

While ‘one of the many pleasures of old age includes giving things up’ ... this won’t include work’

At ESOMAR’s, 70th anniversary, World Congress from 10-13 September in Amsterdam www.esomar.org/congress we will be presenting a paper on transformational change in the financial services industry, entitled ...

Are you insured, Scarlett? ‘I can’t think about that right now... I’ll think about that tomorrow’. How MetLife imagined a new future for the insurance industry... and is delivering it today

In the run up to this presentation we will be exploring some of the themes touched on in the paper with a weekly blog post. We will also provide a link to the paper and presentation at the end of the Congress.

This fourth blog entitled ... ***While ‘one of the many pleasures of old age includes giving things up’ ... this won’t include work’*** continues to explore the changing nature of retirement

The whole concept of retirement is changing – a transition from full-time employment to part time or gig employment rather than full-blown retirement. Government research from 2015¹ reported that only 17% of respondents interviewed (from a sample of 2,000 retired and non-retired people aged over 50)

I advise you to go on living solely to enrage those who are paying your annuities. It is the only pleasure I have left.
Voltaire

said that working full time and then stopping work altogether would be the best way for them to retire. The research revealed that people were looking towards a more flexible retirement and that traditional views of retirement were becoming a thing of the past. 39% said that working part time or flexible hours before stopping work altogether would be the best way to retire, and over 1 in 4 said they would be interested in taking a few months off and then returning to work as an alternative to retirement. As we live longer, and live more active lives to an older age, there is increasingly a need to ‘top-up’ pensions and ensure we have the necessary resources to support our lifestyles. Dr Ros Altmann, at the time Minister of State for Pensions, said that millions of over 50s have changed their retirement plans in recent years, and now expect to retire later – clearly later life working is very much more important to people than before. It is clear that many older people no longer see retirement as turning their back on work. They want to work longer, but shift the pace while still making the most of their skills.

The extended working lives of older people have implications for both the employment infrastructure and the financial services industry. For those remaining in the employed world, employers are increasingly needing to balance the HR implications of longevity of working lives with their pipeline of younger, upwardly mobile talent.

¹ Automatic enrolment in workplace pensions and Employment, Department for Work and Pensions 13 January 2015



So, as employers and workers begin to digest the practical implications of the latest increase in retirement age (by 2039, the retirement age will have risen to 68) it may be that employers become more accommodating to the needs of older workers by providing opportunities for flexible and fulfilling work and viewing older workers as an increasingly important and valued part of their labour force. Apart from changing mind-sets, systemic models are adapting to this new reality: the 2010

Equality Act has given older workers a degree of protection that they may not previously have had; new technologies are increasingly likely to facilitate older workers to perform roles not traditionally deemed 'suitable' because of the physical demands associated with some jobs.

Some major Employers have taken a lead on this and present strong success stories for other employers to take note of. For example, B&Q was one of the earliest Retailers to identify the benefits offered by an older workforce: it has been targeting older workers since 1989 and by 2015, almost a third of its workforce was aged over 50. Since then, it experienced a profit increase of 18% and an uplift in customer satisfaction. McDonalds, perhaps not immediately associated with employing older staff, shifted their recruitment and training policy largely on the basis of a 2009 study conducted by Lancaster University Management School which found that employing older workers increased customer satisfaction by 20%. The value of older workers as mentors to younger staff was also recognized by the organization.

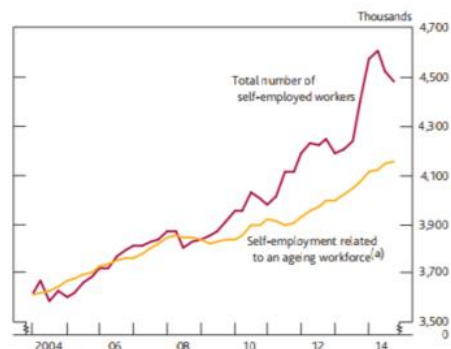
As well as working longer in employment, there is already some evidence that 'gig' work is being used to book-end a number of additional years of more work, providing opportunities to those groups who may have experienced a dearth of traditional employment roles. McKinsey's² findings show that 44% of seniors (over the age of 65) participate in independent work. We have also seen that many of those hoping to profit from online marketplaces (i.e. professional e-Bayers) are over-50s, seeking either to change direction after a career elsewhere or to supplement their pension income. Access to these platforms/technologies have lowered the barriers to finding customers and made it easier for people to start their own businesses.

