

# Pre-tirement

not retirement

*For many,*  
retirement has become a process  
*not a definitive event*

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# Forward

For many, the years leading up to and beyond a normal retirement age, are now becoming a phased or gradual process. This is happening for a variety of reasons: changing financial necessities; inadequate retirement income; a desire and ability to remain physically and mentally active into later years and enhanced leisure opportunity expectations. Working beyond normal retirement age, changing career, reducing working hours or taking up new challenges or opportunities have become the norm for many.

There has been a noticeable shift in the attitudes and behaviour of many consumers in the years leading up to retirement with many 50 to 75 year olds now easing into retirement rather than stopping work on a pre-specified date. The government's impending changes to the State Pension age has also affected expectations and behaviour.

With the days of the 'job for life' largely consigned to history, planning for, and moving towards, retirement is increasingly becoming a staggered process, with use of the term 'pre-tirement' likely to become more widespread and understood in the years ahead. Retirement planning often takes place over many years and, as ever, requires sound financial planning.

Apart from many other potential sources of retirement income, individuals now have the right to continue working beyond their 'standard' retirement age. Most people will know friends or relatives in their fifties, sixties or seventies who have adapted to circumstances by reducing their working hours, working part time, changing career or continuing working full hours well beyond their normal retirement age.

There are also many who do voluntary work in place of paid employment. Improved health also means that many stay fit into older age and are able to work for longer.

Sometimes these changes are driven by financial necessity, sometimes by the desire to keep active or simply because of opportunity. Increasing life expectancy means larger retirement pots are required and also means that there's likely to be an increase in care required for the elderly and infirm. Similarly, working adults with young families often rely heavily upon their parents to provide childcare, so that they can progress with their own careers and meet their demanding financial needs.

Retirement needs funding and during younger working life there are so many financial demands it is no surprise that many people are literally sleepwalking into retirement with little or no private pension. At each life stage there are significant financial demands, quite apart from general living and leisure expenses, and these range from paying for further education, buying and insuring the first car, saving up the deposit for your first home, bringing up children and saving for retirement.

It's no surprise that increasing numbers of adults of all ages have substantial personal debts and those in the age range leading up to retirement or actually in retirement are no exception. It is not at all unusual to have large existing debts when entering retirement.

To assess consumer attitudes and behaviour during pre-tirement, Zopa commissioned an online survey of 2,005 people aged between 50 and 80 over the period 2nd and 9th December. 47% of the respondents are in paid employment and 53% are not.

## Keep active

The old adage 'use it or lose it' applies in many walks of life. Doing things like crosswords and Sudoku are said to keep the brain active, and taking regular exercise helps maintain mobility. Similarly, there are many different ways to keep active in, and in the lead up to retirement.

Staggering retirement by reducing the number of hours or days worked can ease them into retirement in terms of both winding down gradually and lessening the financial earnings jolt. It's also apparent that many choose to do a different, or part-time job. Voluntary work and taking up new hobbies are also popular ways of keeping active and feeling useful. However, many hobbies can be expensive to pursue as was found in a recent study by Friends Life<sup>1</sup>.



The survey found that the average number of weekly hours worked in paid employment for those aged 50+ is 28.5 hours. **Those in paid employment aged 50 to 54 are working 30.5 hours on average, but it's notable that working hours reduced to 20.8 hours per week for those aged 65+.** This suggests a greater incidence of part-time or reduced hours working for that age group. Men in paid employment in the 50+ age group typically work five and a quarter hours longer per week than women (31.3 hours versus 26 hours).



Unpaid or voluntary work

One in four (25%) of the respondents undertake unpaid or voluntary work, with the proportion increasing with age: **17% between 50 and 54; rising to 26% between the ages of 55 to 64 and higher still at 30% for those aged 65 or over.** Interestingly, one in five (20%) of those in paid employment also do unpaid work compared to 29% of those not in paid employment. A significant proportion of the 50+ age group are giving back to, and helping their community.

The types of unpaid work vary considerably, with the highest proportion doing voluntary work for a charity (32%), followed by caring for a relative or friend (18%) and helping at a club (12%). The average time spent doing voluntary work is 8.7 hours a week.

## Flexibility is king

When asked if they have, or had when they were working, a set retirement age in mind the average age selected by both men and women was 62. The average age specified by those currently in paid employment was 63 compared to 61.6 for those who weren't. However, the specified age increased from 61.6 for those currently aged 50 to 54 to 63.6 for those currently aged 65+.

A small majority (57%) retired, or expect to retire, at their chosen age whereas one in four (26%) retired later or expect to retire later.

Many existing workers simply don't know at what age they will actually retire.

## Retirement income

The average salary in the UK is around £26,500 and while outgoings should reduce significantly in retirement, a large pension pot would be required to get anywhere near that amount.

