Preparing for later life; working longer and saving more

by Suzanne Hall and Nigel Keohane

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JRF JOSEPH ROWNTREE FOUNDATION

INSPIRING SOCIAL CHANGE

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With people living longer, how can preparing for later life be made easier, especially for those in low-paid and low-skilled work? This report explores people's attitudes and expectations about working longer and saving more for retirement and the barriers that prevent them from doing this. It also presents policies to tackle the challenges highlighted.

The report shows:

- attitudes and expectations about work, pensions and retirement differ by age, lifestage and generation
- the challenges of living on a low income are common to everyone and prevent people from saving more for retirement
- psychological barriers are important – they create a block on both saving more and working longer
- policy-makers need to examine generational and lifestage factors as these may affect attitudes, expectations and financial preparedness for retirement
- no single policy will help people to prepare better for retirement – a combination of measures to help people save more and work longer is essential.

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Executive summary

This report explores the attitudes and expectations that people, particularly those in low-paid and low-skilled work, have in relation to working longer and saving more for retirement and the barriers that prevent them from doing this. It examines how attitudes and expectations vary by age, lifestage and generational grouping. It also presents policy options as a means of tackling the challenges presented by the fact that people are living longer.

One of the key aims of the Joseph Rowntree Foundation (JRF) is to respond positively to the opportunities and challenges of an ageing society. The Office for National Statistics (see DWP, 2013) predicts that, by 2020, people over the age of 50 will make up almost half (47%) of the adult population and one third (32%) of the workforce – something that will require all of us to think about later life differently. However, not everyone is at the same starting point; income differences, and differences across age (whether due to lifestage, generation or birth cohort), all affect how people plan for later life, and the extent to which they are able to save.

This report brings together data from a multi-stage programme of work, comprising:

- a comprehensive literature review
- secondary analysis of key datasets (including the British Social Attitudes survey)
- mini-groups and depth interviews with participants covering a range of occupations, generations and skill levels
- a workshop with stakeholders to discuss what policy interventions may help people to prepare better for later life
- a workshop with participants who also took part in a depth interview or group discussion to discuss their reactions to the policy proposals
- a representative survey of the general public to test levels of support for these policies.

The research questions were as follows:

- To what extent do attitudes and expectations about pension saving, work and retirement differ across generations? Is lifestage a more important determinant of attitudes, expectations and capabilities?
- To what extent do those on low incomes face different opportunities and challenges in preparing financially for retirement compared with those on higher incomes? And what are their attitudes and expectations about saving and working longer?
- To what extent should policy-makers tailor their policies to different sub-groups (for instance, people on a low income, people with low skills levels, older people and so on)?

Working longer and saving more: opportunities and challenges

Working for longer can bring benefits to individuals, society and the state. However, the employment rate for 55- to 64-year-olds in the United Kingdom (UK) lags behind that of comparable countries. Governments have attempted to act on this by both abolishing compulsory retirement and increasing the State Pension age, yet powerful barriers to working longer still prevail.

These barriers are in part driven by income; in addition, the physical nature of some low-paid occupations means that workers may lack the capability to work later in life. However, age, generational cohort and lifestage also play a part. To illustrate, older workers are more likely than younger workers to be enrolled into a defined benefit pension scheme, whose more generous provision should have a bearing on when they retire.

The statistics showing levels of under-saving for retirement are startling. The government's automatic enrolment scheme – whereby employees meeting certain criteria are automatically enrolled into a workplace pension scheme by their employer, and the employer, employee and the government contribute to the pension – was brought in to reverse this and there are early positive signs, although people can opt out and among those most likely to opt out are older and part-time workers. However, ability to save for the future is, of course, profoundly affected by income. The growing problem of in-work poverty is therefore an important consideration and is likely to mean that a large proportion of the workforce face considerable constraints in saving for later life. Age too is an influencer; different generations have not only been exposed to different pension products and markets, they have also faced different spending constraints.

Attitudes to working longer and saving more

The primary research picked up on some of these key themes, exploring participants' views on the idea of working longer and saving more in order to have a better standard of living in retirement. It was evident from the qualitative research that many found retirement difficult to think about. In part, this was due to the positive characteristics – earning, a sense of contributing, socialising – that they attributed to work. However, it also masked a concern that giving up work was going to be unaffordable.

Barriers to saving for retirement

The cost of living was the key reason given by participants for their inability to save; against a backdrop of rising prices and stagnating wages, many have had to make cuts to their outgoings, making the prospect of putting money away for later life impossible. The spending pressures faced by participants varied with lifestage; older participants talked about struggling to pay bills while younger participants mentioned the cost of education. Further, more immediate needs – such as Christmas and holidays – contributed to a short-term approach to saving. This was compounded by difficulties accessing secure and stable employment. Participants' low levels of skills meant that they felt unable to progress into more stable employment and, further, contributed to a sense that any money they could save should be used to build a buffer in case they lost their job.

Further undermining many participants' ability to plan for the future was a perceived lack of even the most basic knowledge for example about when the State Pension is paid and how much it is – something that was most acutely felt by younger participants. There were also a number of other information gaps, including what the projected cost of living might be in retirement and how savings might translate into income. Without answers to these questions – and no clear way of finding them – participants felt unable to plan effectively.

Uncertainty about how much return they would get from saving also put a block on saving. The financial crisis of 2008 left many questioning whether traditional savings products were worth pursuing, something that was compounded by a sense that pensions policy is always changing – often in ways that were thought to be disadvantageous. Building on this, retirement in itself was not something that many wanted to consider. For younger participants this was tied up in issues of self-identity; they believed that they should be able to live in the moment and make the most of what they have now. Older participants, however, had negatives associations with old age – particularly with regard to the standard of living that they might have. The upshot of both, however, was that few wished to engage seriously with the idea of planning for later life.

Barriers to working longer

Many assumed that working later in life was a given. This is not to say that they were happy about it. Older participants felt a sense of injustice that they had to continue to work while others in their peer group retired; others bemoaned that working longer was not a choice, rather a necessity. On the flipside, participants were able to point to a number of benefits related to working longer; additional income for one, but also increased opportunities for socialising. Because of this, many were keen to stay in work but also highlighted barriers that may prevent them from doing so.

Health emerged as a key factor, particularly among older participants who spoke about how they were already finding their work harder than they used to. Building on this, a lack of adaptability was mentioned; they did not believe it likely that their employer would be able to offer them the flexibility they may need or make the necessary changes to their working environment as they aged. Participants also had a question mark over the long-term usefulness of their skills; they believed technological skills to be increasingly important yet felt that it would be impossible for them to acquire these at this point in their life, making their getting a different, more suitable job, difficult. Caring responsibilities also posed a barrier. Most commonly, these related to older participants providing informal care for their grandchildren – something that, in turn, affected their ability to work.

Finally, and as with saving more, psychological barriers were also cited. Some older participants believed that, after a lifetime of behaving responsibly, they deserved to retire and that retirement was a just reward. Questions were also raised as to whether it was morally right for older workers to stay in employment, thereby depriving younger people of the chance of a job.

Policy responses

Responses to a range of policy solutions designed to enable people to work longer or save more were also explored. Regarding saving more:

- Participants agreed with the principles of 'automatic escalation' – that is, 'nudging' people into saving more for their pension by linking increases in pay to contributions – and thought that this would be an effective means of overcoming the inertia that exists with regard to saving for later life. Further, they understood the mechanics of it; it was felt to be the natural successor to automatic enrolment. In practice, though, there were concerns about this policy, principally around affordability, with some worrying that this would result in 'over-saving' at the expense of their present-day needs.
- Participants also discussed whether having the freedom to access their pension funds before the age of 55 would help to manage short-term risks and encourage saving. Again, participants were in agreement with the principles of this scheme – it was their money and they should be able to access it whenever they wanted – but the practicalities were a cause for concern. In particular, it was suggested that restrictions about how much could be withdrawn, and what the money could be used for, should be in place if this policy is to be effective in tackling under-saving.
- More broadly, participants welcomed proposals that would simplify how information regarding pensions is communicated to them, detailing, for instance, how much is in their pension pot currently and what kind of income in retirement this will equate to based on current saving rates. Having clarity on this was viewed positively, and it was considered that it would make it easier to plan for later life.

However, given the general lack of understanding that exists around pension products, not surprisingly, many participants found more complex mechanisms designed to encourage them to save more – such as redistributing tax relief – complex. In tandem, therefore, we also explored policy proposals that may help them to work longer. In response to these, participants suggested the following:

- Creating the conditions to facilitate working later in life – that is, opportunities for flexible or part-time hours, coupled with suitable workplace conditions – will be important. Further, there was support for enshrining this in legislation given few assumed that employers would make these changes of their own accord. Nearly three in five of the people surveyed supported an automatic right for employees over the age of 60 to demand flexible hours, with a similar proportion supporting this group's right to demand part-time work.
- On top of this, giving older workers up-to-date skills, enabling them to stay in work or move jobs, will also be necessary. The primary research highlighted how older workers were already struggling with the physicality or stress associated with their work and were uncertain about how long this would be feasible for. Providing opportunities so that people can move into more appropriate roles will, therefore, help people to stay in work longer.

Conclusions

It is clear, then, that resourcing retirement – by saving more and by extending working lives – will require concerted efforts by individuals, employers and the state. For any measure to be effective, however, the heterogeneity of the future retirement population must be recognised.

As part of this, appreciating the different experiences of and influences on each generation will be necessary. To illustrate, younger generations are subject to significant pressures caused by high prices and insecurity in the workplace, meaning that they lack the means to prepare and save. What is more, though, they do not identify as savers; they believe that they should have the freedom to spend their money on their immediate needs rather than worrying about the future. In contrast, older generations have benefited from more affordable housing and more generous pension provision from employers. However, this has been offset by numerous policy shifts, leaving them uncertain about how to most effectively plan for the future. Further, this generation is also stepping in to alleviate the financial burdens placed on younger generations through, for instance, the provision of informal childcare. This, in turn, limits their opportunities to work and save. Understanding these differences will ensure that appropriate responses can be developed and also communicated appropriately.

However, even with this, the challenges caused by low incomes remain and, until these are addressed, those in low-paid and low-skilled work will only have limited scope to prepare better for later life. Indeed, affordability was a constant theme raised in this research; regardless of age, generation or lifestage, for those on low incomes, saving for retirement was typically considered to be a low priority given the other demands on their already stretched finances. Until there is slack in their household budget, then these challenges will remain.

1 Introduction

This chapter sets out the policy challenge in relation to people living longer and the importance of helping people to prepare for their later life by saving more and working longer. It explains why we need to focus our policy attention on particular groups based on a more thorough understanding of their behaviours, attitudes and expectations. Specifically, it makes the case for assessing the particular opportunities and challenges that depend on:

- income – we look especially at how those on low incomes prepare for retirement and their attitudes and expectations, with a view to helping policy address the specific circumstances that they face
- age – as part of this, we aim to disentangle the extent to which lifestage differences (that is, how the movement through the various stages of someone's life affects the decisions they make) and generational effects (whether people born in similar periods – or birth cohorts – approach saving and working later in life in a common way) have an impact.

Rising life expectancy and its consequences

By 2030, there will be a 50% rise in the number of people aged over 65. While much of the growth in average life expectancy has been caused by reductions to infant mortality, life expectancy at age 65 has also increased markedly (ONS, 2012b). Despite this, the age of voluntary and involuntary retirement has dropped, especially since the 1980s. Together with concerns about participation in private pension saving, these shifts are putting an enormous pressure on existing retirement and welfare policies.

While the government is acting to boost retirement incomes and reduce means-testing in retirement through its Single Tier Pension, this report explores what can be done to increase private pension savings levels and enable later, more flexible, retirement. In doing so, it complements recent legislation to automatically enrol workers who meet certain criteria into workplace pensions and to extend working lives by increasing the State Pension age.

Working for longer: opportunities and challenges

Working for longer brings benefits to individuals, society and the state. For individuals, it can improve their financial position and it can also be advantageous for their health and wellbeing (DWP, 2014a; Sahlgren, 2013). For society, working for longer boosts the economy. If people stayed in work for three years longer, this would boost the economy by an estimated 3.5% (Altman, 2015). For the state, one of the most important drivers of state welfare expenditure is the number of people claiming the State Pension and the proportion of people who are engaged in productive activity and paying tax on their earnings. As a whole, the State Pension costs £83 billion per year (OBR, 2014a).

Individuals are now working for longer into old age than in past decades. Indeed, the Office for Budgetary Responsibility assumes that, between now and 2055, employment rates will increase for every five-year age grouping between 60 and 74 (OBR, 2014b). This is likely to be a consequence of a range of factors, including:

- inadequate savings levels to meet longer periods of retirement
- the abolition of the default and compulsory retirement age of 65 in 2011
- structural changes to the labour market such as the growth in the retail and service sector
- more part-time and flexible working opportunities.

In 2011, 12% of the workforce were over the State Pension age, up from 7.6% in 1993, and the trend for a larger proportion of those of pensionable age being in work increased through the recent recession (ONS, 2010, 2011, 2014).

However, over half of men and women are not working by the year before the State Pension age; out of 10.2 million people aged between 50 and the State Pension age, 2.9 million of these are unemployed (DWP, 2014a). The employment rate for 55- to 64-year-olds in the UK is around 60%, lagging behind the comparable figure in other countries – such as New Zealand, Norway, Sweden and Switzerland – where it is around 70% or above (OECD, 2013).

Successive governments have acted by removing compulsory retirement and by increasing the State Pension age for women and men. But, developing policy to further extend working lives is challenging, given there are powerful social norms – among both employers and employees – that determine retirement outcomes (Weyman *et al.*, 2012). The existing evidence suggests that different groups may be exposed to different opportunities and barriers to working later into life.

Why income matters

Income and social grade can be important factors determining later-life working. In recent years, the 'cliff-edge' model of retirement – whereby people stop working one day and move into retirement the next – has become less prevalent among certain social groups, especially those with high skills and income levels. Indeed, for some, more prolonged 'staged' retirement seems to be becoming the norm (Arakani and Gough, 2007). For these groups, promoting longer working lives and flexible/part-time work for older workers may therefore fit with these changing expectations (European Union Social Fund, 2007; Harper *et al.*, 2011).

