LIVE-STREAMED MEETING AND REPORT

Retirement Strategy:
Does your company have one, does it want one?

WEDNESDAY **23** MARCH | LONDON

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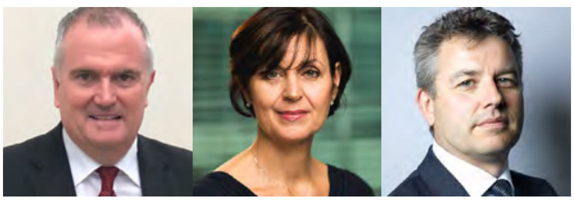

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Yvonne Sonsino, Mercer
Jonathan Watts-Lay, WEALTH at work

Retirement Strategy:
Does your company have one, does it want one?

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We have known about the challenges posed by ageing populations for many years. However, the 2020s is the decade when those challenges will need to be faced head on by governments, employers and employees. Already we are seeing skills shortages, rising healthcare costs and shortfalls in people's pension funding. Yet, just at the point when governments were planning for a later retirement age, the Covid pandemic seems to have triggered a 'Great Retirement', with a number of countries reporting that the over-50s seem to be quitting the workforce in greater numbers.

WATCH ALLEN'S SESSION HERE:

Setting the Scene
Allen Powley

With this background in mind, our Chair, Allen Powley, set the scene for our Retirement Strategy event with the observation that aging populations have constantly been 'next week's problem'. Well now, 'next week has come' and it requires a more holistic strategy.

Many people are finding that they simply don't have the funds for the sort of retirement they had hoped for. With low investment returns, their opportunity to grow their retirement pot is minimal. Employers are experiencing the problem of skilled employees leaving the workforce and governments are seeing age-related costs increase.

Social policy has, for decades, centred on the assumption of increasing longevity compensating for reducing birth rates. We now have a **demographic challenge** in many 'western' economies where a smaller proportion of the population is in work. The working age population of China is similarly forecast to shrink by 33m over the coming decade. *See graph on following page*.

Once the post-pandemic recovery works through, the low **economic growth** of the 2010s looks set to return. This is likely to depress tax revenues and leave governments struggling to cover the investment needed to tackle the move to Carbon Net Zero. Companies and governments have been distracted by other events and have done relatively little to prepare for the impact of an ageing workforce.

