

## Chapter Five

### Preparing for retirement

We will give people the choice and opportunity to work longer. Enabling people who want to extend their working lives, and providing better rewards for those who choose to do so, is a vital part of our response to the challenges posed by ageing society.

We will:

- seek to increase employment rates for the over 50s;
- help carers remain in work, and to return to work when their caring responsibilities have ended;
- support older people, including those over State Pension age, to make informed decisions for themselves about work, saving and retirement;
- tackle age discrimination and promote flexible working; and
- reward later withdrawal from the labour market through generous State Pension deferral and flexible retirement options.

We need to ensure that people are empowered to make sufficient provision for their retirement. Record levels of employment provide a foundation. Working with others, we will:

- seek to increase participation among those eligible for membership of occupational pension schemes;
- work with employers to enable people to be better informed about their choices in retirement; and
- safeguard occupational pension provision through the Pension Protection Fund and the Pensions Regulator.

**We are committed to supporting people to work longer – this is critical for individuals to sustain themselves in longer periods of retirement. We must change the culture that can write people off on the basis of age. Although the average age at which people leave the labour market is no longer falling and the average retirement age has now started to rise, it will need to rise further if we are to meet the challenge of increasing longevity.**

## Working longer

122. Many people over 50 leave the workforce early, frequently involuntarily and often without adequate provision for their retirement. Population projections suggest that the number of people aged between 50 and 69 will increase from 13 million to 15.9 million by 2024.<sup>32</sup> It is likely that more of this group will want to, and will be expected to, work. As the chart overleaf shows, more people are already choosing to work for longer and our policies will support these people.

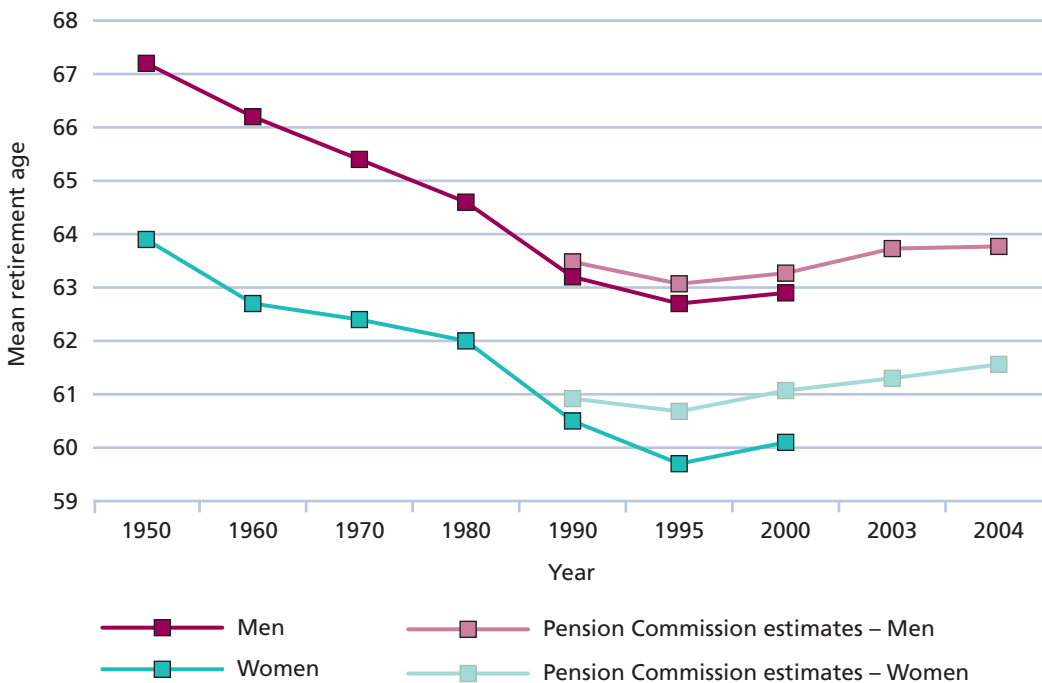
123. We want older workers to have the choice and opportunity to continue working up to State Pension age and beyond. Employers and employees gain from extending working life. Working a few years longer can make a significant difference to current and retirement income, and, more than that, allows employers to keep experienced staff with valuable skills and keeps

options open for older workers. And, by 2010, the earliest age at which a private or occupational pension can be taken will be raised from 50 to 55, and the Government has proposed an increase in the normal pension age of public sector schemes from 60 to 65.

