Retiring later, working longer – why should employers care?

One out of every five UK pension scheme members expect to work into their 70s, according to research by Willis Towers Watson, with working longer perceived as the main solution to inadequate retirement savings to those over 50.

Willis Towers Watson's 2015/2016 Global Benefits Attitudes Survey reveals that 45% of pension scheme members over 50 said they would work longer if they faced a shortfall in retirement (a number that rose to 63% for those with significant debt) while just 22% said they would save more, reflecting that this is not a viable option for many employees nearing retirement. 29% preferred to accept a lower income in retirement.

1 in 5 UK employees expect to work to age 70 or beyond

Retirement security is rising up the agenda

Over half of employees do not believe they will have sufficient financial resources 25 years into retirement, while 39% are not confident that their resources will stretch even 15 years into retirement.

These worries about retirement adequacy are increasingly being felt today, with 46% of UK employees stating they often worry about their future financial position and 55% reporting that retirement security has become a more important issue for them over the last two or three years.

Concern over the sustainability of State benefits and worries about the adequacy of pension savings are driving a greater focus on saving for retirement. 64% of UK employees think that the State pension will be much less generous by the time they retire, and 64% think the NHS and other medical services provided by the State will be worse.

"Despite the shift from Defined Benefit to Defined Contribution the number of employees reporting that they will be reliant on their employer's pension plan to provide for their retirement has grown," says Jonathan Gardner, Senior Economist at Willis Towers Watson. "Employers have retreated but people expect that governments are going to retreat even faster."

73% will rely on their employer's retirement plan to save for retirement

With government and employer-provided retirement benefits being less generous, it is clear that many people are not adequately prepared for retirement and are likely to work into old age.

The employment rate amongst the over-65s has almost doubled since 2001 and the impact of the transition from DB to DC will lead to further increases in the numbers working into old age, with those in DC schemes more likely to expect to work into their 70s than their peers in DB schemes. In the UK, 22% of those who are members of a DC plan intend to work until 70 or later, compared with 10% of those in a DB scheme.

Hidden pensioners

"We have begun to see employers reporting concerns of the risks to them of workers reaching old age and not being able to retire," says Mr Gardner.

A big issue is the potential for 'hidden pensioners', employees who want to retire, but cannot afford to do so. The research shows that employees expecting to work into their 70s tend to be less healthy, more stressed and less engaged with their jobs, which could translate into declining productivity. Amongst pension scheme members believing they will retire aged 70 or later, some 30% are in fair or poor health, 51% report high or above-average work stress, and one in three are disengaged.

An employer's responsibility?

Employees seem to be in favour of employers taking an active role in their retirement, with 53% supporting the idea that 'Employers should actively encourage employees to save for retirement.' How can employers respond to this demand?

"We need to engage people at the right age, when they can still do something about it," says Alice Evans, Head of Commercial and Client Development for the LifeSight team. "If people knew that they weren't saving enough then they might be willing to save a little more before it's too late and working longer is the only option."

Retirement ages are also higher for those scheme members who are struggling financially, with 41% expecting to work to 70 or later, a big contrast with the 11% of the 'unworried' who plan to retire then. The impact of debt is most apparent on Generation X, where 58% of those who are finding their debt difficult to manage have delayed their retirement in the last 2-3 years.

"With the ageing population, employers may need to consider more flexible work arrangements and strategies to re-engage older workers if employees extend their working careers and productivity declines," says Mr Gardner.

"The solution is to provide relatively simple, targeted information that helps people make well-informed decisions at the right time. For example, in LifeSight we have forecasting tools that help people understand the impact that changing how much they contribute has on the age they can afford to retire," she adds.

Women report lower levels of confidence than men. Only 39% of women aged 50 or over believe they have sufficient resources to last 25 years in retirement, compared with 55% of men in the same age bracket.

Younger women were even less sure, with 36% in the 20-29 year range confident compared to 54% of 20-29 year old men.

How does this impact the workforce?

Employees expecting to work beyond 70 are likely to be:

Disengaged
34%

Unhealthy*
60%

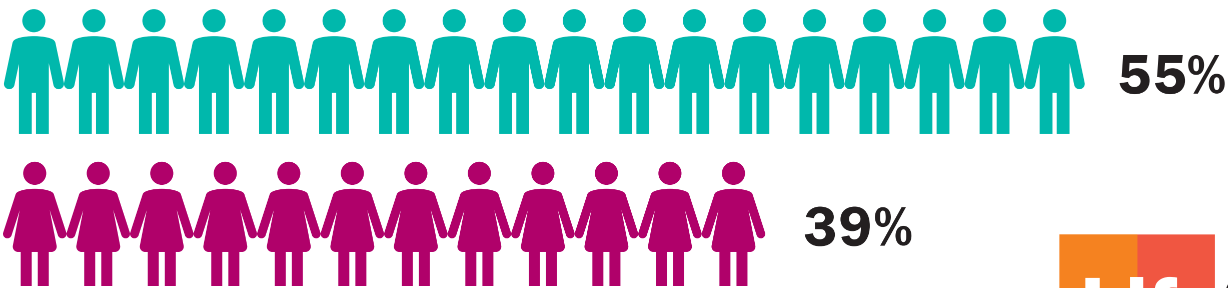
Stressed**
51%

*Report not being in very good health
**Report high or above average levels of general stress

"Although more men are now opting for career breaks and the gender pay gap has moved up the agenda, it's not surprising that uncertainty persists in young women in their 20s about how their future career prospects may affect their ability to save for retirement," says Ms Evans. However, on the whole she says "Although housing and debt are a greater priority for younger people, they are also savvier about the need to save for retirement, and may well demand more of their employers as a result."

Women report lower retirement confidence

Confidence in having sufficient resources to last 25 years in retirement (men versus women):



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Engaging employees to take control of retirement saving

"The interesting finding is that people want to have tools to help them plan," adds Ms Evans. "The best ones out there manage to connect with people about pensions in a meaningful, personalised way. For example, we focus on age when explaining retirement saving in our master trust LifeSight, because when we tested it with consumers it resonated as a more tangible concept. You want to know the age you will be able to afford to retire, and what you can do to influence that age."

The research shows that almost half of scheme members over 50 value online tools in helping them track their pension benefits, while over two-fifths said online tools are important to help them monitor when they can retire. This reliance will only increase in the future, with over half of those in their 20s valuing such tools. However, while there is widespread appreciation of these tools, the number of active users is limited which implies an opportunity is there for the taking.

"The industry needs to create a consumer experience, similar to what they face elsewhere in their day-to-day lives," she adds. "The clunky old tools are no longer good enough. People are told they can now use their pension like a bank account and so they want features like a bank account. The benchmark is being raised quite quickly."

How can employers help employees save for retirement?

As employees start to become more receptive around retirement issues, employers have an opportunity to help them save through enhanced retirement education.

Knowledge is power

Use engaging, simple tools to close the gaps in employee understanding about their savings.

Think 'consumer employee'

Leverage new technologies to provide a consumer-grade experience to help connect with employees – members are coming to expect this from services they use.

Engage early

Ensure you target young and old alike: for those nearing retirement it can often be too late to save more, meaning delaying retirement is the only option.

Know your audience

The impact of communications can be enhanced using tools such as segmentation, peer comparison and personalisation.

Source: 2015/2016 Global Benefits Attitudes Survey, UK. Research based on 30,000 employees in 19 countries, of which just under 2,000 were based in the UK, restricted to those working the private sector and excluding local and central government. Fieldwork in June-August 2015.

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