What If Employees Are ‘Too Poor To Retire’?

By Editor Test *Wed, Oct 7, 2009*

Employers worry that older workers who "retire in place" may impede the advancement of younger workers.

A new report prepared by CFO Research Services and Prudential shows that “although there has been some improvement in capital markets since the beginning of the year, many employees’ near-term plans to retire are in jeopardy.”

Senior finance executives at large companies are concerned that if older employees can’t afford to exit the workforce and thereby make room for younger workers, “workforce productivity and overall employee morale can suffer and companies can find it difficult to retain rising stars when paths to promotion are effectively closed.”

The results of the survey, “Managing Retirement Benefits Amid Capital Market Disruption,” was based on responses last spring by 140 senior finance executives (primarily chief financial officers, controllers, and directors of finance) at companies with $500 million or more in annual revenues. Almost half of the companies had $1 billion to $5 billion in revenues.

Among the findings:

- Almost two-thirds of respondents (63%) say they are more concerned now than they were a year ago that employees who become financially unable to retire might “retire on the job” and be unproductive. About the same percentage said that they are now more concerned about a shortage of growth opportunities for younger staff.
- More than two-thirds of respondents answered “yes” to the question, “Would it be beneficial to make your company’s DC plan more closely resemble a DB plan by enabling the plan to provide guaranteed income during retirement and by further automating the plan?”
- Seventeen percent of respondents rate employees’ investment allocation decisions as poor, and 17% say employees make poor decisions about their contribution amounts.
- More than one-fourth of respondents (27%) rate employees’ retirement planning as poor. Many employees don’t recognize the need to adjust or revisit their asset allocations, contribution amounts, and risk appetite as they approach retirement.
- Forty-two percent of respondents say they are very likely to limit high-risk investments for their DC plans.
- Companies are very likely to add investment products that defend against market declines (44%) to their DC plans, as well as more conservative target-date funds (38%).
- Forty-two percent of respondents said their companies are very likely to increase automatic enrollment and contribution-escalation efforts. Respondents are less likely to say they will increase

funding for DC plan education in the next two years.