However, many low-income individuals face barriers to working for longer, including:

- the nature of their work
- a lack of flexible working options
- health considerations
- caring responsibilities (Blekesaune *et al.*, 2008; Mayhew, 2009; EHRC, 2010; Berry, 2011; Age UK, 2012).

The physical nature of some low-paid jobs (such as in manufacturing, deliveries, front-line retail, hospitality and care) may also mean that workers may not have the physical capability to work longer (Berry, 2010). We may expect those on low incomes to have different attitudes and expectations to later-life working and face different opportunities and challenges in comparison with other groups. Understanding how those on low incomes are able to prepare for later life is therefore of central importance.

Why age matters

There are good reasons to believe that both lifestage and generation may affect attitudes to, expectations about and capabilities for working longer. For instance, different generations may have different incentives to work later in life. The decline of defined benefit and final salary pension schemes, particularly for private sector workers, is one constituent factor in this regard (Arakani and Gough, 2007; Crawford and Tetlow, 2012a). Under a defined benefit pension, the individual has an incentive to retire promptly once they hit a salary level they are satisfied with, given that their employer is carrying their longevity risk. In a defined contribution pension, the individual has an incentive to incrementally add to their pension fund by extending their years in work, whether in full- or part-time employment. Therefore, the fact that older generations are far more likely to be enrolled into a defined benefit pension scheme than younger generations is likely to have an effect on when they expect to retire.

Retirement decisions may also be influenced by peers and by norms within a generation. Axtell and Epstein (1999) have argued that individuals often copy the behaviour of those around them, precisely because retirement is a difficult decision and requires the consideration of a number of unpleasant, complicated and uncertain factors.

The effect of lifestage is more difficult to predict and less well documented in the available literature – hence this was something explored in more detail in the primary research, discussed in the next section. The evidence analysed suggests that younger people may be less aware of some of the push and pull factors around retirement, such as the financial necessity of resourcing later life and enjoyment from work. Often, young people do not make decisions with their long-term working lives in mind. For example, they do not necessarily consider whether the work they do presently will be suitable for them as they get older. This is compounded by the fact that, as people age, their commitments and caring responsibilities change, with older people increasingly providing care for grandchildren and other family members. As such, irrespective of how they may feel about working longer, they may find that they are simply not able to work due to other demands on their time.

Saving more for retirement: opportunities and challenges

The problem of under-saving in the UK

Current levels of under-saving in the UK are startling. In 2006, the Turner Report identified that 40% of the workforce – 12 million individuals – were not saving enough for their old age (Turner, 2006). Membership of occupational pension schemes has dropped markedly since the 1960s. It has declined much more markedly among private sector workers than among public sector workers – it declined from over eight million active members in 1967 to under three million in 2011 (ONS, 2013).

The government's automatic enrolment scheme – whereby employees who meet certain criteria are automatically enrolled into a workplace pension scheme by their employer, and the employer, the employee and the government contribute to the pension – has been introduced to reverse this trend. Official figures thus far suggest that it may be having the intended effect: as of December 2014, 42,785 employers had complied with the automatic enrolment regulation, with over five million employees automatically enrolled (Pensions Regulator, 2014). Only around one in ten of these employees have opted out and exited the scheme. However, older workers are much more likely to opt out than younger workers, while part-time workers are much more likely to opt out than full-time workers (DWP, 2014c).

The evidence suggests that it is difficult for individuals to overcome a lack of foresight in relation to future events, that is, they suffer from 'myopia'. Further, individuals' tendency to discount the future leads to under-saving in the absence of external stimuli such as financial incentives (Crossley *et al.*, 2012). However, attitudes, expectations and ability to save are also affected significantly by income.

Why income matters

Lifetime income is an important determinant of saving and pension wealth (Boziom *et al.*, 2011; Bryan *et al.*, 2011). Characteristics frequently associated with low-paid work – such as having no qualifications or having worked in a manual occupation – are correlated with poverty in retirement (Glaser, 2009).

Those on lower earnings are much less likely to save for retirement than those on higher earnings, with the situation particularly marked for those earning under £10,000 per year (DWP, 2014d). The proportion within each earnings group who contribute to a workplace pension increased in 2012–13 following almost a decade of decline. The decline was most marked among those earning under £20,000 per year. Automatic enrolment will only act partially to alter this balance because no one earning below £10,000 per year is subject to the scheme. Moreover, certain sectors may experience much higher opt-out rates (e.g. because of contractual arrangements and fluidity of labour) than others, thus exacerbating inequalities (DWP, 2014c). These may particularly affect low earners.

There are a number of economic trends that could exaggerate this problem over time. There is a growing problem of in-work poverty. Research by JRF published in November 2014 showed that half of all those in poverty live with a working adult (characterised as below 60% of median equivalised household income) (MacInnes *et al.*, 2014). This is likely to mean that a large proportion of the workforce face considerable affordability constraints in relation to saving for retirement. In addition, research by the Social Market

Foundation (Keohane and Hupkau, 2014) and by the Resolution Foundation (D'Arcy and Hurrell, 2014) has shown that a large proportion of those on low pay (as defined by two thirds of the median hourly wage) are 'stuck' below this line both over short time periods and even long time periods. The growth in low-paid and high-paid jobs and a decline in middle-ranking institutions may have implications for the affordability of pension saving and for retirement patterns.

Why age matters

As with later-life working, lifestage and generational differences may be expected to play a part in determining attitudes and expectations about saving for retirement.

Typically, people accumulate wealth during their working lives and deccumulate during their retirement. We would, therefore, expect those at different lifestages to have different attitudes and expectations about saving for retirement (DWP, 2009). Beyond this, different generations (or birth-year cohorts) have been exposed to different pension products and markets. Within the private sector, earlier generations were typically enrolled into more generous defined benefit schemes, while younger generations have typically been enrolled into defined contribution schemes. In the public sector, the vast majority remain on defined benefit schemes, but the generosity has been reduced for more recent entrants (largely younger generations). Those aged 30–49 are more likely to have saved into a defined contribution scheme than those aged 50–64 (Crawford and Tetlow, 2012b).

Younger generations are also exposed to other external costs, which may make affordability a greater constraint than it was for previous generations at the same point in their lifestage. For instance, higher university tuition fees have increased debt levels among those currently in their early 20s, while rising house prices mean that younger people have to save more for a down-payment, delaying one of the lifecycle triggers for accumulating long-term assets.

Conclusion

Across all these themes, we must be alert to the possibility that barriers to pension saving and barriers to working longer may coincide across the population: in other words, certain groups may be less well placed to save for retirement *and* more at risk of early exit from the labour market. Indeed, we could see the rise of 'two nations' of older workers and retirees (Lissenburgh and Smeaton, 2003). On the one hand, individuals with higher incomes in more skilled jobs, who have the luxury of choice, will be able to retire early or go part time for a period before retiring fully (Crawford and Tetlow, 2009; Berry, 2010; Boziom *et al.*, 2011). Moreover, because their skills will be in high demand it is likely that employers will want to keep them on (Humphrey *et al.*, 2003). Conversely, at the other end of the spectrum, those in low-paid and low-skilled work will often have far less choice. Many may have to work for longer because of inadequate savings yet health considerations, the physical nature of some jobs and low skills levels may act as a barrier to doing this.

Research questions

This study addresses the following questions:

- To what extent do attitudes and expectations about pension saving, work and retirement differ within and across generations? Is lifestage a more important determinant of attitudes, expectations and capabilities?
- To what extent do those on low incomes face different opportunities and challenges in preparing financially for retirement than those on higher incomes? And, what are their attitudes and expectations about saving and working longer?
- To what extent should policy-makers tailor their policies to different sub-groups (for instance, people on a low income, people with low skills levels, older people and so on)?

Methodology

To answer the research questions, we adopted a three-staged approach comprising hypothesis development, primary research, and policy development and consultation. At each stage we sought input from an advisory group, formed for the purpose of this study and designed to provide expert advice and critical challenge. The different stages we undertook are outlined in more detail below.

Hypothesis development

The study began with a comprehensive literature review, which was conducted across the following areas to understand the existing evidence and to shape subsequent stages of the research:

- how the workplace and nature of work are changing – looking at key trends that are likely to influence the need for changing work patterns in the future and evidence on key demographic changes and the work-related implications of people living longer
- people's attitudes and expectations in relation to working for longer – synthesising existing research on attitudes and expectations about working longer, identifying gaps in the existing evidence base and developing hypotheses for testing
- people's circumstances – exploring the evidence on how those in different sections of society face different challenges in relation to retirement income and working longer, and assessing which groups typically face poverty in older age
- policy exploration – assessing key policy developments in the UK, within the devolved nations and in comparator countries.

A full list of the documents included as part of this review is given in the Bibliography.

Following this, we conducted secondary data analysis to explore the key research questions and identify issues to be followed up in the qualitative research. Longitudinal data among successive birth cohorts was used to directly examine 'generation', 'period' (e.g. where everyone changes because of external events or a general cultural shift affects everyone) and 'lifestage' effects. In addition, we analysed 'simulated-cohort' data from repeated cross-sectional surveys. Having carried out an initial analysis, we concluded that disaggregating 'period' effects through quantitative data analysis was problematic due to the lack of clarity that emerged from the data and so instead we focused on drawing out differences across lifestages and generations. For this element of the work we used:

- the 1970 British Cohort Study (BCS70)
- the British Household Panel Survey (BHPS)/Understanding Society (US) study
- the British Social Attitudes (BSA) survey
- the English Longitudinal Study of Ageing (ELSA)
- the European Social Survey (ESS)
- the National Child Development Study (NCDC).

In carrying out this analysis, we used the standard definition of a person on a 'low income' – namely a person living in a household with less than two thirds of the median household income.

Primary research

The next stage of the work was to conduct primary qualitative research. The design of this stage was guided by the findings from the literature review and secondary analysis, which identified key factors that needed to be considered in sampling (such as pay level and occupation). In total, we conducted 32 depth or paired depth interviews, consisting of:

- ten interviews with Generation Y (people born between 1980 and 2000)
- ten interviews with Generation X (people born between 1966 and 1979)
- six interviews with late baby boomers (people born between 1956 and 1965)
- six interviews with early baby boomers (people born between 1945 and 1955).

In addition, we also conducted eight mini-groups, each comprising five to six participants. Of these groups, two were conducted with each of the four generations. All members of each mini-group worked in a specific industry, according to the Standard Occupational Classification grouping.

A full breakdown of the sample can be found in Appendix 1.

Policy development and consultation

We developed policy ideas through a series of stages. First, we considered the evidence gathered in the fieldwork. Second, we explored the current policy literature and international evidence on what works in order to develop initial hypotheses. Third, we debated possible policy responses in an expert workshop that brought together business representatives, civil servants, consumer representatives, employee representatives and others. This allowed us to develop a series of policy propositions. Following this we invited a selection of participants who had already taken part in either a depth interview or group discussion – and were therefore used to talking about their future plans with us – to a workshop in which some of these policy ideas were debated. This workshop lasted around three hours and, in this time, participants responded to policy ideas presented to them using case studies and scenarios based on issues raised in previous stages of the project and designed to stimulate debate.

Complementing this, Ipsos MORI conducted a face-to-face survey with a representative sample of 2,020 members of the British public aged 15+ and the data was weighted to reflect the national population profile.

2 Attitudes to working longer and saving more

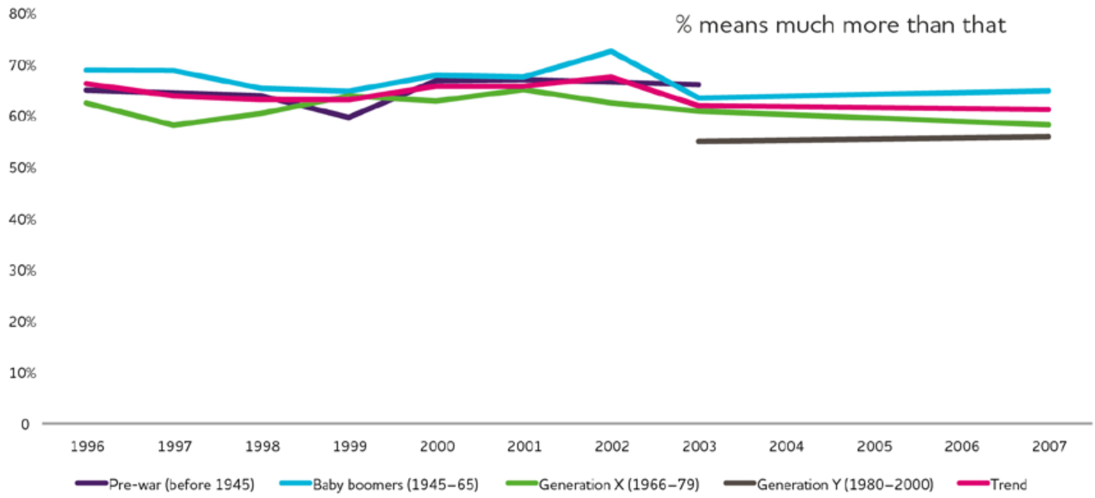
This chapter focuses on the findings from the primary research conducted, exploring in detail participants' views on the idea of working longer and saving more in order to have a better standard of living in retirement. Before discussing this in detail, however, it is worth providing some context with regard to how participants felt about retirement more generally, as this shaped their views on what they envisaged doing later in life.

It was evident from the qualitative work conducted that many, regardless of their age or income, found the prospect of retirement difficult to think about. In part, this was because of the value they derived from being in work – irrespective of the nature of this work or the amount they earned from it. They spoke about how employment provided them with a sense of purpose and pride, knowing that they were providing for themselves and their family, as well as making a wider contribution to society. The social benefits of work were also lauded, with participants noting how work brought them into contact with a wide range of people. Many of those who we spoke to stated that, because of this, they were keen to stay in work for as long as possible; this was expressed – at least initially – as an active choice, something that they *wanted* to do rather than something they thought they would *have* to do: "You're contributing to society. You've got a goal and the goal is to get up and mix with people and helping to keep the country going in your own small way" (late baby boomer, female).

This positivity towards work was also found in Ipsos MORI's analysis of NatCen's British Social Attitudes survey data (which can be found at: www.natcen.ac.uk/our-research/research/british-social-attitudes/). It was found that older generations were more likely to agree that their present job was much more than just a means of earning a living (see Figure 1).

