

CROW

Centre for Research into the Older Workforce

Why Do People Retire When They Do?

When and how retirement happens matters to individuals, employers, and Government.

Because we are living longer and staying healthier, retirement forms a growing part of our lives. As more people retire, and

fewer young people enter the workforce, employers are increasingly concerned about skills shortages, while longer retirement is putting pressure on pension schemes and the Social Security system.

This briefing, the second from CROW,

looks at the decision to retire. Why do people retire when they do, and what factors might change that decision in the future? The paper draws on current research, and particularly on a national survey of job change and retirement undertaken by CROW in 2003.

Key Messages

Most people leave work at what they personally regard as the “normal” age, although individuals vary in what they think this is. Surprisingly, although the quality of life after retirement depends significantly on financial security, most people make the decision to retire before they make any assessment of their financial situation. However, those who have pensions and savings are more likely to have a secure retirement, and to describe their lives in retirement in positive terms, while some who take early retirement without adequate financial assessment live to regret it.

Research on work and ageing shows that the following factors have an important influence on when people retire:

Feeling valued at work: workers who feel valued by their employers and colleagues, and who believe they are making a positive contribution in their jobs, are more likely to stay in work. These people live longer, and have more active lives after formal retirement.

Social environment: the social networks which go with work are important to most people. They are more likely to stay in work if they get on well with their colleagues, and there are opportunities for social interaction.

Personal “mission”: for many people, work is focused on a cause or a long term sense of purpose, like contributing to the community, caring for others, or professional reputation. This can be a reason for remaining in work, or for moving to a voluntary role, where the “mission” can be continued.

Control: many older people have developed ways of working which suit their personal styles and strengths, and value the opportunity to have a say in how the work is organised and carried out.

Flexibility: where employers offer opportunities for flexible work (part-time, phased reduction in hours or responsibility, or working seasonally) people stay in work longer. Most people who would consider working beyond formal retirement would only do so on a flexible basis.

Health: about one in ten people retire before state pension age through ill health or disability. Those who do are more likely to continue in poor health, and to have lower incomes after retirement. Early assessment of risk and appropriate action can reduce the likelihood of people becoming sick and disabled in their 50s.

Caring responsibilities: during their 50s and 60s many people find themselves with growing responsibilities for elderly parents, and sometimes for grandchildren or dependent partners. This is a common reason for people giving up paid work, or moving to flexible or less stressful roles.

Family circumstances: where both partners are working, couples tend to synchronise their retirement, leading often to “early” retirement for one or other.

Many of these factors are associated with work satisfaction for people of all ages: a workplace which is attractive to older workers is likely also to be attractive to workers in general.

The notion of “retirement”

“Retirement” is a relatively recent idea. Until the late 19th century, most people worked until they could no longer do so, and were then supported by relatives for the brief period before they died. Since then, life expectancy has increased, and in all developed countries, the state has accepted some responsibility for supporting people after they finish paid work, while pension schemes (employers’ or personal) have developed to provide better financial support during this phase of life.

The reality of retirement changed in the last quarter of the 20th century, and with improving health, most people can now look forward to around two decades of reasonably healthy and active life after leaving paid work. However, public attitudes have not always kept pace with the reality. It is still not uncommon for “the retired” or “pensioners” to be stereotyped as frail, and dependent: a burden on society rather than a resource.

In this briefing, we distinguish between “retirement” as a phase of life, for most of which individuals are independent and active, able and willing to contribute to society and their communities, and what we have called “formal retirement”: the

point at which an individual permanently leaves the main employment which they have pursued during their earlier life. The precise point at which this happens varies greatly. Few retire before their mid 50s, and a few are still in full time work into their 70s. The average age of formal retirement is currently around 61.

How are retirement ages changing?

Views on what the natural age for retirement should be can be influenced by larger labour market trends. Over the 1980s the proportion of men between 50-65 in work fell from 84% to 64% as organisations downsized and restructured, and early retirement became more common. However, since 1993 this pattern has been reversed, and the proportion has risen again to over 70%, faster than the rise in male employment rates overall¹.

For women the pattern is rather different. From 1979 to the mid 1980s women’s employment rates remained steady at around 56%, but then began to climb steadily, reaching 66% in 2003, as a new generation of women, with different experience and expectations of work moved into their 50s.

Is there a natural age of retirement?

Most people seem to see retirement as a natural process. They do not “decide” to retire for a specific reason (fig 2): they do it because they have reached what they perceive to be “retirement age”, though they may not agree about what that age should be².

Although there is no “state retirement age”, when workers reach state pension age, they lose most statutory employment protections, making it far easier for employers to dismiss them, and at present, UK employers can, and usually do, set a compulsory retirement age as a condition of service.

