

The Reality of Retirement Readiness

Considerations for Employers

Simply stated, retirement readiness refers to being financially prepared for retirement in order to maintain your current standard of living.

Besides wanting the best for their employees, why should employers care about their retirement security? First, let's look at the impact on employees when they are not financially prepared for retirement. There is currently a trend of older workers staying in the workforce past retirement age, either full time or part time. While a portion of this population may continue working for enjoyment or to stay active, many do so for financial reasons. When a worker at retirement age does not have enough retirement savings to last them through their golden years, their only viable option may be to continue working.

With workers staying in the workforce longer, employers are faced with a few considerations.

Healthcare Costs & Absenteeism

An aging workforce will likely have more health issues than younger workers equating to higher healthcare costs as well as higher absenteeism rates.

Higher Compensation & Contributions

Older workers may have several years of service under their belt as well as a very advanced skill-set resulting in higher compensation and therefore higher employer matching &/or profit sharing contributions. Additionally, participants at retirement age are required to be fully vested if they are still employed.

Fewer Opportunities for Employment

When workers stay in the workforce longer and even past retirement age, there is less room for advancement and typically fewer openings for new employees.

Improving Retirement Readiness

Employment later in life is an increasing trend with nearly 40% of the age 55 and older population being employed in September 2015.¹ While some retirement age workers may choose to continue working, others may feel the pressure of financial needs. The retirement crisis has heavily impacted today's workers, especially those nearing retirement. How can employers help their employees better prepare for retirement?

First and foremost, proper participant education is vital to increasing retirement savings. Investing for retirement is not an inherent skill. Participants should be educated on the basics of investing including how to assess their personal risk tolerance, estimating how much savings they will need in retirement, constructing a long-term strategy that will withstand market volatility, and properly diversify their portfolio.

¹ Bureau of Labor Statistics. Labor Force Statistics from the Current Population Survey. 2 October 2015.

Plan design is also significant factor in retirement readiness. For example, employer matching contributions are shown to increase overall participant savings. Employees are more likely to save more in order to maximize their employer contributions.

Conclusion

On average, today's workers are staying in the workforce longer than previous generations, many past retirement age. While some workers stay by choice, others continue working for financial reasons. Workers staying employed longer create a few considerations for employers. However, employers can take action and assist their employees in being better prepared for their retirement future. Improving participant's retirement readiness can allow participants and employers flexibility for the future.