



Diversion ahead

▣ **Whilst many assume a neat glidepath into retirement, issues around care, ill health and unemployment have seen an increasing number of savers taking early retirement, not necessarily by choice. Sophie Smith reports**

There was a time when retirement meant an opportunity for party, cake and celebrations, as loyal employees were bestowed their gold watch before enjoying their gold-plated pension. But amid changing attitudes and working patterns, the route towards retirement has begun to shift.

“The quaint image of a worker finishing their job one day and being handed their gold watch and a pension now seems like a historical relic,” says Just Group group communications director, Stephen Lowe, noting that there is a wide range of attitudes towards retirement, from those who cannot wait, to those

who enjoy work so much they never want to stop.

But it is not always a desire to retire that triggers this shift in life, as Now Pensions head of PR and campaigns, Samantha Gould, explains that, in many cases, early retirement results from need rather than planning for a longer retirement.

Indeed, recent research from Just Group revealed that around a third (33 per cent) of those aged over 55 who retired earlier than expected cited ill-health or physical impairment as the primary reason for this, while 15 per cent cited redundancy issues and 8 per cent attributed it to caring responsibilities.

Summary

- The pandemic has exacerbated trends around early retirement, with many older workers forced into retirement by necessity and facing financial concerns as a result.
- Existing disparities, such as the gender pensions gap, have also worsened amid changing working patterns and Covid-19.
- Financial planning is crucial, but industry and employer support is needed to ensure that workers are able to retire at the right time for them, with the appropriate funding in place.

Road ahead blocked

The bigger question, however, is whether these savers can truly afford to take early retirement, as Lowe warns that whilst pension rules give people a huge amount of flexibility to retire when they want, this is only if they have the cash to provide the income they want, with research from Just Group suggesting that only about three in 10 of those who retired early felt they could afford to retire.

“For most people early retirement is not a reality,” admits Standard Life customer savings and investment director, Jenny Holt, also highlighting recent research that Standard Life conducted with the International Longevity centre, which found that just under a third (30 per cent) of Gen Xers are at risk of their pension providing a minimum or lower than minimum standard of living in retirement, with 59 per cent of this group expecting no additional income, beyond the state pension, to support them in retirement.

This has also become a more prominent concern amid the pandemic, with data from the Financial Conduct Authority revealing that almost three in five (58 per cent) people who retired between March and October 2020 did so because of Covid-19, while figures from ONS revealed that over-50s have had the highest redundancy rate amid the

pandemic.

And whilst a boom in early retirement plans sounds positive, Hargreaves Lansdown personal finance analyst, Sarah Coles, warns that in many cases it's also the result of a lack of choice.

"Almost a third of older workers on furlough thought their chances of keeping their job when furlough ended was 50:50 and losing your job at this age means a far higher chance of long-term unemployment," she stresses, pointing out that some will be retiring earlier purely because they can't find another job.

Phoenix Group group CEO, Andy Briggs, agrees, warning that job losses amongst the over-50s represent a "significant loss both to our economy and to their own later life financial security".

"We are at risk of a large group of people experiencing serious long-term pension poverty when you consider that the cost to an average male earner retiring at age 55 instead of 65 could be around £280,000 in lost employment income and a reduction of private pension pot by a huge 55 per cent," he continues.

Adding fuel to the fire

Phoenix Group vulnerability lead, Riffat Tufail clarifies, however, that it is not just older savers who have been impacted, with an increasing number of under 55s contacting the provider to see if they can access their pension early, as they have no other financial resources available.

"In particular, over a third of Gen Xers say they're not confident that they'll be able to work for as long as they need due to poor health, caring responsibilities and age discrimination, which continue to be significant barriers for many older workers, and the pandemic has only acted to exacerbate these inequalities," he says.

Gould also points out that there are some "significant differences" between the experiences of men and women in relation to early retirement, with Just Group research revealing that men are

twice as likely to be able to afford to stop working earlier (32 per cent of men vs 16 per cent of women). Women were also more likely to retire in order to care for a family member (14 per cent of early retirees vs. 4 per cent men), or for ill-health (37 per cent of women vs. 29 per cent of men).

"Despite the huge advantages of auto-enrolment, which has extended pension saving to over 10 million people, still too many are left behind and face an uncertain old age," Gould explains, continuing: "Some groups in the UK face huge savings gaps and those individuals who most need to save for later life are often the people who are effectively locked out of the current auto-enrolment (AE) system.

"The AE policy was designed for traditional patterns of work and isn't geared to help employees who take significant career breaks, work in multiple or part-time roles, or move frequently between jobs.

"This exacerbates the widening savings gap and later-life inequalities experienced by the most financially at-risk groups, many of whom are more likely to be excluded from auto-enrolment. For example, multiple job holders earn 39 per cent less than the average population and are often ineligible for auto-enrolment. This means that they have 46 per cent less than the average population's pension income."

Adding to this, Cole warns that anyone who has taken a career break is likely to have a pension shortfall they need to make up, noting that whilst savers may have been planning to make up for the lost time by working later in life, the pandemic has shown that this is not always a foolproof solution.

Choosing the right turn

Furthermore, Cole warns that people often do not connect with their pension until they are already thinking about retirement, by which time it is much more difficult to make a profound

difference to their pension prospects.

"The challenge for both employers and the pensions industry is to help people engage with their pensions earlier in life, when making a change is easier," she says. "Pension savers also need to get to grips with the investments within their pension. If they have a pension shortfall, tailoring their investment strategy more closely to their needs is one way to make it up, without necessarily having to work later in life."

"The pension and financial advice sectors have a major role in helping them decide if they can afford to retire early," agrees Lowes, stating: "Planning and advice are important because they provide bespoke solutions tailor made for an individual's own aspirations and circumstances. But planning is one part of the wider retirement system architecture that should guide people towards good outcomes from early in their working life so they don't face a shock when they finally give up work."

Creating new routes

This was echoed by Coles, who stresses that whilst pension planning should be part of people's lives from a young age, it shouldn't be expected to take top priority at times when their finances are under extreme pressure. "It's worth doing as much as you can, as early as you can, and revisiting your position every year to see if you can afford to do more," she says.

Employers, meanwhile, will need to get to grips with the changing nature of the workforce, according to Coles, who suggests that companies may look to support those who want to work later in life, perhaps offering part-time work or flexible working that gives them a better work/life balance. "This doesn't just mean introducing policies that enable people to fit work around their changing needs," she clarifies, "but also training managers to be able to deal with staff working this way fairly and supportively."

➤ **Written by Sophie Smith**