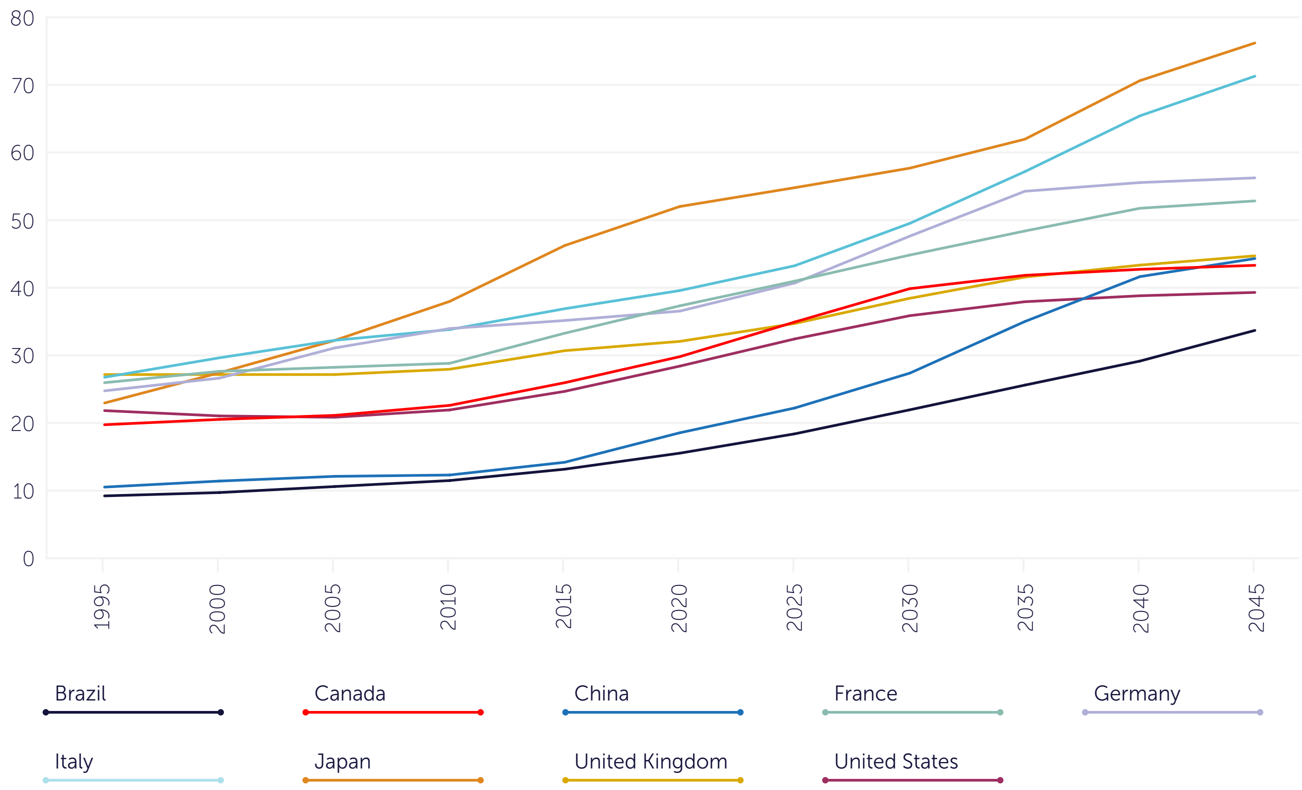
Allen noted the conflict between economic reality and the assumptions many people have about their retirement, many even assuming they will be able to leave the workforce before their state pension age. Pressure on state pensions and other public finance pressures will see governments trying to encourage people to work for longer, with healthcare spending set to outstrip GDP growth. The gap between life expectancy and healthy life expectancy will further exacerbate the fiscal challenge.

The decline of Defined Benefit (DB) pension plans over the past twenty years and the corresponding growth in less generous Defined Contribution (DC) pensions means that many of those approaching retirement will be less secure than previous generations. This is likely to have **wider societal implications** in those parts of the country where a significant proportion of household income comes from occupational pensions. As that spending power reduces and the next cohort of retirees is less well funded, there will be a negative impact on the economy in these areas.

These combined factors have the potential to create a 'perfect storm' and will place a burden on employers to step into this space.

Old-age to Working-age Ratio

Number of people older than 65 years per 100 people of working age (20 to 64 years)



Source: United Nations, World Population Prospects 2019

Financial Education

Jonathan Watts-Lay

WATCH JONATHAN'S SESSION HERE:

Jonathan turned to the role of employers in helping people to understand the scale of their retirement challenge. According to the Financial Capability Survey, 40% of people are not in control of their day-to-day finances.

Engaging people requires an approach tailored to life stages.

- In the **early years,** simply encouraging people to manage their money more effectively is a good start. People are more likely to understand the importance of investing in their retirement income if they have developed some basic money management discipline.
- For those in **mid years** it is about making sure their investments are on track with some 20 years of saving behind them and another 20 years to go. Here, the danger may be complacency. An IFS report Feb 2022 highlights that many people are unaware of issues such as declining value and poor asset allocation in their deferred pensions.
- From age 50 people move into the **pre-retirement** stage and need to understand what income they are likely to generate. Many wait until they are close to retirement before taking advice, which is often too late.
- At **retirement,** people make their choices, but by this time, the advantages and disadvantages are set in. The so-called "Pension Freedoms" have made winners and losers.

Most people are now using drawdown to manage their pension pots. Annuity take-up is only around 10%. This raises questions about people's ability to manage their money over the course of their 25-30 years of retirement and how effective they will be at doing so as cognitive abilities decline.

Understanding Income in Retirement

Many people approach retirement with little understanding of the extent of their income needs over time. In this context, the current 'Great Retirement' is potentially a cause for concern. When people retire early, their pension pots get the double hit of reduced payments into their pension pot and increase time over which it will be needed. The uptick in early retirement since the Covid pandemic may therefore see more people ending up with a shortfall. Many of those choosing to retire early will not have made informed calculations. Some will have assumed they will not get another job and drifted into retirement earlier than planned. When people retire, many assume they should start drawing on their pension pot. However, there may be advantages in terms of tax and investment returns to using other assets first.

