Working Lives report 2016

A research report into employer and employee attitudes to workplace pensions, savings and benefits

Retirement
Investments
Insurance
Health

Welcome to Aviva's **Working Lives** report

Key findings

- Large employers are most concerned by staying ahead of their competitors in 2016 while new legislation is the biggest headache for small firms
- Firms also report growing pressure to keep up with salary and benefit expectations, although fewer staff understand what is available to them
- Modernised pension schemes are the biggest business benefit of auto-enrolment to date, but passing on costs to customers remains a concern
- More than one in three employees over the age of 50 now expect to retire at a later date than they hoped when they were 40 – they expect to work eight years longer on average
- Employers' fears about a skills exodus following the pension freedoms may be overstated

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Foreword

Andy Curran
Managing Director,
Corporate and Business Solutions, Aviva

"Changing workforce demographics present both challenges and opportunities which businesses will need to embrace, alongside efforts to help all staff save better through workplace pensions."

Few would have predicted just how far the retirement savings landscape has shifted in recent times. Looking back just three years, auto-enrolment was gathering pace and the Default Retirement Age had already ended, but we were still a year out from George Osborne's 'pension freedoms' announcement in the 2014 Budget.

Now, almost 12 months on from 6 April 2015 – 'Pension Freedoms Day' – this third edition of Working Lives explores the rapidly changing outlook for employees over the age of 50 in the UK private sector, as well as assessing the broader picture for workplace savings and benefits.

Our analysis of views from over 500 employers and 2,000 employees comes at a time when a degree of confidence has returned after the downturn, despite wider uncertainties about European and global economies. Businesses are focused on maintaining competitive advantage and attracting the right staff in 2016, and there are signs that workplace benefits are being deployed as a strategic tool to support these aims.

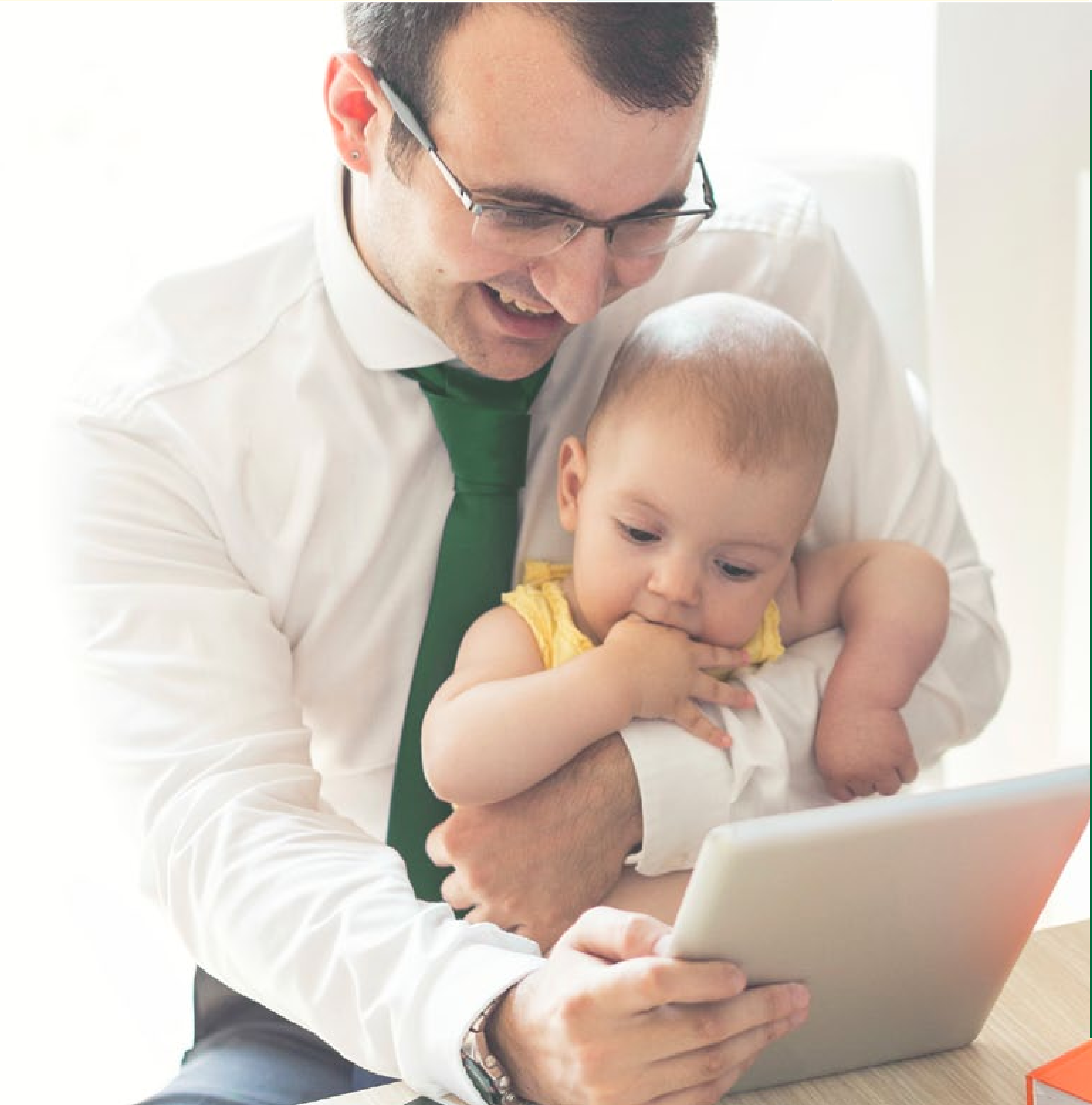
More employers are offering staff benefits beyond basic salaries and almost one in five plan to increase their spending this year. Auto-enrolment has encouraged more frequent benefit reviews, and has received a positive reception both from employers and employees to date.

Nevertheless, doubts still linger among smaller firms about the challenge of implementing auto-enrolment. Keeping up with new legislation is their most pressing issue, but it is to their great credit that small business' concerns behind the scenes do not appear to be impacting on their employees' experience of auto-enrolment. There is a collective duty among providers, advisers, consultants, Government and regulators to help them as this journey continues.

The same is true of adapting to the changing age profile of the UK workforce: a trend which – like auto-enrolment – affects businesses of all sizes. More than one in three over-50s working in the private sector today expect to retire at a later date than they hoped when they were 40. Employers are also worried about a skills exodus as a result of the pension freedoms, but many firms are currently unprepared for either scenario of workers retiring earlier or later than expected.

Changing workforce demographics present both challenges and opportunities which businesses will need to embrace, alongside efforts to help all staff save better through workplace pensions. Access to clear guidance and expert support will be vital to make the workplace savings revolution a lasting success, and ensure staff feel valued and supported throughout their working lives.

Andy Curran
Managing Director,
Corporate and Business Solutions, Aviva



Working life in the UK today

Key findings

- Confidence has returned to the private sector in the last three years
- Private sector workers now report better levels of enjoyment and work-life balance
- Large employers are most concerned by staying ahead of competitors while new legislation worries small firms
- Firms also report growing pressure to keep up with salary and benefit expectations
- Attracting talent has become the top HR priority for the private sector

