Help the Aged

THIRD AGE EMPLOYMENT Network

Work after 60 –

choice or necessity, burden or benefit?

by Patrick Grattan, Chief Executive, Third Age Employment Network

Introduction

The 2001 Census highlighted that for the first time there were more people aged over 60 (21 per cent of the population) than under 16 (20 per cent). The fastest rising segment of the population is the over-85s. There are now more than a million people in this age group and the figure is predicted to rise towards four million in a few decades.

It is increasingly recognised that what we do in earlier decades of our lives determines our health, well-being and level of income when we are older. Poverty and worklessness in mid life are almost inevitably followed by poverty in old age. A mix of more and better years in work and more active saving appears essential if we are to adjust to a lengthening life span.

After almost uninterrupted decades of growth since the Second World War, there has been a four-year accelerating slide in the value of savings relative to pay or inflation. We should neither panic nor rush to conclusions on the basis of what has happened in financial markets during the last year. Just as we were lulled into a belief in everlasting high returns on savings, so we should recognise that things may look different again in a year or two. But what has become clear is that the patterns of work, retirement and demographics of the last 25 years are bound to change.

This paper addresses how we might accommodate that change constructively. The key players in this are:

- employees and workers;
- people not in paid work but engaged in unpaid roles in society;
- employers;
- the government; and
- a wide range of agencies, occupations and services relating to the labour market, to the individual life course and to change.

It is worth reminding ourselves that nearly everyone will belong to more than one of these categories.

The current situation

The appendix summarises some of the key facts and figures relating to the current situation. These cover:

1. The 30-year decline in people aged 50 and over in work at a time of increasing life expectancy.
2. The high level of "non-workers" among those people aged over 50, both under and over the state pension age (60/65), many of whom are potential workers. (The jargon often used to describe this group is "inactive", a term which does an injustice to the many people, particularly women, involved in unpaid work.)
3. The decrease in registered unemployment but the huge increase in receipt of other benefits among the over-50s.
4. The decline in duration and scale of personal savings during working life.
5. The decline in employer contributions to retirement savings.
6. The decline in government spending on pensions.
7. The sharp decline in the value of savings for retirement because of the fall of financial markets.

This list alone is enough to demonstrate why we are in an unsustainable situation. **This paper does not address the related issue of how to increase savings but concentrates instead on work opportunities. It recognises, however, that financial independence in retirement requires not just work but work and saving.**

The place of work

The Government and others have been saying that we are all going to have to work longer and save more.

There is resistance to the idea. Headings from *The Sun* and *The Daily Mail* for example, read: 'No rest, just a lifetime of toil' and 'Work till you drop'. Trades unions understandably defend the "right to retire". Surveys of larger companies and public sector employees show that the great majority of workers look forward enthusiastically to their retirement date and many have high expectations that they will be able to leave any time after they reach 50. Employers are concerned about how to change those expectations.

Extolling the need to work longer can be interpreted as an obsession with work to the exclusion of a balanced life style. It can also be seen as a message from a minority with interesting and varied jobs, to the majority whose work is repetitive, heavy, boring or stressful. Many surveys of the life style of people who have retired early describe high levels of well-being and fulfilment. Retirement is shown as something to look forward to but these surveys generally focus on the better off.

In addition, the message that we need to work longer leads to fear of raising of the age at which full entitlement to pension is reached. In effect, this could mean more years of work to gain the same level of pension.

On the other hand, it is clear that, overall, work rather than unemployment brings with it better health and more happiness as well as an income. The life expectancy of those who continue to work in later years is higher. The incidence of mental ill health and other disease is higher among unemployed people. Communities and areas of the country with low levels of employment have a worse performance on all economic and social indices. And added years of work improve the prospect of an adequate income in retirement.

In our view, people should have a choice and the option to extend years of working life should be available to all. It should not be blocked by a lack of jobs, prejudice about older workers or a lack of help, advice or re-training to make the move to a new working life. It is perverse to see this, as it is sometimes portrayed, as a moral judgement that people *ought* to be working. That is certainly not our position, though it is clear that realism is needed about work and savings for extended years of retirement.

As a country, we can take forward a positive agenda on this only if we understand what work means for all sections of the community. We must address the issue as it relates to those who are:

- in work and continuing in the same type of work or with the same employer;
- in work and seeking a change of job or a new employer;
- not in work but seeking a return to work; and
- not in work and not expecting, wanting or able to return to work.