The full flat rate State Pension, which is due to come into effect on 6th April 2016, will be £155 a week, but 35 years of National Insurance Contributions (NIC) need to have been made to qualify for it. While NIC top ups can be made, large numbers of people won't reach the 35 year threshold for various reasons which include taking career breaks to bring up children, lengthy or numerous periods of unemployment, or because of long term illness.

Few of us are lucky enough to have a final salary pension, and most have what is known as a 'defined contribution' pension where the eventual pot will be determined by both the amounts paid in and by the performance of the underlying investments made.

### Many have no private pension provision whatsoever

The average expected retirement income of those who planned to give up work in 2014 was £15,800 (Source: Prudential 'Class of 2014' research<sup>2</sup>). Prudential calculated that someone retiring in 2014 and living for another 20 years would need the full state pension and private savings of £121,000 to achieve the average annual retirement income of £15,800. Current 65 year olds living for 25 years would need £139,000, growing to £154,000 if they live for another 30 years.

Many private pensions are woefully short of those target amounts. **The average private pension pot at retirement used to buy an annuity in the third quarter of 2014 was**

**£36,600** according to the Association of British Insurers<sup>3</sup>.

Divestment of, or selling, assets is often a necessary action during retirement and the term 'decumulation' is often used to differentiate from the accumulation phase during working life.

The survey found that **the average salary earned from paid employment is £22,020, with disparity between the sexes as men earn £26,657 and women just £17,819.**

Male	£26.6k
Female	£17.8k

Average salary (50 to 80 years)

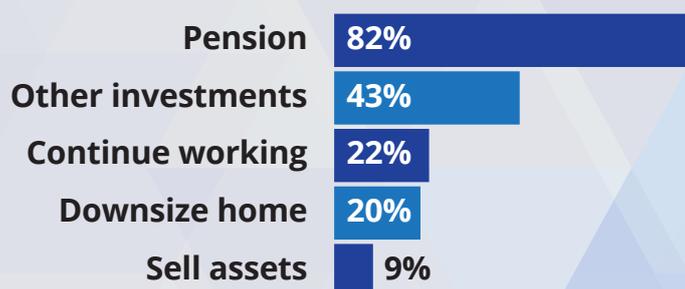
Although those of retirement age earn significantly less than average – partly due to reduced working hours for many of them – some of those working are more likely to command higher salaries. 3% of the 65+ age group earn over £75,000 a year, compared to 2% of 55 to 64 year olds and just 1% of those aged 50 to 54.

There's a lack of financial resources for most to retire with many planning to fund their pension in the last few years before stopping work.



**Only one in five (21%) of those currently in paid employment think they would be financially secure if they retired now**, but this masks significant differences between the ages. Half of those aged 65+ would be financially secure compared to only 13% of those aged 50 to 54 and 24% of those aged 55 to 64. While roughly a quarter (24%) aren't sure. A staggering 55% of those in paid employment say they wouldn't be financially secure if they had to retire today.

Perceived wisdom is that those in their fifties are most able to save for retirement – for many of them the mortgage may have been paid off and the children may have moved out – and the research found that 60% are saving money for the future. The proportion saving reduced with age with 63% at age 50 to 54, 61% between the ages of 55 and 64 and a slightly lower 57% of those aged 65 or over. Unsurprisingly, those in paid employment (71%) are far more likely to be saving for the future than those who aren't (51%).



Sources of income

In terms of retirement income, many are relying on multiple sources but the main picks are **pension (82%); other investments (43%); continue working (22%); downsize family home or equity release (20%); sell other assets (9%)**. Alarmingly one in ten (10%) don't know and this includes 4% of those currently aged 65 or over. Downsizing the family home is seen as a potential retirement fund generator with one third (33%) saying that they're planning to do so.

The level of personal savings people expect to have, or had, at retirement varies considerably with 44% expecting to have less than £25,000 but the average amount is £87,949.

Expectations of personal income in retirement vary widely too with one in four (27%) expecting less than £500 a month. **The averages are considerably higher with women at £870, men expecting £1,313.**

They increase with age too, with £898 expected by those currently aged 50 to 54, £1,028 if aged 55 to 64 and £1,310 if aged 65 or over. Surprisingly, those not in paid employment expect more than those in paid employment (£1,100 and £1,034 respectively).

**15% of the over fifties provide childcare for their children or grandchildren, with 4% doing so for 4 days a week or more.** Unexpectedly, those aged 50 to 54 put in the longest shifts in this respect.

Financial needs are another reason for phasing retirement as people will need more flexible financial products in line with their more flexible working arrangements. With pension changes due to come into effect from April 2015, rigid and traditional pension products such as annuities lack the flexibility and returns compared to alternatives that provide the opportunity to draw income from products such as peer-to-peer lending.