Figure 1: Attitudes to work, 1996–2007

About your paid work. On balance, is your present job just a means of earning a living or does it mean much more to you than that?



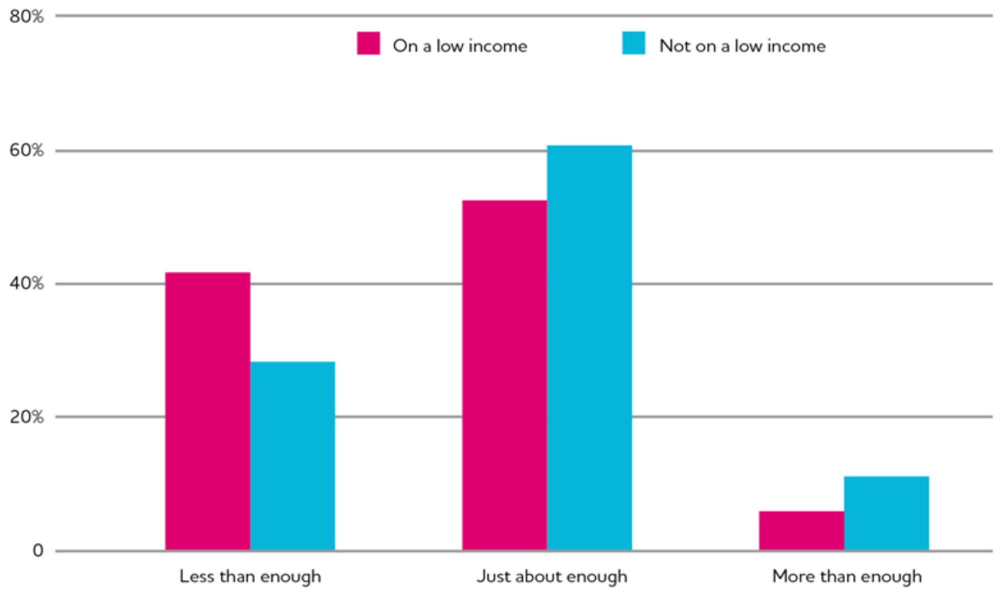
Base: Data points represent > 200 responses; all in paid work.

Source: Ipsos MORI's analysis of NatCen's 2014 British Social Attitudes survey data

However, these sentiments masked a concern that giving up work was simply unaffordable. This was of particular concern to older participants who, although on a low income, felt that they could have done more throughout their life to save for the future and reflected on how, when they were younger, they had not considered saving to be a priority: "I think now the money I wasted when I was 35 and 40 – the stupid things I did when I could've put away much more" (baby boomer, male).

This uncertainty played out in Ipsos MORI's survey among the general public, which showed how polarised the adult population is when it comes to thinking about their income in retirement: 45% were not confident that their retirement income would be comfortable, with a similar proportion (46%) stating it would be. Analysis of the Understanding Society dataset sheds further light on this; while expectations of income in retirement do not differ greatly by generations, income does have a bearing – more than 40% of those classed as being on a low income expected to have less than enough when they came to retire (see Figure 2).

Figure 2: Expectations of income in retirement, by income level, Understanding Society, Wave 3, 2011–12



Note: Low income is defined as living in a household with less than two thirds of the median income.
Source: Social Market Foundation's analysis of Understanding Society, Wave 3, 2011–12

In light of this pessimism about adequacy of income in retirement, and mindful of the broader demographic changes, the following sections explore participants' attitudes and expectations about saving for retirement and working longer and the barriers that get in the way of both.

Barriers to saving for retirement

The qualitative research shed light on the many factors that prevent people from saving more – or even saving at all – for their retirement. Common issues, regardless of the age of the participants, included the rising cost of living and a perceived lack of simple information about pension products, making it hard to know how best to fund retirement. However, on further analysis, how participants experienced these barriers depended on their age. The rest of this section explores in more detail the factors that prevented participants from saving for their retirement, highlighting how these varied by income and both age and generational grouping.

Cost of living

The cost of living was the key reason given by participants for their inability to save for retirement. They spoke in depth about how difficult they had found it to manage financially in recent years in the face of rising prices and stagnating wages, and how they had had to make sacrifices and cuts in order to cover essential bills and payments, for example buying fewer treats for themselves or their family while also making sure that they spent less on everyday items:

> "We've changed our shopping habits. We used to shop at Tesco; now we spend money at Lidl. You get a lot more for your money there than you would at Tesco"
> (Generation X, male).

Against this backdrop, the idea of making pension contributions and thus having an even lower income was not something that they wanted to consider. They understood that this had ramifications for their future – and this was something that they were concerned about – but they felt that saving for the future was, for the time being, out of their reach:

> "I'm really worried about the future. Worried I won't have enough to support my partner and myself."
> Generation X, male

> "The cost of living has gone up. Everything has gone up. You've got to save up – to save up you've got to work more hours, more years."
> Generation Y, male

The spending pressures that participants experienced most acutely were largely dependent on their age and, in particular, their lifestage. For instance, older participants tended to speak more about struggling to afford to pay bills while younger participants (from Generation Y) described having to cope with high levels of personal debt (often a result of university tuition fees). The middle generation (Generation X) discussed the costs of raising a family. Indeed, those with children often put the financial security of their children ahead of their own, for instance by giving them money to pay for their education rather than putting what they had spare aside to fund their retirement:

> "At the moment my focus is on getting the children through university. That's the immediate plan. What happens after that I'll, sort of, deal with then. I don't see the point in particularly worrying yourself too much about something that is a little way off. There are more pressing things to be concerned about."
> Generation X, female

> "I don't want my daughter saddled with some ridiculous student debt so I've got no plans to do anything drastic [save] for at least five or six years."
> Generation X, female

More immediate saving needs – such as for Christmas and holidays – were often considered a greater priority for those with families than their long-term future. They wanted to be able to provide for their children, ensuring that they were able to participate socially and culturally, and spending money on these items was considered one way that they could do this.

> "Since I've had kids I try to put a little bit away each month to save up for holidays and a few niceties. It seems like you're saving up for Christmas, then saving up for holiday, then you're saving up for Christmas again."
> Generation X, male

More generally, though, this propensity to save for the short term – if they actually saved at all – was something that was discussed by younger participants. The possibility of paying off debts from university as well as having some money set aside in case of a financial shock were all viewed as more important short-term saving priorities than retirement:

"It's just a case of saving for the moment … late on I'll think 'that's for the retirement itself' but right now I just put it in the bank account and try and forget about it"
Generation Y, male

Over and above this, though, younger participants felt more motivated to save up for a deposit for a house than to put money aside for their retirement. They spoke about the high cost of renting; indeed, the secondary literature highlights this as a wider trend, with the proportion of young people privately renting increasing in recent years (58.1% of 16- to 24-year-olds and 31% of 25- to 34-year-olds in 2008–09, rising to 67.7% of 16- to 24-year-olds and 44.6% of 25- to 34-year-olds in 2012–13).[1] They stated that if they owned their own home then their housing costs would likely be reduced; mortgage payments were assumed to be lower than rents. However, some of these participants also said that if they owned their own home then it would be an asset they could use to fund their retirement. Therefore, by saving for a deposit, this group still believed that they were in effect saving for later life.

Secure and stable employment that pays

In addition to the high cost of living, participants also spoke about how difficult it was for them to access secure and stable employment. Zero-hours contracts – whereby employers employ staff but do not have to specify a minimum number of working hours – and cuts to the hours worked were both mentioned as key issues here, while many had also experienced periods of unemployment. This should be seen in the wider context of a declining proportion of employees reporting that their job is secure (72% in 2004 to 65% in 2010, according to Ipsos MORI's analysis of NatCen's British Social Attitudes survey data).

Secondary analysis of the European Social Survey also illustrates this point clearly. The proportion of the population saying that security was important or very important to them when choosing a job rose by four percentage points, from 88% to 92%, between 2004 and 2010. Among Generation Y, in particular, the proportion saying that security was very important jumped from 40% to 51% in the same period – a reflection, perhaps, of their actual or anticipated assumption of responsibilities such as parenthood or home-ownership as they moved through different lifestages (as the oldest members of this generation were 30 years old in 2010, compared with 24 years old in 2004). Further, it is worth highlighting that, in 2010, Generation Y were most likely to report that they worked fewer hours (24%), compared with 13% of baby boomers.

However, the prospect of securing stable work seemed unlikely for many of those who we spoke to as part of the qualitative research; participants perceived that their low level of skills would prevent them from progressing into more stable employment – either in their current place of work or elsewhere. Further, they did not believe that this was something they could readily change; the cost of up-skilling was considered to be prohibitively expensive, to the extent it was thought to offset any potential pay increases gained from doing this:

"I only went back to college because I wanted to do an apprenticeship with BA [British Airways] and I had to do English, Maths and Science … then I had the tests and stuff and found out the first year would be £9,000 – I was like 'f*** off, I'm earning more in the post office than I will with these qualifications'."
Generation Y, male

This lack of security acted as a block on efforts to save. Participants spoke about how they did not feel that saving for their long-term future was a priority. Instead, if they saved at all, they felt that this should be for the short term in order to provide a buffer in case their work circumstances changed for the worse.

It was not just that participants lacked access to secure employment – they also did not feel that the work they undertook paid them well enough to do anything other than cover their day-to-day living expenses. They certainly did not believe that there was sufficient slack in their budgets to allow them to save for the future. There were interesting differences in why participants thought they were in receipt of low wages, however.

Older participants were more likely to refer to immigration, and believed that this caused increased competition for jobs, which in turn drove down wages: "It's competitive out there, especially since the Eastern Europeans have come. They've driven the prices down …" (baby boomer, male). In contrast, those from Generation X were more likely to discuss the impact that widening access to participation in further education had had on their prospects for well-paid work. Those from this generation who had not been to university spoke of how, in an interview situation, they were often competing against someone with a degree and, as a result, did not look on paper to be as strong a candidate. This, in turn, left them having to take more poorly paid jobs: "I can turn my hand to just about anything but going up against people with a college education and university degrees I don't get a look in" (Generation X, male).

The youngest participants simply assumed that their low wages were a result of the recent financial crisis. They were aware from news reports and discussions with friends and family that wages had failed to keep pace with prices and their own experiences of trying to get work suggested to them that there was intense competition for vacancies.

Lack of knowledge

One of the factors highlighted as undermining participants' ability to plan effectively was a perceived lack of even the most basic knowledge about pensions and income in retirement. As may be expected, this was mentioned most commonly by those in Generation Y, who often struggled to articulate how a pension was different from any other type of savings product. For instance, while some understood that the money they saved in a pension would be inaccessible for a number of years to enable them to build up a fund for later life, they were not aware of the tax implications of a pension. This should be set in a broader context of younger participants' levels of financial capability; it was not just that they lacked knowledge of pensions – they often had a limited understanding of other financial products as well.

This is confirmed by recent research conducted by NatCen and The Strategic Society Centre, which explored levels of financial capability among savers in defined contribution pension schemes, as well as how financial capability changes over the lifecourse (Lloyd and Lord, 2015). Based on a literature review, and an analysis of the latest Wealth and Assets Survey data, the study found that younger people have low levels of financial capability; and that levels of financial capability appear to increase with age, peaking when people are aged around 65, before declining again. Subsequent research undertaken by the Institute for Social and Economic Research (Taylor, 2010), using data from the British Household Panel Survey (BHPS), also found that people aged below 45 have below-average financial capability, while those aged 55 and over have above-average financial capability. Aside from this, participants in the primary research part of the present study, irrespective of their age or level of income, reported a lack of access to information on:

- when people become eligible for the State Pension
- the amount paid by the State Pension
- what extra help and support are available for people in later life
- alternative ways in which people can supplement their income in retirement.

"My pension isn't a fat lot – £7 or £8K – but I have no idea what it translates to. That information would be useful – do I get a State Pension? Does it come in a lump sum? Can I cash it in? It would be good to know these as I don't know – I could be claiming it and it could be worth squat."
Baby boomer, male

Participants also felt that there were key information gaps – particularly around what the projected cost of living might be by the time they came to retire and how any savings they might have may translate into income in retirement. Indeed, many spoke about the importance of having definitive answers and precise figures on these issues. They felt that without ready access to this kind of information they could not be expected to plan effectively: "What money is worth now is obviously not what it will be at 65; you'd need to understand the inflation; how you'd be able to live on it" (Generation X, female).

What is more, it was not just that participants did not have this knowledge – they were not aware of the means by which they could become better informed or how to access trusted, low-cost – or even free – advice. Employers were often a first port of call. For those with trade union representation, this could prove a useful channel for acquiring the information. But, this option was not available for all and it is also worth noting that, at times, the union officials were reported as not always knowing more than those they were representing.

> "My first port of call would always be my employer's payroll department. I work for the council so I trust them."
> Generation Y, female

> "I had to look it up myself. I went to my union rep and asked him about AVCs [additional voluntary contributions] and he said he didn't know anything about heavy metal."
> Generation Y, male

More broadly, those in the most vulnerable employment positions – those working part time, on fixed-term contracts or shift patterns – felt unable to approach their employers for this kind of information, meaning that they often ended up without answers to the questions they had. Younger participants who were new to the workplace did not believe that they had the kind of relationship with their employer that would make asking for advice possible.

This left participants in the position of having to rely on colleagues for information and advice and, although they appreciated their support, they noted that they were not always more informed. The other option was turning to family members, but it should be noted that few felt comfortable in doing this; they believed that discussing finance was taboo, and something they wished to avoid: "I don't talk to family about money. I might be accused of being nosey!" (Generation X, female).

Uncertainty of return

There were three main reasons why participants felt a sense of uncertainty and unease about saving into a pension, with participants fearing that even if they did save for later life, their efforts could be undermined by forces beyond their control:

- a lack of a guaranteed return
- the changing pensions policy landscape
- sacrificing income now only to fail to reap the reward later in life.

