



# **The Future of Retirement**

**An ILC-UK discussion paper by  
Dr Craig Berry**

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## **Executive summary**

- The meaning of retirement was originally bound up with the receipt of a pension, but has changed over time.
- There are no clear lines of causality regarding early and late labour market exits, due to a complex interaction of factors.
- The UK's average retirement age started to rise in the 1990s, following decades of decline, despite increasing life expectancy.
- Most people do not retire at state pension age (SPA), but nevertheless increases in SPA may create equity concerns. There is a need to ascertain why people retire early, to determine whether planned and further increases are fair, as well as to help the extended working lives become more effective.
- Good pensions coverage generally increases the likelihood of early retirement, and vice versa. Other things being equal, low-paid/low-skilled workers retire later due to financial compulsion.
- Over the long-term, defined contribution pension schemes are likely to encourage later retirements, in part due to their inherent incentive structure, but also because they tend to be less generous than defined benefit schemes.
- However, people may misunderstand the financial incentives around staying in employment, or not, due to a lack of knowledge regarding their pensions entitlements.
- Ill-health is the main reason for early retirement that people cite, although those most likely to retire due to ill-health or those with the least generous pensions coverage.
- There is some evidence that high professional status or job quality encourages later retirement. Low job quality generally leads to earlier retirement, and overlaps with ill-health in this regard.
- Industrial change has resulted in *de facto* early retirement for large numbers of people. Retirement in these circumstances is a result of labour market conditions rather than individual choice.
- Self-employed people tend to work for longer, although the evidence on the reasons for this trend is mixed. Many work longer due to financial compulsion, and late switchers to self-employment tend to retire soon afterwards.
- Couples often make joint decisions to retire, which may explain why women tend to retire after male SPA. Single people retire later, although it is not clear whether this trend will persist.

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- Care responsibilities problematise employment in later life, which can lead to early retirement for many people. An ageing society is likely to exacerbate this problem.
- Many older workers seem to favour a gradual transition from work to retirement. Such arrangements could help people to cope with care responsibilities.
- Generally, however, gradual retirement options such as downshifting and consultancy work are available only to high-skilled workers. Line managers also exercise significant discretion in allowing workers to downshift.
- More research is required on how the pensions system could incentivise gradual retirement options.
- The services sector could be more amenable to gradual retirement.

## 1. Introduction

To retire means to stop working. Yet this conventional definition hides significant discrepancies. For instance, do you need to have been a paid employee before you can retire? What if you continue working after leaving your job . as a carer, a volunteer, a trustee, a parent, a grandparent, a civic participant, and so on? The concept of ~~semi-retirement~~ seems to obscure more than it explains, and is perhaps a fairly degrading label for people who simply adapt their working patterns as they get older.

The meaning of retirement is usually bound up with the receipt of a pension . which is precisely why retired people are frequently referred to as ~~pensioners~~. In fact, it is often claimed that pensions precede retirement in a historical sense. Until Otto von Bismarck's government gave birth to the first state pension in Germany in the 1880s, people generally worked until death. In practice, however, ill-health often prohibited work in the final years of life, leading to a reliance on younger relatives for support; and the wealthiest members of society obviously felt the compulsion to continue working far less (Meadows, 2003: 34). Bismarck himself only reluctantly retired at age 75, having fallen out of favour with Kaiser Wilhelm II; in any case, he would not have qualified for a pension, given that it was available only to industrial workers, and introduced primarily to stem support for socialism (Bonoli, 2000).

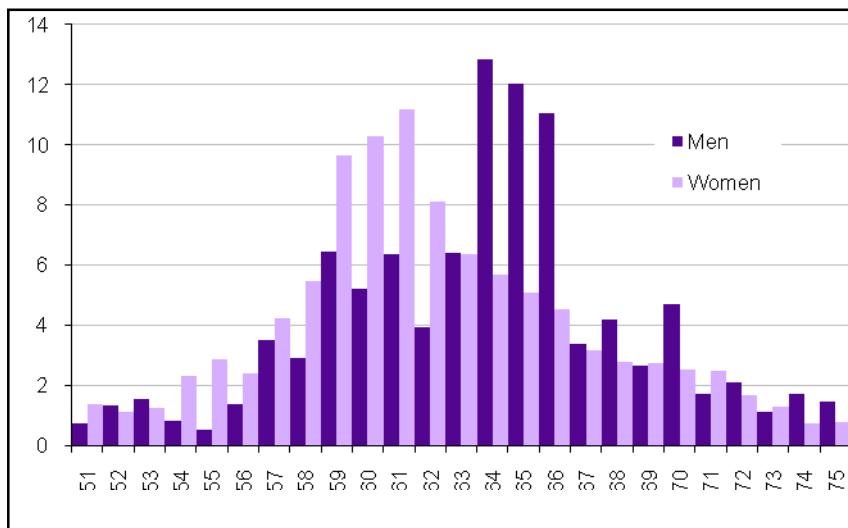
The UK pensions system developed along similar lines to the German model in the early twentieth century. As provision expanded, including occupational pensions, and life expectancy increased, ~~retirement~~ became a normal and legitimate stage of the lifecycle. State pension age (SPA) was established at 65 for men and 60 for women in 1948. However, actual retirement ages (i.e. the average age at which people withdraw from the labour market) for those that had been in employment remained lower than SPA throughout the postwar period. While initially seen as a sign of society's growing prosperity, the trend came to be seen as a problem for public policy during the 1980s and 1990s. It seemed that certain social and economic conditions were preventing people from working longer, despite the fact that we were living longer (Pensions Commission, 2004).

