



A New Retirement Model Emerging

Retirement plans enter a new phase

Baby Boomers have long influenced, if not altered, the nation's approach to any number of societal developments; and it should come as no surprise, considering the demographics, that this "silver tsunami" is having the same impact on how employers manage the effects of an aging workforce, since earlier, more "traditional" models of retirement are no longer the norm. Even with many older workers delaying retirement by three years, on average, a new MetLife study finds that the current trend hasn't lessened plan sponsors' anxiety around the impending knowledge drain. **PLANSPONSOR** recently met with a panel of industry experts to discuss this emerging retirement model: Cynthia Mallett, Vice President, Product & Market Strategies, Corporate Benefit Funding at MetLife, James Klein, President of the American Benefits Council, and Kent Mason, Partner at the law firm of Davis & Harman LLP.

PS: MetLife has commissioned quite a bit of research on the forces re-shaping retirement, the aging workforce, and retirement benefits. What was the impetus for MetLife to commission this study of plan sponsors now?

MALLETT: In the midst of a deep economic crisis, and on the heels of recent regulation addressing the retirement security provided by pension and retirement plans, MetLife wanted to examine how employers were looking at benefit and retirement policies related to the aging workforce. We were particularly interested in whether they were seeing older workers delaying retirement. We also wanted to assess if and how plan sponsors are recalibrating issues surrounding their older workers, and identify emerging practices that may be used to manage very experienced workers going forward.

PS: With older workers delaying retirement—primarily out of financial necessity—one might expect that to lessen employers' concerns about the knowledge drain. Yet, the Emerging Retirement Model survey suggests that employers are more concerned about the knowledge drain today than the impact of delayed retirement.

MASON: The sheer size of the Baby Boom generation means that the loss of vast amounts of institutional knowledge will be a challenge. Also, the knowledge-drain issue is more of a threat to business success than a temporary trend toward delayed retirement; even in the short term, the latter can be addressed in other ways, such as through retirement incentive programs.

MALLETT: The predictions from a variety of human resources practitioners and demographic experts that we heard just a

Cynthia Mallett photo by Holger Thoss; James A. Klein and Kent A. Mason, Esq. photos by Cameron Davidson

REPRINTED FROM PLANSPONSOR December 2009

PLANSPONSOR®

few years ago about an impending older worker “knowledge drain” have not come true—at least not yet. Instead, there have been major workforce reductions due to the difficult economic environment on the one hand, coupled with older workers delaying retirement and seeking to stay in their current jobs on the other. So, even while conventional wisdom might suggest that the effect of workers delaying retirement—primarily out of financial necessity—could lessen concerns about the knowledge drain, these tactical actions have not changed employers’ concerns about the knowledge drain as a significant strategic issue for their firms.

PS: With such high levels of concern about the knowledge drain both today and in the next three to five years, why do you think so few plan sponsors have taken steps to assess the effects on their organizations?

KLEIN: This may be one of those problems that employers understand implicitly, so they have skipped some of the quantitative metrics used to assess the situation and have moved directly to strategies to address the problem. Equally plausible is that employers are so overwhelmed by a variety of challenges that this one simply has to get in line with a number of other things companies are compelled to do right now to remain viable. I suspect that, on an intellectual level, senior corporate executives appreciate fully the challenges posed by a knowledge drain but, in the midst of a recession, it is understandably not a top priority.

MALLETT: In the next three to five years, the majority of plan sponsors surveyed by MetLife expect their employees to delay retirement by three years, on average. This may give employers extra time to assess the needs of their organizations and consider whether a more comprehensive approach to transitioning knowledge within their organizations is appropriate. In fact, one employer

surveyed commented that the recent delayed retirement of its employees has “provided breathing room to better consider phased retirement.”

PS: Why do you think so few plan sponsors—roughly four in 10—who are concerned about the knowledge drain, and offer post-retirement benefits, see no connection between post-retirement benefits and an employee’s decision to retire?

