

AT-RETIREMENT

Alternative paths

Talya Misiri considers the key elements that characterise the changing nature of retirement across Europe

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The population in most European countries is rapidly aging as a result of increased longevity, lower birth rates and the extremely large baby-boomer generation who are now near retirement. These factors are likely to have a significant impact on pension systems across Europe.

The nature of retirement is definitely changing. Once an abrupt termination of working life, retirement can now be characterised as a drawn-out process and can differ from one person to another.

“Gone are the days of being in work one day and being a pensioner the next,” claims Newton Investment Management global head of distribution Julian Lyne.

Struggling economies and the masses of people reaching retirement ages has meant that governments worldwide are now promoting longer working lives as a result of this demographic change.

“Whilst the UK is in the process of breaking away from Europe, the demographic and social challenges of retirement is one area where the UK & mainland Europe share a very common challenge,” Lyne adds.

Cliff edge

Flexibility is a key term when considering today’s retirement and pension systems across Europe. Cliff-edge type retirement, whereby people would be employed one day and retired the next is no longer as common as it once was.

The traditional three-stage lifecycle of pre-work, work and post-work is becoming a thing of the past, with less and less people following this rigid path. People are now able to access their pension pots in a variety of forms and choose to retire at differing times.

One example of change can be seen in the Netherlands. Retirees are able to hold risk-bearing assets through variable annuities, while they previously had to purchase fixed annuities at retirement.

Similarly, the introduction of the UK’s pension freedoms in 2015 removed the necessity of compulsory annuitisation at retirement and opened up numerous options, including drawdown and cash lump sum withdrawals.

State Street Global Advisors senior DC investment strategist Maiyuresh Rajah notes: “The popularity of traditional annuity products is waning across Europe due to a perceived lack of value by consumers and a reluctance to give up their pension pot for a fixed-income stream.

“Flexibility is becoming the key driver for many retirees when choosing how to access their pension pots instead of a need for guaranteed secure income through retirement.”

Nevertheless, while flexible retirement options and pension arrangements are available, this does not necessarily mean that all reaching statutory retirement ages are able to take advantage of these.



Looking back with envy

Now, it is noted that growing numbers of older workers extend their working lives through continued careers or new post-retirement jobs, with less individuals opting for a traditional, full leisure retirement.

However, this is not always a personal choice. It has been found that since the 1990s, economic and social pressures have encouraged many European national governments to introduce measures to discourage early retirement and promote longer working lives. This is known as ‘active aging’.

Active aging is largely promoted by retention factors that explicitly support longer working lives, with active labour market policies that aim to enhance the employability of older workers.

In Germany, there has been a long history of institutionalised early retirement. However recently, since around 2015, this trend has begun to reverse. Like the rest of Europe, the country has also experienced a change in the political climate towards active aging. Particularly, pension and welfare systems have been reformed to reduce the financial attractiveness of



that at least 50 per cent of older people aged 55 to 64 are still in employment by 2010. The following year, 2002, the Barcelona European Council also decided to make efforts to increase opportunities for older people to remain in the labour market for longer.

In line with these changes, early retirement policies and incentives that were inherent in the social security systems of the EU15 countries have been gradually phased out.

“Whilst the flexibility will be embraced by many, affordability and health issues (never mind the

a reduction of income, gradually working towards an eventual pensionable retirement.

In some European states, with this form of retirement, income may be supplemented with unemployment benefits, partial pensions, other state benefits or employer subsidies.

In a recent study by the European Foundation for the Improvement of Living and Working Conditions, *Early and phased retirement in European Companies*, it was found that a high number of companies in the Netherlands (64 per cent), Belgium (56 per cent) and Finland and the UK (both 53 per cent) offer phased retirement options. In contrast, lower numbers were found in Southern European countries, including Spain (19 per cent), Italy and Greece (10 per cent) and Portugal with only 6 per cent of companies.

When it comes to take-up of this form of retirement, 27 per cent of workplaces offering phased retirement in the Netherlands stated that almost all or most of their employees made use of this option. This was also fairly high in Denmark, 15 per cent and the UK, 13 per cent. Nonetheless, in eastern and southern states, with the exception of Slovenia and Cyprus, between 66 and 90 per cent of companies offering a phased retirement plans stated that virtually no one made use of this option.

With the European pensions climate undergoing significant change, it appears that there is a battle between retirees working longer than their predecessors and attempting to reach a position of flexibility at retirement, whether that be a phased retirement or alternative pension arrangements.

Rajah concludes: “The retirement landscape across Europe is changing and policymakers need to determine what is the most appropriate model with which retirees can access their pension pots.” ■

THE RETIREMENT LANDSCAPE ACROSS EUROPE IS CHANGING AND POLICYMAKERS NEED TO DETERMINE WHAT IS THE MOST APPROPRIATE MODEL WITH WHICH RETIREES CAN ACCESS THEIR PENSION POTS

early-retirement.

In the UK, while compulsory retirement is only lawful in occupations in which job specifications justify it, there has been a comparatively high retention of older workers in employment.

This has been found as not so much a result of explicit public or employer-led retention policies, but rather an

individual-level financial necessity to remain employed. In particular, low-skilled workers often only have access to public pension schemes, which leads to greater economic pressures to remain in the workforce for longer.

In addition, measures have also been taken in the last decade by other European countries to encourage larger amounts of the aging population to remain in employment. In 2001, the Stockholm European Council agreed to ensure

complexities involved in managing a phased retirement) may mean that others look back at the ‘golden generation’ with their traditional retirement with envy,” Lyne says.

Phased retirement

Discussing the changing nature of retirement, Meaningful Money reporter Pete Matthew said in a recent podcast *The Great Transition* (Season 4 Ep 10): “Fluidity of the great event that is retirement means that for most people, it isn’t an event any longer. It’s not a line in the sand...”

With active aging policies and economic fluctuations and differences, most European countries are now encouraging phased retirement processes.

This form of retirement is generally characterised by a gradual departure from the workforce beyond the statutory pension age. Older workers are able to reduce their working hours, usually with