Many older workers continue working because they want to. But workers who can’t afford to retire can be a drag on an employer’s productivity and workforce costs.

by Patricia A. Bonner, Ph.D., CEBS

A combination of powerful financial and demographic forces make retirement security a topic of enormous concern. News headlines and researchers shout warnings of the greatest retirement crisis in history as policy makers, employers and households brace for what they fear is ahead.

Rooted to a large extent in the baby boom following World War II and improvements in health that have increased life expectancy, the retirement crisis was significantly worsened by eroding public and private retirement benefits and the financial meltdown of 2008. The simple realities of human behavior are compounding the situation.

Unless a broad range of actions are taken, the consequences of this crisis will be far-reaching and play out for decades to come.

What Is Retirement Security?

While the meaning of a secure retirement varies by individual, it generally is being able to fund retirement lifestyle goals and pay bills without worrying about running out of money during one’s lifetime.

The Three-Legged Stool

A three-legged stool has been a traditional metaphor for the primary sources of retirement income: (1) government benefit programs such as Social Security, (2) workplace plans and (3) personal savings. This same stool is helpful in...
understanding why there is a retirement crisis: While two legs—government and workplace retirement benefits—are eroding, households haven’t increased personal savings to make up for the declines. (See the sidebar, “Many in U.S. Have a One-Legged Stool.”)

Retirement Readiness

Retirement readiness ratings prepared annually by the Employee Benefit Research Institute (EBRI) indicate almost half of U.S. households are at risk of not being able to afford essential expenses in their so-called golden years. According to Fidelity’s new Retirement Preparedness Measure, baby boomers are on track to reach 81% of their retirement goals—the highest rating among all generations in the analysis. Those in Generation X are on track to reach 71% of their goals, while millennials are the furthest behind at only 62%.

In 2014, the International Foundation of Employee Benefit Plans asked representatives of U.S. multiemployer benefit plans and employers to assess the retirement preparedness of their average active worker at normal retirement age (Figure 1). Fewer than one in five respondents (19%) described workers as “very” or “extremely” prepared. The remainder said workers were, at best, “somewhat prepared.”

How confident are workers regarding their personal preparation for retirement? When AEGON asked U.S. workers (excluding those who are self-employed) how confident they are that they will be able to retire with a lifestyle they consider comfortable, 15% reported they are “very confident” or “extremely confident” (Figure 2). It appears many plan sponsors and employees agree only a small proportion of workers are on their way to a secure retirement.

What Caused This Crisis?

How did we get into this mess? Answers seem to depend on which side of the fence you sit—with fingers pointing at the other side. Workers and their representatives often lament the shift from defined benefit to defined contribution plans that has occurred since the 1970s. Workers are blamed for not doing their part—setting aside money for retirement.
But those reasons don’t provide the full picture. Many causes are out of anyone’s control:

- The 20-year bulge in population following World War II and the declining birth rates that followed as a result of better birth control methods and women entering the workforce in greater numbers.
- A dramatic increase in life spans from around aged 50 to over 75 in the last century—a trend that is expected to continue in this century thanks to improved hygiene, better nutrition, safer working conditions, advances in health care, etc.
- The Great Recession of 2008, which led to unemployment and stagnating pay, in combination with popular support for lower taxes.
- Periodic and dramatic stock market declines along with record low interest rates.
- A decline in home values in a market that some predict will never fully recover.
- Ongoing increases in health care costs because of factors such as medical advances, higher fees charged by providers, insurer profits, fraud, litigation, government regulation and unhealthy lifestyles.

However, there are other reasons that can be addressed to help alleviate the crisis:

- The proportion of workers and spouses saving for retirement has been dropping and, even when they do save, the amount they save is insufficient to provide a secure retirement.
- Higher mortgage and consumer debt that makes it difficult to save for retirement and, less well-known, higher debt levels among those who have retired.
- Savings leakage in the form of cashing in or borrowing from a defined contribution plan for down payments on a home, to pay educational expenses or to cope with a financial hardship. Additional leakage results from cashing out funds when changing employers.
- Many employees simply fail to plan for their retirement and, if they do plan, they fail to take into consideration life events such as the death of a spouse that could significantly affect their retirement income.
- A plethora of unrealistic expectations on the part of workers including when they will retire, their ability to work after retirement, how long their retirement might last and how much money they will need.
- A lack of knowledge among workers regarding Social Security and their workplace retirement plan(s), inflation, the time value of money, the basics of investing and so forth that are essential to retirement planning.
- More broadly, a lack of financial literacy with respect to topics such as debt management, home mortgages, taxes and insurance that affect a person’s ability to save for retirement.

This second set of causes will be discussed in more detail next month, as they are the basis for many of the solutions offered later in this series.

### Many in U.S. Have a One-Legged Stool

While Social Security was designed to be just one leg of the three-legged retirement income stool, it actually provides 90% or more of the cash income for three out of five beneficiary units* with at least one person over the age of 65. Close to one out of four beneficiaries (24%) have no other retirement income. Social Security is the only leg of the stool.