According to most observers, the average retirement age began to increase from the mid-1990s after falling steadily for several decades. The Pensions Commission reported this trend in 2004. This is not undisputed: interpreting similar data in a different way, Arkani and Gough (2007) argue that the rise in average retirement ages for both men and women actually occurred in suddenly 1991-1992 . and has been stable (even slightly declining) since then. Using Labour Force Survey data on labour market withdrawal ages, the Office for National Statistics (ONS) reports that the average retirement age for men is 64.5 years, and for women 62.4 years (ONS, 2009).

Of course, it is not necessary to determine the precise average here. What these disagreement show, however, is that the precise point at which retirement occurs or begins is very difficult to pin down. The line between retirement and employment is often blurred: some forms of employment may persist despite formal retirement for

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some individuals, and equally there may be various reasons why people of pensionable age are not in work, rather than simply a decision to retire. What is clear is that most people do not retire at SPA, and while SPA surely influences retirement decisions, it has seemingly never had a determining impact at the macro level. The ONS latest statistics on the distribution of retirement ages shows that while retirement ages cluster around SPA, the overwhelming majority of both men and women retire neither at SPA nor within 12 months before or after SPA.



*Fig 1: Proportion leaving the labour market, Q2 2009, not seasonally adjusted (Source: ONS)*

However, although retirement does not correlate precisely with SPA, the decision to increase SPA to offset the fiscal implications of increased longevity means that urgent thought is required on how to increase retirement ages to minimise the financial impact on older people of delayed access to state pensions. This means considering the reasons behind individual retirement decisions. Paradoxically, however, the Labour government introduced in 2006 a default retirement age (DRA), giving employers the right to retire their employees when they reach 65, while at the same time implementing new regulations on age discrimination. Employers had argued that the trend towards working beyond SPA meant they needed legal protection when making decisions about their workforce in the best interests of their organisation. While it is likely that the DRA will be abolished, it demonstrates the peculiar nature and status of retirement in the UK today. This paper will therefore consider how industrial policy can be used to encourage older working, contributing to debate on the future of the DRA.

It must be noted, however, that early retirement should not necessarily be treated as a problem to be fixed. Many people are forced to retire early, but equally, many people choose to retire early because they no longer require income from employment. While we need to encourage more people to work for longer, for some people the decision to work for longer is a financial necessity, and may indeed be detrimental to their well-being. We need to explore, therefore, how to institute sustainable retirement practices that benefit both individuals and society or the economy more generally. Promoting forms of gradual retirement may be key to realising this objective.

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This paper uses the available evidence to discuss the evolution of retirement in the UK, and the implications for employment and pensions policy. It seeks to document some of the real paths to retirement to individuals experience today, and are likely to experience in the future. The key issues it will discuss are:

- the reasons behind individual retirement decisions, and the socio-economic trends behind changes in average retirement age
- the emergence of gradual retirement and semi-retirement
- whether different groups experience the process of retiring differently
- whether changes in retirement ages tell us anything the prospect of extending working lives
- future trends in retirement for individuals and society

## 2. Factors affecting retirement

### a. Micro level: individual retirement decisions

The existing literature on retirement posits that the two biggest influences on an individual's decision to retire are finance and health. However, neither factor exhibits a straightforward and unambiguous impact on retirement. Individuals will respond to different financial and health-related circumstances in different ways, depending on how these considerations interact with other factors.

*Finance.* The main financial consideration for most people approaching retirement is their pension coverage (the pensions system will be considered in more detail below). The conventional wisdom, of course, is that those workers with the most generous . and accessible . pensions entitlements tend to retire earlier. As such, the growth of final-salary occupational pensions in the post-war period is often associated with the decline in average retirement ages. Interestingly, the overwhelming majority of people who work beyond SPA are women. In a 2003 study, Pamela Meadows argued that the less favourable pensions coverage of women at least partly explained this. Time away from the labour market to care for children, and lower earnings, impact on both state and private pensions.

However, in terms of incentivising early retirement, the impact of pensions coverage is not clear-cut. Meadows argues that while good pensions coverage *enables* early retirement, it does not *determine* retirement decisions to any significant extent. Instead, very early retirees tend to be those without occupational pensions, and are leaving work mainly on the grounds of redundancy or ill-health. This is ostensibly correct: a good pension would not necessitate retirement (and it would be unwise to argue pensions should become *less* generous simply to encourage later working), although clearly pensions coverage enables certain retirement options, and therefore acts as an important incentive, or disincentive, in retirement decisions.

In a US study, Sewin Chan and Ann Huff Stevens (2008) added further weight to the argument that finance influences retirement decisions. They challenged the finding often derived from financial modelling that financial incentives do not *directly* impact retirement by showing that it is actually *misperceptions* of incentives that influence retirement decisions. Therefore people act on the basis of their financial circumstances, but often misunderstand those circumstances due to a lack of information. Another US study also found that the receipt of large inheritance sums encourages early retirement. Moreover, the impact is more pronounced if the inheritance is unexpected . suggesting that it is wealth *shocks* rather than wealth per se which has the greatest impact on retirement (Brown et al, 2006).

*Health.* Researchers are virtually unanimous on the notion that ill-health leads to earlier retirement. On the flipside, good health enables people to stay in work for longer. For instance, in a study for DWP in 2003, Alan Humphrey et al surveyed 2800 people aged 50-69. Of those not in work, half said it was due to ill-health. Those retired for health reasons also tended to be younger, suggesting that ill-health impacts on retirement at an earlier age than financial considerations.