In addition to 'online traders' in the sharing economy or "microentrepreneurs" (a sector which PwC have calculated could be worth up to £9bn a year by 2025), it is the university educated over 60s who have seen the fastest growth in self-employment – people using their qualifications, skills and experience to set up as

² McKinsey (*Independent Work: Choice, Necessity, and the Gig Economy*)

consultants or providers of business services³. Whatever the rationale for, or ‘mode’ of work, the ‘silver entrepreneur’ has become a fixture of the UK labour market in recent years ... although the phenomenon began well before the ‘financial crisis’ and is a function of longer term trends as well as short term economic expediency. A 2015 BoE study was able to determine that the ageing workforce has been responsible for around half the increase in self-employment since 2004.⁴ This conclusion was based on modelling shown in the illustration opposite (taken from the BoE report): the orange line shows what might have been expected had self-employment rates for different age groups remained constant with natural ageing. So the difference between the orange and red lines (the actual number of self-employed workers) has to be associated logically with ageing of the workforce.

The role of an ageing workforce in the rise of self-employment



Sources: LFS and Bank calculations.

(a) The orange line illustrates the effect of an ageing workforce on the level of self-employment in the United Kingdom. It is constructed by multiplying the number of workers in each age group by the proportion of workers who were self-employed in that same age group in 2004.

Commissioned by Chinese telecoms firm Huawei, a 2014 Future Laboratory study⁵ found many older workers wanting to remain active members of society, with a desire to use their skills and experience to create an impact. “Work will become a better system for ensuring longevity and endurance, rather than

“Boomers approach their second or third lives with vigour and use their life experience to start second or third careers with smaller, often craft-based businesses.”

the old way, which promoted burnout by the age of 45”. The report found that “older workers’ interest in running small businesses has shown itself to be particularly effective as the wealth of experience held by ‘Boomerpreneurs’ (their phrase) can often outshine their “younger, sprightlier” counterparts” The report suggested there would be 2m

‘Boomerpreneurs’ (60+) by the end of the decade.

And, indeed, older entrepreneurs are shown to have a better success rate, with 70% of startups led by people aged 50 or over lasting at least five years, compared with 28% for younger entrepreneurs. Older workers may have more luck running their own businesses, the BoE suggests “because they have accumulated more knowledge or experience”.

³ Solving the under-saving problem among the self-employed An Analysis by Aviva and Royal London

⁴ Self-employment: what can we learn from recent developments? Srđan Tatomir of the Bank’s Structural Economic Analysis Division. Bank of England Quarterly Bulletin 2015 Q1

⁵ <http://www.managers.org.uk/insights/news/2014/august/uk-boomerpreneurs-to-hit-two-million-by-2020>

What these figures don't make clear is whether or not people continue to work after 'official' retirement by choice or necessity. Both may play a part, but there is no doubt that many people approach traditional retirement age with the realization that they have accrued insufficient savings/pension to afford a sustainable retirement income and working longer is a necessity rather than lifestyle choice.

While we are yet to see how this fully plays out, another significant factor driving the choices faced by the over 60s was the Pensions Freedom Act of 2015, giving retirees freedom of choice for the first time as to how they draw down (or not) their (Defined contribution) pensions. This sea-change in pensions policy has had, and will continue to have, profound repercussions for the financial services industry which has had to run to catch up with the ability to service client demands to liquidate pension funds and to make available attractive products of choice, whilst safeguarding clients' interests against their own possibly misdirected choices. The government's introduction of 'Pension Wise' was designed for this purpose - to provide a platform of guidance (significantly, not advice) for the man in the street without the financial resources or appetite) to pay the professional fees of independent financial advisers. But many would argue that consumers are woefully lacking in their ability to clearly understand the choices available to them and the implications of any short term decisions they might: the grass-root need for clear communication and education is greater than ever - especially in a world where people are actually living longer than they anticipate or very possibly plan for.

More than this, a pension needs to be viewed more as of an overall retirement income strategy – either in conjunction with other savings and investments or constructed more imaginatively as a wrapper for more liquid outflows of money as well as lump sum drawdowns at key life-stages pre and post retirement. With the advent of the gig economy, a recognition that a school leaver of today will work for several employers as well as him/herself over a period in excess of half a century there is a need for an imaginative, flexible and above all portable long term solution which puts the individual in control and at the heart.

The issue of longevity, its impact on society, infrastructure and the fiscal economy is constant news. One could almost detect a sense of panic in the seemingly unsolvable crisis of how a government and society manages the cost and social implications of longevity. And whilst many financial providers have introduced individual products to encourage savings and integrate investment strategies, no-one has yet joined the dots to effectively address this issue or fully appreciate that the timeline is a very long one and has to start with education and awareness at school. Recently John Cridland (Independent reviewer of the state pension age) stated *that' the ageing society, for this generation, is as big an issue as climate change*⁶. We should all take note.

⁶ <http://www.pensions-expert.com/DB-Derisking/Cridland-Longevity-as-big-an-issue-as-climate-change>