Education: Guidance or Advice?

The need for **financial education** is therefore something that spans an entire lifetime.

- Employees at *all* life-stages will need greater awareness in finance and pensions and should be able to understand some key issues, concepts, and options. This lends itself well to group sessions, modelling tools and chat bots. This is about helping to build a base level of knowledge.
- *Most* people will, at some point, need **one-to-one guidance.** This builds on the education, helps people apply it to their own circumstances and start to understand what they **could** do and what the outcomes are likely to be.
- As people come up to retirement, *some* will need **regulated advice** – understanding what they **should** do with a clear recommendation and pricing.

Pearson Case Study

Pearson had noted that many of their employees put pensions into the 'too difficult box'. The Pensions Dept embarked on a forensic investigation to understand the root of this reluctance and what might help people to engage with the subject.

This led to a complete redesign of their pensions website and the creation of interventions targeted at different age groups. The company introduced modelling tools to help people work through at their own pace. It ran focus groups and group learning as well as more specific guidance at individual level. At the same time, the company's pensions professionals actively intervened to tell people where and how they were missing out and what they might be able to do about it. By using a variety of approaches and engaging with people in different ways, Pearson has been able to change the pension conversation and move pensions and retirement into a more constructive arena.

Changing Workforce Environment

Yvonne Sonsino

Yvonne then turned to the changes that might be needed to employment policy in the context of retirement. The workforce is changing. Shifts in social attitudes that were underway before the Covid pandemic have gathered pace as a result of people's experiences over the last two years. Purpose is now higher up the Employee Value Proposition pyramid. At the same time, there is a growing sense of urgency among employers over knowledge loss as experienced employees leave the workforce. The *removal* of the concept of 'normal retirement date' has compounded the problem for employers. Whilst hey are worried about losing some people too early, others that they would rather lose may decide to stay on.

Studies on what drives business profitability suggest that age is a neutral factor. Tenure and experience are the more significant drivers of profitability. It is therefore important to retain talent and those with valuable experience of how the organisation functions. Exploring alternative approaches to employment and retirement makes sense for companies because:

- It decreases the risk of institutional knowledge loss
- It provides employees with a continued sense of purpose
- The value of multi-generational team structures are proven to enhance bottom line
- It increases talent attraction and retention in times of intense skills shortages.

The Great Retirement poses a potential threat both to employers and employees. For employers it implies an early exodus of talent; for employees it is likely that many will have not made adequate financial provision. Making it easier for people to stay on or return to work is therefore in the interests of both.

The **challenge for employers** is therefore to **develop more flexible approaches to retirement** that will help to **increase operational resilience and will benefit employees** as well.

What are companies doing to support and retain their experienced talent? Examples include:

- Phased retirement – the number of employers offering this has doubled since the pandemic
- Partial year employment opportunities
- Building internal strategic consulting capabilities – which enable people to leave and then come back under more flexible terms
- Downshifting – creating opportunities for people to take a lower level position
- Cross-generational mentorship programs – partnering experienced talent with new hires and / or younger colleagues to enable two-way knowledge transfer
- Maintaining full-time employer pension contributions while allowing people to reduce their hours and salary

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- Using AI to identify the best uses of older workers' skills, using technology to find roles that both benefit the company and support an individual's career goals
- Providing retirement-oriented lifestyle and transition planning resources or providing information about encore career opportunities
- Connecting employees with life coaches to help them think through what they want to do after they stop working
- Creating age-focused Employee Resource Groups where employees can discuss relevant topics, such as wellness or financial literacy, and continue to network.

What other questions do employers need to consider?