124. Our employment programmes have reduced unemployment for this group, and new help for those claiming Incapacity Benefit will support inactive older people returning to work (half of the 2.7 million people claiming Incapacity Benefit are over 50). Looking forward, our biggest challenge is to support older people in staying in the workplace for longer, improving information and countering the factors that have forced them into inactivity and unplanned early retirement in the past. The Government is seeking to achieve a cultural change, including working with employers to tackle discrimination against older people in the workplace, and promoting the benefits of age diversity.

<sup>32</sup> Government Actuary's Department 2003 population projections.

Figure 16: Mean retirement ages have stopped falling<sup>33</sup>



Age discrimination

125. We must prevent discrimination against older people. We are already tackling ageism through the Age Positive campaign by encouraging employers to realise the business benefits of recruiting, training and retaining older workers as part of an age diverse workforce. Over 100 organisations have the status of ‘Age Positive Champion’ in recognition of their good practices.

126. In 2005, we will launch a new high-profile national guidance campaign, providing practical guidance on adopting flexible approaches to work and retirement in relation to age and supporting preparations for the implementation of age discrimination legislation. In 2006, we will enact the European Directive on age discrimination, making it unlawful to discriminate on the basis of age in employment and vocational training. As part of this legislation, employers will be able to set a compulsory retirement age below 65 only if they can objectively justify it. Employers will also be required to consider formally requests from employees to work beyond 65. After five years, we will conduct an evidence-based review of the legislation and consider whether compulsory retirement ages are required.

Howard Clarke’s story

IKEA has been working with Jobcentre Plus and Age Positive to ensure that staff in its flagship Cardiff Bay store reflects the diversity of its customer base.



“Before we could open for business, we needed to recruit around 500 staff,” says Gay Gwinnitt, IKEA’s HR manager. “We wanted to be sure that we were attracting a truly diverse workforce by reaching everyone in the community, including older people.”

IKEA held special coffee mornings for the over-50s. The events were publicised by adverts in the local paper, in-store and at regional Jobcentres. The people who attended met IKEA management staff and similarly-aged workers from throughout the store who shared their experiences with them.

Howard Clarke, 57, was made redundant from his engineering job in 2002. He was offered full-time work in IKEA’s recovery department but requested part-time work. Howard now uses his engineering skills to build IKEA furniture.

33 Source: Blondal and Scarpetta (1999) Pensions Commission estimates World Economic Forum, *Living Happily Ever After: The Economic Implications of Ageing Societies*

## Carers

127. Caring responsibilities are particularly relevant for the older worker. There are over 5 million unpaid or informal carers of disabled people. Over a quarter of carers provide care for more than 20 hours a week, and just over a tenth for more than 50 hours. Evidence<sup>34</sup> shows that the peak age for caring is 45 to 64 years, when one in four adults has some caring responsibilities. Women carers in particular have lower incomes than non-carers. We will continue to support carers to ensure that they have the same opportunities and rights, as well as responsibilities, as other members of society, working closely with other government departments and carers' organisations. We will help carers remain in work and will assist carers in returning to work when their caring responsibilities end.

## Flexible retirement

128. The Government is committed to easing the 'cliff edge' of retirement, where people can be valuable members of the workforce one day and shunted into retirement the next. Instead, we want to provide all older workers with options for flexible retirement. Changes to occupational

pension rules from April 2006 mean that people will be able to draw their occupational pension and continue to work for the same employer. We aim to explore how flexible working, financial incentives and information about retirement income can help older workers make sensible and supported choices about working, saving and retirement.

## Choosing to work past State Pension age

129. From 2010 to 2020, we will be equalising women's State Pension age with that of men at 65. Currently, 1 million people have already chosen to carry on working past State Pension age – many in part-time work. Research<sup>35</sup> shows that what people want is choice. The Government plans to increase the choices and opportunities for individuals to stay in work by introducing more generous options for deferring State Pension (from April 2005). For the first time, people will be offered the choice of a lump-sum payment as an alternative to an increase in their weekly pension: a typical person who delays their State Pension for five years could receive a payment of £20,000 to £30,000 or a 50 per cent increase in their weekly pension for life.

**Figure 17: Benefits of deferring State Pension<sup>36</sup>**

Amount of State Pension	Years of deferral	Lump-sum payment accrued	Extra State Pension earned	
			Weekly	Annual
£105	1	£5,646	£10.92	£568
	2	£11,673	£21.84	£1,136
	5	£32,306	£54.60	£2,839
	10	£77,090	£109.20	£5,678

<sup>34</sup> Maher, J. and Green, H. (2002) *Carers 2000*, London: The Stationery Office.