However, age discrimination in the workplace will be outlawed when the UK implements the age provisions of the European Equal Treatment Directive in 2006. Government is currently considering a variety of options, including prohibiting compulsory retirement altogether, or allowing employers to set retirement ages above 70. It is expected to announce the broad approach in late 2004.

Will a ban on compulsory retirement age change the age at which people actually retire? It has been argued that the effect will be a marginal, but positive, increase in the employment levels of older workers³. While some older workers will want to stay in work past their present contractual retirement age, a majority of workers feel that people should be allowed to retire by the time they reach 60⁴, although this does not mean that individuals will necessarily want to take up that option.

It is likely that retirement patterns will continue to change, for a variety of reasons. Current Government plans are to harmonise male and female state pension ages at 65 by 2020, and it has proposed offering financial incentives to those who opt to stay in work after state pension age. It also intends to change the tax rules to allow people to continue in work with the same employer while drawing their pensions. Since such

Fig 1: Economic activity of people between 50 and 5PA

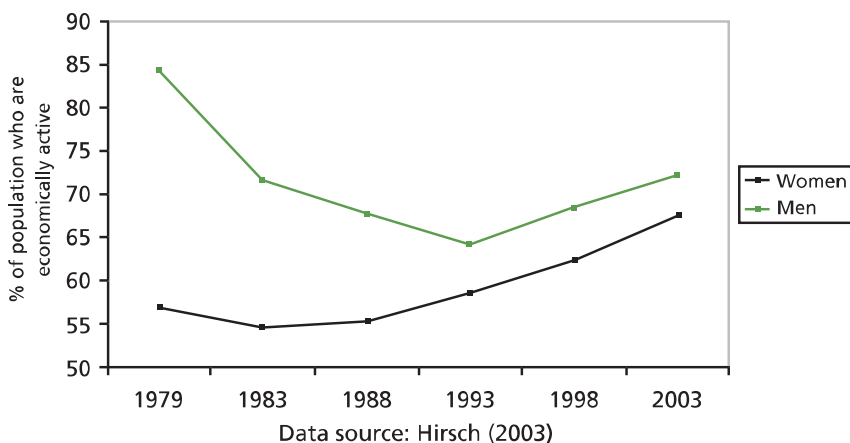
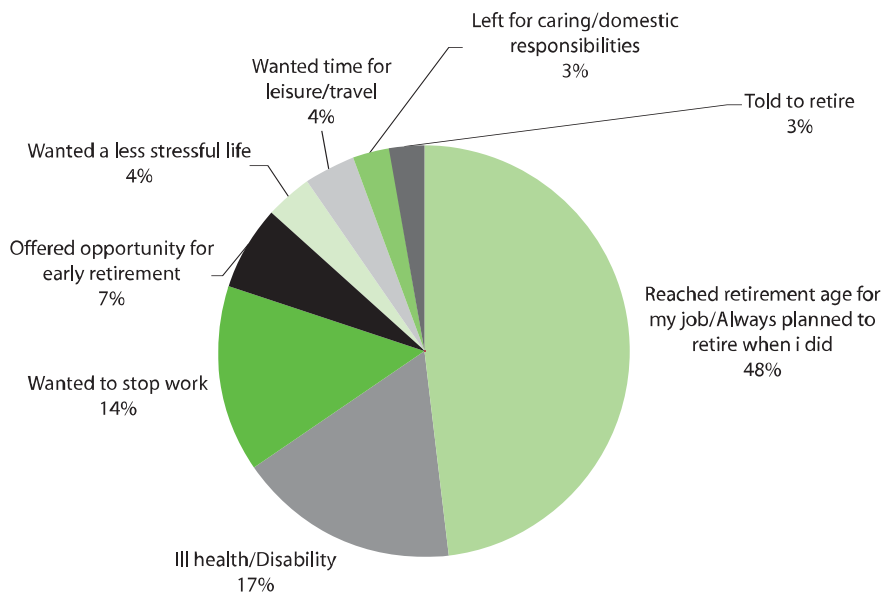


Fig 2: Reasons for Retirement



Data source: McNair et al (2004)

schemes have yet to be implemented, their impact cannot be predicted, but is likely to lead to some further rise in real retirement ages.

In those countries where compulsory retirement ages have been banned, the effect on older workers' labour market participation has been limited⁵, but since countries vary widely in their levels of state, health care, and pension support, and in the way in which law constrains employers' choices, one cannot assume that the UK will necessarily follow their patterns.

Experience of work

Peoples' experience of work influences their attitudes toward retirement. Those who like their employer and colleagues tend to want to stay in work longer⁶. Research by the American Association of Retired Persons found that workers whose jobs provide status and give them a sense of self-worth are most likely to want to stay in work longer⁷, and where people have some sense of a "mission" in life which can be carried on after formal retirement (whether or not through paid work) they are more likely to feel satisfied with their retirement⁸.