## Working beyond retirement

There is no longer any official retirement age and people have the right to work for as long as they want.

Women are already seeing a gradual increase in their State Pension age from the original 60 up to equalisation with men at 65. The current State Pension age timetable sees both genders seeing a gradual increase in the age to 67 by 2028 and to 68 by 2046. It should also be noted that The Pension Act 2014 provides for a regular review of the State Pension age, at least once every five years.

The survey found that **46% think that the changes to the State Pension ages are making the retirement process more confusing**, and it's not surprising that this is more of a factor for women (52%) than men (39%) given that the changes to their State Pension age have already started.

17% of those aged 65 or over are still in paid employment and that 30% of that age group are doing voluntary work.

## 89% of 50 to 54 year olds don't know what age they will retire

Meanwhile **over one third (35%) of those aged 50 to 54 now expect to retire later than they originally planned** and 89% of that age group don't know for certain what age they will retire.

Almost one in five (18%) are say that they will change their plans as a result of the forthcoming pension changes.

**Half of respondents (49%) think that retirement is now a more fluid process than it was in the past** and this includes more than half (52%) of those aged 50 to 64. It's also apparent that more men (57%) regard retirement as a phased process than women (43%).

One in five (21%) didn't or don't want to stop working as soon as they get to 65.

The survey also examined peoples' intended changes in the years leading up to retirement. While 45% want to travel more and 35% intend to exercise more, there are also work related intentions with 12% intending to start their own business, 9% switching to a new career, 26% intending to reduce the number of hours they work and 21% taking up voluntary work. Helping the younger generations also features with 6% taking on childcare responsibilities and a similar number intending to teach or mentor younger people. More walking or hiking is also the intention of a quarter (25%).



Reasons for continuing to work (65+)

It is also illuminating to learn the main motivation of those aged 65 or over for continuing to work in paid employment. Only 17% of them do so as a financial necessity (compared to 61% of those aged 50 to 54) although a further 10% say the money is useful but not essential. The main reason, however, chosen by 27% of them, is to keep their mind active. 16% do it to keep busy and 11% to stay healthy and physically active.

Many don't know when they will retire and want to continue to be active, and feel useful, way beyond the previous retirement age norms of previous generations.

## Life expectancy

Life expectancy has increased dramatically over the last century.

A baby boy born today can expect to live 78.9 years and a girl for 82.7, whereas the most common age at death was 86 for men and 89 for women in 2011 - 2013. At that time a man aged 65 had an average further life of 18.3 years of life and a woman 20.8 years. (Source: Office for National Statistics<sup>4</sup>)

Increased life expectancy means that many are both willing and able to remain active into later years and this gives them the opportunity to delay retirement or to find other ways to occupy themselves in their later years.

## Conclusion

Retirement is now rarely an event that you can plan to occur on a definite date years in advance. While some of us may be lucky enough to do so, for most of us there are too many variables that can impact and these may all have effects.

For many, financial considerations will be at the forefront of their mind, but for all there will be others that will also need to be taken into account.

Pre-tirement is here to stay and it's not just about finance. Some may dream about retirement, but many want to keep active, and this may take the form of reducing working hours, doing voluntary work, helping friends or relatives, taking up new hobbies or visiting long dreamt of places.

For many, retirement has become a process, not a definitive event

**Pre-tirement is a seismic shift in the way we think about retiring.** It is an opportunity for many people to stay healthy, give something back, spend more time with their families and continue working. Pre-tirement is set to become the norm as it provides both flexibility in the work/life balance and in financial planning.

It is important to seek proper financial advice from an authorised adviser when planning your retirement and the various options available. The earlier you start planning the better.

Do you have sufficient savings and pension?  
Will you get the full State Pension?  
Would you consider downsizing your property?  
Do you have existing debts?  
Are they manageable?  
Do you want to continue working?  
Do you want to reduce your hours?  
Try a new challenge?  
How do you want to keep active?  
Do you want to do voluntary work?  
Take up new hobbies?  
Travel more?

### About the author

David Black has over 25 years' experience researching, analysing, writing reports and conducting consultancy projects in the financial services industry. He is a frequent commentator in national newspapers and on radio and television.

<sup>1</sup> <http://www.friendslifegroup.com/media-centre/news/news-2014/04-06-2014.aspx>

<sup>2</sup> <http://www.pru.co.uk/pdf/presscentre/average-retirement-lasts-20-years.pdf>

<sup>3</sup> <https://www.abi.org.uk/News/News-releases/2014/11/ABI-retirement-income-statistics-Q3-2014>

<sup>4</sup> <http://www.ons.gov.uk/ons/rel/lifetables/national-life-tables/2011-2013/stb-uk-2011-2013.html>

