The OECD has identified three dimensions to judge how policies interact with older workers; these include financial incentives that encourage older

people to work, barriers on employer practice, and the employability of individuals. Many government initiatives are in place to provide positive outcomes in terms of enabling people to work longer each of these areas. The presentation is available on the PPI website.

**Daniela Silcock, Senior Policy Researcher at the PPI and Daniel Redwood, Policy Modeller at the PPI** set out the main findings of the report. The presentation is available on the PPI website.

**Steve Groves Chief Executive of Partnership** discussed the role between health and the need for retirement income. He highlighted that:

- around 30% of people aged between 50 and 65 have some condition that could impact their ability to work,
- around 20% of public sector retirements are on the ground of ill-health, and
- that people are on average around 20% more likely to retire in a given year if they have a health related issue.

The propensity to retire as a result of ill-health is affected by a number of other factors including the age of the individual, the type of work they are engaged in, the health of their partner, and wealth and educational level.

Forming a link between the State Pension Age and measures of longevity had some potential advantages, such as removing the decision from the influence of the political process and making it more independent. However, there are serious consequences for those who are unable to work up to a higher State Pension Age as a result of ill health. While a higher State Pension Age for someone who is in good health is likely to lead to a higher income in retirement; this is not true for an employee who suffers from bad health, for whom a higher pension age is likely to lead to a lower income in retirement. Special care must be taken in order to ensure that changes to the State Pension Age do not adversely impact those vulnerable people who are least able to work longer.

**Darren Dicks, Head of At Retirement Propositions at Aviva UK Life** discussed the role of financial services in extending working lives. He noted that the results presented in the PPI's report was consistent with research done by Aviva, which had found that around two thirds of people had an expectation that they may have to work beyond their retirement, but that 40% of people are subject to some form of unexpected change in their retirement circumstances, mainly due to ill-health, between ages 55 and 65.

The PPI research reveals a "squeezed middle" of people who are putting some money away for retirement, but discover that the income they can

achieve from their pension is not as high as they had expected. Industry has to take into account that people may consider their retirement options over a transitional period, during which they may change their career, and will want to look at all of their assets, including their pension scheme and the value in their house, and how they can be used to support retirement.

**Sarah Vickerstaff, Professor of Work and Employment at the University of Kent** discussed the role that employers can play in extending working lives. She said that a lot of the discussion around extending working lives centres around the supply side; encouraging people to delay their retirement, considering the impact of caring on the ability to work. The demand side, such as looking at whether employers want to employ older workers, is less well researched. There is a distinction between drawing older people back into work and retaining those who were already in employment.

Focussing on the issue of retaining people in work, there are three issues that are critical for employers in order to creatively managing the retention of older workers. These are:

- **Career management** - employers taking steps to ensure that the job remains one that is best suited to the employee
- **Flexible working opportunities** - treating retirement as being gradual rather than a cliff edge change is often touted as a solution but is not particularly prevalent. The needs of employees may be different from the needs of employers.
- **Managing health and wellbeing at work** - it is early days for managing the issue of health at work, which is needed as a result of current healthcare extending the life of people suffering what were previously career ending conditions.

### **Discussion session**

Following the presentations from the panel, Niki Cleal opened the discussion up to contributions from the floor. The following points raised in the discussion do not necessarily represent the views of the PPI or the PPI seminar speakers.

- There was discussion around the options available to people over age 50 as they approach retirement. It was suggested that 50 may be a good age for a career review as people may, at that point, be interested in retirement issues and be able to do something about their working situation if they feel a change is necessary.
- Working at older ages might provide an opportunity for some people to fulfil their own entrepreneurial ambitions or contribute to society.

However, it was pointed out that it would likely be the most relatively well-off who are in a position to take advantage of the opportunity.

- It was suggested that there could be a difference in perception towards older people who would like a flexible working pattern in order to act as a carer for their spouse, compared with younger employees who take time off for childcare. This could lead to carers not asking for flexible working, especially if they fear for the impact it could have on their career.
- There was a hope that employers would recognise the benefits of taking on older workers. For instance their level of experience and that in certain situations, customers may feel more confidence in the service offered by an older employee. It was noted that in the US the policy to reduce age discrimination has made older people in the workplace a common and unremarkable occurrence.
- There was concern for those who are already out of work at age 50 as this group may have less opportunity to re-join the workforce, leading to difficulties when they reach retirement age. This, along with the increase in State Pension Age, could lead to a shift of older people from being pensioners to becoming benefit claimants. Such a categorisation could cause a stigma for the vulnerable people that are affected. However, it was pointed out that inequality in retirement is projected to fall as a result of state pension policy.