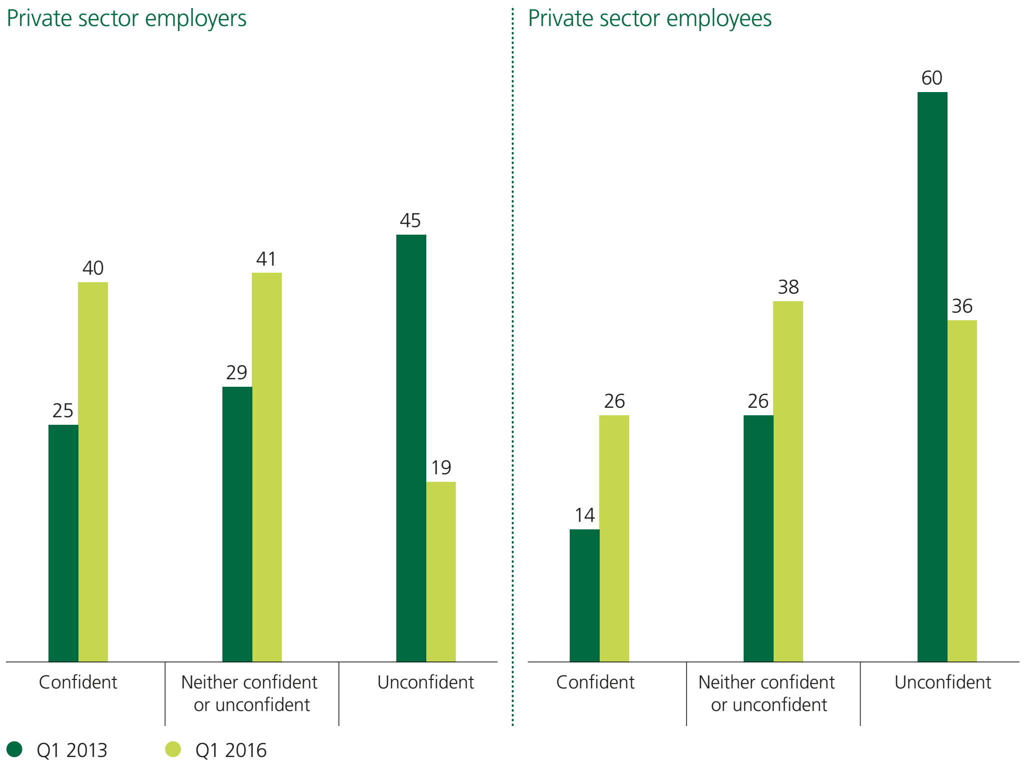
The three years which have passed since Aviva's last Working Lives report was published in Q1 2013 have seen confidence return to the UK economy. Consumer sentiment has turned on its head: whereas just 16% of UK consumers were confident in the economy at the end of 2012, while 62% were not, confidence had spread to 47% of consumers by the end of 2015 with just 21% saying they are not confident about the economy.

This sense of emerging from troubled times is mirrored among private sector employers and employees, despite the shadow of instability in global financial markets. At the start of Q1 2016, Aviva's Working Lives research reveals 40% of employers are now confident in the economy, compared with just 25% three years ago. Those who lack confidence have fallen from 45% to 19%.

Employees are more cautious: although 26% are now confident, up from 14% three years ago, this still leaves 36% lacking in confidence in the economy, which may be influenced by reports of a turbulent start to 2016 in financial markets.

Confidence in the UK economy

%



Working life is looking up

Compared with three years ago, when uncertainty about surviving the downturn was troubling 29% of employers and 19% were worried about cutting jobs, businesses appear much more positive about their individual prospects. Just 16% are now concerned about surviving the downturn while 8% are worried about job cuts. Almost three quarters (74%) now feel confident about their business' financial position, up from 68% in Q1 2013.

A range of measures – from liking work and the working environment to the impact of work on family time and health – also suggest private sector employees are in a noticeably better position at work than they were during Q1 2013.

How private sector employees feel about their work / life balance

%

	Q1 2013	Q1 2016	Change (percentage points)
Enjoy work	60	63	+3
Feel they work in a friendly atmosphere	64	78	+14
Derive personal satisfaction from work	60	67	+7
Happy with the impact of work on time spent with family	53	67	+14
Happy with the impact of work on their health	45	56	+11

Competitive concerns occupy medium and large firms while legislation troubles small employers

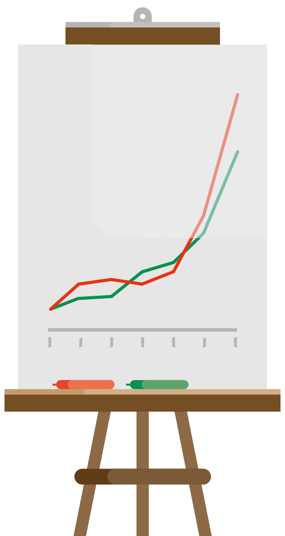
Staying ahead of the competition and innovating remains the most common concern among private businesses, affecting 47% – up from 42% three years ago. In line with their returning confidence, surviving the downturn (16%) has been overtaken as employers' second most common concern by adapting to have more efficient systems, processes and technologies (30%).

Among small firms, keeping up with new legislation such as pension changes is the biggest concern, affecting 37%. This also registers as the third most common concern across all employers in Q1 2016, with 25% now feeling this pressure compared with 14% three years ago.

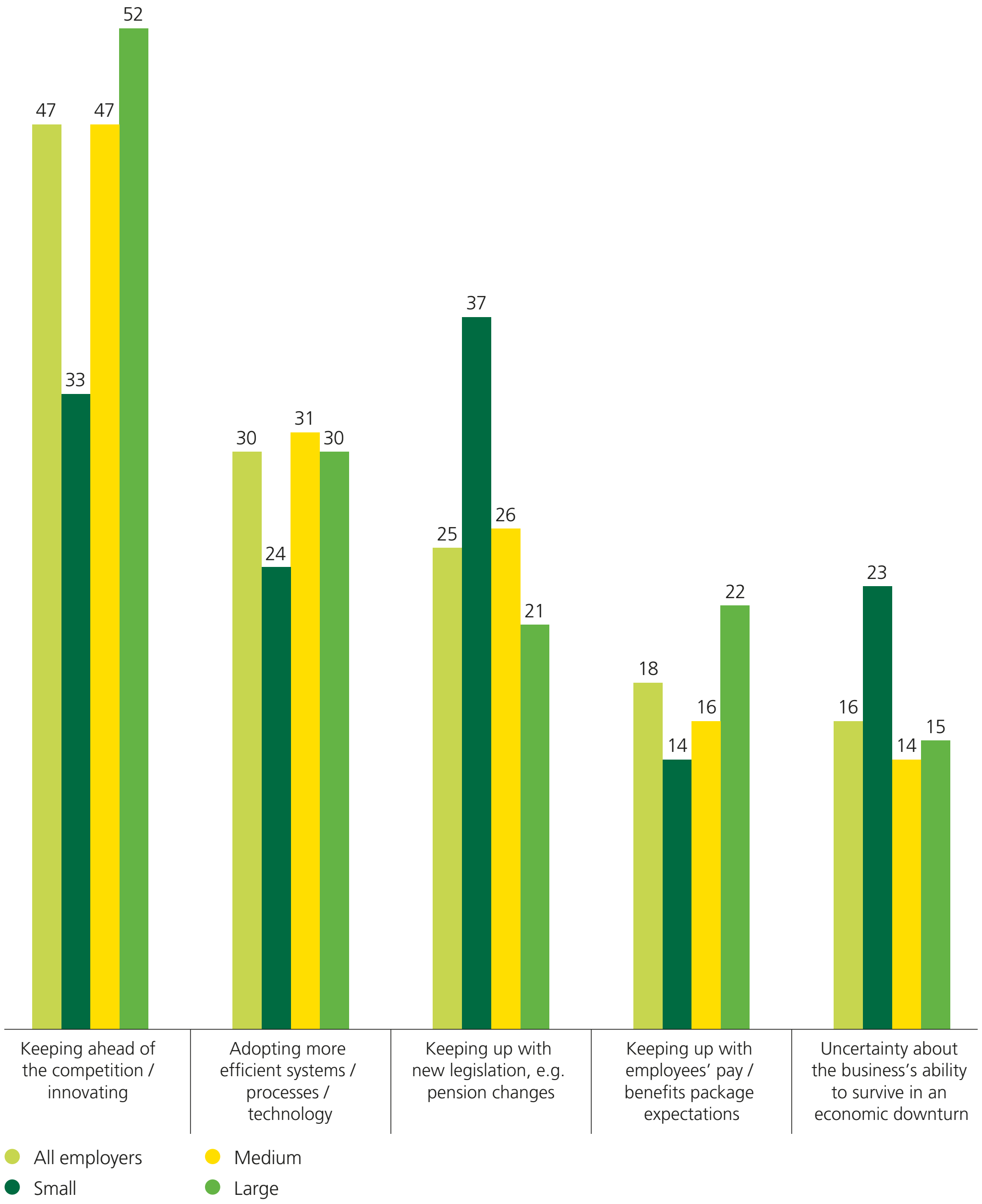
Although large firms report less pressure from legislative changes, they are more likely to feel concerned about keeping up with employees' pay and benefits package expectations. This now affects 18% of all firms, up from 13% in Q1 2013.

