RETIREMENT PLAN PERSPECTIVES

Insights for Your Plan and Employees

Q1 2020

Delayed Retirement Costs Employers in the Long Run

Did you know that, on average, Americans spend more than 90,000 hours at work over the course of their lives? Ideally, your employees will put some of their income aside for retirement during their foundational working years. But for many, their savings progress won't keep pace with their desired retirement lifestyle. What happens when your employees aren't financially prepared to give up a steady paycheck and transition out of the workforce? In many cases, they choose to keep working. Although that can sometimes be a benefit to both the individual and the employer, it usually causes a significant drag on the business's finances and resources.

Let's look at some reasons why employees may delay retirement—and the potential repercussions businesses can face when they do—as well as tried-and-true methods you can use to proactively influence your employees' retirement preparedness.

Why Employees Delay Retirement

First, it's important to understand the underlying factors that cause employees to delay retirement. The 2019 Retirement Confidence Survey, conducted by the Employee Benefit Resource Institute, provides insight into the top reasons:

- **They can't afford to retire (49 percent).** Indeed, almost 41 percent of all U.S. households are projected to run short of money in retirement. The median retirement account balance for those approaching retirement age is $104,000.
- **They lack faith in the social security system (46 percent),** with 95 percent of baby boomers (i.e., people ages 56–76) citing the importance of social security as a source of retirement income.
- **They can't afford health care costs (45 percent).** In retirement, a couple will need to allocate $285,000 for health care alone.
- **They want to ensure that they have enough money to retire comfortably (44 percent),** with only 18 percent being "very confident" they'll able to do so—particularly when posed with **higher-than-expected costs of living (41 percent),** which outpace Americans' ability to earn enough to live comfortably.

The Domino Effect of Delayed Retirement

So, what is the effect when your employees delay retirement? It sets off a series of events that accentuate the burden on your business's finances and resources:

- **It causes a financial drain.** According to Prudential, the incremental cost for an employee who delays retirement can be up to $50,000 per year (which represents the cost differential between the retiring employee and hiring a new employee) in the form of increased compensation, increased paid vacation and sick leave, retirement plan costs, and group benefits costs.
- **The talent conveyor belt is stunted.** When your employees delay retirement, the professional advancement of other talented employees could become halted, causing them to feel cornered into changing jobs in order to fulfill their career aspirations.
- **Financial stress in the workplace affects productivity.** Workers who delay retirement may be experiencing financial stress in the workplace, which often results in a dip in productivity, quality of work, engagement, and morale—all silent killers to an employer's bottom line.

Delayed Retirement Costs Employers in the Long Run *(continued)*

What Can Employers Do to Keep Employees on Track?

When employees are prepared and confident enough to transition into their retirement on time, it's a win-win situation. Here are a few simple suggestions for how you can support your employees' savings success:

- **Start with the basics.** The importance of a retirement plan cannot be understated. Simply offering a retirement savings plan is foundational for getting employees to save more. Investment Company Institute research shows 9 out of 10 households with defined contribution plans agree that having a plan helped them think about the long term and made it easier for them to save—and 5 out of 10 account owners indicated they probably wouldn't be saving for retirement if not for their workplace retirement plans. In short, retirement plans are an essential piece of your employees' savings puzzle.

- **Pay attention to plan design.** Lowering the savings barrier with automated plan design features, such as automatic enrollment, automatic deferral, and automatic deferral escalation, is an effective way to get employees to build savings momentum. Why? Because automatic saving features help combat the inertia most retirement savers regularly grapple with. Another key plan design function is the company match. Offering an attractive matching contribution is an incentive for employees to bump up their savings rates to take advantage of the free money you're offering them.

- **Educate and engage with a financial wellness program.** Many of your employees are likely facing day-to-day financial challenges, such as paying essential bills, unexpected expenses, and debt obligations, that are hindering their ability to make saving for retirement a top priority. Providing financial wellness education and resources that teach them how to cope with those challenges can go a long way toward helping them prepare for retirement. In PwC's annual Employee Financial Wellness Survey, 71 percent of employees (and 77 percent of baby boomers) indicated they have used financial wellness services when offered to them, while 49 percent reported "preparing for retirement" as the top-ranked way financial wellness programs have helped them the most.

The Different Flavors of Fiduciary Services

3(21), 3(38), 3(16). No, those aren't last night's winning lotto numbers. They're the numerical ERISA sections that refer to the various levels of fiduciaries.

To Outsource, or Not to Outsource?

When retirement plan sponsors don't possess the expertise and specialized knowledge—or time and resources—to manage the myriad of complex duties that are required under ERISA, they have a fiduciary duty to hire experts to perform those duties on their behalf. In short, if you oversee your company's retirement savings plan, outsourced fiduciary services could mitigate your fiduciary risk—not to mention save you valuable time you can invest back into your business and core job responsibilities.

Below are the key characteristics of the various flavors of fiduciary services, as well as what type of plan sponsor may be a good fit to take advantage of fiduciary outsourcing services:

3(21)

- An investment co-fiduciary can make investment *recommendations*.
- In order to take effect, investment recommendations require plan sponsor approval.
- Fiduciary liability is shared between the 3(21) co-fiduciary and the plan sponsor.

May be a good fit for: Plan sponsors who possess solid investment aptitude but would like the help of an expert to co-manage the investment process

The Different Flavors of Fiduciary Services *(continued)*

3(38)

- An investment fiduciary assumes full discretionary decision-making authority for the selection, monitoring, and replacement (when necessary) of plan investments.
- The plan sponsor is informed of investment decisions, but his or her approval is not required.
- Fiduciary liability rests mainly with the 3(38) investment fiduciary

May be a good fit for: Plan sponsors who do not possess investment expertise or who don't have the time or want the responsibility for making investment decisions but want the highest level of fiduciary protection available

3(16)

- An administrative fiduciary will perform the day-to-day tasks associated with administering a retirement plan, such as loan and distribution approvals, required notice delivery, eligibility determinations, and filing of the annual Form 5500, to name a few.
- The plan sponsor is removed from the administrative process.
- Fiduciary liability rests mainly with the 3(16) service provider (typically a third-party administrator).

May be a good fit for: Plan sponsors who don't have the time or resources to stay on top of the long list of required administrative tasks

While the reasons for outsourcing fiduciary tasks are compelling and could make sense for you and your company, it is important to note that retirement plan fiduciaries can never completely absolve themselves of fiduciary risk. Plan sponsors still bear the ultimate responsibility for the appointment and ongoing oversight of the fiduciaries they work with. If you need help determining whether fiduciary outsourcing is a cost-effective and viable risk-mitigation option for your company, reach out to your retirement plan advisor or consultant.

We Can Help

Contact us to learn more about strategies for helping your employees save for retirement and the fiduciary service options available to you. We're ready and willing to help.

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