Redesigning Retirement and Human Resource Programs to Support Longer Lives

by **Steve Vernon** | *Stanford Center on Longevity* and *Rest-of-Life Communications*

Many employers and workers in the United States face game-changing challenges with the Baby Boomer generation transitioning from the workplace into their retirement years. Proactive employers can redesign their retirement and benefit programs and human resource policies to meet the compelling needs of their older workers while at the same time enhancing the productivity of an aging workforce.

The Game-Changing Trends

Consider the following trends.

- Life expectancies from birth have increased by over 30 years during the 20th century.[1]
- Recent research points to a growing gap in life expectancy based on income, wealth and educational attainment.[2-4] Career workers who have participated in health insurance and retirement savings plans throughout their working lives are likely to live longer than the average lifespans reported in the media for the population at large, particularly those workers with above-average earnings and educational attainment.
- In spite of longer lifespans, the median or average retirement age of U.S. workers has remained constant for many years at age 62 or 63. The result is that many older workers will need to finance a retirement that could last 20 to 30 years.[5,6]
- The decline of traditional defined benefit pension plans and emergence of 401(k) plans as the retirement plan of choice require older workers to be their own investment managers and actuaries in retirement. They need to decide whether they have saved enough money to retire and how to deploy their retirement savings to last the rest of their potentially long lives. These are tasks that are beyond the skills and expertise of most older workers.

AT A GLANCE

- The Baby Boomer generation is transitioning from their working years to retirement at a time when many workers still retire in their early 60s, even though lifespans have greatly increased over the past 100 years. Employees and employers could benefit from keeping Baby Boomers in the workforce.
- Employees who extend their working years may benefit from access to employer health insurance, additional retirement savings, delaying Social Security benefits, and enjoying the social contact and fulfillment that come from work.
- Employers stand to gain institutional knowledge and valuable worker experience by implementing proactive policies that keep older workers in the mix through flexible work schedules, part-time work, lateral transfers, or other accommodations for health or lifestyle needs.

- Retirees must be prepared to survive multiple stock market crashes during their long retirements. For example, there were four significant stock market declines during the 30-year period from 1987 to 2017.
- Most older American workers have not saved enough money to retire full-time at age 65 under their preretirement standard of living, as measured by the amount of retirement income that's realistic to expect from their savings and Social Security. This is the sobering conclusion of a recent report by the Stanford Center on Longevity (SCL).[7]

What Can Older Workers Do to Address These Trends?

As a result of these and other trends, older workers will need to work beyond age 65, determine how to live on less income in retirement or implement some combination of the two. They will also need to make smart choices for deploying the modest retirement resources that they have.

American workers repeatedly indicate in surveys that they plan to continue working beyond age 65, which is a commonsense response to these trends. If older workers are unsure whether they have saved enough to retire, and if they are worried about high health care costs and outliving their money in retirement, working longer is a rational strategy.

For example, nearly two-thirds (65%) of working Baby Boomers say they plan to work beyond age 65 or not retire at all, according to a recent survey prepared by the Transamerica Center for Retirement Studies.[8] The vast majority of these workers (84%) cite financial reasons for working longer, such as the need to save more for retirement and to access affordable health insurance. However, almost three-fourths (74%) also cite healthy-aging reasons for wanting to work longer, such as the desire to be active, keep their brains alert and have a sense of purpose.

It's important for older workers and their employers to understand the reasons for continuing to work. This helps employers structure working arrangements that are useful and attractive to older workers. They can also offer benefit programs and design human resource policies that can support the long lives of older workers and help them prepare for transitioning into retirement.

Reasons for Working Longer

The author's research has shown that the following are potential reasons to work longer.[9]

- As noted previously, most older workers need income to pay for current living expenses and don't have sufficient financial resources to retire.
- Most older workers need affordable health insurance, particularly before Medicare eligibility at age 65.
- Some workers may have a purposeful strategy to delay starting Social Security benefits and drawing down retirement savings to help optimize the value of these benefits.
- A few older workers might be able to meet their basic living needs from retirement resources but want some extra spending money.
- Many older workers may like their work or enjoy the social contacts and fulfillment they get from work.

There's also provocative evidence that correlates working longer with staying healthier, although causation hasn't yet been established.[10,11] For most older workers, the decision about working vs. retiring is influenced by a handful of factors. That is, there's no single reason to continue working or retire.

