A workforce that is financially unprepared for retirement can have a significant impact on company profits and productivity levels. Working beyond their desired retirement age due to insufficient retirement savings, is not only a psychological blow for employees, but a potentially expensive proposition for your company. Get off to a good start in 2012 by following the six steps detailed below. Doing so will help you nurture a culture of retirement readiness, which will help your employees enjoy a comfortable retirement while generating short and long term cost savings for the company.

Retirement Trends

Delayed retirement dates have become a reality after the most recent financial crisis and recession, took a bite of many retirement nest eggs. According to a recent survey by the Employee Benefits and Research Institute (EBRI), the poor economy and weak financial markets have forced roughly 24% of workers to postpone their expected retirement until after age 70. In addition, there has been a three-fold increase in the number of workers who are “not at all” confident they will live comfortably through retirement.

By following the steps below and working proactively with your employees, you can limit the number of employees who have to work beyond a normal retirement age of 65, avoid increasing costs, and enhance productivity.
Cost Savings

The implications of employees who have no financial choice but to work into their late 60’s and even 70’s may not seem significant on the surface. However, the challenges become evident as you begin to evaluate the costs of those employees. Healthcare costs for employees over age 65 are more than double that of employees aged 45-55.

The statistical rate of work related accidents do not increase dramatically for employees over age 65. However, when accidents do take place, the severity and paid time away from work increase substantially. Salaries and other compensation tend to be higher for an older employee with tenure than for a younger employee with a similar skill set. Finally, productivity for older employees (which varies greatly among each individual) can drop off substantially.

Whether measured in hard dollar savings or productivity increases, the benefits of a retirement ready workforce, both to employees and the company, can be substantial.

Productivity

If you were to ask the average worker when they want to retire, some would jokingly answer “Tomorrow!” Point being, many people do not want to work one day longer than they have to once they have the financial ability to stop. As a result, it is no surprise that 8 of 10 people identify money as a significant stress in their life.

For the financially unprepared, the stress of knowing they do not have enough money to retire, the worries about affording healthcare in retirement, and other financial concerns can lead to presenteeism. Simply defined, presenteeism is when an employee is physically at work, but not functioning at their full capacity.

Also, financial stress can lead to moral hazards such as theft, fraud, exaggerated workers compensation claims and other issues. Fostering a more financially confident workforce may not eliminate these issues, but it can certainly reduce the frequency and severity of these issues.
Solutions

Establishing a culture of Retirement Readiness is a process which will provide valuable benefits to both employers and employees. The steps listed below represent a roadmap on how to get started.

1. Conduct a Company Retirement Readiness Assessment

How many employees are within 5, 10, and 20 years of retirement? Based on their current income, participation in your company retirement plan, salary deferral rates and account balances, are they on track to replace enough of their current income to enjoy a comfortable retirement?

This evaluation can be an eye opening exercise. When you have an understanding of how different segments of your population are utilizing (or not utilizing) your retirement plan, it is easier to strategically develop a plan to help improve the Retirement Readiness of your workforce.

2. Evaluate Plan Design

Are the provisions in your retirement plan conducive to helping employees successfully accumulate enough money which can be converted to a steady stream of income during retirement? When can employees start contributing after they are hired? Do you offer a Roth 401(k) to provide a tax diversification strategy? Have you considered automatic enrollment and/or automatic salary deferral increases? Do you offer professionally managed funds which target either a certain risk level or retirement age?

There are several opportunities within your plan design to help start and keep your employees on the right track towards retirement. The key is understanding your workforce and then making decisions which support both employee Retirement Readiness and your corporate goals.
3. **Develop Targeted Employee Communication Focused on Changing Behaviors**

A 25 year old employee is going to have very different questions and concerns about your company retirement plan than a 55 year old employee. However, many companies try to communicate and educate their employees using the same materials and messaging for everyone. When you offer different messages about your retirement plan that purposefully target multiple demographics in your company, both response and adoption rates increase. In addition, when you combine a targeted message with behavior modification enablers such as take action cards, emails that have one-button solutions etc., you increase the odds that your employees will voluntarily take the actions you are trying to encourage. Many companies have been unsuccessful in influencing participant behavior because they focused on providing information and then relied on participants to connect the dots. Employees want to be guided. Their Retirement Readiness can be greatly improved when you help them easily and painlessly arrive at the right decisions.

4. **Retirement Income Solutions**

The biggest threats to retirement savings are employees making ill timed changes to their investment selections and/or stopping the contributions. Many times, people make these choices out of fear, panic, and other emotional reasons. While they might feel good at the time, in hindsight are generally poor decisions. Retirement income solutions are a recent entrant to the 401(k) market place. While the specifics vary by provider, they generally offer an in-plan solution to help protect a participant’s account from losses, while allowing participation in the gains, and a guaranteed stream of income at retirement. These participant elected options are quickly gaining acceptance from employers and should, at a minimum, be discussed by plan fiduciaries. While one can argue about the financial benefits, the psychological benefits of the downside protection for their 401(k) balances can help your employees stay on track instead of making emotional decisions which will dramatically affect their Retirement Readiness.
5. **Be Strategic with Company Matching Dollars**

If you are making matching contributions, you should evaluate your formula. Studies have shown that many employees will contribute only enough to get the full company match that your formula allows. If your match is based on the first two or three percent of contributions, it should be no surprise if a large percentage of your employees are only contributing two or three percent to your retirement plan.

To encourage your employees to save more money each year, consider raising the target matching percentage. For example, if you were matching 50% of the first 3% of contributions, consider changing that to 25% of the first 6%. There is no increase in the out of pocket contribution for the company, but it will produce higher contribution levels which will foster increased Retirement Readiness amongst your employees.

6. **Ongoing Measurement**

You cannot manage what you don’t measure. How true this saying is when it comes to tracking improvements and progress of your employees in your retirement plan. Every employer is different; every workforce has its own unique characteristics and challenges.

As you go about trying to help your employees get on track for a comfortable retirement, you must check your progress. Some campaigns or ideas will be very successful; others will not. You must measure your results as you go along so successes can be replicated and failures can become lessons. At a minimum, you should track participation rates, average salary deferrals, average account balances and investment diversification by age group. Tracking and measuring your progress will only help your employees and your company chart a more success path towards Retirement Readiness.
In Summary

With no income provided by defined benefit pension plans to count on, employees today are faced with the challenging task of proactively saving and managing enough money on their own to provide a steady stream of income in retirement. Challenges in the economy, financial markets, and job markets only make that task more difficult. As an employer, you are not responsible for the finances of your employees. However, you can help them become more financially confident, resulting in a less stressed and more productive workforce. In addition to cost savings, supporting employees in their transition to retirement may help you earn a reputation as a caring employer of choice in your industry and region!

Retirement Readiness is a win-win proposition for all parties.

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