All employers' top five concerns, Q1 2013
%

Keeping ahead of the competition / innovating	42
Uncertainty about the business's ability to survive in an economic downturn	29
Adopting more efficient systems / processes / technology	24
Cutting jobs	19
Keeping up with new legislation, e.g. pension changes	14



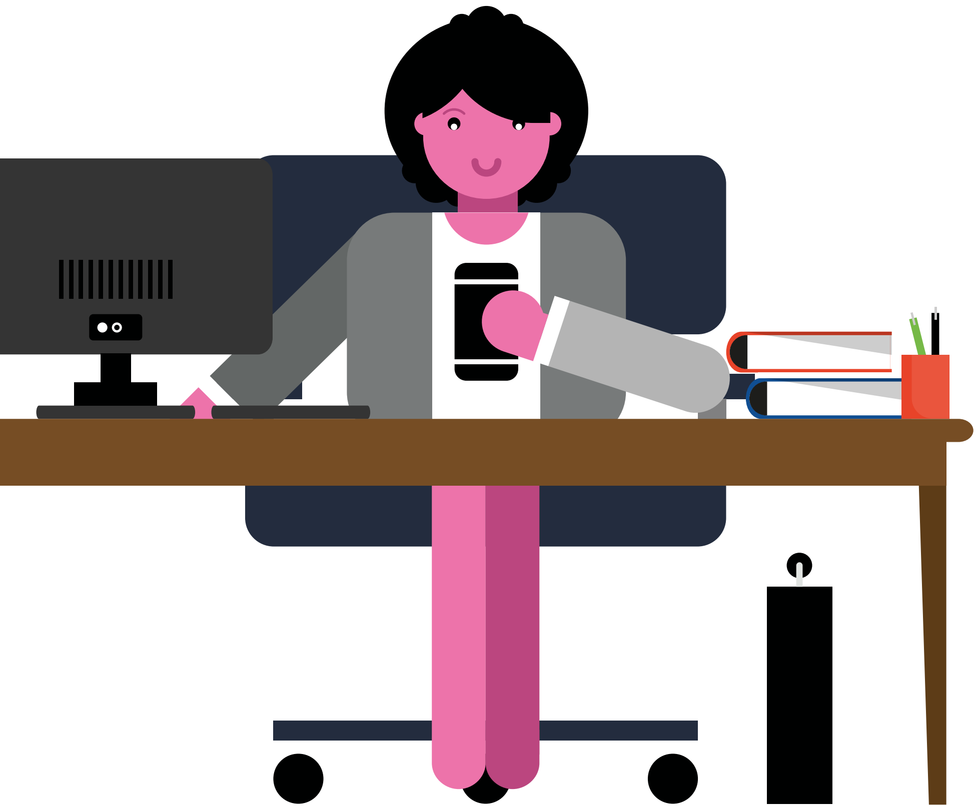
Employers' top five concerns, Q1 2016
%



Recruitment is now the top HR priority

More firms are concerned about keeping up with salary and benefit expectations and this may be linked to the fact that more firms see recruiting skilled workers as a staffing priority for 2016. Asked about their priorities regarding employees, just 17% of firms identified attracting employees with the right skills in Q1 2013, making it their fifth biggest priority. Three years on, more than one in three businesses (36%) now have this as a priority: making it the number one focus overall.

Aviva's research suggests this may be having an impact on workplace benefit offers. As Section 3 of this report explores, more employers providing workplace benefits are motivated to do so by recruitment and retention (56% vs. 44% in Q1 2013), while fewer are concerned about motivating staff without unduly increasing remuneration (25% vs. 32% in Q1 2013).



"As a degree of confidence returns to the private sector, employers have been able to turn their attention away from surviving the downturn and towards other priorities such as innovating, becoming more efficient and staying competitive.

However, there is still pressure coming both internally and externally in the form of new legislation and satisfying employees' pay and benefit expectations. Small firms are understandably feeling the heat, but even medium and large employers are not immune.

High demand for skilled staff means the offer of an appealing yet cost effective benefits package could be a vital part of attracting the right talent or retaining existing skills."

Andy Curran
Managing Director, Corporate and Business Solutions, Aviva

Auto-enrolment and workplace savings

Key findings

- Approval for Government's decision to introduce auto-enrolment for workplace pensions has continued as the roll-out progresses
- The greater challenges facing smaller firms have not impacted on the experience for staff
- Employers' positive reports to date contrast with the fears of those who are not yet underway
- A modernised pension scheme is seen as the biggest benefit for employers to date, while passing on costs to customers is the biggest concern
- Staff increasingly tuned into the advantages of employer contributions

Aviva's research shows both employers and employees have continued to welcome the Government's decision to introduce auto-enrolment for company pension schemes, as the process has been rolled out across firms of different sizes since 2012.

Three in five employers (61%) and employees (62%) in Q1 2016 agree with the decision to make the workplace the focus for automatic pension savings – a slight increase on Q1 2013. (58% and 59% respectively).

Approval levels are far higher among those employers who have begun the process (74% agree while 6% disagree), indicating that the initiative has largely been well received by those who have experienced it to date. Employers who haven't started auto-enrolment are less certain (45% agree while 17% disagree), which also explains the lower levels of support among small employers and their staff.

How attitudes to auto-enrolment vary: those who agree with auto-enrolment via the workplace
%

	Employers		Employees	
	Agree	Disagree	Agree	Disagree
All	61	10	62	10
Small companies (0-49)	40	20	53	15
Medium companies (50-249)	56	9	62	8
Large companies (250+)	74	7	73	7
Those who have experienced auto-enrolment	74	6	–	–
Those who have not experienced auto-enrolment	45	17	–	–

Note: the remaining percentages include those who neither agree / disagree or don't know

Challenges facing smaller firms have not undermined staff experience

While the auto-enrolment process began from 1 October 2012 for larger firms, many others are still at an earlier stage of their journey. Businesses with 30-49 staff held their starting date between 1 August and 1 October 2015 while those with fewer than 30 staff have a window that opened on 1 January 2016 and continues throughout 2017.

Overall, a significant 93% of staff who have experienced auto-enrolment say the process was straightforward. This is particularly positive given that just 55% of employers who have started the process share this view, falling further to 24% among small firms.

However, the challenges for small businesses do not seem to have negatively impacted the experience for their staff: 94% of employees who have experienced auto-enrolment at a small company still report it was straightforward.

How many of those experiencing auto-enrolment feel it has been straightforward?
%

	Employers	Employees
All who have experienced auto-enrolment	55	93
Small companies (0-49)	24	94
Medium companies (50-249)	52	89
Large companies (250+)	64	94

The majority of employees are also positive about the amount of information they have been provided with during auto-enrolment to explain the process and the scheme they were joining. In both cases, the experience of those at small companies measures up favourably alongside their medium and large equivalents, and those who joined at the outset remain positive about their experience.

Employees have a favourable view of auto-enrolment information provided
%

		All	Small	Medium	Large
I was provided with enough information about the process of joining	Agree	79	80	74	81
	Disagree	6	7	5	6
I was provided with enough information about the scheme I was joining	Agree	77	80	77	77
	Disagree	6	8	6	6

Note: the remaining percentages include those who neither disagree or agree or don't know

Reality of auto-enrolment for businesses has been better than expected – so far

Asked how the experience of auto-enrolment has affected their business, employers are largely positive. The most common response, from one in four (25%), is that it has modernised their pension scheme, while one in five (20%) report that it has enabled them to provide better pensions for more employees.

