A rising swell

Laura Blows looks at the second wave of baby boomers now approaching retirement

Baby boomers are often described as one sea of people – one deep with the benefits of 'gold-plated' DB pensions, home ownership and a job for life.

But the reality is more a collection of differing pools. Baby boomers are not one homogenous group. For starters, they are broadly divided into two groups.

The first wave of UK baby boomers, born between 1945-1955, comprise about 10 per cent of the UK population while the second wave, born between 1956-1965, fast approaching retirement, represent about 13 per cent.

According to Columbia Threadneedle Investments head of pensions and investments Chris Wagstaff, the second wave baby boomers adopt a more aspirational approach to life. "They have greater disposable income than their parents, typically considerable DB pension rights and now possess the ability to accelerate access to this stream of income via freedom and choice," he says.

They may have greater dreams and possibly greater disposable income, but they also have more responsibilities. They are the 'sandwich generation', often caught between caring for their parents (possibly from the first wave of baby boomers) and providing financial assistance for their adult children.

However, despite current opinion, only half of those aged between 55-64 in 2015 fully own their property, with 24 per cent still renting and three in 10 (nearly two million people) having no pension savings at all, according to the Ready for Ageing Alliance.

It is not always the case that *[baby boomers]* are better off than working people, Redington head of DC and financial wellbeing Lydia Fearn says.

"You also have to think about their day-to-day living, which may mean having the heating on all day or needing to buy more food, since they may no longer have access to discounted lunches. So whilst on paper they may seem 'richer', their day-to-day expenses may well increase," she explains.

Baby boomers had to prepare for retirement during the greatest changes in pensions legislation, St. James's Place head of pensions strategy Claire Trott states.

They are more likely than the first wave to have less secure income derived from DB and annuities (the latter due to their perceived poor value) Thesis Asset Management director Lawrence Cook says, resulting in a much greater dependency on them finding an investment service/solution to deliver long-term income requirements. This has been driven by the latest major structural change to retirement planning they have experienced – that of freedom and choice.

"The next wave of retirees are perhaps the first who will not necessarily have the backdrop of a final salary pension scheme. Although this has not blunted their income expectations in retirement, the reality may be somewhat different than they expect," Seneca Investment Managers head of business development Steve Hunter warns.

It might not look as thought, but there will soon be a swell of baby boomers retiring, and due to rising longevity rates, living longer in this retirement. But this was expected; both the government's actuaries for the state pension and those for occupational DB schemes would have factored for higher numbers than previously approaching retirement.

More difficult to predict is the working patterns of this group. Many may be approaching retirement, but that does not mean they will all take it now.

"It's easy to assume the swell of people reaching their mid-60s will have a devastating impact on businesses as older workers simply call time on their working career for good," Hargreaves Lansdown senior analyst Nathan Long says.

"This will be true for some industries, particularly those with more manual roles, where the state pension age will be reached with relief so they employees can stop working. The public sector could also expect significant challenges in the short term as many employees will have built up significant income in gold-plated defined benefit pensions. However, the reality is we have already seen a rise in people retiring later, some well into their 70s, and our expectation is that this trend will only continue."

The second wave of baby boomers could be the first generation to truly make transitional retirement a reality," Nucleus Financial product technical manager Rachel Vahey adds, as opportunities and access to flexible work and gradual retirement increase.

Later Life Academy chairman Bob Champion highlights a difficulty this creates for employers, such as those employees they wish to retain retiring due to having good pension provision, against those employers wanting to depart not being to afford to retire.

However, he notes that there are some excellent examples of employers introducing wellbeing courses, particularly for those close to retirement. This is often provided by larger employers though, he warns, while 60 per cent of private-sector employees work for small- to medium-sized companies.

With each upcoming generation it seems the swell of retirement challenges continues to rise. Hopefully enough measures will be put in place to have it peacefully subside, as opposed to crashing down.

Written by Laura Blows