Turning to the first issue, the financial crisis of 2008 had left many of those we engaged with questioning whether traditional forms of saving for retirement were worthwhile pursuing. Participants spoke of reports in the media of savers who had ended up with nothing, which had prompted them to consider whether or not they could take this risk. They explained that being on a low income made security of return more important; they just did not have the financial leeway to be able to absorb and recover from a loss like this. For some, this meant looking to alternative savings vehicles considered to be more secure, primarily property: "If you have money in the bank you could lose it. You're never going to lose money in bricks and mortar" (Generation X, male).

Second, there was a general sense among older participants in particular that the pensions policy landscape was always changing and often in a way that disadvantaged them. They mentioned changes to the dates at which they would be eligible for the State Pension, the removal of the default retirement age and the fact that, for some, their employer had changed the kind of pension scheme they were saving into (typically from a defined benefit to a defined contribution pension scheme).

> "We've been preparing for years but they keep moving the goalposts and then you think we can't afford to now."
> Baby boomer, female

> "I had a private pension but I don't have much left – it got wiped out in the recession. I have a pension with the Royal Mail but they keep moving the goalposts."
> Generation X, male

This perceived pace of change left many participants, but particularly those who were older, feeling that it was not worth their while saving into a pension. It was considered likely that, by the time they came to retire, changes to the system would mean that their fund was not worth as much as they had been promised, or they would not be able to access it in a way that suited them.

It is also worth highlighting here that this perceived instability stretched to the State Pension as well. While participants understood that the State Pension was currently a universal benefit, they did not see any reason why that would remain the case going forward. Indeed, some older participants were concerned that having saved for their retirement they would be penalised for this behaviour and find themselves ineligible to claim a State Pension as they had access to their own income.

> "The way the government's going you think, is it worth having a private pension? If you have one they won't give you a State Pension – it might come to the state that that's all I get, the government might not give me anything."
> Baby boomer, female

> "These things change all the time. The government pension changes all the time, doesn't it? By the time I'm retiring maybe it will be less or more, who knows?"
> Generation Y, male

When discussing this, participants referenced examples – from either people they knew personally or people they had read about in the media – of those who had made financial provision for social care only to find that those who relied entirely on the state were in receipt of the same services. This was something that was most commonly expressed by those from the baby boomer generation, who were more likely to have experienced this issue within their own family, or had friends or colleagues with experience of this. Aware of the pressures on the public purse, and the increasing numbers of older people, participants saw no reason to believe that, in time, state financial support for those in retirement would be any less likely to change.

> "My granddad had a stroke and was ill at the end. He said to me: 'The bloke sat next to me never paid in and isn't paying anything. I'm paying £800 a month to sit with him.' You're better off spending it as we're all in it together at the end."
> Baby boomer (late), male

Third, participants raised the risk of sacrificing their income now only to fail to reap the reward later in life. Many mentioned family members or colleagues who had died before ever getting to claim their pension – something that was considered to be a waste of effort. This was further compounded by uncertainty over whether family members could claim what had been saved, with many assuming that they would not be able to.

> "I always remember my uncle. He was a big boss, he retired in the November and died in the April and he'd spent all these years saving … sometimes you just have to live."
> Generation X, male

> "To my horror, when I die my pension dies with me. It never occurred to me. I just assumed like my father when he retired and subsequently passed away that 50% of my pension would be paid to my wife."
> Baby boomer, male

Psychological barriers

Aside from the perceived unaffordability of saving for retirement, younger participants in particular mentioned that this was an event that seemed a long way off and few wanted to think that far ahead into their future. Younger participants presented this as a positive characteristic. They spoke of being proud to live in the moment, believing that they should make the most of what they have now rather than concerning themselves with the future.

> "I've got the family, and I've got the health so anything else is a bonus. I'll stress about it afterwards – it's a long way off."
> Generation Y, female

> "No one likes to think about this stuff! I'm still young, I don't need to think about it. Maybe in my 30s but personally I don't want to think about it yet."
> Generation Y, female

Indeed, some suggested that their identity as a young person conflicted with planning for retirement. They believed that, while they were young, they should make the most of having limited responsibilities and enjoy spending the limited disposable income that they had. This is endorsed by longitudinal qualitative research that Ipsos MORI conducted for the Money Advice Service (2014), which found that people's relationship with money is intensely personal and is contingent on both how they see themselves and the version of themselves that they want to put forward to the world. For instance, it found that for young people there was a sense that being careful with money and planning ahead were incompatible with having fun and living in the here and now. It was this issue of self-identity and what they thought it was that young people should do that, in part, prevented them from saving and planning for later life:

> "We're young – we feel like we're never gonna die … I'm expecting that one day I'll feel old, then I'll need to do something about it"
> Generation Y, male.

Older participants highlighted psychological barriers that prevented them from making plans for retirement. Here the issue was less about self-identity and more about negative associations with old age. It was clear that, for some, contemplating later life in any real depth left them feeling anxious and upset. This fear of old age was compounded by both low incomes and a concern that they lacked the means to save into a private or workplace pension; and pessimism about what support might be available from the state by the time they came to retire. As a result, most concluded that they would be worse off in retirement than they were now.

This attitude expressed by research participants reinforces how difficult it is for people to overcome a lack of foresight in relation to future events, or 'myopia' – even more difficult to surmount where the goal in question is far into the future and is perceived as unpleasant. When this myopia is reinforced by other, practical, barriers such as those the participants in this study faced, including coping with the high cost of living while being in low-paid and often insecure employment (Money Advice Service, 2014), it serves to highlight just how difficult it is for people on low incomes to save for later life.

Corroborating this further, our analysis of the British Household Panel Survey indicates just how little thought people typically give to their income in retirement: on being asked what they expect the ratio of their post-retirement income to their pre-retirement income to be, by far the most popular answer given by those on a low income was that they had not thought about it. Generations born more recently (those born 1965–79) were marginally more likely to have replied that they had not thought about their income in retirement than generations born earlier (1945–64). This may reflect their distance from retirement.

Our analysis of the English Longitudinal Study of Ageing (ELSA) – a longitudinal study following people in England aged 50 and over – shows how even over the course of just a year, expectations and reality can diverge dramatically. Two thirds of those who expected to retire within a year were still working one year later, suggesting that even those close to retirement substantially overestimate their likelihood of retiring. Due to the nature of the survey, we are not able to attribute reasons for this miscalculation. While it could, of course, be the result of unforeseen circumstances, it does also suggest that it can be difficult for people to think about their future retirement with a high degree of precision – in part due to the psychological barriers highlighted in this section. This was confirmed by the qualitative research – older participants who were still working spoke of how they had always believed that they would be retired by this point in their life.

Barriers to working longer

Future UK economic performance and adequacy of income in older age will be reliant on significantly boosting the number of people working later into life. This must be seen as a twin challenge alongside increasing savings levels.

In our participant workshop, there were those who accepted the financial necessity of working later in life and welcomed this, believing it to be an achievable way for them to ensure that they had sufficient income in retirement. But they also spoke about work in broader, more positive terms, explaining that it was more than simply a means of earning money. For instance, participants – regardless of their age or income level – spoke about the perceived benefits they derived from employment such as the social interaction and the feeling that they were contributing to society. These were all attributes they valued, and were reluctant to give up:

> "I dread retiring. If I'm at home all day I just think I can't hack this"
> Generation X, male

Because of this, many were keen to stay in work in some capacity – and were open to the idea of switching sectors or reducing their hours to allow this to happen:

> "Once I get older, 60 right, I think I'd be looking to scale down the hours then, you know like just doing you know probably part time or a few shifts a week"
> baby boomer, male

Participants also thought that working longer would bring them the following benefits over and above an increased income:

- transferring skills from older to younger generations
- combating loneliness and social isolation in retirement
- contributing to an identity and feelings of worth.

These were particularly mentioned by those in the baby boomer generation who were approaching retirement and who, irrespective of their income, were concerned about what a life in retirement might mean for them. They also recognised that they had accumulated skills during their working life that were valuable to the sector in which they worked: "It gets you out of the house and you have that feeling of being needed. Older people have an awful lot to contribute – and it's a social thing too" (workshop participant).

That said, participants found the concept of working later in life much harder to discuss in detail. For the most part, this was because participants did not believe that they would be able to afford to retire and so would need to work for longer anyway in order to boost their savings: "I'm struggling every month now, and I'm paying out every month in bills … and I'm going to be worse off. It wouldn't bother me if I have to work later" (baby boomer, male).

It should be pointed out, however, that even though many of those we engaged with accepted that they were going to need to work later in life for financial reasons, not everyone was looking forward to this. Indeed, there were those who were angry about the prospect of working later in life. This was particularly true of older participants who spoke of how their friends and colleagues had retired but they were still in work. Their anger partly stemmed from a sense of injustice that, due to the career choices they had made – specifically not going into the public sector – they would need to work longer to ensure a decent income in retirement: "Why should I have to work for 50 years but a teacher or fireman don't work 50 years?" (baby boomer, male).

Others, including both older and younger participants, focused on the lack of choice when it came to whether or not to work later in life. While they were positive about work in and of itself, they did not believe that older people who have worked all their lives should have to continue if they did not want to or were not able to.

> "I see lunch ladies working in their 60s. It's sad that they have to work but it's the money. I think if someone wants to work later they should be able to, but it's a shame when those who don't want to work and are unable to work have to carry on working later."
> Generation X, female

Some rued the difference between their likely retirement date and the time at which they ideally wanted to stop work. Again, this was not resentment towards working later per se, more that they had hoped that they would be able to retire while still relatively young to enable them do something else – such as travel or care for their grandchildren – while they were still relatively fit and active.

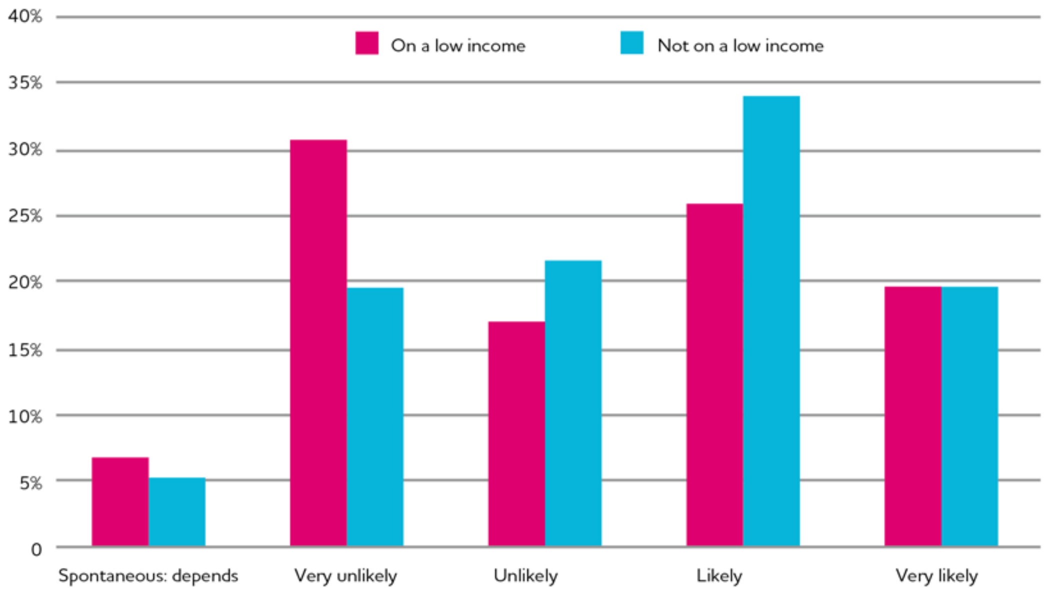
> "I'd retire tomorrow if I could. If I can afford to I'd like to retire before retirement age, but no doubt I'll be working until the bitter end. I would like to retire late 50s."
> Generation X, male

> "I'll retire when the body says 'no more'. It differs from the ideal by 10 or 20 years."
> Generation X, male

These views are part of a wider attitudinal shift. Our analysis of the British Social Attitudes survey shows how people expect increasingly to work longer; the proportion of those expecting to retire in their 50s declined from 22% in 2004 to 9% in 2011. In contrast, the same dataset also shows that the proportion expecting to retire in their 70s has increased – by seven percentage points, from 4% in 2004 to 11% in 2011. There are generational differences here, with Generation Y in 2011 least likely to believe that they would retire in their 60s (52%), compared with Generation X (71%) and the baby boomers (80%), thinking instead that they would need to work for longer.

However, socioeconomic factors have a considerable influence on retirement patterns and decisions. Indeed, our secondary analysis suggests that those on low incomes are significantly less likely to work later in life, as highlighted in Figure 3.

Figure 3: Expectations of working in retirement, by income level, Understanding Society, Wave 3, 2011–12



Note: Low income is defined as living in a household with less than two thirds of the median income.
Source: Social Market Foundation's analysis of 2011–12 Understanding Society study data

The qualitative research highlighted a number of barriers that those on low incomes faced when it came to working longer. These are explored below.

Declining health

Declining health emerged as a key factor preventing some people from working longer. Participants spoke about the nature of their jobs and said that they were concerned about their ability to continue in them long term, worrying that they would lack the energy to do what they do now.
This was a key concern for older participants – especially those from the baby boomer generation – who spoke about how they were already finding work more difficult than they used to. Those in low-skilled and low-paid occupations described how their work was often very physical – for instance, involving long periods of time standing – which made them concerned about how sustainable their current roles were. Indeed, some of those we spoke to had changed jobs precisely because of these reasons. This was confirmed by the literature review, which found that the physical nature of some low-paid jobs (in particular, manufacturing, deliveries, front-line retail, hospitality and care) means that ill-health in old age is a considerable obstacle (Berry, 2010):

> "I enjoyed plastering but I'm glad I'm out of it now as it's a young man's game"
> Generation X, male

Older participants also explained that, as they aged, they became less able to cope with the stress placed on them by their work. More generally, participants discussed being affected by tiredness more; indeed, this was something that younger participants anticipated that they would feel as they aged and which made them question how appealing the idea of working longer actually was.