The job market does not work well for the over-50s. There are over 1.5 million job vacancies on any given day and there are more than a million people over 50 who would like to be working. But they are not coming together because there is a mismatch between:

- the location of the job and the location of the individual;
- the type of job and the type of job seeker;
- the job seeker's expectations of pay and terms and conditions and what the employer is actually offering; and
- the stereotypes and barriers on the part of both individuals and employers about what is possible.

A person over 50 is generally offered pay that is an average of 26 per cent below what they were earning in their previous job (*Journal of The Centre for Economic Performance* 2001). A person made redundant after age 50 is eight times less likely to return to work than a person made redundant at a younger age. Once on benefits, they are far more likely to stay on them for good.

The scale of disadvantage and inefficiency in the labour market for people in mid life shows how much we have to do to change attitudes, both of individuals and employers.

The situation demands a healthy and realistic view of the role of work in mid and later life, not polarised positions for and against. The situation demands a commitment by government, employers, unions, individuals and public agencies to making the labour market work for all ages to create full and fulfilling opportunities to work.

Retire or change?

The line between the idea of retirement and the need for change is a blurred one. When employee surveys show an overwhelming wish to retire at the earliest opportunity, this is mainly a wish to change. A recent survey by recruitment website Monster.com, showed that the desire for change (35 per cent) outweighed the search for better pay (29 per cent) or for a better work-life balance (25 per cent).

It is understandable that anyone who has worked in broadly the same environment for decades needs change and that this is frequently expressed as a wish to retire. Indeed, it would be natural for most people in this situation to want to change to a new role or new pattern of life and work.

More women than men want to go on working in their 60s because, on average, they have been engaged in their current work for a far shorter time. More women than men have had to find new work identities for themselves after a break from the work scene. More women have a greater financial need to work in their 50s and 60s because of the disadvantages built into National Insurance and pension systems.

In contrast, many men who have worked for decades in one environment have a profound desire to leave and cannot imagine themselves with any other work identity. Leaving therefore means retiring because changing to a new area of work is not seen as a realistic option.

Over 750,000 people reach the age of 50 each year. Our objective must be to offer a far larger proportion of people in mid life the opportunity to change and develop over their next 20 years. This can be done through:

- Workforce development, in-work and off-work training. Those who work in large and varied businesses may have options with their current employer to shift roles or to change conditions and patterns of work to suit them and still meet their employer's needs. For those in smaller enterprises, change and career development will mean changing employer.
- Learning opportunities and the development of alternative skills. Those currently in work should be able to develop and change to new working roles that suit them, rather than believe that the only route is to exit the labour market for good.
- Guidance, training and support from government and other schemes, and employers' focused recruitment policies. People should be able to conceive of and realise a fresh start after a break from work.

The overall goal of a whole range of actions and initiatives by employers, employees, government and others must be to create a vibrant labour market and career development scene for the last 20 years of working life. The period from 45 to 55 should be seen, not as the closing stage of the main working life but as the opening stage of a potentially new career.

What do people want?

The labour market is driven by employers' needs (and all surveys show that what they need most of all is the basic interpersonal, communication skills). But do the needs, aspirations and lifestyles of workers or potential workers feature enough in human resource and employment policies? Employers who respond skillfully to those needs and wants will improve their staff retention, find it easier to recruit and see their productivity rising. It isn't only about pay.

As people reach mid life, what they want tends to shift. Research by the Audit Commission on public sector workers, by TAEN with over-50s out of work, and by government on the reasons for quitting, all tell the same story. People want change; they want to get off the treadmill, and they want the social identity that comes so often from being at work.

Change

People leave work because they have had enough and want change. They are weary and cynical about what they perceive to be the unsatisfactory way in which they and their work are managed. It is the "seen it all before" syndrome. They are fed up with not being listened to or appreciated and of being pushed around. That view may or may not be justified but it is important as a common perception.

Views also change markedly from a point before retirement to a year or three years afterwards. Retirement may not be all it was cracked up to be, either financially or socially and that can change perspectives on work. People may not be particularly enthusiastic about returning to their former jobs in the same capacity, (witness the difficulty of persuading teachers and nurses to return) but they may be interested in returning on different terms and conditions or to a new area of work.

It follows that any employer who can demonstrate what's new, what's changed and how management involve and appreciate their employees will have a head start.

Off the treadmill

People want to "get off the treadmill". The sense that for two or three decades one has been at someone else's beck and call leads to a desire for greater flexibility in patterns of work and more individual choice and control over time and place. This is sometimes called "time sovereignty".