MALLETT: Given the economic landscape, and the cost of providing employer-sponsored post-retirement benefits, it’s a bit counterintuitive that that many employers don’t seem to view these benefits as a way to manage employee retirement. It may be that many employers aren’t in the habit of differentiating benefits provided to active and retired employees from a communication or practice standpoint. With benefits, on average, representing one-third or more of the money spent to compensate each employee, according to the Department of Labor, it’s to every employer’s benefit to recognize, appreciate, and take advantage of the strategic role that benefits can play in workforce management. This includes the role that benefits play in the retirement equation for each particular firm.

KLEIN: Traditional defined benefit pension plans are tied to specific retirement ages, whereas hybrid plans and 401(k) plans are not typically dependent on a specific retirement age. Given the steady decline in prevalence of traditional pension plans, many employees—especially those who are not too close to retirement age—may be thinking about

their retirement in terms of when their plan account balance reaches a certain level, as opposed to a known, specific retirement age.

PS: What are some of the critical challenges that may be standing in the way of implementing more-holistic and comprehensive phased retirement programs?

KLEIN: Employers are always concerned not to give even the appearance of discriminating in favor of one group of workers over another. Since a comprehensive approach to phased retirement might, at times, mean targeting those programs to higher-paid professional employees, that creates a real practical obstacle to getting these programs off the ground. To make some phased retirement plans work, it may be necessary to pay partial benefits to the employees the company wants to retain. If these partial benefits are subject to nondiscrimination rules, as participant advocacy groups want, that pretty much makes these programs impractical. Overall, the lack of a legal environment where employers can have a clear understanding of what they can and cannot do has been a real hindrance to the development of a comprehensive approach to this issue. The real losers have been not just the employers, of course, but also the workers themselves.

MASON: In order to develop more-comprehensive phased retirement programs, employers need to have a vision of what they want tomorrow’s workforce to look like. What will be the business needs of tomorrow, and how do we shape our workforce to address those needs? I wonder if the fast pace of technological

For the purposes of its Emerging Retirement Model study, MetLife defined phased retirement as a workplace program (or set of programs) that may include such things as flexible work arrangements, a gradual shift from full-time employment to full-time retirement, a shift in work responsibilities, hiring back retired employees, etc., offered by employers in order to keep needed older employees who want to continue working.

SPONSORED SECTION

and business change, combined with the recent economic uncertainty, have underscored the volatility of business needs, making employers hesitant to commit to a single vision of tomorrow’s workforce. Of course, the interest in phased retirement is relatively recent, and the legislative and regulatory framework for these programs lacks the flexibility needed to foster effective comprehensive programs, which hopefully we’ll be able to explore in a little more detail.

PS: Why do you think more legislative and regulatory guidance is welcome in this particular area?

MASON: I think that employers would like to be able to explore different approaches to phased retirement without being required to continue to apply any particular approach, or to apply an approach to an unnecessarily broad group. The current retirement plan rules do not provide that type of flexibility in many situations. So, employers would welcome the provision of additional flexibility but, in my

experience, employers have been hesitant to ask Congress and the agencies for such flexibility for fear that the result could be the opposite—more regulation of phased retirement that actually results in fewer phased retirement programs.

KLEIN: Contrary to a sentiment we often hear expressed on Capitol Hill, large companies are not looking for how far they can push the limits. Rather, they want a legislative and regulatory framework that provides clarity in terms of what they can do. Of course, given that these companies are extremely complex entities with workers of all ages, in various types of jobs, often in many different kinds of industries, flexibility and certainty are key components for a human resources and benefits strategy that advances a company’s goals and its need to be competitive.

PS: What specific guidance would help to address the regulatory complexities and ambiguities that are adversely affecting companies’ ability to offer phased retirement programs?

MASON: Companies need to be able to use their retirement plans—both defined benefit and defined contribution plans—in a flexible way to address phased retirement. This would require at least three legislative changes. First, companies need to be able to make distributions under their plans to active employees who are participating in a bona fide phased retirement program. Second, companies need carefully crafted relief from the retirement plan “anti-cutback rules” so that the companies can apply phased retirement programs at different times and in different ways pursuant to business needs, without being locked into continuing the same program indefinitely. Third, relief from the rules prohibiting discrimination in favor of highly compensated employees is needed so that employers can target phased retirement programs at critical employees, who are generally older employees and, simply by reason of their tenure, higher paid.