<sup>35</sup> Vickerstaff, S. et al (2004) *Happy Retirement? The impact of employers' policies and practice on the process of retirement*, Bristol: the Policy Press/Joseph Rowntree Foundation.

<sup>36</sup> Assumes a base rate of 4.75 per cent, which means an interest rate of 6.75 per cent for the lump sum. The £105 is the average pension entitlement of a 65-year-old male (to the nearest £5).

## ... Saving more

**Our goal is to ensure that people have the information and opportunities to work and save for retirement.**

### Introduction

130. Effective working and saving for retirement is central to our long-term vision of personal responsibility and planning over the life cycle. In 2002, we estimated that there may be 3 million people who, over time, given current savings and employment trends, may be under-saving for their retirement. Depending on their expectations of retirement, a further 5 to 10 million people might want to consider saving more or working longer.<sup>37</sup> The Pension Commission estimates of under-saving released in 2004 are similar. The challenges of financing an ageing society are faced by all Western European countries. We will advance policies that are sustainable for future generations.

131. We have already taken some significant steps. The fact that more people are employed in Great Britain than ever before means that more people are in a position to save for retirement. The introduction of State Second Pension and stakeholder pensions is also important in encouraging greater pension provision for people on low incomes.

132. About 18.7 million people have gained from the introduction of State Second Pension, including 5.8 million low earners, 8.8 million moderate earners, 1.9 million carers and 2.2 million long-term disabled people. State Second Pension is at least twice as generous to low earners than the previous SERPS system. In SERPS, carers and disabled people were completely excluded from building up a second state pension. Ninety-five per cent of the carers benefiting from the scheme are women, as are an estimated 65 per cent of the 5.8 million low earners. In 1996/97, 19 million people were accruing a second-tier pension, but by 2002/03 this had increased to 25.9 million – that's over 6 million more people accruing second-tier pensions above and beyond the basic State Pension.

133. Stakeholder pensions were introduced as part of long-term reforms to ensure that everyone has the chance to save for a decent income in retirement. Stakeholder pensions provide an attractive savings option for all, especially for those who don't have access to an occupational pension, including moderate earners, the self-employed, those not working (such as carers) and children, as well as for employees. They are simple, flexible, portable and good value for money. The charges for stakeholder pensions have also now been driven by one-third across the industry. At the end of September 2004, almost 2.2 million had been sold, with the latest statistics showing around one third of sales going to women.

### Occupational pension schemes

134. Employees are more likely to save than anyone else, underlining the importance of occupational pensions.<sup>38</sup> We are working with employers and partner organisations to evaluate a range of techniques to increase membership of workplace pension schemes. We want to establish which are the most effective in delivering increased pension saving in the UK. Evidence from the US, and the UK experience of automatic enrolment, suggests that when new employees are automatically placed into their employer's pension scheme, participation rates are much higher than when individuals have to opt in. Firms could be encouraged to activate staff to join pensions in such ways if any new requirements on employers to provide information and advice about pensions were waived for those companies who had succeeded in achieving high take-up of pensions. Automatic enrolment, and other such techniques are vitally important to furthering private pension provision. We are aware that currently 4.6 million people are not taking up the pensions that are offered to them, so if we can significantly increase take-up we could make a big dent in overall under-saving.

### Informed choice

135. Beyond this, we are seeking to support individuals in making sensible financial plans for

<sup>37</sup> *Simplicity, security and choice: working and saving for retirement*, (Cm 5677) DWP, December 2002.

<sup>38</sup> McKay, S. and Kempson, E. (2003) *Savings and Life Events*, DWP Research Report No. 194.

retirement. The creation of The Pension Service means we have an organisation equipped to support customers in this way. Our Informed Choice strategy empowers individuals to make real and informed choices on working and saving for retirement, providing pension forecasts showing individuals how choices they make today relate to their own retirement prospects. 2.5 million individuals had received a combined pension forecast, predicting future state and occupational provision, by December 2004. We will introduce a web-based retirement planner in 2006, which will give people the opportunity to look at their accumulated and projected pension rights from both state and private sources, and will signpost them to non-governmental sources of independent and impartial advice.

#### Julie Waugh's story

Julie Waugh is one of the many people who have benefited from our combined pension forecasts.

Julie works for ASDA in Gosforth as a counter manager. Julie has been employed by ASDA for 13 years, but has an interrupted career record after taking breaks to look after her children. Recently, Julie received a combined pension forecast, setting out her estimated future pension from the employer and from the state on a single statement.