It follows that any employer who can accommodate individual patterns of work to suit changing personal circumstances will do better at retaining employees. One of the enduring myths is that flexible working, such as job shares, is not cost-effective. In reality, an employer often gets more value from a job share than from one full-time employee.

Social identity

People work to attain or retain a social and personal identity and this is often a key reason for returning to work.

It follows that any employer who offers a workplace that meets these wider needs through effective and motivated team working will be well placed to recruit returners. Providing social activities, group training sessions or opportunities to learn new skills can have an impact on productivity and retention that will far outweigh their modest costs.

Pay

Pay levels present a major barrier against older people in the labour market. A further enduring myth is that older workers cost more.

The decline in work among the over-50s has been concentrated on two groups:

- Management, professional and well qualified people who took early retirement with employer pensions. A minority have pensions of £15,000 a year or more. The majority, often forgotten, have very modest pensions of under £10,000.
- Unqualified or semi-skilled manual workers made redundant from the former heavy industries, mainly in the north and west. The majority were men who went onto benefits.

The work available for people over 50 is mainly in low skilled, low paid jobs. The prospects of an individual returning to a management post at the same level they had before are negligible. The longer a break from work lasts, the more damage it can cause for those who want to sustain or increase income levels.

Men with no or few formal qualifications face the most intractable barriers. Their employment rate continues to fall, despite the halting of the overall decline in the employment rate. The main improvement in employment rate has been seen among women, largely because they are prepared to accept less satisfactory terms and conditions. But so far, there has been little progress in finding ways to re-engage less well qualified manual and semi-skilled men in the kind of jobs that are available.

The serious decline in the value of savings in the period 2000–2003 is likely to have an impact on patterns of work. Those who thought that they might retire early may find that the sums do not add up. Those who have left the workplace may find that life is not as comfortable as they thought it would be. And changing patterns of child rearing and increasing levels of care commitments will affect the income needs of the over-50s.

Pay levels for people returning to the labour market are becoming a more serious issue. Returners will need the 26 per cent gap between their previous income and their potential earnings to be significantly smaller.

Next steps: a programme of action

Mid life should be a time of opportunity during which people have the choice to launch a new stage in their working life. Achieving this will involve action on many fronts – by individuals, employers and government.

Career guidance for adults

The first and most significant hurdle for those who are not in work and indeed those in work who need to change, is a lack of conviction in their future potential. There is little point in spending money on retraining or other programmes until individuals, employers and others believe in the possibility of a future working life. Many individuals who have experienced redundancy or a break from work will require advice and guidance to achieve this.

So it is disturbing that although there is an £8 billion budget for adult learning (excluding the higher education budget) only £300 million of it is spent on career and change management advice for adults. This is an improvement on a few years ago but career guidance is still thought of as something for the under-20s. Adult career support is a poor relation in the world of training, learning and human resource management.

Career advice for the adult, older employee is most likely to occur for the first time just as an employee is about to leave their job. This may take the form of a "pre-retirement" course or "outplacement" advice, often restricted to more senior employees. It will address a range of aspects of life after work but it is too little, too late. Employers and employees need to work together throughout working life to recognise and encourage preparation for change. Ideally, they should identify and prepare for a number of alternatives so that no-one reaches the age of 50 with a one-dimensional definition of themselves as a working person.

UK adults' poor basic skills levels came under the spotlight a few years ago and this is now the subject of extensive programmes and government targets. **Adult career guidance must follow the same route. It must be expanded into a mainstream, high profile service if we are to achieve the goal of creating a vibrant job scene for people in their 50s and 60s.**

Learning for adults

As people get older, the amount of training and teaching they receive, in or out of the workplace, declines sharply. Job related training for people in their 50s runs at half the level of what is available for those in their late 20s. The average amount of off-the-job training per employee is less than two days a year; training for the over-50s is less than one day a year.

Government surveys indicate massive spending by employers on training, including obligatory Health and Safety courses. It is hard to reconcile these reported spending levels with the evidence of those who reach their 50s, having had no training to equip them for a change of direction.

A number of large companies have become role models in espousing a broad view of the learning activity of employees. The Unipart University, the Lloyds TSB programme, the Barclays Learning Bursaries and the Ford Employee Development Programme are examples. There is evidence that in helping employees to gain skills for a range of work roles, these companies achieve the greatest levels of worker loyalty and retention. It is a further enduring myth that much of the benefit in investing in training is lost through people moving on.