> "I loved midwifery but I just decided maybe you're getting a bit too old to be so stressed."
> Baby boomer, female

> "I've got no choice. I've got to work until 66 before I can retire. I don't want to work past then – I'll be worn out!"
> Generation Y, female

> "As you start to get older you realise there's going to come a point, where you're not going to want to do this, or be able to do it or they're not going to want you to do it."
> Baby boomer, male

The impact of health on working longer was further highlighted by the data from the secondary analysis, which suggests that those who are in poor health are much less likely to be in the labour market after the age of 65 (Chandler and Tetlow, 2014). Further, this divergence is likely to get worse rather than better. Mayhew (2009) has argued that an important metric to bear in mind here is 'healthy life expectancy' – the predicted number of years of good health. Rising levels of health inequality will mean that although all sections of society will see a rise in healthy life expectancy, the outcome will be unequal. Given that low income is associated with poorer levels of health, it is likely that many in this group who need to work longer for financial reasons will not be able to do so.

A lack of adaptability

Participants also spoke of how a lack of adaptability – on either their part or their employer's – could prevent them from working later in life. In the first instance, this related to the hours they thought that they would be able to work as they aged; many simply did not believe that their employer would be able to offer them flexibility around when and how much they worked as they got older. This, of course, presupposes that older people know they have a legal right to request flexible working; Ipsos MORI's survey among the general public highlighted that three in ten respondents were unaware that workers have a legal right to request flexible hours.[2]

Building on this, some older participants in our study – particularly those from the baby boomer generation – expressed some concern about the long-term usefulness of their skills in work compared with younger people. They described how, when they were younger, they were pushed in the direction of manual or low-skilled trades by their schools or families as it was considered then that this type of work would always be available. However, they believed that technological skills were increasingly important in securing work, yet they typically did not possess these beyond a basic level and nor did they believe that they would be able to acquire them at their time in life; they had neither the time nor, they thought, the aptitude for this.

> "I went to a good grammar tech school. But at the same time when I was 16 I was still factory fodder. Thirty years previous it was cannon fodder. Didn't matter if you wanted to be a doctor, they'd say: 'You'd be good operating a machine'."
> Baby boomer, male

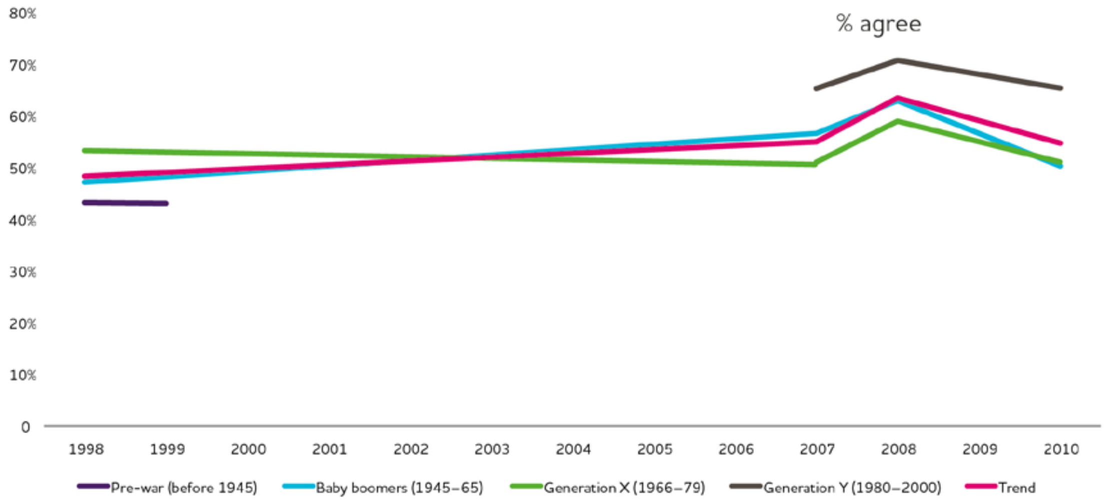
> "You had a choice for work, but it was limited to manual."
> Baby boomer, male

This mattered because, as mentioned in the previous section, the type of work the older participants did was often physical in nature, which left them wondering how long it would be feasible for them to do this kind of work for. However, due to their lack of technological skills, they did not believe that it would be easy for them to get a different, more suitable, job.

More generally, participants believed that their employer would be unlikely to make adaptations to the workplace or working practices in order to accommodate their needs as they aged. Further, participants seemed reluctant to ask for these changes to be made. The lack of security they felt in their work, along with their pessimism about being able to find alternative employment, meant that they were concerned that, if they did request changes to their working conditions, their employer would endeavour to replace them with someone who was less "troublesome". Our analysis of the British Social Attitudes survey further reinforced this, with older generations being more likely to disagree that they will have a job for as long as they want it, emphasising the lack of security they felt (see Figure 4).

Figure 4: Attitudes to job security, 1998–2010

About working at your present workplace. Do you agree, or disagree, that ... I feel there will be a job for me where I work now for as long as I want it?



Base: Data points represent > 200 responses; all in paid work.

Source: Ipsos MORI's analysis of NatCen's 2014 British Social Attitudes survey data

Indeed, this point was reinforced by the secondary analysis, which highlighted that many older workers find that managers are unwilling to approve their move into flexible and/or part-time work. Compounding this, the Institute for Employment Studies found that employers believe flexible working to be incompatible with blue-collar work (Barnes *et al.*, 2009).

Caring responsibilities

Participants also cited caring responsibilities as a barrier to working longer. In the first instance, many older participants we spoke to mentioned that they were looking after family members – either their partners or ageing parents – who had long-term health conditions. This was an obligation they considered their responsibility to fulfil; they felt that they knew the individual they were caring for better than anyone else and, therefore, could provide a better standard of care. Issues of affordability were also raised here; participants spoke of how they did not believe they could afford to pay for care and, as such, had no option but to provide it themselves:

> "I think the national charities are shocking, what they charge and what you get"
> baby boomer, female

More commonly, however, older participants – particularly women – spoke of how they were now providing care for their grandchildren. This was something they spoke about enjoying; they valued the relationship that they were able to build with their grandchildren and welcomed the time they spent with them. They also recognised that, due to the high cost of childcare, their provision of care enabled their children to work and progress in their careers: "We save our kids thousands of pounds. You do it 'cos you want to help your children" (baby boomer, female).

On the flipside, however, participants recognised that it limited their ability to work and therefore had an impact on their income and their likely standard of living in retirement.

> "Grandparents are needed to look after grandkids. But it has a big impact. It affects us in organising holidays and the like as it depends on when the mum and dad are going away. And my wife took one day less work to look after the grandchildren."
> Baby boomer, male

Psychological barriers

As mentioned at the outset of this chapter, many participants accepted that, due to issues of affordability, they were going to have to work for longer – although not all were happy about this. This was particularly true of older participants who were nearing – or past – the age at which they expected to retire. These participants were not only angry about the idea of working longer; they also articulated two psychological barriers with regard to how they viewed both work and retirement, which prevented them from engaging with the idea of working later in life.

First, these participants stated that they believed that they deserved to retire. Older participants spoke about how they had behaved responsibly throughout their life. They typically described themselves as having a good work ethic and that, even though they perhaps hadn't been in receipt of a high wage, they had always worked rather than rely on the state. Because of this they spoke of their retirement in terms of something that they deserved and that was a reward for years of hard work. Discussing the idea of working longer seemed something of an affront, and was not considered to be fair. It is possible that this stems from lifestage effects (such as the proximity of retirement) as well as generational differences (such as the effect of changes to private pensions and the retirement age, which, as mentioned earlier, may have undermined established perceptions of what this cohort expected from retirement).

Second, some older participants questioned whether or not it was morally right that they sought out opportunities for working longer as they believed that, by doing so, they were denying younger people opportunities. Given the fierce competition for jobs, and the sympathy that many older participants felt for those starting out in their careers, they were uncertain about whether they should continue to work if it could deprive younger people of the chance to.

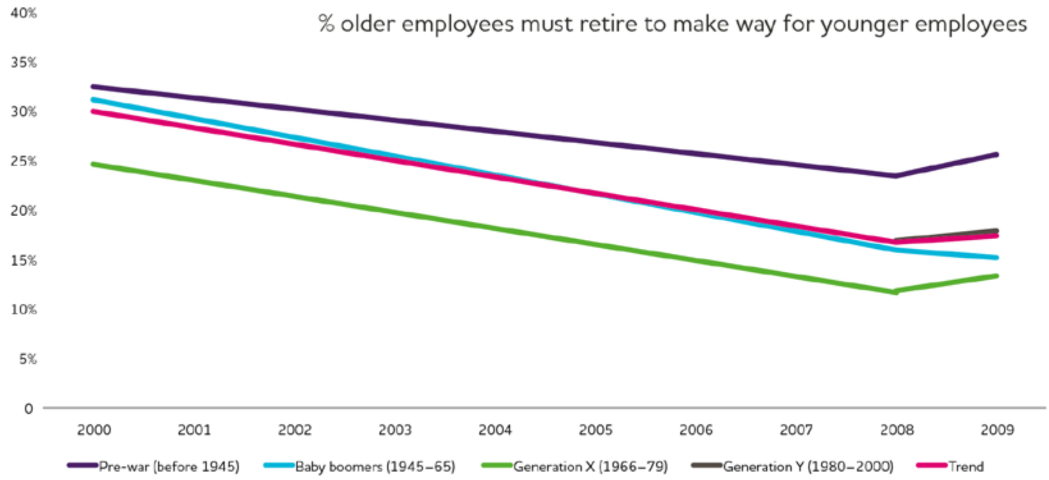
> "Should not the young people have an opportunity to have a career as well? You know if older people have had a career and then wanted to continue working … they could be offered some sort of casual role … You could still work, but then you're not taking a job from someone else who is starting out and needs a full time career."
> Baby boomer, male

> "There is a pressure on the younger generation – there is no employment, they do all the work, they do all the studying and there isn't a job there."
> Baby boomer, female

Indeed, this was reflected in our analysis of the British Social Attitudes survey, which shows that the oldest in society – the pre-war generation – are most likely to agree that older employees must retire to make way for younger age groups (see Figure 5).

Figure 5: Attitudes on whether older employees should retire to make way for younger age groups, 2000–09

Some people say that it is wrong to make people retire just because they have reached a certain age. Others say that older employees must retire to make way for younger age groups. What about you?



Base: Data points represent > 200 responses.

Source: Ipsos MORI's analysis of NatCen's 2014 British Social Attitudes survey data

Conclusions

It is clear from our analysis that age, lifestage and generational grouping present very different barriers to people saving more or working longer.

Age determines practical issues such as health. Older participants, as could be expected, mentioned how declining physical health affected their ability to work. Often, these changes came on more quickly – and more dramatically – than expected and fundamentally changed their plans with regard to working and, by extension, saving. Further, it was not only their own health that they had to be mindful of; older participants were also more likely to have caring responsibilities for other family members, which affected their ability to work.

Age also has a bearing on skills. Older participants, for instance, were much less likely to report having strong technological skills, which contributed to a sense of vulnerability in the labour market. They were not sure how long they would be able to continue in their current role (which often involved physical labour) but equally felt that their lack of technological skills could prevent them from moving into another job.

Age also affects people's outlook and presents something of a psychological barrier when it comes to thinking about later life. Younger people spoke of how they felt that, at their age, they should not be worrying about later life but, rather, living for the day and enjoying what money they did have. Older participants, however, tended to be more negative about later life – particularly as they assumed that they would have a limited income – and therefore chose not to think about it.

Lifestage dictates the priorities that people have at any one time. For instance, younger participants spoke about how the cost of getting an education was their prime concern while, for those slightly older than this, the cost of raising a family was their main consideration.

The generational grouping that an individual belongs to, however, seems to influence how people explain the barriers that they face, and shapes their view of the world around them. This was most apparent when it came to exploring the reasons why participants believed that they were unable to secure well-paid and stable employment. The baby boomers were most likely to point to immigration and the perceived competition for – particularly low-skilled – work that this created, while those in Generation Y believed that they and their cohorts were victims from the fallout of the economic crisis of 2008.

However, disentangling these three influences from each other is complex; participants in the qualitative research could not explain which they felt was the bigger barrier and, in addition, our secondary analysis presented a mixed picture. Instead, what matters is the way these different barriers interact to form what can seem like an insurmountable hurdle for the individual in question. For instance, a younger person may not only be struggling with the cost of university tuition fees but also not wish to identify as a saver. Taken together, these form a powerful cocktail that can prevent such individuals from engaging with planning for their retirement.

This is all without addressing the issue of income. There was a strong sense from the participants that even if the other barriers they experienced were addressed, without being in receipt of additional income they still would not be able to save more for their retirement. This was amplified by the fact that participants spoke of always having other spending priorities, which took care of what little spare money they could save – whether these be saving for a house, raising a family or just short-term savings goals such as Christmas. This issue of low income cut across all participants and so proved to be something of a leveller; for all their many differences, the challenges posed by limited personal finances were similar.

3 Policy responses

In this chapter we explore a range of potential policy responses that could help to overcome the barriers that people face in terms of saving more and working later in life. As described in the previous chapter, a range of factors affect people's financial preparedness for retirement. These factors play out differently depending on people's generation, lifestage and income. In particular, the affordability of pension saving and the changing nature of the labour market appear to be significant barriers for those on low incomes. For these reasons, in this chapter we put forward a combination of measures that will enable people (including those on low incomes) both to save more for their retirement and to work longer.

Saving more

As discussed, many UK citizens are poorly prepared for retirement. While automatic enrolment into a workplace pension scheme is likely to increase the number of people saving for retirement,[3] both existing savers and new savers are putting too little money aside (Keohane, 2012). A typical person needs to save around 12% of their salary to ensure a decent retirement income – a figure far in excess of what is being saved currently. In fact, the advent of automatic enrolment is dragging down the average amount paid in by employees to defined contribution pension schemes – and, even by the end of the decade, the minimum contribution (from the employer, the employee and the government) will sit at 8%. Once the roll-out of automatic enrolment is complete, increasing contribution levels will become vital.

Further, and as outlined in the previous chapter, those on low incomes and those in younger generations often self-identify as 'non-savers'. They view the social norm as living for the present rather than preparing for the future. Indeed, preparing for retirement was seen as a taboo topic across all generations of the participants in the present study.

