

The financial circumstances of early retirement

People leaving work before state pension age risk being poorer in retirement than if they had continued working. This qualitative study of 56 retired people in their fifties and early sixties profiled their experiences, decisions and attitudes before and after they stopped working. The study, by Sue Arthur of the National Centre for Social Research, found:

-  People's experience of leaving work differed. Some had left willingly, others had had little choice. Some had left gradually, others abruptly. Some had planned the move, others had had it forced on them with little control over timing.
-  These differences could have profound effects on people's experiences, including whether financial circumstances measured up to their expectations. Those with least choice and control tended to experience greatest difficulties.
-  People in stronger financial and employment circumstances appeared to have more satisfactory experiences. Three factors in particular influenced people's experience: work history and skills; financial circumstances; and health and disability.
-  On the whole, people in this study did not say that their financial situation was the dominant factor in deciding to move away from paid work. Instead, personal and work-related factors combined to influence motivations, with financial factors determining the viability of decisions.
-  For people on the very lowest incomes, life was tough financially if they left work early but often little or no worse on benefits than when earning. However, early unplanned exit from a job for people on slightly higher earnings could result in extra hardship as it could seriously upset expectations for their financial future. People on average to high earnings tended to feel comfortable as long as they retired on at least half their earnings.
-  People who had retired early generally found it hard to plan ahead for future, unknown, financial needs. Financial considerations did not seem at this stage to dominate how they felt about having left work, particularly in the case of those with health concerns, for whom not having the strain of working outweighed other factors.

Background

There is a growing number of people, especially men, in their fifties and early sixties who have left paid work and are effectively retired, either deliberately or unwillingly. This raises concerns about whether people will have enough money for their retirement if they leave the labour market earlier than they expected or earlier than is anticipated within the structure of their pension.

This qualitative study looked at the experiences of 56 people (living in 35 households). The key research questions were:

- What role do financial circumstances and awareness play in the decision to move out of work and subsequent experience?
- How does a move into early retirement affect access to and management of financial resources?

Moving towards retirement

People who move out of work in their fifties are a very heterogeneous group: it is not possible to characterise their experiences as a simple set of circumstances. In this study, choice and control emerged as central in shaping people's experiences. Having a choice about leaving work and control over the circumstances was closely associated with having a strong financial and occupational position. This meant that even in situations where their move out of work was not intended, people in a strong financial and occupational position were able to retain options in terms of the circumstances of their move towards retirement.

Moving towards retirement encompassed two stages: moving out of paid work, and moving into retirement. These could happen at the same time or could be separated by a transition period. The differences in people's experiences were shaped by:

- the trigger behind the move out of work – to what extent the move was externally driven or self-initiated;
- their prior attitude towards moving out of work permanently;
- the degree of finality of the move towards retirement – to what extent the move was clear-cut or a gradual transition;
- the level of control over the process and timing of the move towards retirement.

The trigger to leave paid work

Interviewees broadly fell into four groups:

- *People who had decided themselves that they wanted to leave*, as part of a planned strategy. This group had the most choice and control.
- *People who initiated their own move, but in constrained circumstances*: for example, because of their own health or in order to care for a partner, doing so in the hope that they might be able to work again.
- *People who did not initiate their move*, but when it was offered to them felt ready to leave.
- *People who had the move imposed on them*, for example through redundancy, and had not had any plan or wish to finish in paid work prior to that point. This group had the least choice and control over the move out of paid work.

The process of leaving paid work

Again, experience differed:

- *People with the most choice* decided themselves to either continue working in a 'winding down' capacity, or to finish in a clear-cut way.
- *People with the least choice* and control had no say in the timescale of their retirement; they would have liked to work again but were unable to continue or to find a suitable alternative job.

Realising they cannot work again can happen immediately for someone or may take some time. On the whole, people appeared to accept that they were unlikely to work again within a relatively short period of time - one to two years - even when this was not what they had initially wanted. The barriers to returning to work included difficulty in finding or securing an appropriate job, and withdrawal of benefits on returning to work. Where barriers were felt to be too great people chose to manage with less money rather than seek to work again.

Making decisions about leaving work

The more choice people had over when they left work, and how long they had to prepare, generally made for easier and well-informed decisions. Situations of sudden redundancy or termination of contracts on ill-health or disability grounds allowed little opportunity for shaping a situation, and led to reliance on ad hoc or temporary financial arrangements. Longer transitions allowed people more time to adjust psychologically as well as financially.

People's decision to leave work was influenced by a complex interaction of personal, work-related and financial issues. Decisions tended to be dominated by personal rather than financial motivations, however, although financial factors played a key role in framing the decision.

Where there was an opportunity to take a balanced decision, people did weigh up financial factors alongside other considerations, and it was unusual for people to find themselves worse off after leaving work than they had expected. Financial considerations about leaving work revolved around making comparisons of relative income and expenditure in the immediate or short-term after retirement. People found it relatively easy to find out their likely income and lump sum from a private pension, but harder to find out about and therefore take account of future income from benefits, state pension, or investment income.