For some people, retirement happens at the peak of a career, but many careers level out before then, or peter out rather than reach a decisive end⁹. For those whose careers have "levelled off", there are psychological adjustments which need to be made, including the decision on when and how to retire¹⁰. There is, however another group, who see work as a job rather than a career, with less sense of continuity or mission, and their expectations are probably different.

Gender and family circumstances

Men and women have different attitudes to retirement, partly reflecting their different experiences in and out of paid work. The growth in two-income families makes partners' career decisions increasingly interdependent, and marital and family circumstances are important in shaping an individual's decision on when to retire¹¹. Women's retirement decisions are more influenced by their partners than are men's¹², but there is evidence that the most successful retirements come about when both partners choose independently when they want to retire¹³.

Because people are living longer, many are spending their retirement caring for older relatives¹⁴. Further, as more parents go to work, grandparents are playing a larger role in caring for grandchildren than previous generations. Older workers in general receive less employer and public support for caring roles than younger people, and for some, retirement happens not when they wish to leave work, but when one or more of these responsibilities becomes too intense¹⁵.

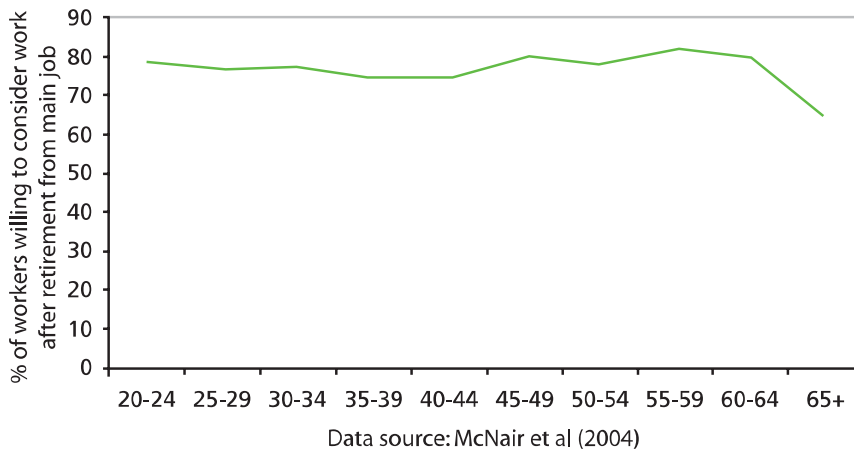
Health

Poor health and disability are the commonest reasons for early withdrawal from the labour market, although it is not always described as "retirement", and not always recognised at the time of leaving as permanent. Although most expect to return to work, the chances of someone who leaves work through ill health or disability after the age of 50 re-entering the labour market are slim, and decline very rapidly as the length of unemployment increases¹⁶. However, this is not inevitable: where employers badly need the skills of individuals they can often find ways of redesigning jobs, or making work more flexible to allow people with health and disability problems to stay in work. Research in Finland suggests that it is possible for employers to intervene when people are in their 40s to reduce the chances of early withdrawal on ill health grounds in the 50s¹⁷.

Health also has an important influence on quality of life in retirement, particularly for those who have left work for sickness or disability reasons¹⁸ and those who leave the labour market for these reasons are more likely to face financial hardship¹⁹.

Finance

In recent years, there has been much public concern about the affordability of retirement. Many pension funds are contracting in response to reduced returns on investments, and to the actuarial costs of increasing life expectancy. Many employers have closed funds to new employees, and those currently in work are wondering whether they can afford to retire when they want.

Fig 3: Willingness to consider work in retirement by age

There are some signs that the recent pension crisis is leading some older workers to delay retirement²⁰. However, the average age for retirement for men is still below state pension age 62.6 for men and 60.4 for women²¹.

Although financial security is important to quality of life in retirement, and is often a factor in the decision to retire, most people do not make a systematic assessment of their financial situation before they make the decision, and for most people, other factors play a larger part. The National Association of Pension Funds found that, although half of all workers would like to save more, two thirds are still confident of having enough income for a comfortable retirement²².

Nevertheless, those who decide to retire early are more likely to have been saving longer. Those with wealth, in the form of home ownership, savings and investments, are more likely to retire early than those who live mainly on take home pay²³, for whom the move to a pension can represent a significant drop in income²⁴.

Do people want to work after retirement?