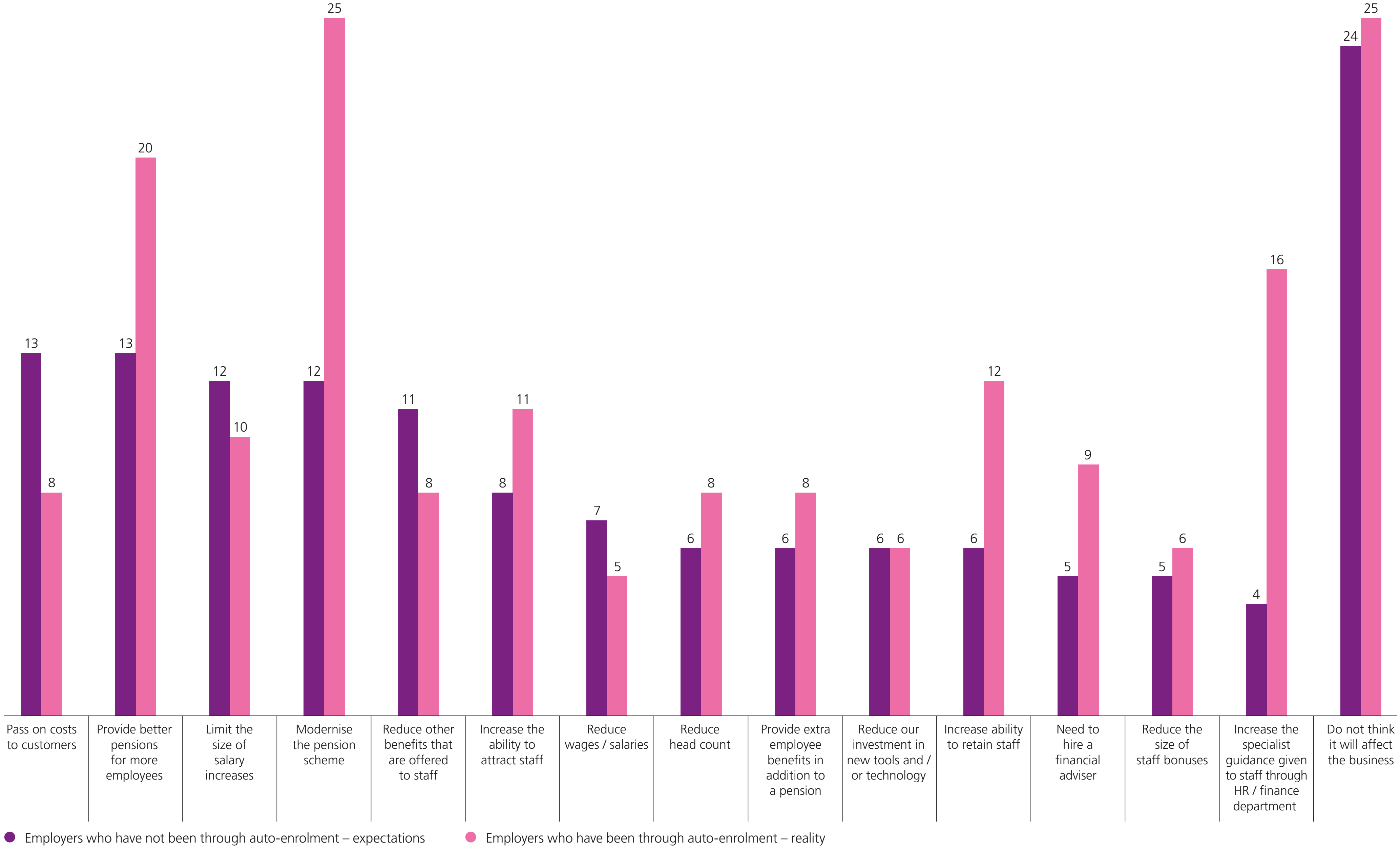
Increased ability to attract and retain staff also feature in the top five effects reported by these businesses, although 16% have also experienced a need to increase the level of specialist guidance given to staff through their HR / finance departments.

However, there are clearly concerns among those firms who have not yet begun auto-enrolment that it will have more negative impacts on them. While the top five impacts they expect does include better pensions (13%) and a modernised pension scheme (12%); these firms are also concerned about passing on the cost to customers (13%), limiting the size of salary increases (12%) and reducing other benefits that are available to staff (11%).

Although almost one in four firms (24%) yet to experience auto-enrolment anticipate it having no effect on their business, the findings suggest a challenge lies ahead if the overall positive assessment is to be shared by smaller firms as they come on board.

How employers feel auto-enrolment has or will affect their business

%



Auto-enrolment encourages good savings habits for the future

In terms of the difference auto-enrolment has made to people's saving habits, a majority of those enrolled – more than three in five (61%) – report an improvement in their savings habits. One in three (34%) say it means they are now saving into a pension for the first time in their life, rising to 50% of those aged 25-34. This suggests auto-enrolment is having the desired effect of encouraging more people to start saving for their retirement at a younger age.

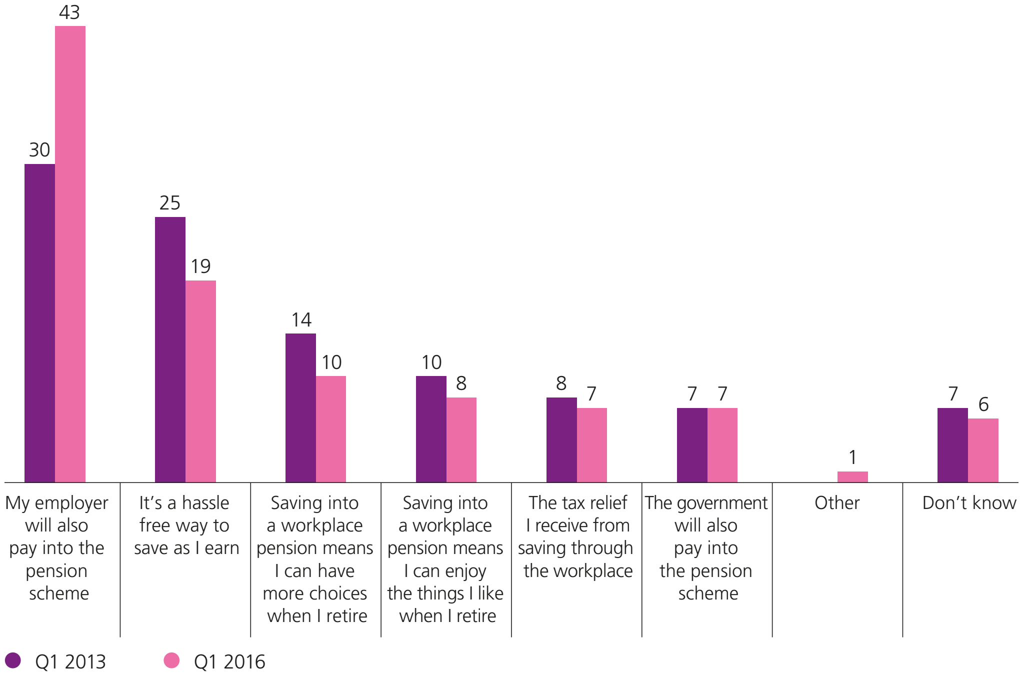
Employer contributions emerging as the deciding factor

Comparing how attitudes have changed in the last three years as auto-enrolment has become a more common experience, Aviva's data suggests people have become more attuned to the benefits of receiving employer contributions to their workplace pension.

While 30% of those who have or are likely to stay opted in chose this as the most important advantage in Q1 2013, this has since risen to 43% in Q1 2016, showing the importance of an employer contribution. The prospect of changes to pensions tax relief in the future is likely to have a significant impact on people's perceptions: not least because 14% of participants currently regard tax relief or government contributions as the biggest advantage of auto-enrolment.

What those who are staying opted in see as the key advantage to auto-enrolment

%



"It is clear that there has been overwhelming support for auto-enrolment and businesses of all sizes should be proud of how well received the changes have been among their employees. Nevertheless, the findings reinforce the need to avoid complacency and support those smaller firms who are at an earlier stage of the journey.

Many who have been through the process so far are positive about the benefits, and there are tangible signs of improved savings habits as a result. Encouragingly, the challenge facing small businesses does not seem to be weighing down on the experience for staff, as employers work like swans: staying calm on the surface but working hard behind the scenes to manage a smooth transition.

Plenty of information and services are available to help these businesses along with their auto-enrolment journey, and they can also benefit from valuable insights and lessons learned to date."

