

New visions of retirement



By Steven Leigh, Senior DC Consultant, Aon

Retirement was once a big bang date at which you stopped work completely, but Aon's latest research shows that the majority of individuals no longer expect this to be the case. What challenges does this present for employers and pension schemes, and how should they respond?

We have been hearing about phased retirement since the removal of the default retirement age back in October 2011, but many employers and pension schemes are yet to see this borne out in practice.

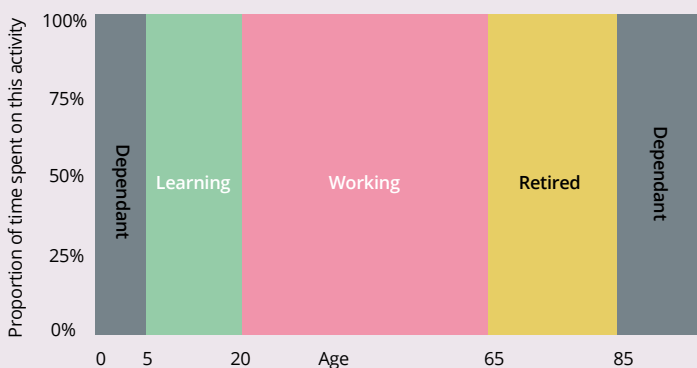
So what reasons are there for this apparent disconnect? Many individuals retiring from larger employers may have a significant amount of pension income payable from defined benefit (DB) pension schemes that they have to take at one date.

However, many are now seeing:

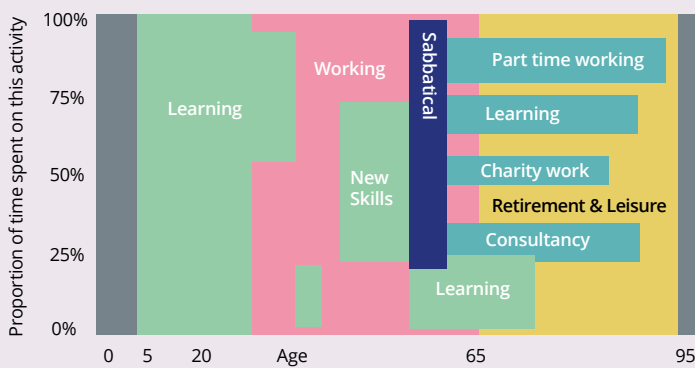
- + **State pension ages rise**
- + **Reliance on defined contribution (DC) pension arrangements increase**
- + **Longer and healthier later lives**

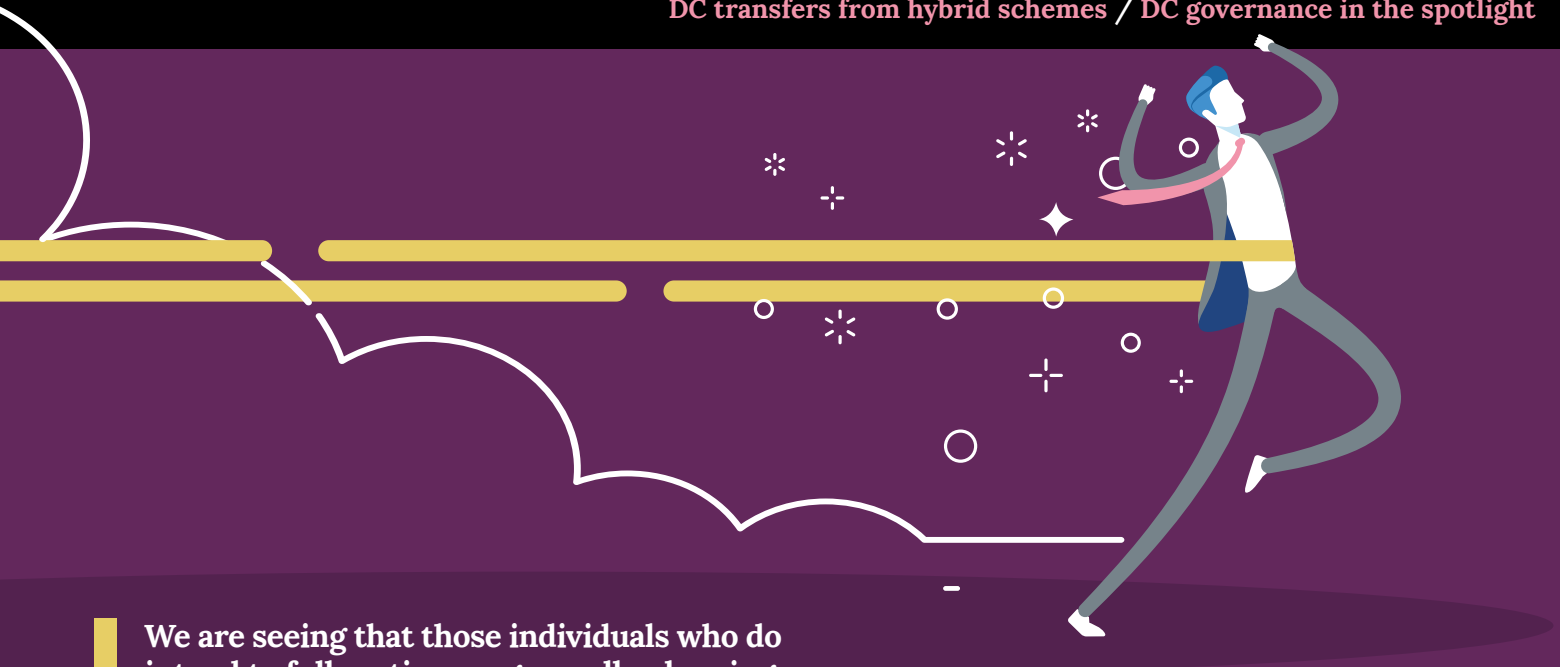
All of these are driving the change from the fixed traditional life stages model to a more complex version.