As beneficiaries age, the proportion totally dependent on Social Security benefits climbs, with 30% of those 80 and older totally dependent on their monthly check from the federal government.

*Data are for “units” consisting of married couples living together with at least one aged 65 or older and unmarried people aged 65 or older receiving Social Security benefits.


Security and their workplace retirement plan(s), inflation, the time value of money, the basics of investing and so forth that are essential to retirement planning:

- More broadly, a lack of financial literacy with respect to topics such as debt management, home mortgages, taxes and insurance that affect a person’s ability to save for retirement.

This second set of causes will be discussed in more detail next month, as they are the basis for many of the solutions offered later in this series.

### The Impact on Workers

To fill the gap between what they have and what they need for retirement, many workers the solution is to work longer. Employment in later life is making a comeback, with 40% of people aged 55 and older working—a level of employment in this group not seen since the 1960s. Moreover, the number of retirees who work is expected to increase in the years ahead, with 72% of preretirees aged 50 and older saying their ideal retirement includes work in some form.4

While there are workers who view working longer as a positive, this is not the case for everyone. When retirees around the world were asked why they were working longer than they had expected, a substantial proportion said they did so because they enjoyed their work (42%) and/or they wanted to keep active (35%). This leaves a considerable number who do not perceive working longer as desirable. Many continue working for financial reasons.2
As they near and, frequently, pass their anticipated retirement age—still in the workplace—many individuals will be disappointed they do not have the time and money to enjoy their later years as they had hoped. Health and safety become issues for workers doing manual labor. While older workers tend to experience fewer workplace injuries than their younger colleagues, aging workers are at higher risk of severe injury and death.6

Another reality for retirees is whether they will be able to continue working. The experience of current retirees has been very different from what preretirees anticipate. Two-thirds of persons in retirement left the workforce sooner than they had planned. Of these early retirees, almost half retired due to their own poor health, one-third cited a job loss/unemployment and 9% identified family responsibilities such as becoming a caregiver.7 For all of these reasons, poverty rates among the elderly are expected to increase.

The Impact on Employers and Plan Sponsors

Beyond concern for the financial well-being of retirees, are there other reasons employers and plan sponsors should be concerned about the retirement security of workers? Some employers welcome the experience, knowledge, loyalty and other positive attributes of older workers who desire to continue working. However, not all employees delaying retirement fall into this category. Such employees—particularly those who are forced to delay retirement—can negatively affect an employer’s bottom line. Older workers create the following challenges:

- **Limited opportunities for younger workers.** Employers often depend on the retirement of older workers to allow the hiring, development and upward movement of younger workers. Some younger employees will decide to move on to greener pastures with another employer that has opportunities for growth and advancement.

- **Low morale.** Workers who have no choice but to continue working are more likely to be less motivated and perform poorly. And younger workers unable to move up the career ladder may be less motivated to optimize their own productivity.

- **Less productivity.** There are a number of reasons for waning productivity as workers age (e.g., poor physical health, a decline in cognitive abilities, failure to keep up with rapid technological changes). The extent to which productivity decreases depends on the individual and the type of work he or she does. In many circumstances, education and experience can outweigh a decline in certain abilities. Nonetheless, the probability of a decline in physical and mental abilities rises as workers age.

- **Higher compensation and compensation-related benefit costs.** Older workers have higher salaries and wages. These high compensation levels also lead to higher costs for compensation-related benefits such as retirement plan contributions. At some point, pay may continue moving upward while productivity declines. The value of a worker’s production may even be less than pay—especially when the cost of benefits is factored in.

- **Increased health care costs.** In general, older workers have more health issues than younger workers. According to a report by Apex Management Group, annual health care claims average $2,888 for employees younger than 25. For workers 65 and older, the number jumps to $10,264.8 An increase in the proportion of older workers often translates into higher health benefits costs.

- **Longer and costlier workers’
compensation claims. According to data from the National Council on Compensation Insurance (NCCI), workers’ compensation medical claims become longer and costlier as workers age. Claims rise from an average of 53 days and $5,073 in medical payments for employees aged 20 through 34 to averages of 66 days and $7,649 for employees aged 45 through 64.\(^9\)

- **Higher absenteeism.** According to the U.S. Bureau of Labor Statistics, workers aged 20 to 24 miss an average of five days a year. These averages rise to 11 days a year when workers reach ages 45 to 54 and 14 days a year for workers aged 65 and older.\(^10\)

Many employers need look no further than their own workforce to find people are working longer than employees did in the past. Many extend their work lives beyond the traditional retirement age by choice and make positive contributions to the workplace. On the other hand, some costs associated with older workers have the potential to influence negatively an organization’s bottom line. Employers and plan sponsors have good reasons to consider the impact of the retirement crisis and what they need to do to ensure older workers are working because they want to work and making a contribution worth the cost of their employment.

**Endnotes**


