Are Your Employees Ready for Retirement?

Measuring your workforce's retirement readiness can save your organization money and more

According to a recent report by the Federal Reserve, less than half of workers aged 60 and older are confident they've saved enough money for retirement. This lack of retirement readiness isn't just a problem for individual employees. It's also an issue for their employers.

Maintaining peak productivity in your workforce requires taking an active role to keep your employees on track for retirement. Collecting and cataloging key employee data will paint a valuable picture of your workforce's retirement readiness. This entails a significant investment. But the rewards you reap will be well worth the effort.

How retirement readiness affects your organization

It's important to understand why your organization should care about retirement readiness. Employees who feel they don't have enough money saved to retire aren't going to leave your organization. Having an aging workforce in their late 60s and 70s can negatively impact you in a number of ways. These include:

- Clogging the promotional pipeline: If legacy employees dominate the plum positions in your organizations, rising talent won't have any place to be promoted. This can cause a brain-drain of valued employees you need for the future.
- Risking lower productivity: Those employees who are working into their golden years only because they can't retire are far less likely to be engaged and productive.
- Paying higher salaries: In general, the longer someone works for you, the more you pay them. According to a report by MassMutual, the average worker's salary at age 70 is $84,480—roughly 56% more than the average salary of a 30-year-old.
- On the flip side, an organization should be prepared if a group of employees are ready to retire early. Consequences of unexpected early retirements can include a loss of knowledge transfer in key areas as well as additional training and recruiting costs.

Gauging your workforce's retirement readiness

Determining if someone is on track to save enough money to comfortably retire isn't easy.

One metric used to measure retirement readiness is what percentage of the individual's pre-retirement income can be replaced each year in retirement. Segal considers a wealth replacement ratio of 80% a good benchmark.

A wealth target pegged to a specific age is also an important metric. For example, savings of roughly 10 times a person's yearly wage by age 65 may allow an employee to retire with financial comfort.

A Retirement Readiness Grade may be the most accessible method for employees. Segal's proprietary system translates retirement ready metrics into an easy-to-understand letter grade from which employees can take action. This allows you to identify which subgroups of the workforce are struggling with retirement readiness.

Identifying population segments that need attention

The most effective way to create change in your population's trajectory towards retirement is to separate your population into cohorts. Analyzing your data by sub-groups may uncover unique patterns within these cohorts. Sub-groups to study could include work location, career stage, health plan utilization, performance level, and more.

There are numerous reasons why segments of your population may not be on the right track towards retirement:

- Competing needs for discretionary income
  - Employees need to better understand how to make informed decisions about participation and savings
- Lack of understanding or time to learn about the long-term benefits of savings and retirement wealth
  - Many employees lack the depth of knowledge regarding key concepts relating to saving and investing
- Lack of understanding or time to consider whether funds are sufficient for retirement
  - Knowing how much savings is enough for retirement is difficult enough for those schooled in this area, and can be daunting for those without any background/knowledge/time to educate themselves

Client example – Applying the data to achieve viable solutions

Knowing a segment of your workforce isn't on track to retire is just the first step. Once you've identified which workers are lagging on their retirement readiness journey, you can take concrete action to remedy the problem. Sometimes this involves using other data on the subgroup.

For example, one organization using Segal's Retirement Readiness Grade system discovered workers at one of its locations contributed to their 401(k) at a much lower rate than workers elsewhere. The organization then looked at the health plans in which these workers enrolled. It discovered that they were paying the most for healthcare, despite their relative health. The organization then educated these workers about their health plan options, so they could select lower-cost plans and defer the savings into their 401(k) accounts.

This highlights how you can help your valued employees and the enterprise as a whole by devoting resources to retirement readiness and using data analytics and metrics.

How Segal can help

Segal can help uncover/address these issues in numerous ways:

- Review your plan design:
  - Segal can review your plan features to ensure they maximize opportunities for all.
- Analyze your data by cohort:
  - Using our retirement readiness model, Segal can analyze different segments of your population and assess whether anyone is being left behind.
- Design targeted and accessible communication:
  - Segal has extensive experience in creating varying communications – both in substance and in form – for different population groups.