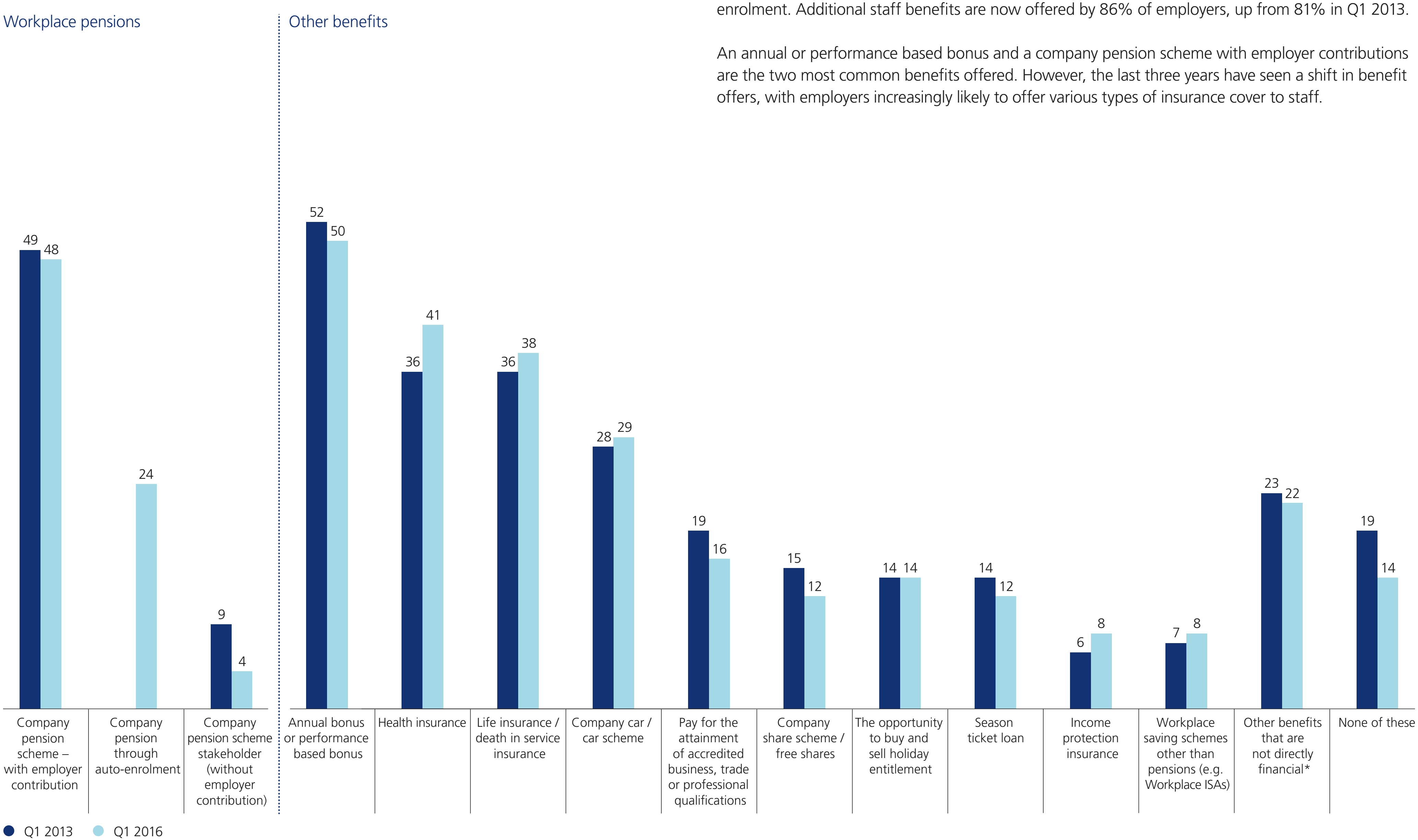
Andy Curran
Managing Director, Corporate and Business Solutions, Aviva

Workplace benefits and savings

Key findings

- Benefit boost as more employers offer staff benefits and one in five plan to increase their spend in 2016
- Benefit offers are closely tied to key business objectives of staying ahead of the competition and attracting talent
- Despite the importance of salaries, fewer than one in five employees say they don't value their benefits and would swap them all for a bigger pay packet
- Age considerations are the driving factor behind flexible benefit offers
- Employers are reviewing their benefits more often – but employees have less understanding of what is available to them

How employer benefit offers have changed in the last three years
%



* such as subsidised gym membership, canteen / luncheon vouchers, discounts on products / services, opportunity to take a sabbatical, crèche facilities

Aviva's latest research shows that more private sector employers are now offering employee benefits beyond basic salaries than was the case three years ago, partly resulting from the roll-out of auto-enrolment. Additional staff benefits are now offered by 86% of employers, up from 81% in Q1 2013.

An annual or performance based bonus and a company pension scheme with employer contributions are the two most common benefits offered. However, the last three years have seen a shift in benefit offers, with employers increasingly likely to offer various types of insurance cover to staff.

Companies are not only more likely to offer workplace benefits: they are also planning to spend more doing so. Almost one in five private sector employers (19%) are planning to increase spending on employee benefits in the next 12 months. This is a major reversal from Q1 2013, when just 6% of employers were planning to increase their spending and 17% were planning cuts.

Three years on, just 13% of employers plan to reduce their benefit spend in the next 12 months. Large employers are the most likely to be planning to spend more, although conversely they are also the most likely to anticipate cuts.

With many small businesses due to begin auto-enrolment in this period, these firms are the most likely to be unsure about how their workplace benefits spend will change. The fact that a relatively low percentage are planning to spend more may be a sign that some are underestimating the potential impact on their business.

Plans for spending on workplace benefits in the next 12 months
%

	Size of employer			
	All	Small (0-49)	Medium (50-249)	Large (250+)
Increase spend	19	8	17	25
Maintain spend	62	73	65	54
Decrease spend	13	6	13	17
Not sure	6	12	5	5

Benefit spend fuels drive towards corporate objectives

The trend towards a broader and better funded workplace benefits offer seems closely linked to corporate objectives. With employers in Q1 2016 identifying recruitment and retention as top business priorities with regard to their employees, 56% now offer additional employee benefits for this purpose. Just 44% did the same in Q1 2013.

Similarly, almost one in three (32%) employers see keeping pace with competitors as a key reason for offering additional staff benefits, up from 28% three years ago. This reflects the fact that staying ahead of the competition and innovating is the biggest concern among employers in Q1 2016.

Recruitment as a business priority and a motive for offering workplace benefits
%

	Q1 2013	Q1 2016
Employers who see attracting employees with the right skills as a top business priority	17	36
Employers offering benefits mainly for recruitment and retention	44	56

The data suggests there has been a slight increase in benefit strategies being used as a means to meet key corporate objectives in 2016. More businesses are making staff benefits and reward packages a key feature of their annual strategic planning process, up from 62% in Q1 2013 to 64% in Q1 2016.

Businesses are also seeking more regular feedback from their staff on the relevance and usefulness of benefits: 72% now do so at least once a year, up from 60% three years ago. Similarly, 61% of businesses now review their benefits offer at least once a year, up from 56% over the same period.

Which benefits matter most

Both employers and employees are in agreement about the overall importance of a competitive salary or wage in the workplace. More than half (51%) of employers think this is among their employees' most important priorities, and 50% of employees agree: making it their top concern.

Nevertheless, despite the importance of a competitive salary, fewer than one in five employees (19%) who are offered workplace benefits would rather have extra money in their pay packet instead. This suggests that benefits are valued by staff – and unsurprisingly, the five most valued benefits from employees' perspectives mirror those which are most commonly offered to them.

Comparing the benefits employers offer compared with those which staff value most
%

Benefits offered the most by employers		Benefits valued the most by staff	
Annual / performance based bonus	50	Annual / performance based bonus	23
Company pension scheme with employer contribution	48	Money purchase / DC pension scheme	21
Health insurance	41	Health insurance	10
Life insurance / death in service insurance	38	Life insurance / death in service insurance	9
Company car / car scheme	29	Company car / car scheme	6

Comparing attitudes across age groups, bonuses are valued most in the earlier years of people's working lives, from 18 to 44, and again from the age of 65 onwards when they may directly influence retirement plans. Workplace pensions become more important between the ages of 25 to 44 and are the most valued benefit between 45 and 64.