However, ill-health clearly does not impact upon the retirement decisions of all social groups in equal measure. In Humphrey et al's study, those not in work due to ill-health were predominantly male and less educated, and more likely to be single. Paradoxically, of those still in work, expectations of early retirement were greater among those with better education, professional or managerial occupations, and married people. Therefore, lower-skilled workers are both more likely to retire *later* for financial reasons, and more likely to be forced to retire *early* due to ill-health. Clearly, health impacts on retirement, albeit through interaction with a range of other factors.

While the impact of health is widely-recognised, Debra Dwyer and Olivia Mitchell have reported a justification hypothesis<sup>9</sup>. As in the Humphreys et al study, health factors are usually self-reported. This process may therefore not be entirely trustworthy. People who enjoy work tend to downplay health conditions, while people who are keen to retire may exaggerate health conditions. This surely supports the notion that while health is a significant influence on retirement decisions, its impact is felt through interaction with other factors.

*Labour market experience.* Fundamentally, it seems, the impact of finance and health on retirement decisions is mitigated by individuals' experience of the labour market during their working life. Ostensibly, those with higher earnings, and those that have spent the most time in employment, will have better pensions coverage, and therefore more options from a financial perspective to consider early retirement. Although there is no clear evidence on average retirement ages for different income groups, Sepideh Arkani and Orla Gough (2007) have shown that men and women from black Caribbean origins, and men from Pakistani origins, tend to retire later, due to lower incomes and less time spent in employment.

In Gill Mein et al's (2000) study of the retirement behaviour of British civil servants seems to confirm this. They found that those in managerial and professional positions were far more likely to retire early than those in clerical and support positions. The longer they had been civil servants . accruing generous pension entitlements . the more likely they were to retire early (although health and job satisfaction acted as intervening variables in this regard).

However, these findings have been partly contradicted by Morton Blekesaune et al's 2008 quantitative study on factors affecting retirement. They argued that people in professional and managerial positions are actually more likely to retire later than lower-skilled workers. One of their main findings is that later entry into the labour market encourages working later into life. This may be related to the need to work for longer to accrue pension entitlement; while generous provision enables early retirement the overall incentive structure encourages staying in employment.

However, Blekesaune et al's main explanation is that the children of professional and managerial workers are more likely to join the labour market at a later age due to staying longer in full-time education, and to work for longer due to a greater work ethic and the satisfaction derived from the status associated with their employment. Blekesaune et al's findings may support other research that suggests job conditions are a major influence on retirement decisions. Johannes Siegrist et al's comparative

study of ten European countries found that poor quality of work (measured on both an effort/reward ratio and a demand/control ratio) was significantly associated with early retirement (Siegrist et al, 2007). They argue therefore that quality of work belongs alongside health and finance as the main determinants of retirement decisions. Inevitably, lower-paid and lower-status jobs also tend to be poorer quality jobs in this regard.

Interestingly, Meadows (2003) has argued that one of the main reasons for early retirement is redundancy. As such, part of the drift towards early retirement comes through unemployed older people who give up trying to find work. In other words, *de facto* retirement brought about through the difficulty of finding new employment in later life. Health and poor job quality (alongside a good pension) are reasons for older employees taking voluntary redundancy, but Meadows also points to involuntary redundancy, which is experienced mainly by low-paid and low-skilled workers (particular ethnic minority groups and immigrant workers).

The retirement decisions of self-employed people have received a lot of attention. On average, the self-employed retire later than employees (Parker & Rougier, 2004). Meadows (2003) has suggested this may be because self-employment is intrinsically more enjoyable and rewarding than employment. In Alan Humphrey et al's study, cited above, 1 in 7 of those surveyed were self-employed. For those also aged above SPA, this increased to 1 in 3. They reported that self-employment better suited the transition to retirement. Roy Sainsbury et al (2006) reported that self-employment allowed people to wind down before full retirement.

However, only 56 per cent of those surveyed by Humphreys et al had a private pension (compared to 72 per cent of employees), suggesting that the financial compulsion to continue working was also greater for the self-employed. This is supported by Sainsbury et al, who found that most self-employed people, especially women, have no private pension coverage. Even those that do have coverage only contribute small amounts, and would be prepared to cease contributions if their day-to-day financial circumstances worsened. Overall, Sainsbury et al's qualitative study of 40 self-employed people found no clear causality regarding retirement. Those who intended to retire early were either financially secure, or fed up with the work. Those intending to work later were either continuing through financial necessity, or derived satisfaction from the work. It would be logical to assume, of course, that those earning the least would enjoy their work less.

**Family.** Family and households structures impact on retirement decisions in a number of ways. Several studies report that the reason that women are more likely to retire above SPA is that female SPA is lower than male SPA, and couples often make joint decisions to retire at the same time (see Meadows, 2003; Wild, 2007). This is something also found by Steven Mock and Steven Cornelius (2007). They argued that the contractual nature of marriage encourages retirement planning, but also that couples more satisfied with their relationship also tend to plan their retirements together. Interestingly, they argue therefore that lesbian couples tend to plan their retirements together more so than non-married heterosexual couples, because they tend to be as interdependent as married couples due to high levels of relationship satisfaction.

Interestingly, DfES (2000a) research has found that single people tend to retire later. The desire to maintain social relations through employment may be more important to single people rather than couples. Blekesaune et al's research, cited above, also shows that *family formation* may impact upon labour market withdrawals. In keeping with their finding on labour market entry, they argue that the later in life that one enters into a permanent relationship and become a parent, the later you will work. The impact applies to the first child born. The timing of subsequent children has no impact. There are two prevailing explanations: as above, that university education delays the social status of full adulthood, but also, that becoming established at an earlier age leads to greater ill-health later in life. They do not examine whether the latter is also related to lower incomes.

