Employers' growing dread: Workers who can't afford to retire

By Editorial Staff *Thu, Dec 21, 2017*

A typical 40-year-old worker who borrows 30% of his 401(k) savings might reduce his available retirement income by 15% and delay his retirement to age 70 instead of age 65, at great expense to his employer, according to MassMutual.

Withdrawing money from 401(k) accounts or suspending contributions to 401(k) plans reduces a worker's retirement savings by an average of 14%. The shortfall could force employees to delay retirement and therefore raise employer compensation costs, according to a new report from MassMutual.

The mutual insurer and retirement plan provider has responded to plan sponsor concerns about the "financial wellness" of their workers—especially regarding the adverse effects of financial anxiety on productivity and of low savings rates on retirement readiness—by beefing up its service offerings in that area.

"We are expanding our analytics capabilities to help employers and their financial advisors project these costs and take appropriate actions to keep retirement savings on target," said Josh Mermelstein, head of Retirement Readiness Solution at MassMutual.

MassMutual's Viability Advisory Group was created to show employers and their financial advisors how much the under-utilization of retirement savings plans could cost them. If a workers' savings can't replace 75% of their pre-retirement income at age 65, they might not be able to retire.

MassMutual wants to be able to show employers the cost, in terms of older workers' salaries and benefit expenses, if employees take loans or hardship withdrawals, suspend salary deferrals, or opt-out of automatic enrollment or automatic deferral and for those reasons don't accumulate enough to retire on.

According to one MassMutual example, a typical 40-year-old worker who borrows 30% of his 401(k) savings might reduce his available retirement income by 15% and delay his retirement to age 70 instead of age 65, at great expense to his employer.

Younger employees are the most likely to do things that hurt their retirement readiness and tend to suffer the most as a result. A 29-year-old employee who is on target to retire at age 65 but then takes a hardship withdrawal reduces his or her retirement-readiness by 20% on average, according to MassMutual's analytics. A 60-year-old employee who withdraws the same amount typically reduces his or her retirement readiness by only three percent on average.

The loss of retirement readiness reflects the value of lost interest earnings on the withdrawal before retirement, taxes and penalties, as well as a six-month suspension in salary deferrals, which typically happens when retirement plan participants withdraw savings.

MassMutual calculates the impact of activities that impair retirement readiness by using an employer's own salary, benefits and retirement savings data. The underlying assumptions for specific behaviors are based on a benchmark created with data from the National Bureau of Economic Research, the Employee Benefits Research Institute, American Benefits Institute3, the United States Department of Labor, and MassMutual’s own experience with retirement plans.