Health insurance is valued by most age groups, although those aged 45-54 put more importance on the availability of life insurance or death in service insurance.

Which benefits are valued during people's working lives?

Age group	Most valued benefits
18-24	1. Annual / performance based bonus
	2. Health insurance
	3. Money purchase / defined contribution pension scheme
25-34	1. Annual / performance based bonus
	2. Money purchase / defined contribution pension scheme
	3. Health insurance
35-44	1. Annual / performance based bonus
	2. Money purchase / defined contribution pension scheme
	3. Health insurance
45-54	1. Money purchase / defined contribution pension scheme
	2. Annual / performance based bonus
	3. Life insurance / death in service insurance
55-64	1. Money purchase / defined contribution pension scheme
	2. Life insurance / death in service insurance
	3. Health insurance
65+	1. Annual / performance based bonus
	2. Money purchase / defined contribution pension scheme
	3. Health insurance

Equality, age and workplace benefits

Aviva's data indicates a growing shift towards egalitarian workplace benefit offers. More than half (53%) of employers now offer all staff access to the same benefits, compared to 44% in Q1 2013.

Among those businesses who offer staff benefits, more than one in three (38%) offer flexible benefits: that is, a range which employees can choose from to suit their needs, usually at a cost to themselves. Almost half (49%) of large employers offering benefits have flexible offers, compared with 32% of medium employers and 15% of small firms.

Age considerations are the primary motive behind offering flexible benefits. More than half (53%) of employers who choose this route do so because they feel employees of different ages require different benefits. Flexible benefits are also linked to strategic staff objectives: the second most common motive for a flexible benefit offer is to act as an incentive to retain and attract staff (25%).

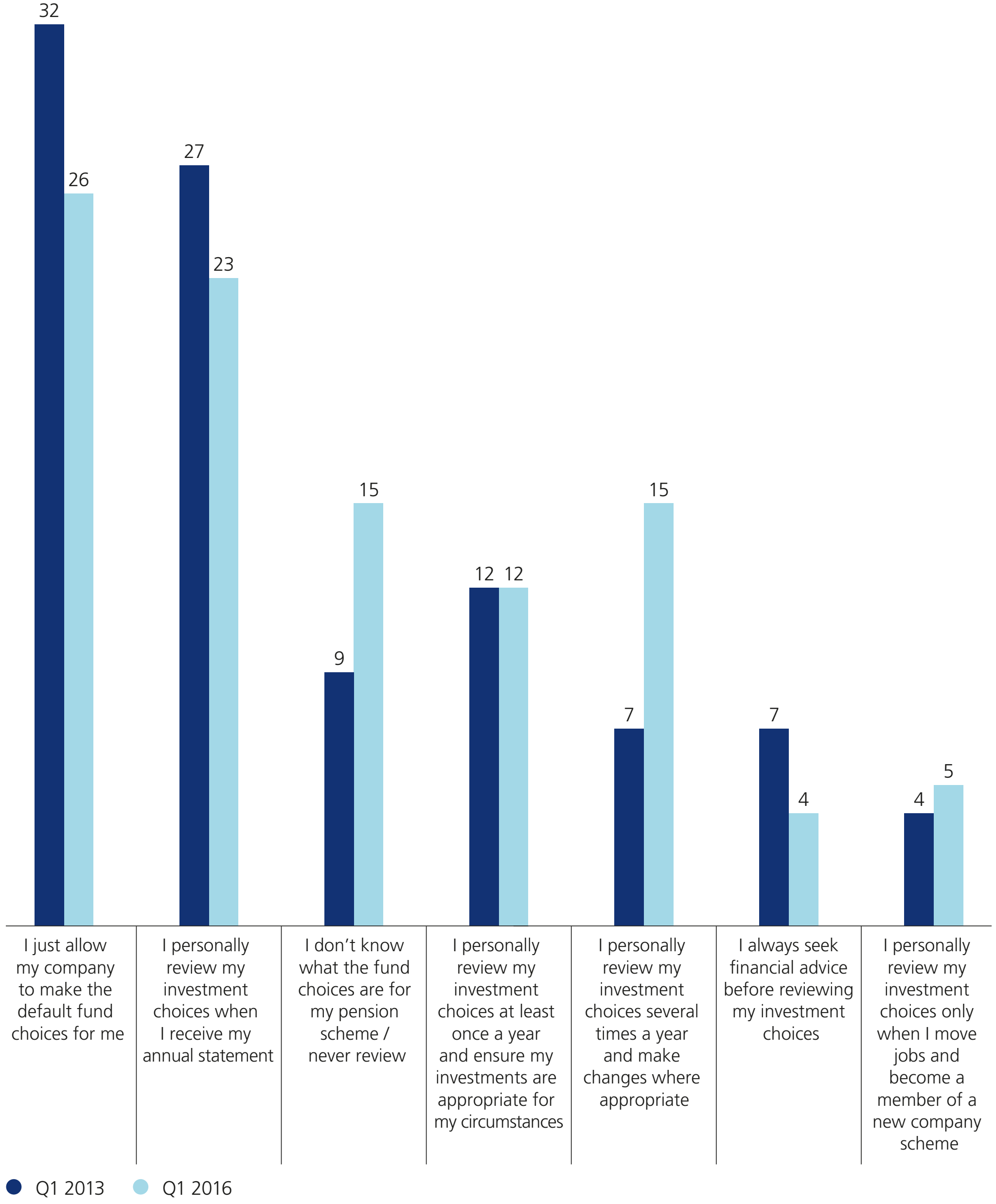
Wider benefit offers yet to prompt greater engagement

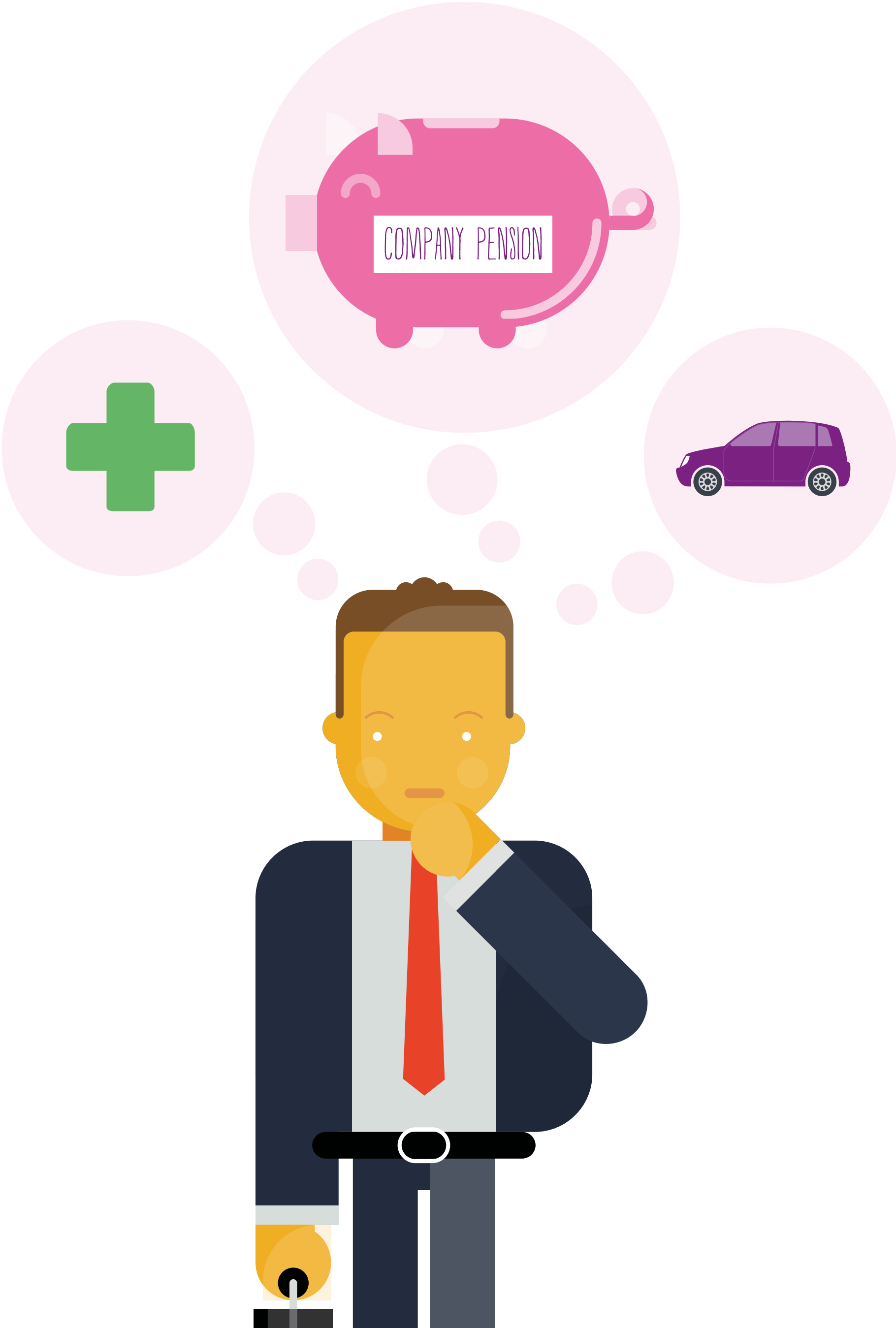
Despite more businesses offering benefits and reviewing them more frequently, Aviva's research suggests there is still work to be done to tackle staff engagement. Three years ago, 53% of employees felt they understood all the benefits their employer offered; this has since fallen slightly to 50%.