**Care responsibilities.** Hilary Arskay et al's 2005 study for DWP of the impact of caring responsibilities on work and retirement decisions showed that, for many carers, caring had a significant impact on the process of retirement. Essentially, it makes extending working lives more difficult. Caring curtails the employment options of people approaching retirement, with many having to give up work altogether, creating the compulsion to retire *de facto* even if the desire and financial need to continue working remains. Paradoxically, even though women are more likely than men to have caring responsibilities, men are more likely to have to retire early as a result of caring responsibilities, due to the greater incidence of part-time work among women. However, part-time and flexible working is not a panacea, as for many carers the biggest barrier to work is that one is unable to take leave at short notice to deal with crises.

Overall, Arskay et al found that the relationship between caring and retirement was extremely complex. Crucially, decisions (and non-decisions) were constantly under review and not discrete 'one-off' events. The uncertainty associated with caring for elderly relatives made retirement planning extremely difficult. Interestingly, people with caring responsibilities were more likely to retire early if they lived in rural areas, which made combining work and care especially problematic. and if they were from an ethnic minority background. There was no clear reason for this, although it seems cultural expectations played a part, and many ethnic minority carers cited their own ill-health as a contributory factor. Another factor in the care/retirement relationship was that older people who had given up work to care for elderly relatives found it difficult to return to work once their care responsibilities came to an end. It seems there are not the same clear routes back into employment that now exist for new parents.

## **b. Macro level: impact of policy and socio-economic trends**

The previous sub-section considered the influence of a range of personal circumstances and individual characteristics on retirement decisions. Here the paper considers the aggregate impact of three important trends: an ageing society, the pensions system, and economic change.

*Ageing society.* Even though in the postwar period life expectancy has increased significantly, retirement ages have not increased in line with this change. While increased longevity surely changes the context of retirement decisions, clearly it does not have a determining impact. This may be due to the fact that *healthy* life expectancy has not increased at the same rate as life expectancy (Mayhew, 2009). However, even though a greater proportion of retirement is now spent in ill-health, we experience many more years of good health in absolute terms, and are much more likely to be healthy in our 50s and 60s as we approach retirement. Paradoxically, it could be that an ageing society has contributed to *earlier* retirements, by legitimising the idea of a sustained period of leisure in later life. As Nicholas Barr of the LSE has argued, ~~the purpose of retirement has changed~~. It no longer exists primarily to clear dead wood out of the labour force, but to provide a period of leisure in later life, as part of a civilised society (Barr, 2010).

It may be that we need to consider also *perceptions* of life expectancy as well as life expectancy itself. People may be living longer . but are retirement decisions affected by how long they expect to live? Research by Hanna van Solinge and Kène Henkens (2010), based on a study of retirement behaviour in the Netherlands over the last decade, shows that subjective life expectancy influences retirement decisions, alongside health, family and employment considerations. In other words, the longer somebody expects to live, the later they will retire; if people do not expect to live for a long time, they will retire earlier. Given that perceptions of health influence perceptions of life expectancy, this adds more detail to exactly *how* health impacts upon retirement decisions.

It should be pointed out, however, that while van Solinge and Henkens show that subjective life expectancy impacts upon *expectations* of retirement, it may not influence *actual* retirement decisions; as Richard Disney and Sarah Tanner (1999) argue, only around half of people in the UK retire when they expect to retire (see box 1). Both studies in fact both show a huge tendency (in the Netherlands and the UK respectively) to advance the moment of retirement as people approach later life. However, clearly it impacts upon retirement planning.

Expected retirement age does not always coincide with actual retirement age. They may differ for various different reasons not originally accounted for, such as changes in health, personal financial circumstances, attitudes towards retirement as it draws closer, management discretion over the retirement process, and scarce information on retirement provisions. Therefore, retirement intentions and actual behaviour often differ precisely because retirement is not an independent choice, but is subject to various constraints. According to analysis of retirement expectations and outcomes undertaken through the Retirement Survey (across two waves, 1988/89 and 1994), state pension age (SPA) seems to dominate retirement expectations, albeit with some differences between men and women. A high proportion of men, who expected to retire to coincide with SPA, retired earlier, whereas a significant number of women retired when they expected, usually beyond state pension age (Disney & Tanner, 1999).

*Valentina Serra*

*Box 1: expectations versus outcomes in retirement decisions*

*Pensions system.* Obviously, given that the state pension is not accessible until SPA, it is difficult to say that it acts as an incentive to retire early. In fact, the capacity of individuals to defer receipt of the state pension may mean that this aspect of the system provides an incentive to retire later. The fact that means-tested benefits are available to both men and women at female SPA, however . and that there are very high marginal deduction rates on income from employment . means that benefits such as Pension Credit act, in principle, as a disincentive to continue working for some men. All of the available evidence suggests that women are discriminated against in the pensions system . with the implication that women are compelled to work for longer as a result. Presumably, therefore, the UK average retirement age would be lower had incentives to retire early had the same impact on women as on men.

However, Humphreys et al (2003) have noted that women work less than men across all age groups . it only appears that women retire later in life due to the lower female SPA. As such, it may be more the case that the labour market, rather than the pensions system, discriminates against women, and the result is in fact that women are compelled to retire earlier than men. Clearly, we will not be able to resolve this conundrum until the male and female SPAs are equalised.

