

The impact of employer policies and practice on the process of retirement

Government efforts to extend working life need to take account of the key role that employers play in retirement behaviour, an under-researched area. This study, by University of Kent researchers, examined how people working for three organisations were affected by the interaction of their employers' policies and their own personal choices. The study looks at current retirement processes, barriers to effective retirement planning, employee views on retirement choices, and the merits of flexible retirement. The study found that:

-  Employees approaching retirement face a range of options. While early retirement was popular in the 1980s and 1990s, and is still used to shed labour, current economic circumstances favour retirement (either full or partial) at 'normal' retirement age or later.
-  Employees may express preferences about retirement but final decisions are made by the employer under constraints imposed by the pension fund provider and by the accretion of custom and practice. For employees these decisions appear complex and arbitrary; for the employer they are tactical rather than policy-driven.
-  The research confirmed the common finding that few employees have a good understanding of pensions. Better financial education would help people plan their retirements more efficiently.
-  Most employees supported the idea of abolishing normal retirement ages. These are seen as arbitrary and unfair. It was generally felt that retirement decisions should be made on an individual basis, taking into account the needs of both the organisation and the employee.
-  A large proportion of managers and employees like the idea of reducing workloads in the run-up to retirement. They also liked the idea of a 'flexible' retirement with employees drawing some pension while continuing to work reduced hours. The ability to take up such options, however, is likely to be affected by an individual's financial circumstances.
-  The researchers conclude that attempts by governments to encourage people to work for longer must recognise that the context in which people negotiate retirement is an organisational one. They may have little personal discretion over the timing and manner of their departure from work. Urging individuals to change their behaviour will not be sufficient if organisations are not similarly encouraged to reappraise their management of older workers.

Background

There is widespread concern about current patterns of retirement. There has been a shortening of the average working life and a shift towards earlier retirement. Government is increasingly seeking to persuade people to delay retirement and work longer. Individuals are anxious about the likely value of their occupational and state pensions.

Employers play a key role in the retirement decision. Individual preferences about when to retire are powerfully constrained by the decisions of their employers. Yet research in this field has neglected the role played by employing organisations' policies and practices in the retirement decision. This is despite the fact that there is evidence that most people who cease work in their 50s do not choose to do so.

Employers rarely use the management of retirement and pensions to achieve strategic goals. Instead, managers, driven by short-term commercial or organisational pressures, adopt an ad hoc approach that leads to inefficiencies and lost opportunities in human resource management.

The main aims of this research were:

- to examine how older workers and the retirement process are currently managed in a range of organisations;
- to identify barriers to effective planning for retirement;
- to consider whether individuals feel there is enough choice when facing decisions about retirement; and
- to evaluate from the viewpoint of both employers and employees the potential merits of 'flexible retirement', that is the ability for individuals to reduce work commitments in the run-up to full retirement.

The management of older workers and retirement

Employees entering a 'retirement zone' – typically from 50 years of age upwards – face a range of options: early retirement, retirement at the 'normal age' or opting to work beyond the normal retirement age. The actual decision at any of these points is at the discretion of managers or pension funds, even though individuals may make requests that initiate such decisions (see Figure 1).

In the cases looked at in this research, final decisions about retirement still largely rested with the employing organisation. This discretion, combined with the complexity of provisions for different groups, left many respondents (both managers and employees) confused about the basis for decisions. Some people were offered favourable deals while others in similar circumstances were not.

Decisions affecting older workers and their retirement seemed to be derived from other, often unrelated, policy pressures. Much of the discretion over whether people retired before, at or beyond normal retirement age lay with managers but they, in turn, felt constrained by the rules of the pension schemes they were administering and by the accretion of custom and practice over the years. Generally speaking managerial decisions seem to be tactical rather than guided by any overall policy towards older employees.

The research noted an interesting shift in recent years. A period during the 1980s and 1990s when early retirement had become an expectation for many employees and was a commonly used management tool to aid downsizing has been succeeded by a change in employee expectations. Superannuation schemes can no longer afford to pay such generous packages and employers seem to have got this message across to workers, although retirement is still used as an ad hoc means of shedding labour where circumstances require.

Figure 1: Management discretion in the retirement zone

Age	Early retirement zone, from 50 years of age	Company's normal retirement age (NRA)	Post NRA
Area of management discretion over choice of retirement age	<ul style="list-style-type: none"> ● accept employee's request ● employer triggers for business reasons ● employer triggers for other reasons (e.g. ill-health, redundant skills) 	<ul style="list-style-type: none"> ● employer policy for workers to retire at given age ● likely to be illegal from 2006 	<ul style="list-style-type: none"> ● allow employee to continue on same contract ● offer different contract or consultancy

Individual understanding of pensions and retirement policies

Most people do not find pensions interesting. Even when they are within ten years of likely retirement age, many individuals will not have given much thought to their retirement circumstances. The study confirmed what others have discovered: that people find it difficult to understand pensions and shy away from planning their retirement.