This suggests that much more could be done to seek to alter the perception of saving and preparing for retirement. Recent research by the Social Market Foundation shows that many people are attracted to saving via an Individual Savings Account (ISA), which is tax-free, and that this is not simply down to the tax-advantaged status of such accounts. Consumers view them as less risky than other similar assets they hold. It appears likely that their popularity is attributable to their visibility and regular information via advertising, as well as the government's promotion of them as a product (Evans and Mian, 2014). Beyond this, it may also be that the very popularity of ISAs may encourage the perception that holding an ISA is to observe the social norm. Past proposals to shift social norms have included a 'Savings Champion' (Kempson and Collard, 2012). But, any such policies are likely to need a long time to take effect.

Automatic escalation

The evidence suggests that 'myopia' – whereby people have a lack of foresight in relation to future events – reduces the willingness of individuals to save for retirement (Crossley *et al.*, 2012). However, attempts to overcome this bias, must be designed with the findings from Chapter 2 in mind:

- that many view the costs of living as leaving little room for saving
- that insecure and unstable work make the endeavour more difficult
- that those in younger generations may have lower motivations for saving, given pessimistic assumptions about retirement.

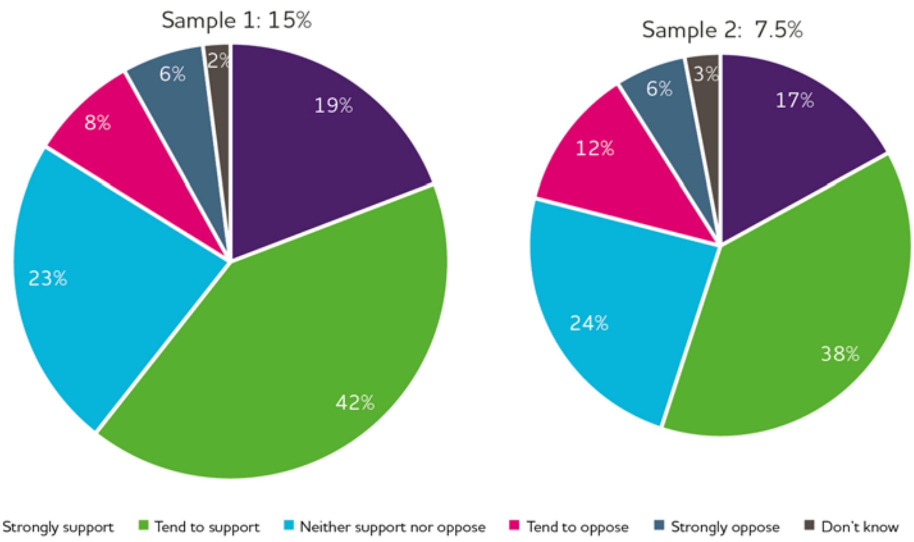
One potential mechanism for increasing levels of saving for retirement is 'automatic escalation'. This involves 'nudging' people into saving more for retirement by linking increases in pay to increases in employee pension contributions. Automatic escalation builds on 'Save More Tomorrow'™, a scheme in the United States developed by behavioural economists Shlomo Benartzi and Richard Thaler. Participants in the scheme sign an agreement that their contributions will increase when they get an increase in salary. The scheme works partly because it frames saving around something positive – a pay rise. It has achieved remarkable outcomes in trials. In the firms where it was tested, 78% of employees signed up and

80% were still in the plan after their fourth pay rise. Average savings rates rose from 3.5% to 13.6% over 40 months. Moreover, the scheme has proved very popular in the United States where the 401(k) scheme – a defined contribution scheme – is widespread. By 2009, nearly 60% of large companies in the United States used some form of automatic escalation (Crossley *et al.*, 2012).

Ipsos MORI's survey among the general public indicated support for this policy and that people preferred the idea of paying more into their pension than less; three in five respondents (60%) supported paying in 15%, compared with just over half (55%) who supported contributions of 7.5% (see Figure 6). Regardless of the contribution level, support for this policy was stronger among those from higher social grades (a proxy for higher incomes). Paying in higher contributions was also more popular among those from higher social grades.[4] Further, those aged 35–48 tended to be most supportive of the concept. Our qualitative work suggested that those of this age often faced considerable spending pressures (e.g. dealing with debt while trying to raise a family) but were generally more ready to consider saving for retirement than younger participants because the prospect was not so distant. This group were also more likely to feel that they were in a position to act to resource their retirement as compared with older participants who tended to believe that it was too late for them to save.

Figure 6: Public support for automatic escalation, 2014

Many experts believe it is important to encourage people to save more for their retirement. One suggestion to increase pension saving is increasing the percentage that people pay into their pension every time they have a pay rise. This would mean that, as their income increased, an increasingly large amount of their salary would be automatically put into their pension pots, up to a maximum of xxx% of their gross annual salary.



Base: Split sample (sample 1: 1,011, sample 2: 1,009); GB adults aged 15+.
Source: Ipsos MORI survey

Our discussion groups suggested the same. Participants understood the principles underpinning automatic escalation. Among those who did save into a pension scheme, participants discussed how, rather than actively managing their accounts (e.g. changing contribution rates in line with pay increases), they instead were passive, rarely changing the amount they paid in or considering how their money was invested.

Automatic escalation was therefore seen as a natural successor to automatic enrolment; a means of overcoming the inertia that existed in relation to saving for retirement. In particular, participants spoke of how such a policy would be useful to those just starting out in their career who could expect their pay to increase over their lifetime. Generation X and the baby boomers were particularly supportive of automatic escalation; many wished they had saved more for later life from a younger age and believed that this policy would be an effective nudge to make this happen. Further, they recognised that it would help younger people to think more carefully about their future rather than simply living in the moment – something that participants from Generation Y spoke of doing: "It would help young people who say they can't save – they would prefer to spend the money on other things" (workshop participant).

One approach would be for the employer to be mandated to include the escalation policy in their pension terms; the default for the employee would be that they pre-commit to increase their contributions unless they proactively opt out. While a blanket policy would be administratively easy to process, consideration should be given to how the scheme is targeted. In our participant workshop, a number of people voiced their concern that lower-income people facing constraints on their finances would need an additional buffer of income, and automatic escalation might leave them with insufficient funds from month to month. This was mentioned particularly by those in Generation Y who, struggling with the high cost of living and low wages, struggled to see where they could make cuts in order to accommodate increasing pension contributions: "The idea is brilliant but what the government has to realise is that you have to live, and living is very expensive" (workshop participant). This concern could be addressed by varying the maximum proportion of an individual's salary that goes towards their pension, depending on income band. This would minimise the risk of lower-income people falling into debt or poverty traps because of 'over-saving'. On the other hand, the maximum level could be increased to target certain groups with lower savings rates, such as men between the ages of 20 and 30.

Redistributing pension tax relief

Tax relief is one of the principal tools that the state uses to incentivise saving and to overcome some of the psychological biases and attitudinal barriers to saving described in Chapter 2. Below we discuss how pension tax relief could be targeted better to help those groups most at risk of under-saving and to increase pension saving overall.

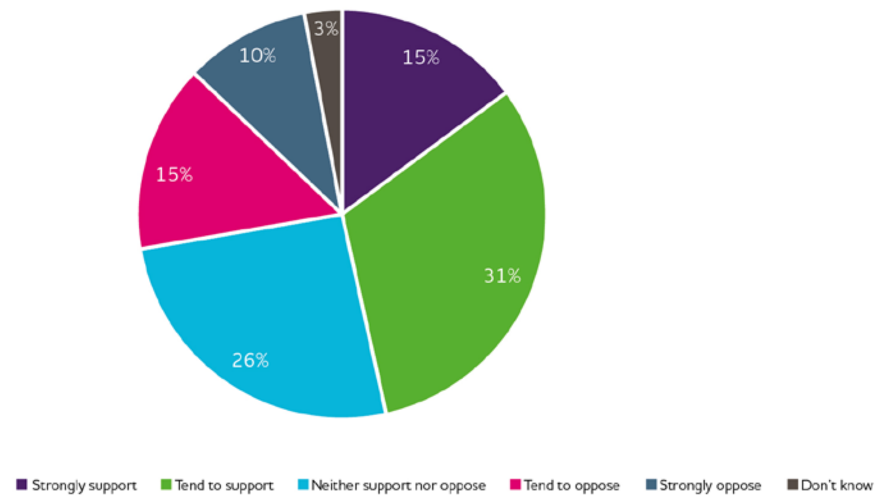
Under the current system, all earners receive full tax relief on earnings diverted into a pension pot: namely 20p in the £1 for basic rate taxpayers, 40p in the £1 for higher rate taxpayers and 45p in the £1 for additional rate taxpayers.[5] In 2011–12, the government spent approximately £39 billion per year incentivising pension saving (by offering relief on employers' National Insurance contributions, on income tax and on investment returns) (National Audit Office, 2014). The Pensions Policy Institute (2013b) estimates that, although basic rate taxpayers make 50% of the total pension contributions, they benefit from only 30% of the pension tax relief. In contrast, higher rate taxpayers make 40% of the total contributions and receive 50% of the pension tax relief, while additional rate taxpayers make 10% of the total contributions and receive 20% of the pension tax relief.

This distribution of relief is inefficient as an incentive. Higher earners display a higher marginal propensity to save irrespective of tax relief than lower earners. As such, £1 of tax relief spent on a lower earner is likely to alter savings behaviour more markedly than £1 spent on a higher earner. In other words, those who require the strongest incentive to save more (those on lower incomes) have the weakest financial incentive to do so. Indeed, the National Audit Office (2014) has concluded that 'around three fifths [of pension tax relief] went to higher rate taxpayers, but there has been little evidence of positive impact on overall saving' (National Audit Office, 2014, p. 8).

In Ipsos MORI's survey, only a quarter of respondents objected to the idea that tax relief should be redistributed, with higher earners receiving a lower level of tax relief compared with lower earners (see Figure 7). Perhaps unsurprisingly, stronger opposition came from those from higher social grades who would be more likely to lose out should such a policy come into force; 31% of respondents in the highest social grade (AB) opposed it compared with only 19% of people in the lowest social grade (DE).

Figure 7: Public attitudes on the redistribution of tax relief, 2014

As you may know, people who save into private, occupational and workplace pensions do not pay tax on the money they put into these pots in order to encourage them to save. This tax relief amounts to around £54 billion per year. Some have suggested that those on high incomes who save a lot towards their pension should get less tax relief on their pension contributions, which could be spent on incentivising those on low incomes to save more. To what extent, if at all, would you support or oppose this policy?



Base: 2,020 GB adults aged 15+.
Source: Ipsos MORI survey

One such scheme could see everyone who saves £1 into their pension pot receive £1 from the government. This would boost the pension pots of low-income people and give them a stronger incentive to save for their retirement. This would lead to a higher level of aggregate pension saving and ensure that the incentives are distributed more evenly across the population. The total sum that anyone could receive as tax relief per year could be capped at a lower level than is currently the case, ensuring that the relief offers an equal incentive to all workers.

Changing how we present and frame retirement saving

Introducing automatic escalation and reforming tax relief should accompany a broader set of changes to how certain pieces of key information are communicated. As noted in Chapter 2, people struggle to understand the different savings options and how pensions work. Many aspects of pension saving are confusing and unclear, including tax relief and likely retirement income. This affects all social groups, although it is a particular barrier for Generation Y because of their distance from retirement.

Policies should, therefore, seek to improve transparency and the clarity of information provided. Relatively simple changes could boost the transparency of tax relief. In typical payroll systems, pension contributions are entered as deductions below tax and National Insurance contributions. This encourages the view that contributions are like taxes, and that they represent lost income. We propose testing a number of changes that could alter how people perceive pension saving:

- The raw amount contributed to the pension pot is presented on the pay slip beneath the net pay after income. This should include the employee's contribution, the employer's contribution and the contribution from the government (in the form of tax relief). This would signal to people not only how much they have set aside but also how much the state has given them.
- The pay slip displays the total amount that the employee's fund would be worth on the day they reach retirement age – on the assumption both that they continue to save at their current rate and

that their investments grow. This could change the way people view pension contributions – rather than seeing the amount of money they have lost that month, they may be more likely to focus on how much they will gain if they keep saving. This information is already available from providers but is not listed on the payslip. Displaying the information on the payslip would make everything much more prominent.

Changing how pension contributions are recorded could work in tandem with automatic escalation. At the start of every financial year, the payslip could include additional information on how much the employee's fund would be worth on retirement if they increased contributions as a proportion of their salary by a set percentage. Again, this information is available through providers, but we propose embedding it on the payslip and linking it to automatic escalation.

More could also be done to make information on pension pots –particularly on what people have saved and how this translates into an income in retirement – easily accessible. The changing labour market means that people typically move jobs more frequently during their career than previously (DWP, 2011). This means that people often have multiple pension pots and providers (Crawford and Tetlow, 2012b). Multiple small pots make it harder for the individual to understand their future retirement income. They also mean that the individual faces higher levels of charges from providers than they would were they to consolidate their pension in one place – an issue recognised by participants in the workshop: "Pensions should move with you when you do. They should be in your name, not in your employer's. They shouldn't be an asset for your company" (workshop participant).

In the 2015 Budget, the Chancellor of the Exchequer announced new tax accounts that will make it easier for people to manage their tax affairs. They will include information provided by third parties on savings and pensions. This presents an important opportunity to provide simpler information to individuals on what money they have accumulated in their pension pots.

Providing policy certainty and stability

As noted earlier, one of the drivers of people's uncertainty about their future retirement income and the need to save more or work for longer is policy instability. Policy change undermines people's confidence about why, when and how much to save.

In this regard, there have been some positive developments. First, the move to the Single Tier Pension is likely to establish the foundation of an old age pension for decades to come. Second, the government has taken a number of steps to ensure that future longevity increases are already built into existing policies and these will reduce policy uncertainty. They include:

- a commitment to linking increases in the State Pension age to changes in longevity, thus ensuring that the State Pension age fluctuates gradually on the basis of life expectancy
- a similar obligation to vary the age at which people can access their pension pots (currently 55), this time in line with the State Pension age.

More broadly, there is a case for making pensions policy decisions with a longer-term timeframe in mind than parliamentary cycles. The Turner Commission acts as a template for making long-term, consensus-based decisions on pensions policy that are pursued over the course of a number of parliaments. This exercise could be repeated (Franklin, 2015).