Government programmes under the Workforce Development Strategy run by The Learning and Skills Council (Department of Education and Skills) are now planned to be much more strongly employer led. Funding for the courses provided by Further Education Colleges will be targeted at skills needs identified by employers.

It is unusual for a person in mid life to be able to get the necessary funded training if they decide to commit to a new career. A rare exception is in teaching, where bursaries are widely available under schemes to encourage older people into the profession, especially in subjects suffering the severest shortages. Despite all the discussion about student loans, most of us take it for granted that young people should be supported to train for working life at the start of their career. Why should it be any different in mid life?

The emerging examples of employer and government action are most welcome. The challenge is to make them commonplace rather than exceptional. Among other activities, this will require:

- **Monitoring the participation levels of various age cohorts of adults and setting targets to reduce the drop-off of learning from age 40 onwards.**
- **Introducing flexible schemes such as the Individual Learning Accounts, which empower individuals to take their learning forward rather than be directed to do what government agencies or employers want.**
- **Removing the upper age limits for retraining into a new job. We must recognise that fixed retirement ages will disappear and that there are very few occupations where a 10–15 year career, starting in the 50s, would not be sufficient to justify the training costs.**
- **Setting up more funding schemes like the teaching programme linked to recruitment.**
- **Extending modern apprenticeships to all age groups.** One of the few examples in England of extending an apprenticeship to older people took the upper age limit to just 35.

Reversing the move onto incapacity benefits

Reversing the move onto incapacity benefits is the subject of a proposed major new programme from the Department of Work and Pensions, called Pathways to Work.

Movement from work onto incapacity benefit rather than unemployment benefit (JSA) became standard practice some 15 years ago. The result is that there are now more people aged between 50 and state pension age living on incapacity benefits than there are unemployed people of all ages. By its nature, this is a one-way street away from work. There are now more than a million people over 50 who could be working, even though there are some types of work that may not be suitable for them.

We give warm support to the Government's proposed programme, Pathways to Work, aimed at a segment of the community who might otherwise end up with poorer prospects for retirement.

Changing attitudes: legislation

Like all forms of prejudice, age discrimination is neither rational nor recognised (on most occasions) by employers or service providers. Surveys of employers show that the majority of them believe that they do not have age discriminatory policies. In a Norwich Union survey in March 2002, 80 per cent of 300 employers said that they supported the idea of people working on into their 60s – but 75 per cent had no employees over 60.

There are increasing numbers of examples of lively employment policies to recruit and retain older workers. But the majority of businesses appear unaware of the issue, even though a government survey carried out by MORI in December 2002 found that age was the most commonly experienced form of discrimination. The toughest barriers are the invisible ones.

Anti-age discrimination legislation will be introduced by 2006. At the moment though, this looks set to be inadequate to the task because:

- there will be no powers or machinery to enforce it, unlike legislation to combat other forms of discrimination;
- it will not apply to goods and services, even though all sorts of age-based rules in these sectors influence patterns of behaviour and work;
- there will be a raft of general let out clauses and exemptions that will reinforce the view that age discrimination is appropriate in many circumstances; and
- there will be no positive approach of encouraging age equality to complement banning ageist employment practices.

If society is serious about the opportunity to work from mid life and to finance our retirement, then more ambitious legislation is necessary.

Incentives to work and flexible working

There is increasing recognition that a flexible mix of work and retirement or other commitments such as caring responsibilities is what many people seek. It is no accident that the retail sector is in pole position on flexible working, especially among women, given that the "office hours" mentality is no longer the norm and almost all workers are on shift systems.

The Government has proposed changes in the tax system so that employees can mix and match a reduced workload and then draw down some of their pension income in a phased shift from working life to retirement. We support this.

The greatest uncertainty surrounds incentives for those with small or no savings to continue in work and save for retirement. The direction of current Government policy features a low state pension and a pension top-up (Pension Credit) for those who do not have a modest additional income from their own savings or pension. The problem with this is that those who do have a modest level of savings will still be penalised. As the amount of personal savings effort goes up, the amount of payment by government goes down. It begs the question – why save if it leads to a penalty, particularly when the return on savings is so uncertain?

The Government's own analysis is that there are up to 13 million people of working age with low or no savings or assets (*Pensions Green Paper*, 2002). However, most debate on incentives focuses on the better

off. The need is for new thinking and generosity in incentives for the small-scale saver.

