
The high cost of unretired employees

By Editorial Staff Thu, Apr 20, 2017

If employers don't help their employees save adequately for retirement, workers are likely to postpone retirement, according to a new study from Prudential Financial. An older workforce could mean higher health care costs and lower productivity.

Given today's concerns about retirement security for Americans, it's easy to forget that private pensions were not created solely to support workers in old age. Corporations created pensions to buy older workers out of their jobs at a specific age and replace them with healthier, less expensive younger workers.

With the shift to defined contribution plans, however, mandatory retirement ages are a relic. Today's workers have to save for and schedule their own retirements. Many of those who have not saved enough are planning to remain at their jobs for a year or even several years longer expected.

The purposeful inertia of these older workers is going to cost corporations a lot, according to the study, "Why Employers Should Care About the Cost of Delayed Retirements." The report was conducted by Prudential Financial. It is based on research and analysis by the University of Connecticut's Goldenson Center for Actuarial Research.

The findings include:

- Delayed retirement trend and the aging of the U.S. population are expected to result in a higher concentration of older people in the workforce. By 2020, 7% of the workforce will be over 65, up from 4% in 2010; 25% will be over 55, up from 18% in 2010.
- Delayed retirements typically result in higher costs for employers, including increased compensation, DB and DC retirement plan costs, and group benefits costs. Annual healthcare costs for a 65-year-old or older worker are twice those of a worker between the ages of 45 and 54.
- A one-year delay in just one person's retirement would result in an incremental cost of over \$50,000—the cost differential between the retiring employee and a new hire. For an employer with 3,000 employees and workforce costs of \$200 million, a one-year delay in retirement age may cost \$2 million to \$3 million.

To help employees avoid delays in retirement, Prudential recommended that plan sponsors adopt these best practices:

- **Employer matches and default features.** Design DC plans to encourage employees to save for retirement while optimizing employer contribution dollars. This includes

adopting matching contribution formulas, automatic enrollment features, and automatic escalation features that encourage employees to start saving earlier in their careers and at higher rates.

- **Guaranteed lifetime income products.** Make available guaranteed lifetime income products to help reduce the level of DC savings that employees need to generate their desired level of retirement income. Prudential's research estimates that incorporating guaranteed lifetime income products into a DC plan reduces the level of assets required for a typical participant to retire at age 65 by 36%. Fifty-three percent of surveyed finance executives believe DC plan participants will make better behavioral decisions (e.g., not getting out of investments at the wrong time) if they are invested in an option that includes a guaranteed income feature.
- **Target-date funds.** Provide Qualified Default Investment Alternatives, such as target-date funds. Fifty-three percent of surveyed finance executives say that participants are apt to make better investment decisions when presented with pre-packaged diversified investments like target-date funds.