PS: What about the finding that the

Potential Obstacles to Offering a Phased Retirement Program



Source: MetLife Emerging Retirement Model Study, December 2009

impact of the knowledge drain seems to weigh heavier upon those plan sponsors who only provide a defined contribution plan to employees, versus those who offer both defined benefit and defined contribution plans?

MALLETT: Companies that offer a DB plan have been in business for a longer period of time than “DC plans only” and, because of their experience with their DB plans, which by their nature are generally designed to provide retirement income based on the employee’s final or career average pay, they tend to have more insight into their workers’ retirement patterns. Since these plans, by design, are structured around specific events, such as normal retirement age, to facilitate and support retirement, they provide helpful insight into when older workers will likely retire. Conversely, since DC plans are savings plans and have no structural connection to retirement events, they are unable to assist employers who offer “DC plans only” to predict retirement patterns of their workers adequately.

PS: How will the emerging retirement model differ from traditional notions of retirement?

KLEIN: Five years ago, the American Benefits Council issued a long-term public policy strategic plan called “Safe and Sound.” That plan acknowledged that, into the foreseeable future, the three main players ensuring “personal financial security”—employers, individuals, and the government—will remain the same. Yet, the nature of the roles of those three entities will change dramatically. We’re certainly witnessing that right now as part of the national health-care reform debate. So, how the respective roles of employers, individuals, and government evolve has enormous

implications for shaping the retirement model.

MASON: Individuals are living longer, creating a need and, to some extent, a desire to work longer. Those increased life expectancies lead to greater needs for health care in later years, raising questions about how the cost of this care will be paid for. Also, there has been a shift in the economy away from employment that is physically demanding and toward jobs that require more training, and technological advances make working from home or other remote sites more feasible. Finally, the decline of the defined benefit system has eroded a safety net that was critical to yesterday’s retirees. All of these factors are contributing to a more-fluid retirement model where both employers and older employees can see value in preserving the employment relationship beyond traditional retirement ages, and both can see a need to redefine work schedules, work sites, and responsibilities.

MALLETT: Unlike earlier traditional models of retirement generally built around a fixed career end-date, 100% employer-paid defined benefits, and clear boundaries between “work” and “leisure,” the recalibrated retirement model that seems to be emerging contemplates a more gradual transition of older workers from full-time work to retirement. What’s more is that future retirement models likely won’t correlate with typical “firmographic” characteristics—industry, company size, etc.—but, instead, will aim to address a continuum of company-specific needs, strategies, and solutions.

PS: Finally, what are some of the steps that plan sponsors can take today to begin to manage the knowledge drain and the business

implications of retirement?

MASON: In my view, the critical step for employers is to identify their employment objectives in light of their business objectives. What skills and knowledge will tomorrow’s workforce need? To what extent does today’s workforce have those skills and knowledge? How can the business preserve and enhance those skills and knowledge? The answers will lead to identification of the employees who are critical to tomorrow’s success, which will lead in turn to more study of how to retain those employees within the business structure, culture, and benefit programs of the employer.

KLEIN: It often has been said that people don’t grow tired of working; they grow tired of their jobs. So, finding ways to constantly make work new and relevant, and enjoyable and flexible for employees, may be the key wherever possible. Such things as flexible working arrangements, job sharing, telecommuting, and so forth are not new ideas. They just will need to be expanded in their application, in order to keep older workers satisfied and engaged.

MALLETT: Whether or not employers address their concerns about the knowledge drain with the same clarity with which they’ve managed other workforce challenges remains to be seen. However, one thing is clear: Significant concerns about (and challenges related to) knowledge transfer will not self-resolve. Employers need to take proactive steps to manage the impending knowledge drain. This includes taking into account a new recalibrated set of “retirement norms” that likely will be company-specific, fluid, and rooted in employer need and employee behavior—and, they should aim to start right away.

L1110142896(EXP1111)(ALL STATES)