“It was a real wake-up call. I’d never thought much about pensions before, and always thought they were too complicated. The forecast was in plain black and white – it was easy to understand. I’ve now decided to work full time and will step up my contributions into the ASDA pension scheme. I would encourage everyone to ask their employer to produce similar combined pension forecasts.”



136. Employers have a responsibility to their employees to help them think and plan for their retirement provision. We are working with employers and partner organisations to provide information to employees. The Pensions Act contains powers that could require certain employers to provide their employees with access to pension information and advice (the results of a pilot study will inform how the new power will be used). Another power could require the trustees and managers of private or occupational pension schemes to issue combined pension forecasts if sufficient numbers of employers and pension providers do not participate on a voluntary basis.

### Safeguarding retirement provision

137. People will not save unless they are confident that it will pay them to do so. We also need to safeguard the provision that people have made for their retirement. We understand the frustration and anger of individuals who have paid into occupational pension schemes and then lose their entitlement through no fault of their own. The Pensions Act 2004 will deliver meaningful security and certainty for people in occupational pension schemes, protecting individuals and restoring trust in the system.

138. The Pension Protection Fund will protect members of defined benefit schemes by paying compensation if their employer becomes insolvent and the pension scheme is underfunded. Over 10 million members of final salary pension schemes will benefit from the security and peace of mind afforded by this. The Fund will provide a 100 per cent level of compensation for people who have reached a scheme's normal pension age; members below a scheme's normal pension age will receive a 90 per cent level of compensation, subject to a pension cap, plus annual increases. The Fund will be financed, in part, by charging a compulsory annual levy on all schemes that could be eligible for compensation.

139. The Pensions Act also provides for the setting up of a Financial Assistance Scheme to give help to some people who have lost out on their defined benefit occupational pension because their pension scheme has been wound up underfunded and the employer has been unable to make up the deficit. The sum of £400 million spread over 20 years has been committed to the scheme. Details, including who will be eligible and the level of assistance to be provided, are being developed in consultation with stakeholders. Formal regulatory consultation will begin in the spring. In April, we will set up the body to administer the Financial Assistance Scheme and, following the formal consultation, we will lay regulations before Parliament, making payments as soon as practicable thereafter.

140. Finally, a new proactive Pensions Regulator will replace the Occupational Pensions Regulatory Authority (Opra) in April 2005. The Regulator will be able to provide education, assistance and information to those administering or advising on pension schemes. It will also have more extensive powers to collect relevant information and to have breaches of the law and specific events notified to it. This will lead to a proactive, proportionate form of regulation that rewards well-run schemes by reducing the regulatory burden.

### Making it easier to run effective schemes

141. We have already taken action to help schemes strip away layers of regulation that have built up over the years. The removal of the limited price indexation cap for defined contribution schemes is a major simplification. This complements the radical tax simplification in the Finance Act 2004, which from April 2006 will replace today's eight separate tax regimes with one single regime.

142. While it is important to bolster the security of occupational pensions, it is also essential to ensure that the right structures are in place so that companies actually want to offer occupational pension schemes. That means cutting through bureaucracy wherever possible to ensure that companies running efficient and effective schemes are able to get on with doing so. The Pensions Act and our broader reform programme have this principle at their core.

- The Finance Act will sweep away eight tax regimes and replace them with a single, simplified system based on a lifetime limit of £1.5 million. This change alone will save businesses £60 million per year.
- The old 'Section 67' is to be abolished, cutting through the restrictive layer cake of regulation, freeing up companies to rationalise pension rights accrued in different years, with different regulations in place, into one single system.
- As soon as possible, we will pass legislation to do away with the restrictive Guaranteed Minimum Pensions regulations.

- With better information stored centrally, our new Regulator will operate a risk-based approach, with a lighter touch for low-risk schemes.

144. In parallel with the Pension Commission's work, which examines the regime for UK private pensions and long-term savings, we will come forward with the principles which will underpin our reform of pensions.

### Pensions Commission

143. We will be aided as we take this work forward by the findings and recommendations of the independent Pensions Commission, chaired by Adair Turner, which we set up in 2002 with a remit to keep under review the regime for UK private pensions and long-term savings, taking into account the proposals in the Green Paper,<sup>39</sup> assessing the information needed to monitor progress and looking in particular at current and projected trends. The Commission's first report, a comprehensive analysis of the private pensions landscape that underscores the long-term importance of the priorities and challenges identified by the Government, was published in October 2004. The Commission will report again in 2005.



<sup>39</sup> *Simplicity, security and choice: working and saving for retirement (Cm 5677)*, DWP, December 2002.