

AT-RETIREMENT

Getting flexible

The linear career path that ends in a cliff-edge retirement is going the same way as the dodo. But are governments, employers and savers getting ready for a new age of flexible retirement quickly enough?

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Traditional retirement systems are buckling under the weight of ageing populations. A statistic from Aegon Group's *Retirement Readiness Survey 2018* casts the harsh light of day on the matter. In 1950, when many of the current social security systems were being designed, the world's population consisted of 205 million people over the age 60. By 2050, that figure is projected to reach 2.1 billion, a more than 10-fold increase.

While private pensions are taking some of the burden off governments, billions of people worldwide are getting to grips with a new type of retirement: the gradual transition.

Working later, but with greater flexibility, has a multitude of advantages for employees, employers and governments alike. For governments, the allure is simple: it reduces the strain on the public purse. Employers reap the benefits of a more experienced and diverse workforce (although sadly, attitudes to older workers are slow to change and ageism remains a very real problem).

There are also benefits for older employees, who often want to continue to work. Globally, keeping active and ensuring their brains remain alert was the primary factor for 56 per cent of people who envision working in retirement in

Aegon Group's *Retirement Readiness Survey 2018*. This was followed by the 37 per cent who said that they enjoy their work and therefore wanted to continue to be economically active.

Working for longer is also increasingly a financial necessity for retirees. As we live longer lives, the state pension of the past is no longer sufficient. However, people are struggling to make up the shortfall through private pensions.

For these reasons, partial retirement is becoming more and more appealing to people. Even as early as 2011, when employed or self-employed people in all EU member states were asked how appealing it would be to combine a part-time job and a partial pension, 65 per cent said this route would be more attractive than full retirement, according to a survey by Eurobarometer.

However, not everyone will be able to take advantage of flexible retirement. People who work in very physical jobs – manual workers or firemen, for instance – will struggle to do their day jobs as they age. Increasingly, people will need to reskill and diversify into new areas as they age, which employers and governments will need to consider.

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This process should be treated with care. As OECD economist Boele Bonthuis points out, at the moment, flexible retirees tend to be highly educated, in better health and living in cities. “We need to be careful that flexible retirement doesn't just become something for the privileged few.”

Making flexible retirement a reality

It may be the future, but flexible retirement is still not a reality for people in many European countries. Different nations have very different cultures and in some, especially those with more paternalistic cultures, retirement at a certain age is still very much expected.

People across Europe have varying expectations about how their retirement will be funded, demonstrating some of this cultural disparity. Savers expect to rely on the government much more (66 per cent) in Spain than their employer (11 per cent) or their own savings and investments (23 per cent). By contrast, in the UK, people expect only 40 per cent of their retirement income to come from the

government, while expecting 34 per cent to come from their employer and 26 per cent to come from their own savings and investments, according to Aegon Group's *Retirement Readiness Survey 2018*.

"Flexible retirement is still relatively uncommon," says Bonthius. "We see that, for instance, about 10 per cent of people between 60 and 70 in Europe combine work and a pension. It is a significant share, but it is not huge. You see a lot of differences between countries. There are countries where flexible retirement is almost non-existent, such as Greece, Spain and Belgium, where less than 3 per cent of people are combining work and pensions. Then you have countries where it is a lot more common; for instance in Sweden and the UK, where more than 15 per cent of people between 55 and 59 are combining work and pensions."

The UK is ahead of the curve, according to Aegon UK's pensions director, Steven Cameron. "In the UK we have pensions freedoms, so for the past three and a half years, people with a DC pension have been able to take as much or as little from their pensions as they like. That has been a huge enabler to create more flexible pensions which facilitate more transitional retirements ... Another way in which the UK might be ahead is that in 2011, the UK government banned employers from forcing people out the door at a specified retirement age."

Other countries have introduced voluntary frameworks for flexible retirement. For example, Germany has a partial retirement scheme into which companies can opt in or opt out. Companies are also given a degree of flexibility when it comes to setting the rules, according to 2016 research by Eurofound, *Extending Working Lives through Flexible Retirement Schemes: Partial Retirement*.

A new reality

Some governments are working to make flexible retirement a reality. Interestingly, different governments cite different motivations – although perhaps the underlying reasons are the same.

When the UK introduced its pensions freedoms reforms in 2014, its advertised goal was to liberate people from the need to take annuities, which were perceived as poor value options, and empower them to make their own choices.

Arguably, in the UK example, the government's intention was to encourage people to take more personal responsibility for their retirements, taking pressure off the state and employers. Underlying that could have been the less politically palatable intention to encourage them to work for longer, either supplementing their income with their pension savings or taking their pension later in life when it could have grown to a more substantial sum.

As JLT principal Stephen Coates points out: "You might infer that if more people are taking a flexible income, they might be using that in a number of ways. One of those ways might be to facilitate a flexible or partial retirement."

This intention was made much more explicit in Finland, when it introduced flexible retirement in 2005. "One clear goal of the 2005 pension reform was to increase the average effective retirement age by two to three years," notes author Eila Tuominen in a 2013 report for the Finnish Centre for Pensions, *Flexible Retirement Age in Finland*.

The report elaborates: "The pension reform included several amendments aiming at deferred retirement, such as the abolishment of early pensions (unemployment pension, individual early retirement pension), raising the age limit for early retirement and making the

general retirement age flexible between 63–68 years. At the same time, a strong financial incentive was introduced to encourage continued working past the lower retirement age limit."

Norway had yet another motive for its retirement reforms, according to Eurofound's 2016 research: "In Norway, the statutory pension age was reduced from 70 to 67 in 1973, but in the private sector the pension was reduced from full to half if people combined it with income above a threshold (raised in 2002). So this 'partial retirement scheme' emerged partly as a move to prevent people from combining full pensions with income from work."

Overcoming the barriers

Flexible retirement may be the future, but there is a long way to go before it becomes a universal reality. As Bonthius says: "There are some obstacles, but it's not impossible. For a large part, it is still society that expects people to work full time or retire fully. It is also employers, who recognise that there is a demand for flexible retirement, but don't know how to implement it practically."

"What we are probably going to see over the next few years is a surge in demand for flexible retirement options," predicts JLT's head of technical, John Wilson. "One place we are not at yet is reward strategies where you could have someone who is an active employee, an active scheme member and drawing benefits, all from the same pension scheme with the same employer. How do you set up a reward strategy for that kind of demographic? Companies are talking about it."

One thing is for sure. Given how attractive flexible retirement is to people, the onus is on governments and companies alike to be ahead of the curve. ■