Sepideh Arkani and Orla Gough (2007) use data from the English Longitudinal Study on Ageing (ELSA) to consider one of the key issues within the UK private/occupational pensions system, that is, the divide between defined benefit (DB) and defined contribution (DC). They show that men in employment in the 50s are more likely to still be employed in their 60s if they have a DC rather than DB pension. DC pensions therefore improve incentives for later working due to the fact they are based on contributions rather than years of service. DB pensions do not have the same effect because, for most people, working after a certain point is unlikely to improve significantly the amount they receive in retirement. Richard Blundell et al (2002) develop similar findings on the retirement incentives provided by DB pensions.

Arkani and Gough show that for women, however, the incentive structure is reversed. Women employed in their 50s are *more* likely to be employed in their 60s if they have a DB pension. This is because they are more likely to have taken career breaks, and therefore DB pensions provide an incentive to accrue a minimum number of years of service, far more than DC pensions incentivise further contributions. As with the SPA, this is a paradox we can probably expect to see disappear over time.

It was suggested above that people tend to know very little about their pension arrangements. This is confirmed by the study by Humphreys et al. This is at least partly due to the complexity of the UK pensions system. Hugh Pemberton has described a systematic tendency towards growing complexity in the system as a whole. He relates this to the paradox of the long-term nature of pension contracts, whether state or private, and the short-termist nature of politics and policy-making. In this context, it is difficult to fully determine the impact of the pensions system on average retirement ages.

*Economic change.* Various researchers on retirement have noted the impact of industrial change on average retirement ages. The postwar period has seen the onset of the decline of manufacturing in favour of the services sector. While this process is not directly related to individual decisions about retirement, it has seemingly shaped the tendency to withdraw from the labour market before SPA in recent decades, particularly for men.

Pamela Meadows (2003) has identified technological and organisational shocks as major pushfactors towards early retirement in the UK, and as such, and relates these to rapid economic change from the 1980s onwards. Romain Duval (2003) produced similar findings in his OECD-wide study. He found the declining productivity of low-skilled older workers, given manufacturing decline, operated as a pushfactor, but also that increasingly low wages for the affected workers operated as a pullfactor towards early retirement.

In a similar study specifically on the US labour market, Courtney Coile and Phillip Levine (2009) have argued that economic downturns create conditions for early retirement, mainly because labour market conditions for lower-skilled workers become unfavourable. And Richard Blundell and Sarah Turner (1999) have argued that the early retirement of a generation of older workers in the 1980s and 1990s was in fact precipitated by the recessions in those decades. Firms dispensed with older workers with obsolete skills, and they found it impossible to rejoin the labour market even as the economy recovered. Indeed, DfES (2000b) research showed that, during the 1980s and 1990s, men aged 50-64 accounted for nearly half of new male unemployment, leading to *de facto* retirement.

Many commentators have suggested that age discrimination is one of the main reasons that people withdraw from the labour market earlier than expected. However, there are few studies that demonstrate that age discrimination has increased in the postwar period, therefore explaining declining retirement ages. In fact, interest in age discrimination, and legal efforts to combat it, have increased in the last two decades, as the average retirement age has seemingly started to rise. However, the DfES (2000b) study argues that age discrimination has been bound up with industrial decline. Rather than make people redundant, firms preferred to insist upon early retirement for older workers. This is a discriminatory practice, but it results from economic change rather than a cultural ageism in the labour market.

### **c. Paths to retirement**

Today's generation of near-retirees, known colloquially as the 'baby boomers' are set to become the most privileged generation of pensioners ever seen in the UK (Willets, 2010). They will benefit from, among other things, final-salary pension schemes, significant housing wealth, and healthier lifestyles (and therefore longer life expectancy) based on unprecedented medical advances. There are also more opportunities for leisure available to pensioners than ever before. But there is also diversity within this generation, and significant inequalities in health and financial circumstances remain. Here, the paper presents eight indicative retirement paths

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based on the analysis below. This will enable the paper to discuss the future of retirement in the remaining two sections.

<b>Eric</b> Eric is a university-educated, public sector middle-manager. His final-salary pension enables him to retire in his late-50s, when his work becomes repetitive and less stimulating. He becomes a self-employed consultant for a short period but fully retires aged 60 to care for his wife. After her death he emigrates to South Africa to live with his daughter.	<b>Patricia</b> Patricia is a clerical worker in the financial services industry. She leaves full-time work aged 52, less able to cope with its demanding nature. She works part-time in menial jobs until receiving her state pension aged 60, topped up by a small occupational pension. She begins to receive home care, funded by the local authority, in her late-70s.
<b>Laura</b> Laura is a higher education lecturer. She gives up work in her mid-30s to start a family. She returns to work aged 40, albeit on a part-time basis in order to meet her elderly parents' care needs. She retires in her mid-50s as her own health begins to deteriorate, and survives on a small occupational pension topped up by means-tested benefits.	<b>Stephen</b> Stephen works as a surgeon in the NHS. At the age of 50 he moves to the US to establish a private practice. Despite his affluence, he continues working until his late-60s. In retirement he lives off a final-salary pension and the proceeds from selling his share in the practice. He continues to work as a volunteer in community health projects.
<b>Dennis</b> Dennis is a low-skilled worker in the manufacturing industry. He retires in his mid-50s due to ill-health and poor job quality. After his wife's death he lives with his son's family in his late-60s, but moves into residential care in his early-70s and dies soon afterwards.	<b>Ellen</b> Ellen is a university-educated public sector manager. She continues to work until her mid-60s, deferring her state and occupational pensions to retire at the same time as her husband. She is widowed aged 70, moves into residential care in her late-70s and dies in her mid-80s.
<b>Victoria</b> Victoria is a highly successful entrepreneur in the hospitality industry. She ceases full-time work in her early-50s but continues in several board and trustee roles in the public and private sectors. She spends an increasing amount of time at her property in Spain, but moves into a high-quality retirement village in the UK in her late-60s.	<b>Bob</b> Bob is a semi-skilled construction industry worker. He moves between employment and self-employment throughout his career. He works in self-employment until aged 70, at which point his business is dissolved. His growing care needs are met on an informal basis by his wife; the bulk of his income is through means-tested benefits.