There are signs of better engagement among those who are contributing to defined contribution (DC) workplace pension schemes. The percentage reviewing their investment choices several times a year has risen from 7% to 15%. However, another 15% do not know what their fund choices are, and more than one in four (26%) just allow their company to make the default fund choices for them.

How do employees with workplace pensions make investment decisions?

%





"There are encouraging signs that workplace benefits are attracting greater attention from employers at a more senior level, as businesses review their offer more frequently and seek feedback from staff.

Current benefit offers look well-matched to what staff value the most. However, as the age profile of the workforce shifts, employers should keep in mind that different types of support can mean more to people depending on their stage of life.

There is also work to be done to encourage greater staff awareness about making the most of what's on offer to them. Having brought people on board via auto-enrolment, the challenge is to educate staff further about making financial choices, especially around savings and investments, that will deliver the most positive outcomes."

Andy Curran
Managing Director, Corporate and Business Solutions, Aviva

Over-50s in the workplace

Key findings

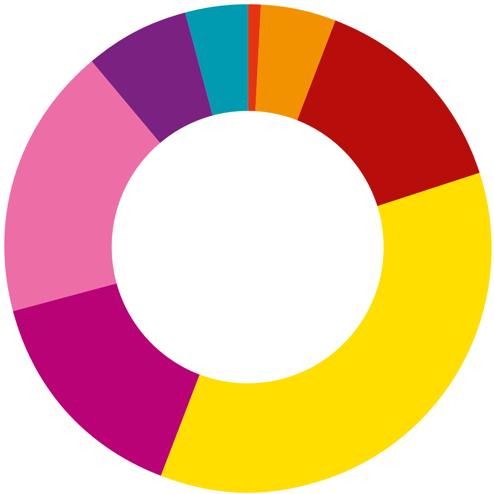
- More than one in three employees over the age of 50 expect to retire at a later date than they hoped when they were 40, leaving them to work eight years longer on average
- A lack of savings and lingering debts are key motives for working longer – but so are contributing in the workplace and getting a sense of satisfaction
- Enjoyment and satisfaction at work is highest amongst those aged 65 and above
- Employers' fears about a skills exodus following the pension freedoms may be overstated
- Larger businesses are best equipped to manage the impact of shifting retirement plans, but many firms are unprepared

There have been substantial changes affecting UK employees in recent years. A gradual decline in final salary pension schemes, changes to the state pension age along with a gradual increase in life expectancy have meant that the working lives of those currently employed have evolved considerably compared to those of previous generations.

One of the most significant developments highlighted by Aviva's latest Working Lives research is that more than one in three (36%) private sector employees aged 50 and above now expect to retire at a later date than they had envisaged when they were 40. The average time gap between when these people thought they would retire versus when they think they will now retire is eight years.

The most common age range people now think they will retire is between 65-69 (36%), with 15% planning to work past 70. A further 18% of employees intend to keep working until they are no longer physically or mentally able to and do not commit to a timeframe.

What age do over-50s now expect to retire?
%



What are the reasons behind this change? Among those over-50s who said they now expect to work longer, a lack of sufficient savings in their pension was identified as the most common reason by almost half (46%). The amount available through a state pension (32%) and debts such as a mortgage to pay off (24%) were the next most common reasons.

Why employees now intend to work longer than planned
%

Not having saved enough into pension	46
The amount available through the state pension	32
Debts to pay off including mortgage	24
Still a lot to offer at work / to employers	21
Levels of enjoyment and satisfaction	20
My employer wants to keep me on	13
Position of my partner	13
Need to support children financially	8
Need to support elderly relatives financially	1

In line with their staff, employers also listed lack of savings in a pension as the most common reason as to why their employees may have to work longer. 44% of employers believe this to be case, closely followed by outstanding debt (35%) and state pension levels (31%).

Despite the importance of financial factors, it is clear that many employees who now intend to work longer are also doing so because of a sense they still have much to offer (21%) and because they still enjoy working (20%). Levels of enjoyment are the highest amongst those 65 and over with 40% working longer because of this factor.

This may be a reflection of the fact that workers over the age of 50 feel increasingly valued by their employers. Beyond their 50th birthday, almost two in three (64%) employees fee valued by their employer, and there is a significant jump in this percentage as people age. Compared with 55% of those aged 50-54, more than four in five (81%) of over-65s feel valued in the workplace.

Workers aged 50+ who feel valued by their employer
%

	All over-50s	50-54	55-64	65+
Valued	64	55	60	81
Under-valued	32	40	35	17
Don't know	4	5	5	3

The impact of pension freedoms

The much heralded ‘pension freedoms’, which were introduced in April 2015, allowed people aged 55 and above full access to their pension savings, removing the need to purchase an annuity. This has provided people with far greater choice as to how they financially plan for the future. Aviva’s research however highlights varying views among employers in terms of the extent to which the reforms may impact upon the working lives of employees aged over 50.

Over one in four (27%) employers think the freedoms could result in employees having to work longer as employees will need to make up for a shortfall in savings if they use part of their pension before retirement. At the same time, almost one in three (32%) employers are concerned that they will lose valuable skills because people will retire earlier due to the freedoms.

As for what employees think, the vast majority do not intend to alter plans because of the pension reforms with 71% stating they have no plans to retire or that they still intend to retire at the age they had planned before the introduction of the freedoms. Only 8% highlighted that the freedoms will result in them retiring earlier, contrasting somewhat with the concerns employers have around loss of skills.

Nevertheless, one in ten (11%) of all employees over the age of 50 now think they will retire at a later date because of pension freedoms, while 9% still remain unsure as to what the eventual impact of the freedoms will be upon their retirement plans. Only time will tell what the true impact of the freedoms will be and whether current expectations will become a reality.

When it comes to the over-65s, a larger proportion think they will retire at a later date because of the freedoms with 16% highlighting such an intention: more than either the 50-54 or 55-64 age groups. The over-65s are also the age group least likely to retire sooner as a result of the new freedoms (7%) and most uncertain about how the changes will affect their plans (12%).

The impact of freedoms upon over-50s’ plans to retire from work
%

	All over-50s	50-54	55-64	65+
I intend to retire at the age I always planned	39	37	48	34
I have no plans to retire	32	34	31	32
I am planning to retire later	11	11	8	16
I am planning to retire sooner	8	10	9	7
Don’t know	9	9	5	12

Business preparations for an ageing workforce

Managing the impact of pension freedoms and changes to the default retirement age from a business perspective is a considerable task.

