No more carriage clocks at 65: Keeping retirement planning relevant

Is it time for employers to look for something new from a pension scheme, to make sure it can give their members what they need throughout retirement?

Retirement is changing. Gone are the days when an employee would sink into their armchair after 40 years with the same company, content with a farewell-gift carriage clock to stare at on the mantlepiece.

The 'R' word today has different meanings for different people. It happens at a wider variety of ages and encompasses a broader range of lifestyle choices. Some might continue to work part time, others set off travelling with the enthusiasm of a 20-something backpacker. Many feel younger than their years and can look ahead to 25 years or more of later life.

Faced with more to think about, decisions about funding later life can be an increasing source of anxiety for employees. Employers will be keen to help alleviate this, by offering their employees options to support retirement planning. Gaining confidence in this area will have a positive effect on their financial wellbeing.

In considering how to provide this support, there's a crucial factor to bear in mind: As well as being different things to different people, retirement can be different things to the same people… at different times.

Our research at Aviva has identified three phases of later life: Active, passive, and supported. This is how many people expect their retirement to go, with an 'injection' of cash at the start to get going. They recognise that a supported stage may well be on the cards one day, but often don't want to think about this and assume things will work themselves out.

As we seek to support scheme members along the path to later life, we all need to be aware of the changing awareness of retirement realities. And that means a more strategic, customer focused and less product-focussed approach to retirement planning.

The great fear: Running out of money

The first thing to consider is longevity. How can we support members to fund a long life? One of the most fundamental questions facing anyone considering their long-term future is **how long does my income need to last?**

For a female aged 60, the average life expectancy is age 87. Put another way, half the population of women aged 60 today will die before the age of 87 while half will live longer than 87. Half of those still alive at 87 will still be alive at 94 and there is a 1 in 10 chance that a woman aged 60 will celebrate her 98th birthday.

This means that by planning for a 27-year retirement, a woman aged 60 has a 50/50 chance of running out of money, relying only on the state pension into old age. And employees are becoming increasingly aware of scenarios such as this.

This means we have a duty to encourage informed decision-making around pension saving and spending. By signposting and encouraging employees to explore their average life expectancy through the ONS resources, employers and advisers can help do this. But we also need to offer them retirement solutions that support their decisions.

Annuity vs drawdown… why there's no simple answer

Of course, there are ways in which an employee can help protect against running out of money. Some consider an annuity, transferring the risk to an insurance company. Fifty-two per cent of those surveyed in Aviva's recent research* said that receiving a predictable income was a priority in retirement. But the potential downside of annuity at earlier retirement ages, is that the wide range of life expectancies and the need to offer a guaranteed income, can limit the amount provided to those who die earlier than average.

And an annuity doesn't allow for income to vary over time, perhaps paying a higher income in the more active, early years of retirement. Drawdown, of course, offers greater flexibility… but the fear of running out of money in later years remains.

With growing realisation that different stages of retirements have different financial demands, the potential stress of making an irreversible choice on retirement increases still more. It may be time to offer a solution that moves away from the need to make one big decision.

A fresh approach: Different solutions for different stages of retirement

A solution may be to blend the best of both options, by bringing together the flexibility of income drawdown in the earlier years with an annuity in later life.

Those who have the misfortune to die early can pass their pension pot as a legacy, taking advantage of the attractive tax treatment of pension benefits. Those who live longer can then protect against the threat of outliving their pot with a guaranteed income.

A packaged solution with individual, separate pension pots channelled towards annuity and drawdown could be the practical means towards making this approach work. With the possibility of a third pot for occasional spending pot as a 'safety net'. **But how much to put in each?**

The need for guidance – technological and human

One thing is clear: Guidance on the amount of sustainable income to use in the early years and when to buy a guaranteed income would be needed.

Technology can certainly be useful. Employees want to know 'what have I got?', 'is it enough?' and 'what should I do next?' These questions will only get louder as retirement choices and definitions become more diverse. At all stages of their careers, and beyond, scheme members can benefit from the capacity to access this information in a concise, visually engaging, interactive, and efficient format. Having pension information all in one place, accessed at the touch of a screen, could remove some anxiety for people.

Online tools – calculators to help users assess their possible level of income or financial needs in retirement – are fine as far as they go, but they may not be sufficient to help scheme members decide on how much of their pension pot to use in each phase. And even if online resources were to become more sophisticated, many would still want back-up from a human.

It's interesting to consider where those planning retirement might look for that guidance. Aviva's research found that, after friends and family, 54 per cent of responders looked towards pension providers for information about later life planning – ahead of any other sources, including banks, government resources… and financial advisers. While responsible providers are always quick to recommend speaking to an adviser, it's clear from this that the providers themselves need to include some element of guidance in the solutions they offer.

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Time to think about the process, not just the product

All of this suggests that an increasing awareness of varied retirement needs – and phases – means we must move towards offering flexible, staged, guided retirement solutions. The time when employees could be invited to simply choose between products is surely over.

People no longer expect to spend later life whiling away the hours staring at the clock. But all of us need to recognise how the passage of time can affect their financial needs over what could easily be 30 years of life after work. Providers need to offer – and employers need to choose – pension schemes that offer support which reflects how much can change during retirement… as time goes by.

To find out more about how retirement is changing, check out Guided retirement on Aviva's website.

Retirement is changing - Aviva

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*Big Window Qualitative Research (October & November 2022), Big Window Quantitative Research (May & June 2022), both commissioned by Aviva *GOV.UK Research and analysis Planning and Preparing for Later Life Updated 8 November 2022