*Table 1: indicative retirement paths for baby boomers*

Clearly, there are no obvious lines of causality regarding which aspects of an individual's working-age experience have most influence on retirement decisions. Factors interact in complex ways; some will be unique to particular individuals and groups, and some will have an impact society-wide, therefore contributing demonstrably to changes in average retirement age. Moreover, any given factor will influence different individuals in distinct ways; for instance, professional occupational status may create high levels of job satisfaction, encouraging later working, but also enables early retirement through generous pension coverage. Similarly, self-employment may be burdensome for some, but not enable financially early retirement, while for others self-employment may be highly lucrative and satisfying or enjoyable. This produces relatively idiosyncratic retirement paths for large numbers of people.

### **3. The emergence of gradual retirement**

Thus far, the analysis has assumed that retirement is a one-off event, that is, the point at which an individual withdraws from the labour market. However, as table 1 suggests, retirement often does not take this form. Some may start to work less before they fully retire, and some people may continue to work even after beginning to draw a pension. Given the onset of new forms of employer for older people, and ~~active retirement~~ the cessation of one career is not necessarily the end of an individual's working life. For these reasons, there is increasing interest in the notion of ~~gradual~~ retirement (or ~~phased~~ ~~staged~~ etc). In fact, Sarah Vickerstaff (2007) has suggested that ~~in~~ some senses it would appear that the era of gradual retirement is just around the corner.

Ostensibly, gradual retirement entails a move towards more flexible employment, although this could take many forms. The concept of ~~downshifting~~ is important. This generally involves taking on a position within the same organisation, as you approach retirement, that involves fewer hours or less responsibility. It represents both a way of promoting a smooth transition to retirement and a measure to increase the participation levels of older workers in the labour market. Evidence on the success of downsizing is, however, fairly mixed. The practice works particularly well in Japan, whereby older workers often move into employment with subsidiary firms . yet it also associated to some extent with discriminatory practices against older workers (Vickerstaff, 2007).

In addition to reducing the number of hours worked, older workers may move formally into part-time employment. Again, this could be through their existing employer, or by moving into ~~bridge~~ employment that is, a new job in a different organisation more suited to their life-stage. Often, bridge employment may in fact be self-employment. Higher-skilled worker may move become freelance consultants . even employed by their previous employers on a short-term and/or part-time basis. Yet bridge employment could also involve a radically different type of work, which at present means it is likely to be low-skilled, home-based or *ad hoc* work. There are, of course, several high-profile UK success stories in terms of high-quality bridge employment even among lower-skilled workers. Most notably, DIY firm B&Q has prioritised the recruitment of former manual workers into retail roles, albeit predominantly in low-paid positions (Bentley, 2007).

In their study of flexible working for older people, Stephen Lissenburgh and Deborah Smeaton (2003) reported that there are, generally speaking, ~~two nations~~ of bridge employment: those from highly-paid, high-quality employment who move into bridge employment due to the intrinsic interest of their work, or in search of a new challenge, and those previously employed in low-paid and low-quality jobs, who seek bridge employment to plug the financial gap before being able to draw their pension. Beyond Lissenburgh and Smeaton's study, there has been surprisingly little research on the experience of gradual retirement in the UK. The main exception is Sarah Vickerstaff et al's groundbreaking *Happy Retirement* (2004), which actually identified some of the main barriers to gradual retirement options. Vickerstaff et al surveyed personnel officials and employees approaching retirement or recently retired across three large organisations: a local authority, a private sector UK transport firm, and a

multinational research company specialising in health products. One of their main findings is that there is considerable line manager discretion in the process of retirement for older employees. Furthermore, management decisions were taken principally on strategic grounds, that is, in relation to the organisation's ongoing objectives, rather than the best interests of individual employees.

None of the organisations studied had a formal policy on gradual retirement and downshifting. Among both employees and managers (with the partial exception of the local authority) knowledge of pensions arrangements and the financial implications of various retirement options was very low, and rarely figured in the operation of line manager discretion. The higher-paid and better-educated workers were far more likely to understand the implications of retirement options for their financial circumstances, and in fact were far more likely to be offered high-quality bridge employment or self-employment options by their organisations. As such, lower-skilled workers more likely to suffer ill-health are more likely to be denied the opportunity of a gradual retirement by their existing employer, even though arguably they are more likely to benefit from it in terms of remaining in employment for longer. Where Vickerstaff et al found evidence of bridge employment increasing in popularity, it was predominantly among higher-skilled workers, and predominantly in the public sector.

Vickerstaff et al argue persuasively that gradual retirement options could benefit large numbers of older workers, and indeed that gradual retirement is now desired by older workers afraid of the cliff-edge between work and retirement for both social and financial reasons. Clearly, more research is necessary. Indeed, there is some contradictory evidence. Bleksaune et al's study, cited above, suggested that very few older workers reduce their hours before retirement. The reason that a greater proportion of older workers are employed part-time is that existing part-time workers tend to work for longer for financial reasons. It also seems that the majority of people who move into self-employment at the end of their primary career (i.e. switchers) retire fully soon afterwards (Parker & Rougier, 2004). However, this may be due to the barriers associated with gradual retirement rather than the desirability of gradual retirement itself.