Freedom of choice

Locking savings away for long periods of time potentially acts to dissuade people from saving; as does limiting what people can do with their savings at the point of retirement. The specific tax advantages that pensions receive are there to overcome these disincentives. The public policy trade-off is between boosting the attractiveness of pension saving and improving the financial resilience of individuals versus reducing the size of the pension pot available for retirement income.

The government has already acted to free up the decisions that people can make at the point of retirement. Since April 2015, people have been able to access their pension pots at the age of 55, with no requirement to buy an annuity with this money for the purpose of securing regular payments throughout retirement; instead, they can do whatever they like with their savings. In part, this was motivated by a desire to make pension saving more attractive. Workshop participants tended to agree with the principles underpinning this policy; they felt that their pension contributions belonged to them and that it was only right that they should have the freedom of choice about what this money is spent on:

> "It's all about freedom of choice and being able to do what you want. It's your money"
> workshop participant

But, without the barriers to saving for retirement outlined in Chapter 2 being addressed – particularly a lack of disposable income – participants felt that this policy in and of itself would not encourage them to save more for their retirement.

There remains a broader question as to whether people should be able to access all or part of their pension at a younger age than 55. The ability to access pension pots earlier may help people to manage short-term risks and encourage more saving; conversely, it may reduce people's retirement pots. This consideration is likely to affect lower earners in particular, for whom the trade-off between precautionary saving and long-term saving may be most acute, because they are less likely to be able to afford to make short-term savings as well as pension savings.

Participants identified a number of positive features of earlier and more flexible access to their pension pots. Those on a low income explained how precarious their life can be, with financial shocks knocking their tightly managed household budgets out of kilter. Because of this, a pensions product that was flexible, and could be adapted to suit their needs at any given time, was felt to be far more suitable than one that locked the money away until they came to retire. Indeed, participants from Generation X who, due to their lifestage, were particularly feeling the pinch when it came to pressures on their household budget, spoke about how they had faced occasions in the recent past such as having plumbing problems in the home and that being able to draw down money from their pension would have helped them to smooth out their finances at this difficult time.

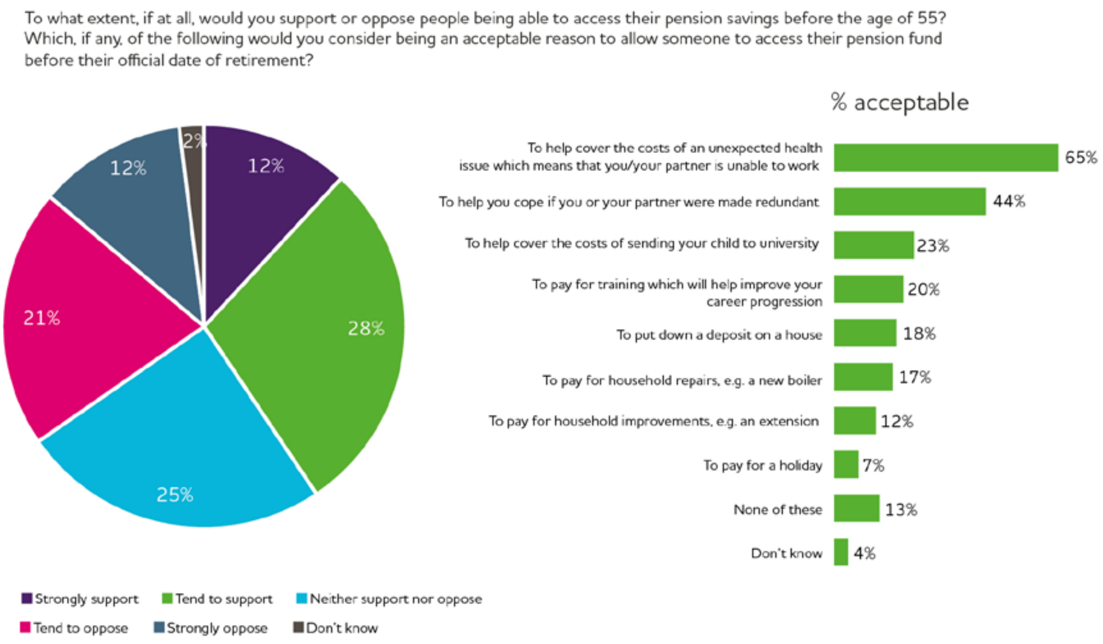
However, this policy was not met with unqualified approval. Many were keen that restrictions are placed on what percentage of their savings could be withdrawn:

> "There would always have to be a certain percentage that stays in your pension until you stop working"
> workshop participant.

Further, they were keen that the money could only be used for certain purposes – such as helping to smooth over reductions in their household income at times of unemployment or ill-health.

This polarity was evident in Ipsos MORI's survey, with two in five respondents (41%) supporting the idea of being able to access their pension savings before the age of 55, and a third (33%) opposing this (see Figure 8). Interestingly, there was more support for this policy among those in a lower social grade; nearly half (46%) of those in social grade DE supported it compared with just a third (36%) of those in social grade AB. Further, in the qualitative research, those on a low income reiterated the importance of flexibility when it comes to savings products; given the significant effect that unexpected financial shocks could have, they valued flexibility of access. Additionally, those aged 35–48 were more likely to support this policy than those in other age bands (50% supported it, compared with 44% of 15- to 34-year-olds and 37% of 49- to 69-year-olds), perhaps reflecting the financial pressures faced by this age group, as mentioned earlier.

Figure 8: Support for the ability to access pension savings before the age of 55, 2014



Base: 2,020 GB adults aged 15+.
Source: Ipsos MORI survey

Working longer

In testing our policy ideas for working longer, it became clear that participants found these policies harder to discuss than policies directed at increasing their savings. Many assumed that, whether they wanted to or not, they would need to work later in life as they would not be able to afford to retire. Working longer was therefore seen as a given, and not necessarily something that needed to be further encouraged.

As discussed in Chapter 2, although participants generally accepted the principle of working longer, they cited a wide range of barriers that could get in the way. These included:

- concerns that poor health could impede opportunities
- tiredness and stress at work
- inflexibility of hours offered by employers
- caring responsibilities
- usefulness of skills.

Many of these barriers affected those on low incomes particularly forcefully, such as declining health and the physical nature of some low-paid work being unsuited to older workers.

Flexible employment for older workers

Many employees approaching retirement age require flexible or part-time employment. Our findings suggest that the demand for this flexibility may derive from a number of sources. Some wish to top up their pension income with part-time work. In our workshop, some cited providing childcare to grandchildren – a service that they thought could become increasingly important given both the high price of childcare and the perceived lack of high-quality childcare places. Others spoke about providing care to ageing relatives –something they thought they could be doing for some time given rising life expectancy – but they also considered that this could become more difficult as they themselves aged. Of course, it is also socially desirable that people enjoy more leisure time as they age:

> “It’s got to be flexitime so they can do what suits and still get a decent wage”
> workshop participant

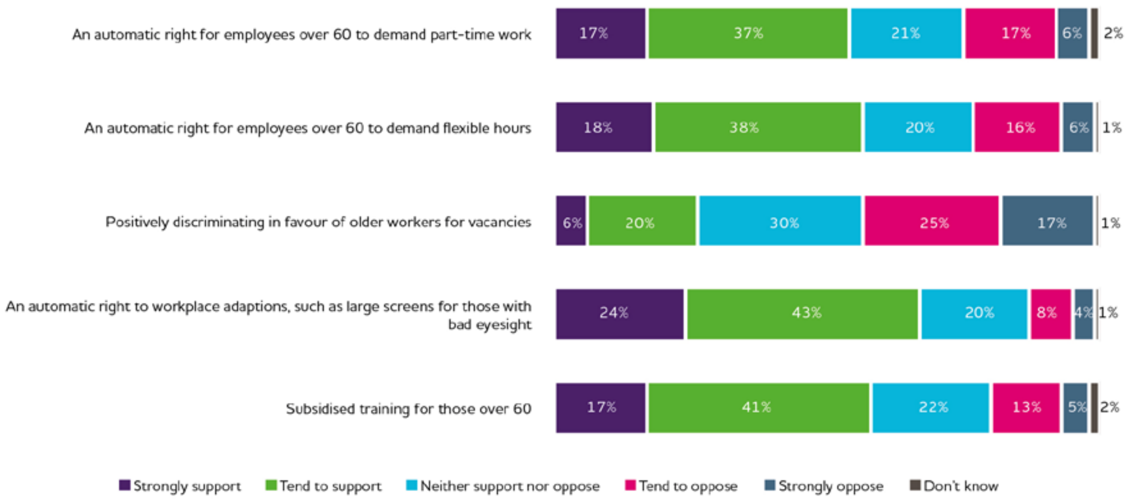
Currently, all employees have the right to request flexible work but employers are not obliged to provide this option. As our research indicates, low-income people find it particularly difficult to access flexible work. Discussions with participants revealed that they placed little faith in employers implementing these changes of their own accord. This was reflected in Ipsos MORI’s survey, where there was support for enshrining these changes in legislation; as shown in Figure 9, nearly three in five respondents supported an automatic right for employees over the age of 60 to demand flexible hours, with a similar proportion supporting this group’s right to demand part-time work.

Support for the right to demand part-time work was higher among those with lower incomes (58% of those from social grade DE compared with 49% of those from social grade AB). A similar pattern emerged regarding support for the right to demand flexible work (60% of those from social grade DE supported this compared with 54% of those from social grade AB). For both policies, support was broadly consistent across the age bands.

There was least support, however, for positively discriminating in favour of older workers for job vacancies – something that was mentioned by only a quarter of respondents (26%). Rather, participants wanted the support and infrastructure in place that would help them to stay in work rather than legislation to see them favoured over others.

Figure 9: Support for legislative changes to enable people to work longer, 2014

Some argue that employers and the government should do more to help those past the state pension age to stay in work. To what extent do you support or oppose the following policies?



Base: 2,020 GB adults 15+.
Source: Ipsos MORI survey

Making workplace conditions suitable for older people

The Department for Work and Pensions has argued recently:

'As a society, in recent decades, we have made great strides for working mothers in the workplace. The work environment for women after childbirth is vastly different nowadays compared to forty years ago. I believe we will see a similar radical change in opportunities for older workers too in the coming years.' Altman, 2015, p. 6

Our secondary data analysis, qualitative findings and Ipsos MORI's survey evidence suggest scepticism that employers are likely to adapt working conditions to suit older workers. This appears a particular problem for those in lower-paid work. Highly skilled and high-income individuals in the service sector are likely to find it easier to work later into life than lower earners. Low-paid and low-skilled workers are more likely to work in physically demanding jobs – in retail and hospitality, care, and manual labour – and are more easily displaced in an increasingly competitive labour market. This perhaps helps to explain why only 20% of those from social grade AB supported positively discriminating in favour of older workers for vacancies compared with a third (32%) of those in social grade DE.

In the survey, there was strongest support – two in three respondents (67%) – for an automatic right to workplace adaptions, such as large screens to help accommodate those with failing eyesight. Indeed, older participants in our workshop expanded on this and discussed how the design of workplaces would need to be considered if people are to be supported in working longer, with consideration being given to step-free access. This was something that those in the baby boomer generation found easier to discuss. While they still felt that they had a lot to contribute in the workplace, they also spoke often about how they found working physically harder than they used to. Because of this direct experience they were more able to highlight amendments that could be made to encourage people to stay in work for longer.

At the moment, the tax system is structured to encourage saving for retirement. There are also some additional incentives for working longer via an exemption from National Insurance contributions for those over the State Pension age, but over half of the population aged over 50 are unaware of this relief (Altman, 2015).

More could be done to encourage firms to retain older workers and offer them forms of employment that fit with their needs and desires. One option could be to incentivise firms to provide working conditions that allow people to stay on in the labour market. This could be done by offering employers tax relief on capital alterations that they make to the workplace that aid the employment of older workers. Such alterations could include homeworking aids, computer adaptations or other changes to business processes that could enable older people to stay in work for longer. This might provide encouragement for employers to nudge people towards extending their working lives and recognise the fact that many people do not make active decisions on retirement or staying in work (Weyman *et al.*, 2012).

Low awareness of employment rights also appears to undermine later-life working. Ipsos MORI's survey found that only 64% of people thought they had a right to request flexible work, and 17% did not know that an employer cannot choose to hire someone based on age. Pivotal to increasing awareness is disseminating information in a more efficient way. Employers, professional bodies and trade unions are likely to be important vehicles for promoting this information. For instance, employers could be mandated to provide reminders about the rights that employees have as an individual reaches a certain age (such as 60).

Supporting older workers: guidance, advice and retraining

Chapter 2 discussed areas where older workers may need additional support to allow them to remain in the workforce. There was a concern that some people may not be able to remain in their existing job into later life due to the physical demands of their role and that such people would require support in moving jobs or sectors. There was also a broader feeling that older workers required help in updating their skills and assistance to guide them through decisions on their later-life careers.

In discussion, participants felt that, in order to stay in work longer, some people may need to change the kind of work that they do – whether that be changing roles while still working for the same employer or switching sectors. This was thought to be particularly relevant for those in low-skilled jobs, with participants suggesting that low-skilled work is often more physically demanding and therefore unsuitable for older workers. While this was an issue that was highlighted across the generations, it was particularly mentioned by the baby boomers, who had direct experience of the difficulties caused by working in physical jobs later in life.

> "If you're taking people from a manual position that they can no longer do to something they can, that can only be a good thing – like the police moving to desk jobs when they can't be out on the roads. They should be given the option."
> Workshop participant

While employers should be encouraged to adopt working practices that suit older workers, as described in the section above, it will also be important to give older workers the up-to-date skills and confidence to stay in work and/or move jobs (UKCES, 2010). In Ipsos MORI's survey, three in five respondents (58%) supported subsidised training. In general, older people have a strong appetite for learning (EHRC, 2010), but neither employers nor older workers give it a high priority against other commitments (McNair, 2010).

More broadly, our education and training institutions are focused heavily on younger people. While training resources should not be taken away from younger people, the system needs to cater adequately for older people. The Department for Work and Pensions and Age UK have commented on the inadequacies of services on offer through Jobcentre Plus (DWP, 2012b). And the National Institute of Adult Continuing Education (NIACE) has found that there are deeply engrained inequalities in later-life learning. Many lower-paid workers who have not undertaken training since school are very unlikely to train again. On the other hand, those who have been in training since school are highly likely to train again. Therefore, promoting 'later-life learning' in an untargeted fashion may simply exaggerate existing inequalities (NIACE, 2012).

