When Employees Retire Matters to Them… and to Employers

Americans pride themselves on making their own decisions, and when to retire is an important one. But it takes money to retire, and the shift away from traditional pension plans leaves many Americans ill-prepared to retire when they want to. Employees who struggle with their finances find it challenging to save enough to retire on their own terms.

But saving for retirement through 401(k) or other defined contributions plans has become an individual responsibility. Some would like to retire at 55 or 60, but must delay retirement until age 65 when they become eligible for Medicare. Others may want to retire at 65 — the traditional age of retirement — but because of financial concerns have to wait to take the plunge until they reach full Social Security retirement age. Without adequate resources, employees have less choice about when to retire.

Timing of Retirement is Important for Employers, Too

Employers have a stake in the timing of employee retirements. They, too, may suffer financially when employees are unprepared to leave the workforce on time. Of course, there are positive aspects to keeping older employees — experience, institutional knowledge, and a broader perspective, to name a few — employing older people who wish they were retired can have serious financial consequences. They may be distracted by financial concerns, less engaged in the company and their job, and less motivated than those who are happy to be working. They also reduce the company's ability to hire new talent, because of a lack of open jobs.

The Cost of Delay: Significant

A recent study found that a one-year delay in retirement for an individual can cost an employer $50,000. At that figure, it wouldn't take long for a 100-person company with 2 or 3 expected but delayed retirements per year to reach a significant level of expense. To address the issue of delayed retirements, the study suggests adopting retirement programs with features that encourage appropriate financial behaviors. For example:

- **Saving:** Include an employer match to encourage more saving, and automatic enrollment and auto escalation to remove barriers to entry and increases in contributions.
- **Investing:** Offer quality investment alternatives for participants who prefer professional management of their account, and for those who fail to make an investment choice.
- **Withdrawing:** Including guaranteed lifetime income products among distribution options in a DC plan can reduce the level of assets needed for an individual to retire at age 65 by 36%, according to the study.

Education is critical to helping employees retire on time. Participants who are informed and confident often make better financial decisions, which can lead toward long-term security. How much do employees know about saving for college while at the same time staying on track for retirement? Do participants know how much of their retiree medical expenses will be paid by Medicare? And do they understand how to maximize their Social Security benefits? Offering education on these and other important topics can get employees — and their employers — closer to the goal of on-time retirements.

Read more at http://tinyurl.com/Delayed-Retire-Cost.

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