A growing number of academic research studies indicate that older workers might not cause the dreaded drag on productivity, particularly in white-collar workforces that rely on institutional knowledge and relationships.[12-14] However, it must be acknowledged that measuring the relationship between productivity and age is a complex task, and the conclusions can be highly situational.

Different employers and industries may have varying views on the desirability of an older workforce. Some employers might want to gracefully exit their older workers, whereas other employers view older workers as an asset and encourage them to continue working. Regardless of an employer's perspective on an older workforce, the vast majority of employers do have an aging workforce. So it only makes sense to take steps to accommodate the reality of their workforce.

Are Older Workers Healthy Enough to Work?

Health is a common concern about extending working lives, and it can pose a knotty challenge for employers. Figure 1 illustrates results from a recent study, show-

FIGURE 1

Health Status of U.S. Workers

Less than half of people age 65 to 79 report excellent health, yet most people say they are healthy enough to work.

Source: Lowsky, Olshansky, Bhattacharya and Goldman. "Heterogeneity in Healthy Aging," *Journal of Gerontology.* June 2013.

ing that most older Americans report health statuses that are sufficient to continue working in some fashion.[15] For example, at least three-fourths of Americans age 65 to 79 reported no health-based limitation in their ability to work or do housework.

However, less than half of these Americans report excellent or very good health. Still, they report that they are sufficiently healthy to continue working. And that's the knotty challenge facing employers and workers. Employers will want to retain older workers who are still productive and have valuable experience and skills, but they also might need to make some accommodations for the health status of these workers.

Do the Downshift?

Accommodating flexible work schedules has the potential to address many of the challenges described in this article. Older workers repeatedly report a preference for part-time work in their later years.[16]

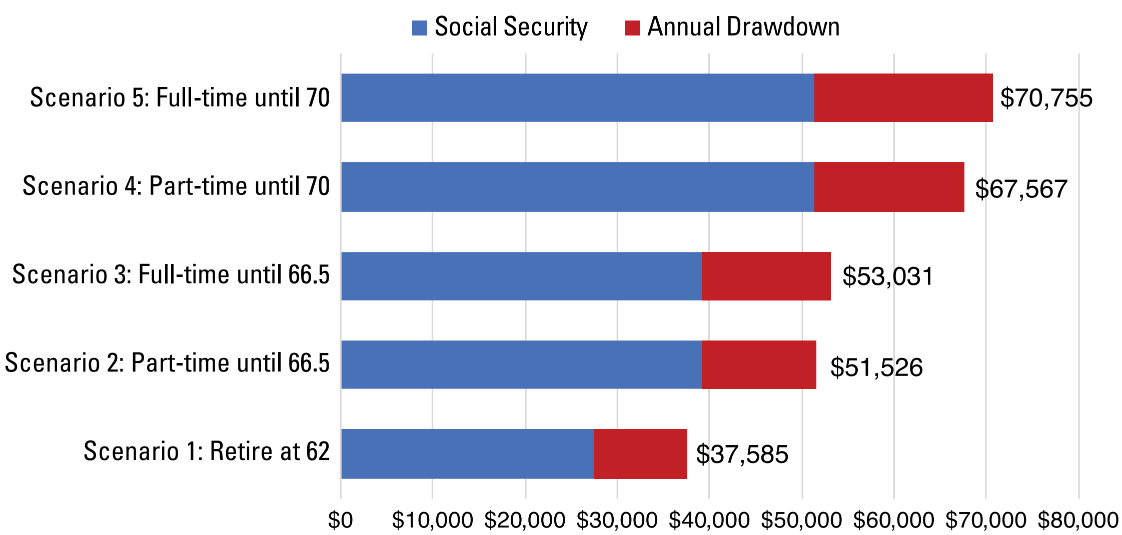
There are retirement planning benefits as well for extending work lives, even if for a few years. A recent study published by SCL makes the financial case for a *downshift* or *right-shift* strategy.[17,18] With such a strategy, older workers would reduce their hours or responsibilities but still earn sufficient income to cover their living expenses. The continuation of wage earnings enables them to allow their Social Security benefits and retirement savings to grow to sufficient levels.

An example can illustrate the advantages of such a strategy. Let's look at a hypothetical married couple, both born in 1957 and attaining age 62 in 2019. The primary wage earner's annual salary is $75,000, and the spouse's earnings are $25,000, for a combined household income of $100,000. They have accumulated $350,000 in retirement savings by age 62. (Both the household income and retirement savings amounts are

FIGURE 2

Scenarios Impacting Retirement Income

Total retirement income increases significantly by delaying Social Security and savings drawdown.



above the median and average amounts reported in the SCL report[19] for mid-Boomers—those born between 1954 and 1959.)