Financial transitions on leaving work

Some people were more likely to experience impoverished circumstances and financially vulnerable situations. The two main negative factors appeared to be an unplanned and abrupt departure from work, combined with a prior work history that had not allowed an opportunity to build up a reasonable occupational or private pension. Starting a private pension too late had in retrospect proved to be a high risk for people with this combination of circumstances. Although the level of past earnings was key in being able to build up a retirement income, a pro-active approach during their working life towards saving for the future could help significantly. The type of pension scheme available to someone through his or her work also made a difference.

People who had low to average earnings during their lifetime and faced restricted options when deciding whether to leave work found themselves having to make difficult decisions, and this affected their future financial situation. For some it simply meant expecting to spend the rest of their life dependent on state benefits and state pension. For those on the very lowest incomes, this meant their situation was little or no worse than before; life remained financially tough. Those on slightly higher earnings could face extra financial hardship. If they had a private pension but it was not sufficiently large to draw at the point they retired, they were placed in a very difficult period of having to wait for a number of years until they reached pension age.

Living with early retirement – attitudes and rationales

People generally found it hard to think about and therefore plan in any specific way for future eventualities. There appeared to be little consideration of the fact that they may find themselves retired for ten years or so longer than they might have expected. Among people on very low incomes, planning for the future was not an option; they were managing on a week-by-week basis. However, a lack of planning was also underpinned by the difficulty in thinking ahead to what might happen.

Two things enabled people to feel a sense of financial security and control about their future:

- having a guaranteed known pension income that was enough to fund necessities and at least some extras, and
- having some savings and a house that they owned outright. The house in particular provided a critical sense of a 'safety net'.

Finances were, however, not necessarily of primary importance in people's lives, and some people were pleasantly surprised at their ability to manage on lower incomes. For some, leaving work had been linked to difficult circumstances and/or fears over health; for these people, having their health and having time out of work to enjoy life tended to dominate their feelings. However, further research would be needed to see if people feel similarly once they are ten or twenty years into retirement.

Conclusions and policy implications

The research identified a number of vulnerable groups or sets of circumstance. These are people who have not built up a reasonable retirement income, through personal or occupational pension schemes, and who have little in the way of additional savings or investment policies. This may be due to having low or modest incomes from earnings and/or periods out of work, and includes women who have no pension rights in their own name.

In addition, people in their fifties and early sixties may have little or no choice about leaving their job, and can then find it difficult and increasingly dispiriting trying to find other paid employment. The Government has sought to support and encourage older people to remain in or return to work through a range of different measures. It is important, however that the sorts of jobs on offer should not only be

appropriate for people's capacities, but attractive in terms of financial benefit, and maintaining work-life balance. Policies to expand in-work benefits, such as tax credits, in conjunction with enabling reduced hours or flexible working within an existing or new job would help here, as would the promotion of policies to prevent the development of work-related health conditions. The evidence from this study supports the need for the development of employment policies that allow people to retire at a time and in a way that suits their circumstances.

The recent Government Green Paper (**Simplicity, security and choice: Working and saving for retirement**, Department for Work and Pensions, 2002) has started to look at ways of making later retirement more financially attractive. However, the research strongly suggests that personal factors can be as important to people as financial considerations, if not more so. It should not therefore be surprising that some people will choose to leave work early regardless of whether they would be better off if they had stayed in work longer. Ideally, policies would seek to address long-term financial planning, rather than decisions around the point of retirement, so that people find themselves in situations where they have more rather than fewer options. This is something that the Government is seeking to do with a range of measures to try to encourage long-term saving and to improve people's ability to make choices about their future finances. Increased information may well help people to think about future saving, although other calls on resources and difficulty in thinking in terms of future needs may still make it hard for people to plan effectively. The findings from this research also suggest a need for more individually tailored advice at different life stages.

Policies to encourage saving for the future need to take into account that, while some people aim to plan their finances effectively in order to retire early, another group of people end up with interrupted savings plans when they are forced to leave work, and are unable to secure an appropriate alternative job. For these people, it is important that financial support prior to reaching state pension age is provided at a level that enables a reasonable standard of living. It may also be valuable to investigate ways of making sure that they do not lose out in making contributions towards a second state or private pension.

About the project

This was a qualitative research study carried out by Sue Arthur at the National Centre for Social Research. Fieldwork was carried out in 2002 among people in their fifties and sixties who had moved out of work before reaching state pension age. In-depth interviews were conducted with members of 35 households; couples were interviewed separately giving a sample size of 56 people (fourteen single people and twenty-one couples). The sample was selected from among people who had taken part in the Family Resources Survey. It was designed to reflect a range of different characteristics and circumstances, including different ages at leaving work, different work histories and socio-economic groups, and a range of financial circumstances. The research was carried out in different types of area across England and Scotland.

How to get further information

The full report, **Money, choice and control: The financial circumstances of early retirement** by Sue Arthur, is published for the Foundation by The Policy Press as part of the Transitions after 50 series (ISBN 1 86134 476 7, price £13.95).