Historical life stages



Future life stages view





We are seeing that those individuals who do intend to fully retire are generally planning on doing this at an older age.

Around half of the 1,000+ individuals included in Aon's current DC member research (to be published shortly), plan to transition to part time working before they 'fully retire' from paid work. This is true across all ages; over 40% of workers currently aged 50 or more expect to work part time before retiring fully. This means that the new paradigm illustrated here is something that is starting right now.

Surprisingly, 14% of individuals report that they intend to never stop working, expecting to carry on in paid employment either part time or full time for the rest of their lives!

It is clear that the traditional retirement income model of an initial cash lump sum, followed by a fixed level of income, is not going to meet the changing needs of the majority of individuals going forwards.

So, are pensions freedoms the answer?

Access to income drawdown and unrestricted cash lump sums from DC funds following the introduction of pension freedoms allows people to shape the income from their DC pensions to suit their lifestyle. Annuities still offer the ability for individuals to secure a guaranteed income if that best meets their needs at any point in time.

Pension freedoms may enable individuals to match their pension income with their lifestyle, but the changing approach to retirement presents a number of challenges for pension schemes and sponsors. One of the toughest challenges for pension schemes can be deciding what should be done to support the 'decumulation' phase.

Offering individuals a default guided pathway for income withdrawal recognises and addresses the fact that many will not pay for, or cannot access, financial advice and are therefore likely to be ill equipped to navigate the post-retirement income market.

Test what your members receive compared to a guided decumulation pathway that ideally delivers:

- + Sustainable income
- + Flexibility
- + Longevity protection
- + Robust decision support framework
- + The same value for money (including institutional pricing and quality), that employees experience pre-retirement

In addition to the challenge of decumulation from the pension, there are other areas that should be considered by pensions, benefits, and HR teams in response to changes in traditional retirement patterns, such as:

- + Will suitable part time jobs exist for these employees?
- + Are life cover or health benefits suitable for those working to older ages?
- + Can you help employees set a target for an appropriate retirement income where they are planning to transition to part time work?

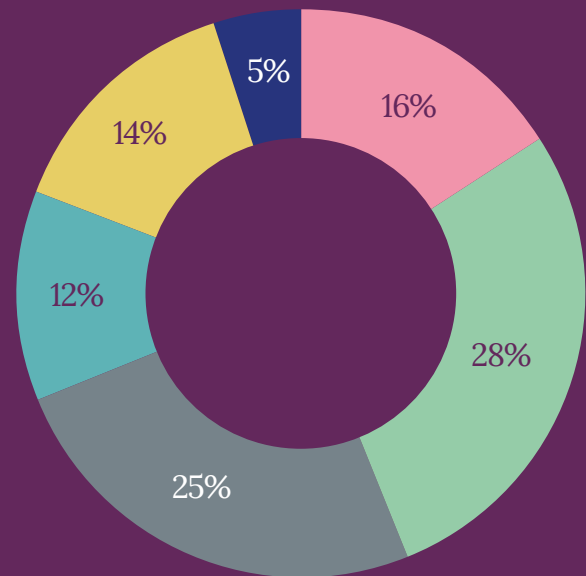
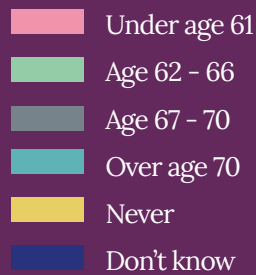


So, when will people fully retire, if ever?

As well as helping individuals plan for, and facilitate a flexible income stream in, retirement, employers also need to consider how succession planning and job roles may be impacted by larger numbers of older workers remaining in employment.

We are seeing that those individuals who do intend to fully retire are generally planning on doing this at older ages. Less than half of employees now expect to retire fully from work by age 66 and around 25% of employees expect to be still working after age 70.

At what age do individuals expect to fully retire from paid employment?



Source: Aon 2018 DC pensions and financial wellbeing research

It is important to ask yourself how well you know your workforce. Is there more that could be done to understand their intentions around retirement? Knowledge is power and this understanding could empower you to assess how well your pension, benefits, and even job roles meet the employee needs as well as the future needs of your business.

To pre-register to receive Aon's DC and Financial Wellbeing research, go to:
aon.com/dcpensionsuk

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