A very common view among employees was that the information they had about pensions had been found on a 'need to know' basis and many employees had not got around to working it all out. The great majority were, however, happy that their organisations, if asked, could give useful information and they felt that pensions managers and departments were generally helpful and approachable. However, the tendency to delay getting information means that by not understanding their current situation many may fail to do things at the right time, for example with regard to Additional Voluntary Contributions (AVCs).

The study found that the provision of pension information to employees was not enough to enable individuals to plan the financial aspects of their retirement. Pension information needs to be placed in the context of a broader understanding of the financial principles of pensions. As most people do not have this understanding, they cannot effectively process or evaluate the information they are given.

Choice

Employees across the organisations generally agreed that the timing and manner of retirement should be a matter of personal judgement and choice. People should not be forced to retire at a given age, nor should they be compelled to continue working when they felt ready to retire. In reality, individual factors interact with managerial discretion to produce a variety of retirement scenarios. Employees tended to fall into one of four such groups, summarised in Figure 2.

In these retirement scenarios, the employing organisation was the stage on which individual retirement preferences were played out. While workers some way from retirement thought that factors such as health would dominate the timing of retirement, those who had already retired put more emphasis on what had happened to them within the employing organisation.

Figure 2: Retirement scenarios

1. Happy and keen to retire

- favourable financial situation
- looking forward to doing other things
- worked for long enough

2. Forced or felt forced to retire

- at or beyond retirement age
- early retirement imposed

3. Don't want to retire

- still enjoying work
- afraid of retirement

4. Blown off course

- family circumstances affect decision
- individual's health influences retirement age
- employer's policies overrule preference

Downshifting employment in the transition to retirement

Managers and employees generally supported the idea of allowing people to reduce their hours of work prior to retirement. Even employees who personally felt they would not want to do this supported the principle. There was also some interest in 'flexible retirement', that is the possibility of drawing some pension while continuing to work reduced hours.

Although there were no explicit policies for gradual or flexible retirement in place in the organisations studied, most employees felt there was scope to ask for a reduction in hours or a change of roles, and examples were cited of people having successfully achieved such a downshift.

These approaches might keep some people in work for longer, albeit on reduced hours. However, the ability to take up such flexible options would depend on individual financial circumstances. During the research there emerged a major distinction between those who might want to continue working out of interest, and those who felt they must carry on working to sustain income. Also significant was the likely effect that a poor understanding of pensions would have on the ability to properly assess the financial implications of different downshifting options.

Conclusion

The overwhelming majority of respondents felt there should be more individual choice about when to retire. Relatively few respondents said that they had

retired early against their will. However, a considerable number felt they had been forced to retire because they had reached the normal retirement age. Normal retirement ages were generally seen as arbitrary and unfair, even by those who had retired early or who planned to retire early. There was considerable support for their removal. This support was especially strong among lower paid workers who might otherwise be forced to retire before they became entitled to their state pension.

For each individual a wide range of factors – including financial position, domestic circumstances, work satisfaction, health and the pull of the ‘non-work life’ – came together in the ‘retirement zone’ to condition preferences about when and how fully to retire. These factors played themselves out in the arena of organisational policy and, more importantly, organisational practice. Individuals tried to manage their own retirements in the face of management decisions about early retirement (initiated by either the employee or the organisation), working beyond normal retirement age, or downshifting in the run-up to full retirement. Individual stories repeatedly showed that outcomes are highly contingent, often unpredictable and frequently beyond the employee’s control. While senior employees are likely to be in a relatively strong bargaining position, lower grade staff simply deal with what is or is not offered to them.

The overall conclusion is that the retirement experience has been individualised, both culturally and in practice. In the past people expected to continue working until normal retirement age, barring redundancy or major health problems. These days there are more possibilities but choice is, in most cases, profoundly constrained in arbitrary ways. In this sense many of the risks of retirement have effectively been transferred to the individual. In the face of weak public pension provision and considerable management discretion over the timing and manner of retirement, individuals are forced to construct their own strategies, sometimes with little knowledge or understanding of their pension position. A recurrent theme among retired respondents and some employees was the feeling that they had somehow mismanaged their choices, or that luck had not been on their side.

About the project

The research was carried out by Sarah Vickerstaff, John Baldock, Jennie Cox and Linda Keen, of the University of Kent. They conducted interviews with 160 employees and retired ex-employees from three organisations: two commercial organisations (in the transport and health products sectors) and one public sector organisation (local government). All three organisations are based in the South of England. They recruit from both buoyant and depressed labour markets. Permanent employees in all of the organisations can join an occupational pension scheme and thus are part of only 37 per cent of the population with access to this type of retirement provision. Interviews were also held with pension managers, human resource managers and trade union representatives in the three organisations.

How to get further information

The full report, **Happy retirement? The impact of employers’ policies and practice on the process of retirement** by Sarah Vickerstaff, John Baldock, Jennifer Cox and Linda Keen, is published for the Foundation by The Policy Press as part of the Transitions after 50 series (ISBN 1 86134 584 4, price £13.95).