FLEXIBLE RETIREMENT

Finding flexibility in retirement

Flexible retirement trends have been growing in recent years throughout Europe, but what impact has the pandemic had, and is increased flexibility the right answer for savers?

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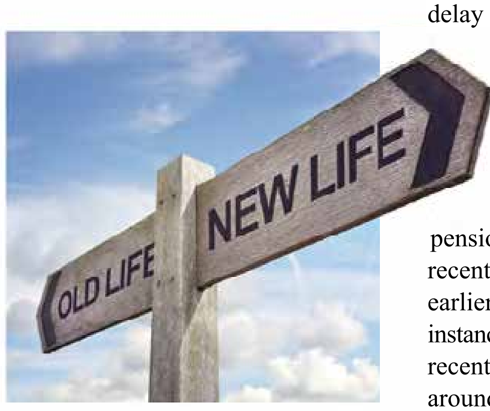
Ask a group of people what their dream retirement would look like, and you're likely to get very different responses. Whilst some would love to simply relax, others might be itching to spend more time baking, gardening or golfing. But not everyone is so keen to step back, and an increasing number of people are looking to continue working well past retirement age.

A recent report from Aegon found that in the UK, retirement is far more likely to be viewed as a transition, rather than a fixed date, with 58 per cent of workers seeing an alternative route to stopping work immediately. However, this may not be a universal truth, comparing to just 35 per cent in France, and 49 per cent across broader Europe. Furthermore, whilst just 30 per cent of UK workers want to immediately stop working at retirement age, this increases to 57 per cent of workers in Spain, 49 per cent in France and 40 per cent in Germany.

A transition not a switch

"Retirement has long been characterised as a three-pillar model with government benefits, employer pensions and personal savings all supporting individuals when they stop working and no longer have



earnings from employment," explains Aegon pensions director, Steven Cameron. He emphasises however, that there are significant differences across Europe in the extent to which people expect their retirement income to come from each of these pillars, depending on the retirement system in the country where they live.

Indeed, Aegon's recent research highlights that whilst workplace savings are very important in countries such as Netherlands and UK, in Spain, just 11 per cent of retirement income is expected to come from employee savings plans, whilst 65 per cent of overall income is expected from government benefits.

However, retirement patterns and ages are shifting as European governments attempt to ensure sustainability of their state pension systems. Mercer Spain wealth leader, Miguel Ángel Menéndez, explains for instance, that whilst it is possible to retire from age 61 in Spain, the latest changes in pension legislation have seen the "real retirement age" increase from 63 to closer to 65.

He continues: "The government expects a tightening of the requirements of early retirement in order to more closely align the real retirement age to the legal retirement age (67). This means that there will still be flexibility to retire but with incentives the state will attempt to delay the access to closer to 65-67 years due to the increase in life expectancy."

A shift in age

Whilst some countries are looking to reduce state pension age however, others have recently made strides to allow for earlier retirement. In Denmark for instance, political parties have recently come to an agreement around the parameters for early-retirement, or ret til tidlig pension.

The agreed upon proposals, Mercer Marsh Benefits Denmark head of technical department, Heine Olsen, explains, would grant early retirement rights from one to three years before mandatory retirement age, to 'worn down' individuals.

Approximately 41,000 individuals are expected to qualify to take advantage of the proposal in 2022, according to Olsen, with a further 24,000 individuals expected to take advantage of the offer in 2022.

Insurance & Pension Denmark deputy director, Karina Ransby, however, does not expect pension saving patterns to change radically due to the new early retirement option, predicting that around 60 per cent will choose the new retirement option, based on the experience from "efterløn".

"Almost every blue-collar worker

is covered by a collective agreement and hence a pension saving via their employer," she explains, noting that those who choose the new early retirement option will end up with a relatively smaller pension when retiring earlier, although the new retirement options are for workers with a "very long career".

Indeed, Ransby states that a shift in the timeline of a life expectancy indexation is something that a new pension commission will have to look into as more and more parties in the parliament are beginning to think that an official pension age of 72 by 2050 is presenting a "downside" for some workers in particular.

"The indexation has proven very successful and has had a massive impact on the actual retirement age and thereby the long-term public economy," she states, clarifying that whilst individuals have a financial incentive to postpone their retirement, more flexibility in retirement is demanded, as retirement shifts from an either or decision to a more gradual transition.

Cameron adds that recent increases to the UK state pension age were also aimed at making the state pension more affordable as people live longer.

Flexibility amid crisis

Long-term strategy and policy around pension systems and retirement flexibilities have likely been thrown into flux amid the Covid-19 pandemic however, with regulatory and legislative pensions work around the world delayed or shifted. Mercer partner and director of consulting, Brian Henderson, states that there is also some evidence of members behaviour adjusting in light of the pandemic, with some savers accessing their pots flexibly in light of Covid-19 related financial difficulties.

OECD principal economist and head of private pensions unit, deputy head insurance, pensions and financial markets division, Pablo Antolin, however, warns that whilst many countries have allowed access to assets, this is something the OECD would warn against.

Short term pain for long term gain?

"What we at the OECD recommend is access to retirement saving should be a measure of last resort," he explains, "and it should never be based on 'across-the-board' access, but rather, should be based on exceptional hardship in individual circumstances."

Antolin states that early access to pension pots could have further implications for the scheme and its members, as the funds will be invested in long-term strategies, with specific levels of liquidity. He explains that this, in turn, means that when savers access savings early, they run the risk of materialising losses. Furthermore, he notes that as these investment strategies are based on a long-term average return, by readjusting this investment, average future returns will likely be lower.

However, it is not only schemes that could have concerns, as Henderson stresses that reducing contributions or accessing pension assets early will have a detrimental impact on future pay out.

"Many savers have put their plans on hold during the crisis," states Henderson, explaining that whilst much of the early market loss has actually been recouped over the period, uncertainty persists, with many savers facing the difficult decision of when they can afford to retire.

Despite this, Antolin emphasises that most people in public systems have continued to accumulate pension rights thanks to government support schemes, and as such, might not need to postpone retirement.

An ageing population

Cameron argues that as a society, we need to maximise the number of people in the workforce to ensure we can adequately provide for those in retirement.

"As we on average live longer, we must prioritise encouraging more people at or near retirement to stay in the workforce," he states, highlighting that a key aspect of this will lie in employers creating the right working conditions.

However, Aegon research has found that just 31 per cent of UK workers state that they have the option to move from full time to part time work to help them phase into retirement, falling further to just 22 per cent in France and Spain, 28 per cent in Germany and 29 per cent in the Netherlands.

Indeed, Antolin agrees that more flexible retirement options are a good idea broadly, and have long been a recommendation of the OECD. And it seems that governments are beginning to step up, as Ransby highlights that the Danish parliament has already increased the economic incentives to postpone or work part time after the official retirement age. Although perhaps more encouraging is the shift in consumer attitude.

"When asked, senior employees over 65 years old mostly keep working because they like it and because they still have good health," Ransby notes, underscoring the need for the Danish pension system to shift in order to meet the future demand around flexibility.

It seems likely then, as longevity shifts continue to emerge and the long-term impact of the pandemic come to fruition, that greater flexibility will be needed from governments and savers alike. Although where each country's policy will guide them, remains to be seen. ■