For this reason, the Department for Work and Pensions should seek to provide people with better support later into their working lives. This should include access to apprenticeship opportunities and retraining. Recent proposals for mature apprenticeships are therefore to be welcomed (Altman, 2015). In addition, under the new pension regulations, many individuals will have access to a significant sum of money in the form of their retirement fund, which they could use to retrain.

Providing this additional support is only likely to be useful if older workers receive the requisite guidance, advice and prompts. Research participants felt that education and information would have to be provided to employees as a precursor to any training, to let them know that this kind of change is possible.

There are practical examples of how guidance should be structured so that it has the biggest impact, for example NIACE's Mid-Life Career Review project (see Box 1). In addition, more could be made of other trigger points. Under the new pension regulations, the government has committed to providing everyone with access to financial guidance. This guidance should be used as an opportunity to discuss with people whether they could phase in their retirement through part-time work, including how they could use a proportion of their savings to retrain or invest. Information on moving into self-employment would also be useful. Many older workers might be afraid of moving into self-employment because it is seen as a riskier strategy. Guidance will be essential to help dispel this notion.

Box 1: The Mid-Life Career Review project

NIACE identified that key moments of transition throughout life are best suited to retraining and education. One such transition is around the age of 50. There is strong evidence that strategic careers advice at the age of 50 can generate long-term benefits. NIACE's Mid-Life Career Review project involved 17 pilot partners who delivered reviews to over 3,000 clients aged 45–64. Clients valued being able to talk to someone in order to reflect on their current situation and review their options. Fifteen of the 17 pilots reported increased client confidence and motivation to search for employment after retirement. Participants found it particularly valuable to be able to discuss their careers in the context of other considerations, such as health, childcare responsibilities and leisure time.

4 Conclusion

Resourcing retirement – by saving more and by extending working lives – will require concerted action by individuals, employers and the state.

Beyond the more detailed arguments and recommendations made throughout this report, it is possible to draw some broader conclusions. First, savings and retirement policy is at a crucial transition point. Policy-makers must ensure that they do not over-burden reforms such as automatic enrolment and extensions to the State Pension age. But, at the same time, policy-makers must recognise that the phasing-in of reforms and the machinery now in place offer a range of opportunities for introducing complementary policies to boost savings levels and support longer working lives.

Those on low incomes face a unique range of barriers to later-life working and saving for retirement, primarily:

- a volatile labour market characterised for many by low-paid, low-skilled and insecure jobs
- more part-time working and fewer opportunities for progression
- increased financial pressures caused by high costs of living.

Compounding this are a heightened sense of uncertainty about the future and a greater likelihood of suffering from ill-health as they age. Therefore, government should be alert to this coincidence of risk factors: this group are susceptible to low saving levels as well as early exit from the labour market.

The introduction of the Single Tier Pension – and the abolition of means-tested pensions – provide a good opportunity to think more proactively about how to encourage those on low incomes to save for retirement. This report proposes tailoring savings policy specifically to assist those on low incomes, including giving this group a more generous share of pension tax relief. Other policies – such as automatic escalation – should be 'affordability-tested' to ensure that increases in the contributions expected from those on low incomes are manageable.

Our mixed-methods approach also allows us to draw a number of conclusions about the underlying factors affecting attitudes, expectations and preparedness across the generations. For instance:

- As Generation Y are at the start of their working lives, preparing for retirement is inherently a distant goal. Notions of self-identity are important at this lifestage; they want to be seen as living for the moment – at odds with saving for the long-term future. However, specific challenges and opportunities relating to their generation exacerbate this intrinsic situation: the pensions market is less generous than that of their parents', the costs of housing are high and many may not have the opportunity to build assets through home-ownership that was available to previous generations. Such factors can combine to form more complex psychological barriers to preparing for retirement, which require a rich understanding of what different generations identify with and what specifically can be done to overcome the particular barriers faced.
- For Generation X, issues related to lifestage provide a significant block on being able to save for later life – both practically and psychologically. Many discussed the high costs associated with raising a family, meaning that they had limited slack in their budgets to allow them to save. Further, both providing security for their children was felt to be more important – through, for instance, covering the costs associated with their education – along with saving for more short-term spending needs such as Christmas or holidays. Understanding the competing pressures that this group face – in that they want to provide for the next generation at the expense of their own – will therefore be key in the design of policy interventions.
- For the baby boomer generation, a sense of uncertainty about what return they could expect from any retirement savings served as a barrier to them preparing for later life. They were concerned that they would be penalised for saving, for example by making financial provision to pay for social care

> when others had not done this. The many policy changes to pensions had left some unconvinced about the reliability of any arrangements that they had made. This uncertainty also extended to the length of time for which they thought they would be able to stay in work. Some baby boomers were finding the physical nature of their work increasingly difficult to cope with or were concerned about the usefulness of their skills compared with those of younger generations who were more technologically able. These issues were compounded by conflicting opinions on the ethics of older people working longer; even though some wanted to work longer – and felt they had little choice but to do this – they believed that this decision may deprive a younger person of a job.

To this end, therefore, generational differences do matter because different cohorts are exposed to different experiences. Younger generations today face a set of constraints and pressures that affect their ability to prepare for later life, which were not present for older generations. In contrast, while older generations may have benefited from relatively lower house prices or more generous employer pension provision, they have also lived through more policy shifts with regard to retirement, which has left them with a sense of uncertainty about how best to plan.

However, it is not possible, nor indeed helpful, to characterise differences as simply between generations – they have as much to do with lifestage. Understanding the subtleties of age, and recognising both the lifestage and generation (birth-cohort) effects, provides a more sophisticated view on the appropriateness of policy responses and how they should be communicated. Indeed, such is the heterogeneity of the future retirement population that it is unlikely that there is one single solution that will help people to prepare better for retirement by encouraging them to work longer or save more. Rather, a range of responses is required that takes account of the very different needs and pressures that the different groups face.

To illustrate, the ability to draw down funds from a pension pot would be of most interest to those coping with the competing financial pressures of saving for retirement while also struggling with the costs of raising a family. In contrast, for younger people dealing with the high cost of living coupled with low wages and job insecurity, then efforts to reframe pensions – to make it clear what saving for a pension adds to their total benefits package rather than what it takes away from it – may be helpful as a means of overcoming the barriers they face in relation to saving. And for older people, the focus could benefit from shifting to changes that would help them to stay in work, thus increasing their income for later life – for instance, furthering their skills and so enabling them to move into positions that better suit their needs and capabilities.

What is clear though is that even with this more nuanced understanding, being on a low income is something of a leveller. The affordability of preparing for later life was a central theme in this work – regardless of age, lifestage or generation. Given the many competing demands that people described – for example, the cost of living, the cost of childcare and house prices – planning for later life was, against these, considered less of a priority. While tailored policy interventions and appropriate communications may help, until issues such as pay, progression and the cost of living are addressed then the challenges that exist with regard to encouraging those in low-paid and low-skilled work to prepare for later life will remain.

Notes

1 See FA1201 (S106): age of household reference person by tenure at https://www.gov.uk/government/statistical-data-sets/tenure-trends-and-cross-tenure-analysis (accessed 13 July 2015).

2 Ipsos MORI surveyed 2,020 British adults aged 15+ between 5 and 11 September 2014. The data was weighted to reflect the national population profile.

3 For a discussion of this, see Chapter 1.

4 Sixty-six per cent of those from social grade DE supported contributions of up to 15%, compared with 59% of those from social grade AB; while 63% of those from social grade AB supported contributions of up to 7.5%, in contrast to 46% of those from social grade DE.

5 There is a cap on the annual contributions and total accumulated contributions that are eligible for the relief.

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Appendix 1: Sample matrix

Table A1.1: Sample matrix

Age	Salary	Location	Employment sector – using Standard Occupational Codes (unemployed coded as last job)	Other quotas	Research approach
Generation Y, aged under 34	No pay	Birmingham	Students and unemployed	Female	1 mini-group, 4–5 people
	Low pay	London	Elementary occupations (1)	Male	1 mini-group
	Mix	2 Belfast, 2 Cardiff, 2 Edinburgh, 2 London, 2 Manchester	Mix 2–7, plus students and unemployed	5 male, 5 female, 3–5 from BME* backgrounds	10 interviews, 5 to include partners or parents (only if living with)
Generation X, aged 34–47	Low–medium	London	Skilled trades occupations (5)	Male	1 mini-group
	Low pay	Manchester	Sales and customer service occupations (3)	Female	1 mini-group
	Mix	2 Belfast, 2 Birmingham, 2 Cardiff, 2 Edinburgh, 2 London	Mix 1, 2, 4, 6–8	5 male, 5 female, 2–3 BME	10 interviews, 5 to include partners or parents (only if living with)
'Early' baby boomers, aged 48–58	Low pay	Manchester	Administrative and secretarial occupations (6)	Female	1 mini-group to include 2 whose work interrupted due to redundancy/ health problems/ caring duties
	Mix	London	Associate professional and technical occupations (7)	Male	1 mini-group, as row above
	Low–medium	2 Birmingham, 2 Edinburgh, 2 London	Mix 1–5, 8	3 male, 3 female, 1–2 BME	6 interviews

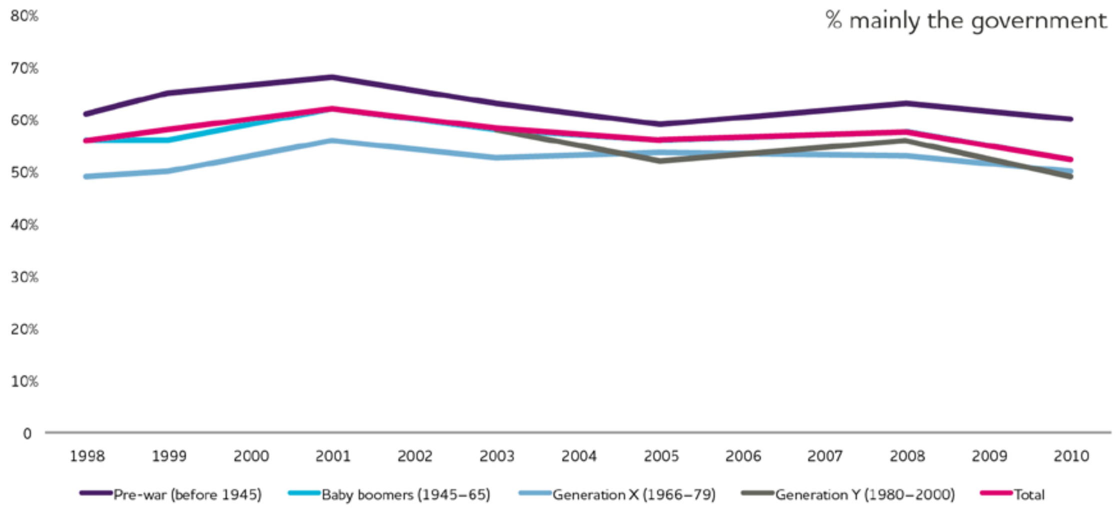
'Late' baby boomers, aged 58–68	Low pay	London	Caring, leisure and other service occupations (4)	Female	1 mini-group as early baby boomer mini-group
	Low–medium	Birmingham	Process, plant and machine operatives (2)	Male	1 mini-group as early baby boomer mini-group
	Mix	2 Belfast, 2 Cardiff, 2 London	Mix 1, 3, 5–8	3 male, 3 female, 1–2 BME	6 interviews

* BME = black and minority ethnic

Appendix 2: Additional data analysis

Figure A2.2: Attitudes on the government's role in ensuring that people have enough money to live on in retirement, 1998–2010

Who do you think should mainly be responsible for ensuring that people have enough money to live on in retirement?

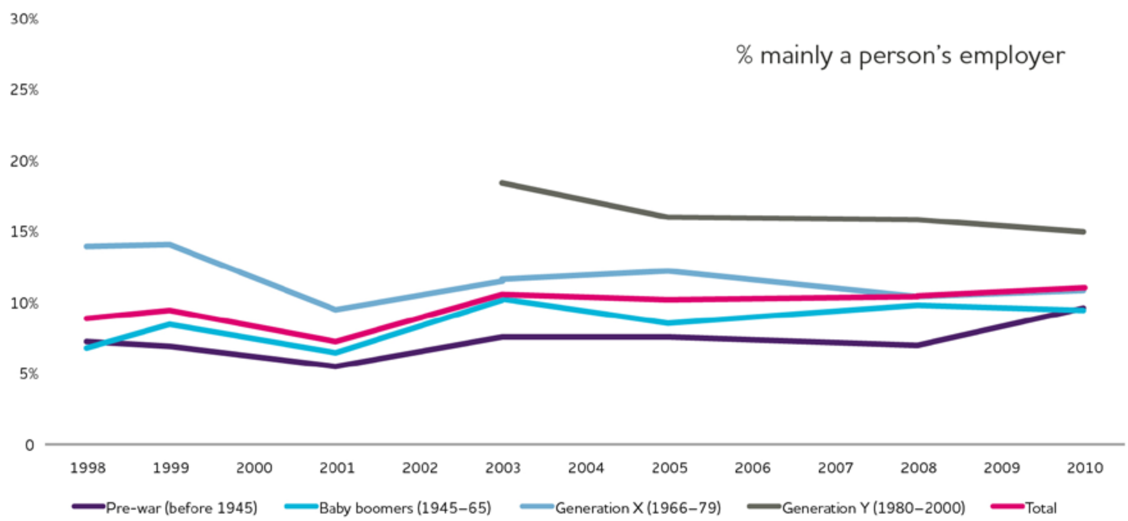


Base: Data points represent > 200 responses.

Source: Ipsos MORI's analysis of NatCen's 2014 British Social Attitudes survey data

Figure A2.1: Attitudes on the employer's role in ensuring that people have enough money to live on in retirement, 1998–2010

Who do you think should mainly be responsible for ensuring that people have enough money to live on in retirement?



Base: Data points represent > 200 responses.

Source: Ipsos MORI's analysis of NatCen's 2014 British Social Attitudes survey data

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