Large businesses are currently better equipped with almost half (48%) highlighting that they have plans in place to deal with staff retiring sooner than expected, compared to just 17% at medium sized businesses and only 15% at small businesses.

Likewise, 42% of large businesses state that they have plans in place should employees retire later than expected, compared to 14% across both small and medium sized businesses.

Nevertheless, the fact that the majority of businesses are not prepared either way, a figure which is higher amongst SMEs, illustrates that businesses may have more work to do in the coming years in order to accommodate changing work patterns among older employees.

Businesses that do not have plans in place to manage employees' changing retirement plans
%

	Employees retiring earlier than expected	Employees retiring later than expected
Large (250+ employees)	39	45
Medium (50-249 employees)	68	68
Small (0-49 employees)	70	71

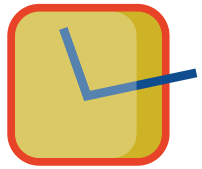
Tailored benefits

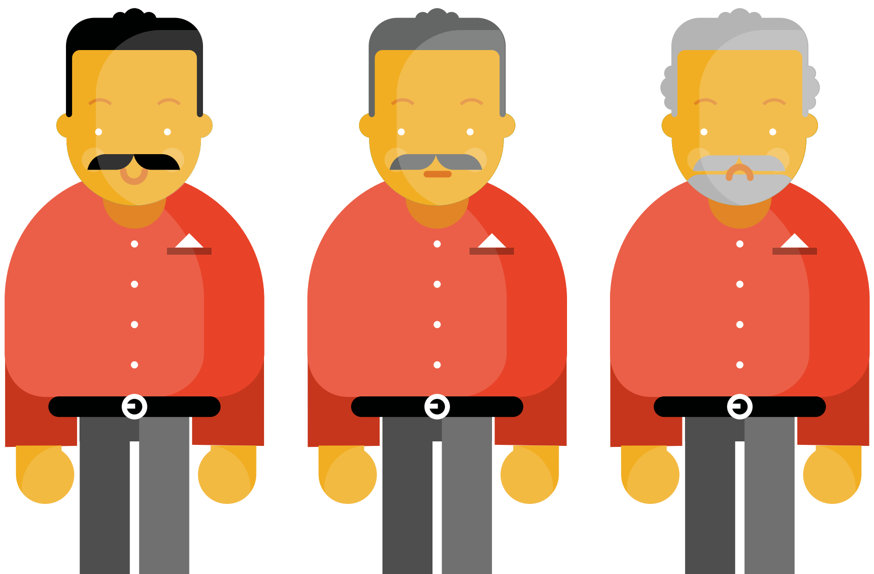
The majority of businesses (52%) do not have any plans to introduce flexible workplace benefits because of an ageing workforce – rising to as high as 60% among medium sized businesses. Only 16% of businesses outlined that they do have such plans in place, although a further 24% stated that they might consider the introduction of additional benefits.

As might be expected, the number of businesses who said that they have plans for such benefits was far higher (37%) amongst those who specifically expect some of their employees to retire later than planned.

Flexible workplace benefits for employees aged over 50
%

	Planning to introduce	Not planning to introduce
Large (250+ employees)	25	40
Medium (50-249 employees)	10	60
Small (0-49 employees)	9	54





Future work patterns

In the coming five years, two in five (42%) employees over the age of 50 still expect to be working the same hours as they do now. Only 14% of workers expect to move from full-time to part-time hours, despite the fact that 39% of employers are expecting their older staff to make the switch within the next five years.

In another sign of how working lives are continuing to extend beyond the former Default Retirement Age, just 17% of over-50s working in the private sector today expect to stop working and retire within the next five years. This includes just 35% of over-65s, leaving the majority to continue working in some form beyond their 70th birthday.

One in four (25%) of this age group plan to keep their current working patterns the same, while 17% will decrease their part-time hours and 15% will make the transition from full-time to part-time.

How the over-50s anticipate their work patterns changing over the next five years
%

	All over-50s	50-54	55-64	65+
Keep hours or days worked the same	42	53	45	25
Stop working / retire	17	5	15	35
Move from full-time to part-time	14	12	17	15
Continuing working part-time but decreasing hours	9	4	8	17
Move from part-time to full-time	3	5	2	1
Continuing working part-time but increasing hours	2	4	2	1
Don't know	13	18	12	7

As for employees aged 50 and above looking to make a career change, 15% expect to do so in the coming years with 5% planning to start a new role completely different to that of their current job. Employees aged 50-54 are most likely to switch, with a quarter (25%) expecting to undertake a career change. Those over 65 are the least likely, with only 5% expecting a career change.

"With such dramatic change to the landscape for retirement and pensions in recent years, it is not surprising that employees over the age of 50 in the UK think they will now work longer than initially thought earlier in their careers.

This is an exciting prospect for UK businesses given the added diversity and experience such employees add to an organisation. At the same time, businesses also need to ensure they are prepared for some employees to work longer – especially given that the impact will develop over a long period of time. Businesses of all sizes need to start addressing the issue now or risk facing greater challenges in the coming years."

Andy Briggs
Aviva UK Life CEO & Chair of Business in the Community's Age at Work Leadership Team

Conclusion

It is clear that confidence has returned to the private sector among both businesses and employees. Attracting talent is now the top priority for HR departments, while employees have higher levels of enjoyment and a greater sense of work-life balance than they did three years ago.

Buoyed by auto-enrolment, the improving economy and increased recruitment efforts, employers have increased the number of benefits on offer in recent years and most businesses have plans to either maintain or increase spending on workplace benefits in the future.

When it comes to the particular benefit of auto-enrolment, it would seem that there is also much to be positive about for both businesses and employees in terms of progress made since rollout began in 2012. Approval levels are high amongst employers and employees who have already begun the process, and the challenges faced by smaller businesses in implementing workplace pensions have not generally affected the experience of employees.

However with an additional 480,000 small and micro businesses set to start the process this year, there is a need to ensure these companies receive all the help they can get – including the benefit of lessons learned already – to make sure that the implementation of such a critical programme continues in a positive manner.

Auto-enrolment has the potential to help employees make the necessary long-term contributions to their pension savings in order to fund their retirement. The landscape in this area has been drastically altered by a decline in final salary schemes, increasing life expectancy and changes to both state and private pensions.

Despite the advent of the 'pension freedoms' last year offering greater access to personal pots, many older employees aged 50 and above now intend to work longer than they had envisaged when they were 40. A lack of pension savings is the most common reason given, although others are clearly motivated by making a continuing contribution to the workforce.

It may not seem that the 'pension freedoms' will result in the over-50s radically changing their retirement plans, although businesses are far more concerned by the extent to which the reforms may result in their employees leaving earlier or later than planned. With the first anniversary of the reforms looming, only time will tell what the long-term impact of the freedoms will be on working lives.

Such a generational change in expectations amongst older employees is set to have a significant impact on UK businesses. Older employees working longer will bring added experience and diversity to the workplace but businesses will need to ensure they are fully prepared and equipped to support their staff. Increasing age diversity means a shift away from a 'one-size-fits-all' approach to workplace benefits.

Presently however, the majority of businesses are not prepared for this phenomenon – especially small and medium sized firms. Businesses who are able to prepare now for the changes that an ageing workforce will bring will be better suited to reap the benefits in the long term.

Overall, there is a far greater sense of optimism in the UK compared to the last report in 2013, and auto-enrolment is having the effect of improving savings habits. Nevertheless, it is vital that businesses do not rest on their laurels if current momentum is to continue in the face of further change.

Andy Curran
Managing Director,
Corporate and Business Solutions, Aviva

Methodology

The Aviva Working Lives report was designed and produced by Aviva and Instinctif Partners in association with ICM Unlimited. Over 1,000 private sector employers and 4,000 private sector employees were interviewed in two waves to produce the second and third editions of the report in Q1 2013 and Q1 2016.

All interviews were conducted online and the sample targeted to ensure a comprehensive cross-section of the UK working population and consistency between editions. The latest wave also included an additional group of over-65s still in work, in order to focus in detail on the experiences of older people in the workplace.

For the purposes of this report, a 'small business' is a company with 0-49 employees, a 'medium company' has 50-249 employees and a 'large business' is 250 or more employees.

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