Four in five workers under State Pension Age would consider working after they retire from their main jobs. Willingness to

consider work after formal retirement does not change much with age until SPA, and until then, the proportion of economically active people willing to consider going on working remains very steady²⁵. Interestingly, this finding contradicts earlier work, which suggested that older age cohorts are less willing to consider going on working²⁶. This may reflect a generational change (those now in their 50s have different expectations of life and work from the previous generation), or that the financial circumstances and expectations of individuals have changed in recent years.

There is a growing debate about the role of work after formal retirement. It has been suggested that most people would prefer a more gradual transition from full-time work to full time retirement, in place of the sudden change from one to the other on a fixed date. Taylor has argued that it would be better for individuals and employers if retirement could be a phased process²⁷.

As people move into later life, they acquire new responsibilities, and develop new priorities for the use of their time. For many, caring responsibilities emerge, while others want to pursue leisure interests, or simply to reduce stress levels. For those who can afford to choose, re-evaluating the balance between work and the rest of

life becomes important. This does not necessarily mean giving up paid work altogether: where flexible options are available it can involve reducing the amount of time spent at work, or changing the way work is done. Where employers can make flexible work options available, many choose to stay in work on a part-time, freelance, occasional, seasonal, or other basis.

One form of phasing is "bridge employment", in the form of part-time, freelance, or consultancy work, which can help in the transition from work to retirement and workers²⁸. This kind of work is often seen as a more palatable alternative to staying in the same job past retirement age, as it offers greater flexibility²⁹. The Government plans to reform pension, tax and benefits rules to make flexible transitions from work to retirement easier.

While most workers are willing to consider some form of paid or voluntary work after formal retirement, fewer than one in ten are willing to consider doing so on a full-time basis. Almost half are willing to consider paid part-time/occasional work and 37 % willing to consider voluntary work. Self-employment is only considered by 14% and is less attractive to older respondents³⁰.

Recognised diversity

The CROW 2003 survey identified three distinct groups of workers, each with a different set of attitudes to work and retirement.

Choosers:

Choosers have the most positive experience in work, and are most likely to consider work after retirement. They typically have high qualifications, are on high incomes or in high status jobs, and describe their job changes in terms of promotion, challenge and opportunity. They are likely to consider staying in employment after retirement for intrinsic reasons, including continuing some sense of mission or purpose. The majority are men, but one third of choosers are women.

Recent research for the DWP on people who work past State Pension Age indicates that professionals and creative workers, who are likely to be among the choosers, are most likely to find the prospect of retirement unsettling. They identify most with their work, and are least likely to want to give it up³¹.

Survivors:

For survivors, finance is a main reason for continuing in work., and if they consider working after retirement it is in paid jobs, not voluntary ones. They typically have low or no formal qualifications, and are in low income/status jobs. For them job

change is often imposed from outside, and is often a negative experience. Most survivors are working full-time and still paying off mortgages, and they are unlikely to have good pension entitlements. For this group, retirement is more likely to represent financial hardship, and a sizeable proportion have left work for sickness and disability reasons. The majority are men, but again one third of survivors are women.

Jugglers:

Jugglers appear to have chosen to combine paid work with other roles, and are most likely to consider work after

retirement if it is flexible enough to balance with other commitments. They typically have qualifications below degree level, are mainly in part-time work and more likely to be employed in small firms. For this group, the social benefits of work are important, and this is reflected in the high proportion who would consider voluntary work after formal retirement. The overwhelming majority of jugglers are women.

The three groups have very different views on working after formal retirement and strategies to encourage them to stay longer will need to recognise this.

A Footnote: Retirement and Life Afterwards

Retirement is a major life event, with important implications for the rest of peoples' lives. Those who leave work for reasons beyond their control (redundancy, ill health, dismissal); feeling that they are no longer valued by their employer; or feeling that they have ceased to be productive, tend to have a less positive experience of retirement³², have poorer health and higher mortality rates. Those who have been forced to leave work because of long-term sickness or disability have high levels of anxiety and problems associated with self image³³. ³⁴On the other hand, those who have known for a long time when they were to retire have happier retirements than those who leave work unexpectedly³⁵.

Although these are not immediate economic concerns, they raise moral issues for employers and policymakers in developing ways of managing a changing retirement process.

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About CROW

The Centre for Research into the Older Workforce exists to study ways of enabling older people to make a more active contribution to the economy. The Centre is a partnership between the University of Surrey, the National Institute for Adult Continuing Education and the Pre-Retirement Association, with core funding from the South East England Development Agency.

Its research focuses on three main areas:

Motivation

What motivates older people to stay in work, leave or return to the labour market?

Work Design

How can work be better designed to suit the diverse needs of older workers?

Intermediaries

How can information, advice and recruitment agencies, education and training providers and others help older people to stay in and return to rewarding work?

This is the second in a series of briefing papers published by CROW, summarising key points from research into the older workforce.