More research is also required on how the pensions system, and the available financial products, incentivise gradual retirement options. In the UK, defined benefit pension schemes generally encourage people to stay in work for longer, in order to accrue years of service, but also encourage people to maximise their final salary, which may disincentivise downshifting. Ostensibly defined contribution schemes are more flexible . they can often be moved between employers, and retirement income will not be unduly affected by downshifting in later life. However, they tend to be far less generous. The answer may lie in more flexible annuity products . although at the risk of introducing greater complexity into the pensions system. The same applies to pensioner benefits provided by the state. While there is an argument for making the state pension more flexible . currently, individuals can only defer payments in full . and for allowing greater income from employment even if receiving means-tested pensioner benefits, both of these measures would make an acutely complex system even more complicated. Moreover, there is some evidence that part-pension options benefit the most affluent workers (see Vickerstaff, 2004).

## **4. Looking to the future**

Many of the factors identified in Section 2 will have different impacts in the future . some will become more important, some less important, and some will become more complicated. This will affect the context in which individuals make retirement decisions. This section will highlight several socio-economic trends to suggest the factors that may become more or less important. However, because different individuals will be affected in distinct ways, it is not possible to predict with any confidence whether the UK's average retirement age will rise or fall. Nevertheless, because the state pension age is rising, it is necessary to consider as far as possible how retirement decisions will be affected, so that the potential impacts of policy can be more fully appreciated.

Ostensibly, increasing longevity should enable people to extend their working lives, especially if *perceptions* of life expectancy keep pace. However, we cannot simply assume that life expectancy will continue to grow, and there is of course evidence of geographical and wealth-based inequality in the experience of longevity (see Couzens & Sham, 2009). Recent increases have been fuelled by significant medical advances and increasing affluence. There is no solid reason to assume these trends will continue at their current rate. Indeed, there is evidence that advances in health are now going into reverse (see Laurance, 2007).

It was argued above that economic change was one of the reasons the average retirement age fell in the postwar period. Early retirement became a proxy for redundancy in declining industries, and often occurred *by default* as newly redundant workers were unable to find new employment. It is entirely possible, however, that the move to a services-based economy will be more amenable to older workers . and that we may already have seen the fruits of this as the average retirement age began to rise in the 1990s. Moreover, Sarah Vickerstaff (2007) has suggested that the services sector may be more amenable to gradual retirement. Indeed, it was strongly argued by Lynette Harris and Carley Foster (2005) that services sector firms are more able to adapt to flexible working arrangements. Rates of self-employment have also increased rapidly in recent years . self-employed people tend to retire later, albeit not necessarily for positive reasons (Lindsay & Macaulay, 2004).

In some ways, it does seem as if the labour market is developing in favour of older workers. Age discrimination in the workplace has declined, and will surely be reduced further by recent legislation (see Fevre et al, 2008). Furthermore, the forthcoming removal of the default retirement age removes an important barrier to extending working lives. Yet none of this guarantees that demand for older workers exists, or that older workers have the skills set to meet real labour demand in the economy. Interestingly, the public sector workforce is in general older than the private sector workforce (see Hicks et al, 2005), yet it is in the public sector where the next wave of unemployment is expected, following budget cuts. Also, if Sarah Vickerstaff and others are right about the desirability of gradual retirement, it may be that older workers are *unwilling* to extend their working life unless labour market practices towards older workers are transformed.

One of the other main reasons for early retirement noted above was the interaction of certain groups with the UK pensions system. It is not clear how reforms to state pensions will affect retirement . the state pension will become more generous in future, but no more generous than the Pension Credit guarantee that has existed since 2003, so it is impossible to say whether it will lead to earlier or later retirements. One potentially important trend is the decline of defined benefit pension schemes in favour of defined contribution schemes, exacerbated by auto-enrolment into defined contribution schemes for low- and median-income workers through NEST. Arkani and Gough, cited above, argue that average retirement ages will rise as a direct result. It is true, of course, that DC pensions incentivise working later into life, to increase the pot available to purchase an annuity. More cynically, the fact that DC schemes tend to be less generous may mean that people are more *compelled* to work for longer. To some extent, DC pensions schemes are more suited to downshifting within one's existing organisation . one of the keys to enabling gradual retirement . because they remove the link to final salary. However, this may depend ultimately upon flexibility in the annuities market. Efforts to make pensions saving more accessible before retirement, and to end compulsory annuitisation, could make it more difficult for annuity providers to target more tailored products at gradual retirees.

Another financial issue worth considering here is inheritance. It was noted above that the receipt of inheritance may make early retirement more likely. As such, James Lloyd (2008) has demonstrated that more people in the UK expect to receive large inheritances from their parents. However, evidence from the United States is that it is primarily *unexpected* inheritances that lead to earlier retirements. Furthermore, the downturn in the housing market since 2008 may problematise Lloyd's study.

