Work/life balance

The ILC's Dave Eaton explores the impact of a longer working life on retirement saving

On 1 October 2011 it became illegal for an employer to demand compulsory retirement from an employee at age 65. Since then, the state pension age (SPA) for women has increased from 60 to 65, and between 2018 and 2020, the retirement age for both men and women will rise to 66. The rise in SPA is just as well for the Exchequer; if SPA fails to rise in line with longevity and the so-called pensions 'triple lock' remains in place, the state pension could cost an additional £40 billion per annum by 2060. The end of compulsory retirement is just as well for employers, and employees.

Research by the International Longevity Centre – UK (ILC-UK) found that would-be pensioners expected to need on average £20,000 a year to pay their regular bills in retirement, but their total private pension income was expected to be worth £15,800 a year, a £4,200 per year shortfall. That's of those who even have pension savings: the *Myth of the Baby Boomer, a Ready for Ageing Alliance* research report, published in August 2015, revealed that almost three in 10 of Britain's 55-64 year olds do not have any private pension savings at all.

As of 2015 there were more than one million people working beyond the SPA in the UK. There are obvious advantages for employees to remain in the workforce beyond SPA, such as the health benefits of remaining physically and mentally active; retaining a strong sense of purpose and utility, and enabling individuals to save more towards their retirement and spend less time relying on their pension savings. Similarly, employees working beyond SPA can also have a positive impact on the health, utility and pensions arrangements of businesses.

As of 27 June 2016, the combined deficit of UK corporate pension schemes stood at a record £935 billion, while liabilities also hit a record £2.3 trillion. By continuing to contribute their skills, experience and expertise to a business, older workers can continue to contribute to company productivity, and ultimately the corporate pension schemes they benefit from. However, at the same time as 1.1 million people were working beyond the SPA, one million people aged 50-64 had also been made 'involuntarily workless', i.e. pushed out of their previous job as a result of 'shocks', a combination of redundancy, ill health or early retirement.

In order to retain the talent and experience of older workers, an increasing number of businesses like Anchor, the housing and care provider, have begun to offer flexible working arrangements, allowing employees to scale back their careers over time. Anchor's head of public affairs Mario Ambrosi has explained that: "Older workers are as effective, take less short-term sickness leave, are less likely to leave an organisation, and are more reliable than younger workers… also, the mentoring element is hugely important."

Therefore, it would appear to be in the commercial interest of employers to make the adaptations to working patterns necessary to retain their older workers (including allowing employees some form of carer's leave to enable them to provide informal care for loved ones without needing to leave the workforce). It is also in employers' interests, and those of the businesses that manage their pension schemes to encourage older workers to remain invested in their funds.

Along with ending compulsory retirement and raising the SPA, the last government also introduced pension freedoms, whereby individuals aged over 55 could begin to drawdown their pensions without purchasing an annuity. The job of the financial services industry now is to protect against the temptation of older workers to begin to drawdown funds too early; devise new ways of managing continued accumulation for those over SPA and still in work, and remodel lifestyle assumptions and volatility accordingly. The job of employers to ensure that their employees do not become one of the 'missing million' made involuntarily workless before SPA, who might need to tap into their pension savings to see them through a period of extended unemployment.

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