It is possible for people to defer their state pension until after pension age, thereby gaining an increased pension, perhaps in the form of a lump sum. However, there is not much of an incentive to do this, as the increase does not represent a significant gain. **The increase in the state pension for those who continue in work should be more generous.**

Nor is there much incentive to continue in work beyond 65, as people in this age group currently have no employment rights. **The upper age limit on employment rights should be removed.**

Retirement age

Related to this is the future of normal retirement ages. Each employer can set a normal retirement age in the contract for employment. For the majority of businesses, it is 65. For nearly all of the 24 per cent of the workforce who are in the public sector, it is 60. This is not the same as the pension age. It is the age at which you have to go unless you and your employer agree an extension.

A few companies have abolished normal retirement ages so that continuing in work is a matter between individual employee and employer. Such an arrangement would be based on an assessment that the individual can continue to meet the needs of the business. There is some concern that having no retirement age may mean that people are forced to go on working for the rest of their lives. However, the ending of retirement ages should not be confused with the age when a pension can be taken. The country is moving to pensions based on each person's level of savings rather than pensions based on a proportion of final salary and years of service. This will lead to a clearer distinction between retirement age and pension age.

The average age of actual retirement is 62, so the majority of people never work to retirement age. If the actual average age of retirement were to rise by two or three years, this would have more impact on the potential savings for retirement than any other measure.

Therefore, we strongly support the ending of normal retirement ages. This is not likely to lead to a sudden increase in people working throughout their 60s. But it will create a flexible basis for training and recruitment in mid life, which is not constrained by the prospect of a fixed retirement age.

Conclusion

We have set out here some of the main changes that will be needed if we are all to have opportunities and choices in mid life about our work, our leisure, our lifestyle and our finances. They involve us all whether we are workers, employers, public figures, carers, parents, volunteers or homemakers. We believe that many of the aspirations in this paper are shared by most people but practised by few. Our goal is to help more people to realise them.

Patrick Grattan
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Appendix: current trends in the employment of older people

After 30 years of sharp decline from the 1970s to the late 1990s, the employment rate of people aged from 50[1] to state pension age[2] has started to rise. In 1997, it was 65 per cent and it has now risen to 68 per cent. Over 900,000 more people in this age group are in paid work than when Labour came to power and this is much publicised by ministers to illustrate the impact of their policies.

But to put it in perspective – 750,000 of the increase is driven by the rising population in this age group, while 100,000 of the increase is the result of the rising employment rate. The employment rate of people aged 50–65 is still 14 per cent below the 82 per cent rate for the 25–49 age group.

Nevertheless, it is encouraging that the labour market has absorbed the increasing numbers in the age group. The UK employment rate for over-50s is also higher than in many EU member states, 18 per cent higher than the target set for 2005.

1. 50 is used for data presentation purposes and because it is the age at which a pension can be accessed. The trends discussed in this paper are not bounded by specific ages and we do not suggest that age 50 has any special significance attached to it.

2. The state pension age is 65 for men and 60 for women rising to 65 in 2020. There have been suggestions that it should be raised but these are not being pursued.

Employment rate of people over state pension age

This has recently started to rise. There are 850,000 people over state pension age in the UK workforce of 28 million. That represents less than 10 per cent of the 11 million people in the UK over state pension age. There is clearly huge potential for increase, although government proposals may need to include clearer and more worthwhile incentives to encourage people to defer taking their state benefit after pension age.

Economic inactivity[3] rate of people over 50

As a result of the population increase in the age group, the actual number of economically "inactive" people has not fallen, even though it has fallen in percentage terms. It remains at over 2.5 million, with a lost economic opportunity measured at £31 billion a year. Put another way, the economy would be 10 per cent larger if we still had the same pattern of employment of over-50s as in 1970. None of these calculations takes account of the hidden health-related costs of "inactivity".

3. Inactivity is a term used in labour market statistics for all those not in paid employment or registered self-employment. It is an entirely inappropriate term to apply to many or most people in this category, especially women, engaged in unpaid roles in society.

Benefit recipients over 50

Of the more than 2.5 million people aged 50 to state pension age that are not in the workforce, 1.6 million are on benefits. The number registered as unemployed has fallen by 100,000 and this has been helped by Government programmes such as the New Deal 50plus run by Job Centres.

The number on other benefits such as Incapacity Benefit (IB) and Income Support (IS) has continued to rise. This has been one of the most significant trends of the last 10 years.

People aged 50 to state pension age on IB, IS etc

1990	330,000
2002	1,400,000

Men over 60 have effectively been treated by the benefits system as if they were retired. They have received IS with a top up, equivalent to a pension and not been required to seek work. This may change under new government proposals.