There is considerable evidence that the number of people in need of long-term care will increase enormously over coming decades. By 2031, there could be 4 million older people dependent on care in England alone, compared to 2.5 million in 2001 (PSSRU, 2006). The Disability Rights Commission, Equal Opportunities Commission and Carers UK estimated in 2007 that there were 6 million carers in the UK, with a quarter providing care for more than 50 hours per week. They estimated there would be 9 million carers within 25 years, due mainly to the implications of an ageing population (DRC/EOC/Carers UK, 2006). The difficulties associated with maintaining employment while burdened with significant care responsibilities, particularly for older carers, was noted above. Clearly, if significant negative consequences for older employment are to be avoided, flexible working arrangements for older workers with care responsibilities must become a reality sooner rather than later. Otherwise, the growth in care demands may serve to push people into *de facto* early retirement in the same way that manufacturing decline did in the 1970s and 1980s.

There is clearly an interesting sub-plot here concerning women. There is increasing gender equality within the workplace, meaning that in theory (given the impact of labour market history on one's ability to retire early) women should in future have the financial capacity to retire earlier. However, it remains the case that women are far more likely to be employed in part-time positions compared to men (almost half of female jobs were part-time in 2008, compared to 1 in 6 for men), and that although the gender pay gap for full-time workers has narrowed, hourly pay for

part-time female workers remains considerably lower than their male and female counterparts (ONS, 2008).

Therefore, improved prospects for women in general may mask continuing inequalities. This might mean that women in the future will continue to work beyond SPA, albeit through financial compulsion rather than choice. Furthermore, while women are becoming more equal to men in employment, this is happening at precisely the time that generous DB pension entitlements are being withdrawn. And finally, their traditional caring function may mean that women are most affected by the growing care demands on an ageing population; serving to reduce the average female retirement age, but again largely through compulsion rather than choice. The study on later-life employment by Morten Blekesaune et al, cited above, suggested that the later individuals become established in life, the more likely they are to work for longer. Interestingly, the mean age at which people married increased dramatically between 1998 and 2008 in England and Wales (by nearly 5.5 years for men and over 4.5 years for women). There was also a 44 per cent increase in the number of people going to university between 1999 and 2009 (UCAS, 2010).

However, again, there is no reason to assume that the formula discovered by Blekesaune et al between later establishment as an adult and extended working lives will remain in place for future generations. Furthermore, cuts in university spending and rises in tuition fees may see student numbers fall in the coming years. Similarly, there will probably be more single older person households in the future than today. Guy Palmer (2006) projected that there will be 9 million single older person households by 2021, compared to 3 million in 1971 and 7 million in 2006. It is logical to assume that single older people seek to work for longer because they have a greater need to retain social relationships. However, if being single is simply becoming more culturally acceptable (rather than being a by-product of widowhood, divorce in later life, etc), then the link between relationship and employment status among older people may not pertain in the future.

## 5. Conclusions and recommendations

It is surely inevitable that the increases in SPA will create upward pressure on the UK's average retirement age. Many people retire at the age at which it becomes financially viable . and for most the state pension is a key plank of their retirement income. To some extent, SPA sets the level at which retirement is culturally acceptable. Most people, however, do not retire at SPA. They will be influenced by the financial incentive to retire provided by the state pension, but ultimately make their decisions based on a wide range of complex factors. Some retire early because they are able to, financially. Some are compelled to do so by factors such as ill-health, or influenced by factors such as poor job-quality. On the other hand, many highly-paid people retire later due to the status and/or job satisfaction of their work, to retire alongside a spouse, or to remain active and socially connected. Yet many people retire later due to financial necessity . for instance women with broken labour market records and less pensions coverage.

It is not at all clear that the range of factors which influence retirement decisions will enable later retirement to coincide with rises in SPA. Indeed, some may place downward pressure on the average retirement age, such as care responsibilities. Less generous pensions provision . as DC schemes replace DB schemes . may compel more people to work for longer for financial reasons, compounding potential inequities associated with increasing SPA.

Even if the desire and capacity to remain in work exists, in practice extending working lives depends on the availability of appropriate jobs. While there are encouraging signs for older employment, enabling various forms of gradual retirement may be the key to both increasing in quantitative terms the number of older workers, but also ensuring that the jobs undertaken by older workers are appropriate to their life-stage. However, there remain difficult questions around both employer practices and the financial and legal architecture of employment decisions to address before gradual retirement is a meaningful prospect for future generations. ILC-UK believes the following measures are necessary to ensure that policies which impact on retirement lead to equitable outcomes, therefore enabling extended working lives in a sustainable way:

- More resources should be committed the **preventative healthcare**. In addition, more research on the relationship between ill-health and job quality is required to enable more effective healthcare interventions.
- **Job quality** should be a higher priority for employment policy, particularly for older workers. This may require more attention to how expectations of job quality change over the lifecourse.
- The **default retirement age** is discriminatory and should be abolished. While firms must be able to manage their workforces, government should focus instead on enabling employers to offer **downshifting options**, especially to low-skilled workers.

- People should be able to **draw down pension entitlements in more flexible ways**, to enable gradual retirement. Government should consider part-payments of state pensions, and encourage the private sector to offer more flexible annuity-based products.
- More effort is required to **reduce complexity** in the pensions system, and to increase **the provision of advice and information**, to enable people to plan ahead more effectively for retirement.
- Higher levels of **education** enhance individualslabour market options in later life. Lifelong learning should be encouraged, to enable people to acquire **multiple, transferable skills**. For older people, in particular, skills development needs to be **shaped by the actual jobs available**, to enable sustainable returns to employment for those affected by industrial change.
- People with informal **caring responsibilities** require greater support from employers and government to remain in work.
- **Self-employment** may enable people to work more flexibly in later life. However, more research is required on the self-employment experiences of older people; many are self-employed for very short periods, and those that move into self-employment for the first time in later life tend to retire soon afterwards.

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