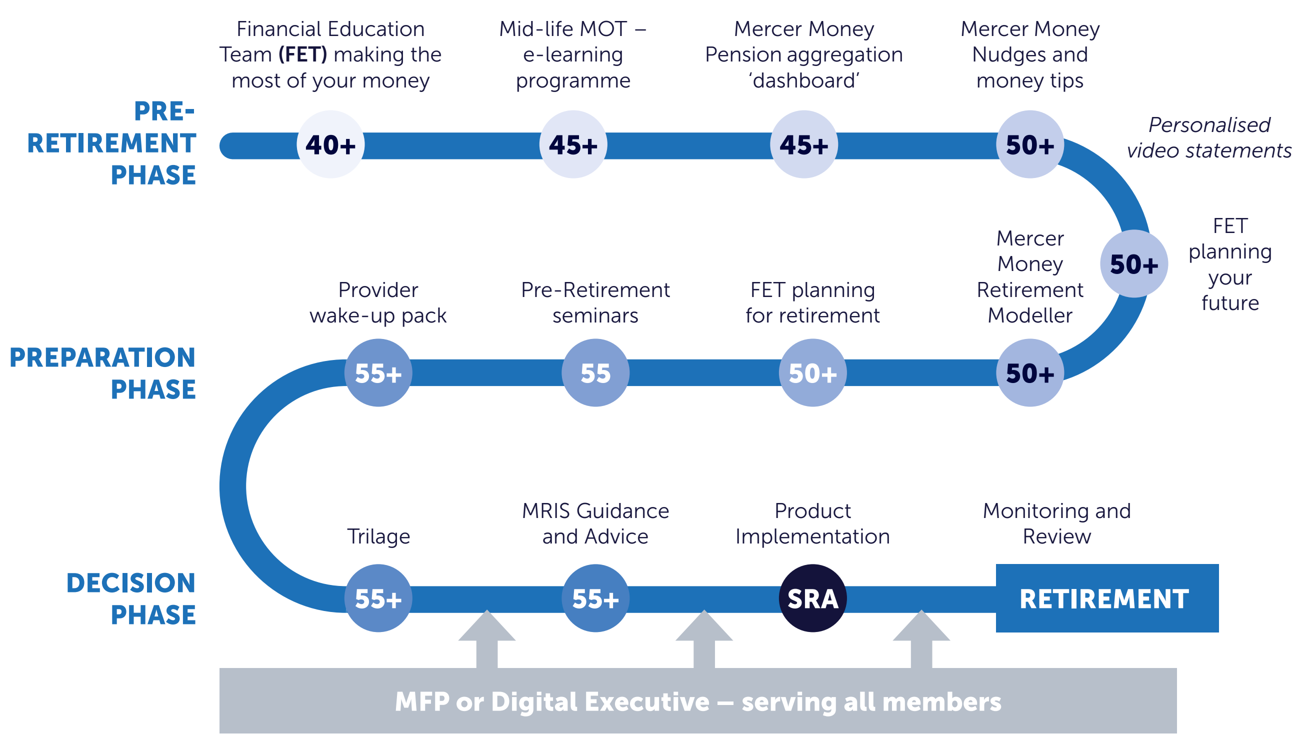
- What portion of the workforce is (or will soon be) eligible for available retirement programmes – and which business units, functions, job levels, or jobs are most affected?
- What firm-specific knowledge is at risk of being lost when an employee retires (e.g. relationships with key customers, knowledge of particular products, systems, etc.)?
- What do we want our approach to look like (formal vs. informal programmes)?
- What parameters do we need to put in place to determine eligibility requirements?
- What will be the impact on employee benefits and pension plans?
- What effect will this have on reward structures and performance management?
- How will these changes align with our flexible working policy? Where will eligible employees be allowed to work (e.g., in office, hybrid, remote)?
- What's at risk if we don't make these changes?

Case Studies

Mercer provided a number of detailed case studies which are in the attached slide pack. These include a wealth of further detail on the above measures adopted by companies such as Unilever, Bank of America and Amazon. Swiss Re's discovery from its workforce analytics that a third of its workforce was due to retire over the next ten years provided the impetus for its Flex+ plan, which enabled employees to trade salary for reduced hours, without losing pension contributions. By identifying this trend, Swiss Re was able to put measures in place to encourage employees to continue to work in some capacity and a rapid and unplanned loss of talent was avoided.

Mercer's Flight Path to Retirement

This aims to provide a process for managing the multiple aspects of retirement planning at different life stages. The road map therefore involves different interventions at various points. In moving from full-time paid employment into a life phase which may be termed retirement, options include study, part-time paid or voluntary work and other new horizons.