Employment and savings of people under 25

With the increasing number of young people attending higher education, the average age of starting work has been rising gradually. This has an impact on the commencement of occupational pensions for those who still get the offer of one. In addition, the rise in student loan debt and Government plans to raise the cost of tuition fees will mean that the age when people have any capacity to start saving for retirement will be steadily pushed back. This is highly significant given that £50 a month saved in the 20s is worth double £50 a month saved in the 40s.

Regional and local polarisation

All these trends are increasingly accentuated on a regional and local level. Seventy-five per cent of the shortfall in work opportunities for the over-50s is concentrated in Scotland and Wales as well as the northern and western regions of England, which together account for 50 per cent of the population.

Only 25 per cent of the shortfall in jobs is found among the 50 per cent of the population who live in the southern and eastern regions of England (Fothergill, 2002). The real unemployment rate of over-50s in disadvantaged wards is over 25 per cent, five times the rate in many, though not all, parts of the south east of England.

Adult savings rates

The savings rate has been falling steadily, although government and financial bodies have different views about what has been happening. The rate in 2001 was 3.75 per cent of personal income, the lowest level since records began (*Budget Book*, April 2002). Personal debt among the working age population has meanwhile reached unprecedented levels.

Participation in pension schemes is declining as patterns of saving and spending change. The number of people aged 50 to state pension age in work that have an occupational pension has dropped from 73 per cent to 62 per cent in the last 10 years *(ESRC Future of Work*, 2002). Investment in property as an alternative form of long-term saving has risen sharply. The growth of tax-exempt savings vehicles such as PEPS and ISAs has represented an alternative to pension schemes. It is therefore hard to produce meaningful figures about savings over time.

What is clear is that savings rates have become more polarised between the better off and the poor. Even with the collapse of the Stock Market, "asset-rich" people are better off over time while "asset-poor" people save even less than in the past. The Government's *Pensions Green Paper* estimates that between 8 and 13 million people – up to almost 50 per cent of the workforce – have non-existent or seriously inadequate savings for retirement.

Declining employer contributions to occupational schemes

The most significant change in savings patterns has been the reduction of employer contributions to company pension schemes. Typical levels of contribution to final salary schemes were 12–15 per cent of pay in 1990; they are now 5–7 per cent. This represents a cut in the pay package although not one that is widely understood. For many years, employers have taken what are called "pension holidays" – periods when no employer contribution to the occupational fund was made because of its apparently healthy state relative to potential liabilities to pay future pensions. Now that contributions are needed because of the fall in the Stock Market, many employers cannot afford to pay them or to sustain the levels of past contributions.

There is also a shift from schemes that guarantee a certain level of pension relative to former level of earnings (called final salary or defined benefit) to schemes that pay a pension based on the value of the savings put into them (called defined contribution). This need not be disastrous but it does mean that there is far more risk for the individual as to how much pension they eventually receive. Most employers are now closing the old types of scheme to new employees and it appears only a matter of time before the change may affect existing employees.

However, none of this applies to the 24 per cent of the workforce in the public sector where final salary schemes and substantial employer contributions are firmly in place.

Declining value of government contributions to state pensions

The Treasury's own figures show that the proportion of government spending on pensions is set to decline (from 5 per cent of GDP now to 4.8 per cent in 2050) even though the population over state pension age is rising dramatically.

This is because the value of the state pension is declining. In 1980 it was 24 per cent of average earnings. It is now

15 per cent and is forecast to fall to 7 per cent of average earnings by 2050. By itself, the basic state pension no longer provides an acceptable standard of living and the aim is that the vast majority will take steps to provide for themselves.

The Government is putting faith in a new system for channelling pension spending to those most in need. From October 2003, the Pension Credit (incorporating the Minimum Income Guarantee) will provide an income above the standard state pension for those who have small amounts of or no other income (about half the pensioner population). Whether it works depends on whether people understand that they have to go through the process of claiming it.

Declining value of private pensions

In a world of low inflation and low interest rates as well as poor investment performance and longer life expectancy, pension funds do not buy such a large annual income or annuity.

Annual pension at age 65 from a £100,000 pension fund

2000	£9,110
2002	£4,837

(Hargreaves Lansdown, 2003)

There is no such thing as risk free long-term savings. This has been one of the most important messages from the recent performance of financial markets as well as the various scandals and troubles to hit corporations and financial services. Confidence in financial advice has tumbled and this is a further hurdle to building the level of savings for retirement.

Notes

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