Source: Mercer

WATCH YVONNE'S SESSION HERE:

Discussion and Conclusions

The ageing population will present multiple challenges for businesses and employees. The consensus among our speakers and audience was that this is something that companies can no longer afford to ignore. The question of whether this is an employer's problem was discussed. After all, as one commenter pointed out, it was a financial imperative that had driven the flight from DB pension provision.

While that may be true, social, economic, and demographic shifts have now put the ball firmly back in the employer's court. If companies don't tackle these challenges, they may find themselves with even greater problems. Finding ways of encouraging employees to stay on at work while helping them plan a glide path into retirement that works for their individual needs will be in everyone's interests. Employers that ignore this are likely to face skills shortages and reputational risk as the pool of talent shrinks and the ethical expectations of companies rise. At the same time, among much of the employee population, there is a woeful lack of awareness of planning for retirement and the financial steps that need to be taken.

One of the issues that became clear from our Report, and from the discussions at the meeting, is that, while, in pensions terms, this may now be a DC world, many people are still guided by DB assumptions. We assume that, if we are working and have a retirement plan into which our employers are also contributing, that when we reach retirement, everything will somehow be sorted. Combatting this assumption requires much more than just education. It is a mind-set change that employers and governments need to address. It starts with helping people to understand the need for action, without scaring them to the point where they disengage.

But this challenge cannot just be resolved at the level of raising financial awareness. An increasing number of employers are looking at the whole question of retirement from a more strategic perspective – rather than as a series of individual transactional problems.

We discussed whether this constituted a 'baseline shift' in company attitudes. While it is too early to draw a definitive conclusion, the measures being taken by an increasing number of companies is consistent with the heightened importance of corporate reputation, focus on ethical business, and concern about skills shortages.

From the discussion, the following consensus emerged as to the actions that companies were advised to consider:

- Be sensitive to different age cohorts – younger workers might show less initial interest and need to be engaged on their level. Tailor your approach accordingly.
- Invest in programmes for the long-term. You need to get to the point where people are talking about it by the water-cooler, and that takes time.
- Use your workforce planning data. As SwissRe found, it could forewarn you of a looming problem.
- Add flexible retirement to your flexible benefits programme.
- Think holistically: retirement provision and the retention of experienced talent are not separate challenges; they are two facets of the same challenge. The interventions you use need to support each other and be part of the same strategy.
- Gather data on what interventions work – and build on them.

Further Reading

PARC. 2021. **Retirement Strategy – Does Your Company Have One, Does It Need One?** Research Report. https://www.parcentre.com/research-and-resources/research-report-retirement-strategy

KEY TAKEAWAYS

ALLEN POWLEY is GSK's Senior Vice President, Reward, with responsibility for the global centre of excellence covering compensation and benefits and GSK's Employee Health and Wellbeing function. He has filled various roles at GSK and has been a member of the global HR leadership team since 2006. Allen is also qualified as a Solicitor and Chartered Accountant in the UK.

VIDEO SUMMARY

YVONNE SONSINO's focus is the organisational implications of macro trends including longevity, 4IR future work scenarios, and sustaining an inclusive workforce. She co-chaired the UK Govt. Department for Work and Pensions Fuller Working Lives Business Strategy Group, which published its policy document in 2017. She is an advisor to the Healthy Ageing challenge fund and working on the global dialogue series Redesigning Retirement for the 100-year life. Her book, The New Rules of Living Longer, was published in November 2015.

VIDEO SUMMARY

JONATHAN WATTS-LAY is a Director of WEALTH at work, a leading financial wellbeing and retirement specialist – helping those in the workplace to improve their financial future. He works with a number of the UK's leading companies and pension schemes to help their employees and members understand their financial situation, particularly with regards to pensions and how to optimise income in retirement. Jonathan is also a recognised commentator on financial matters.

Upcoming PARC Events

View event on PARC website and register

Employee Resource Groups Online Peer Exchange	7 April 12.00 – 13.00 ONLINE
ESG and Non-financial Performance Measures Live streamed-meeting and report	26 May 16.00 – 18.00 LONDON & ONLINE

Or register via email here