Figure 2 shows the retirement income for the hypothetical couple under five different retirement scenarios. The retirement income includes both Social Security benefits and systematic withdrawals from savings. Here are the five scenarios illustrated in Figure 2.

1. Both retire completely at age 62 and start Social Security benefits and the drawdown of retirement savings.
2. Both keep working part-time until their Social Security full retirement age (66 years and six months), then start Social Security and the drawdown of retirement savings.
3. Both keep working full-time until their Social Security full retirement age, then start Social Security and the drawdown of retirement savings.
4. Both keep working part-time until age 70, then start Social Security benefits and the drawdown of retirement savings.
5. Both keep working full-time until age 70, then start Social Security benefits and the drawdown of retirement savings.

Assumptions for this example:

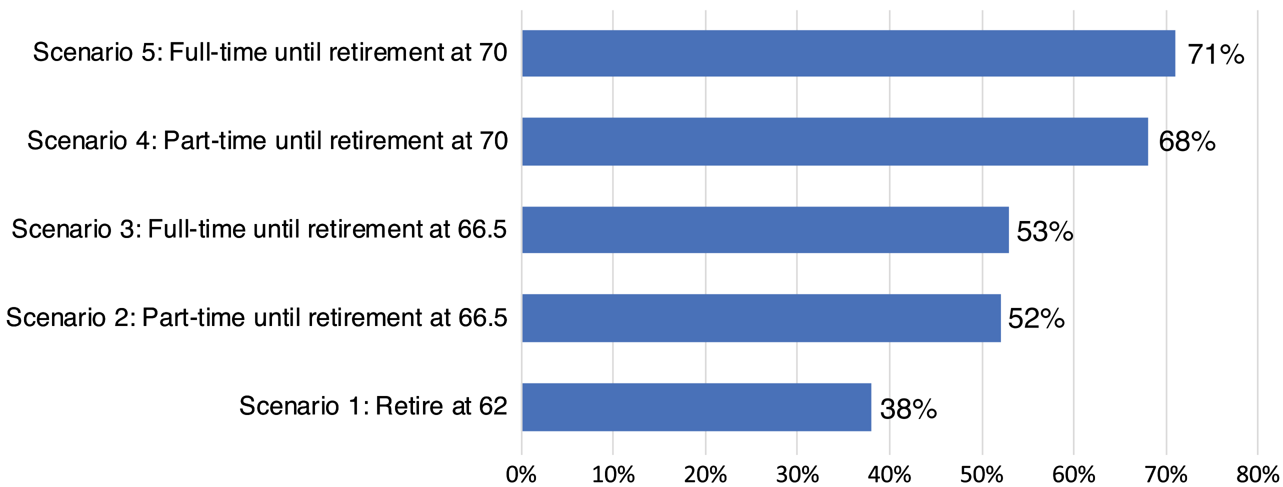
- Amounts shown are in today's dollars, not adjusted for inflation.
- There are no future wage increases.
- For the full-time working scenarios, the couple contributes 10% of their income to their retirement savings each year until they retire.
- For the part-time working scenarios, the couple stops contributing to retirement savings.
- Savings earn a real rate of return of 3% per year.
- Systematic withdrawals from savings use the Internal Revenue Service (IRS) required minimum distribution, modified for retirements before age 70.[20]

Retirement planners often state that workers need a total retirement income that replaces 70% to 80% of their gross preretirement income to maintain their preretirement standard of living. It's usually not necessary to replace 100% of gross preretirement income for a few reasons.

- Retirees no longer pay Federal Insurance Contributions Act

FIGURE 3

Scenarios Impacting Income Replacement Ratio
Work longer or reduce your standard of living?



(FICA) taxes, which for workers equals 7.65% of pay up to the Social Security Wage Base ($132,900 in 2019).

- Retirees no longer need to save for retirement.
- Retirees pay significantly less federal and state income taxes, since a large portion of Social Security income is exempted from income taxes and taxpayers age 65-plus enjoy larger tax deductions.
- Retirees no longer have work-related expenses, such as commuting.

Figure 3 restates the above example as replacement of the household's pre-retirement pay.

This example illustrates a few significant conclusions.

- Most older workers will fall short of commonly recommended retirement income targets unless they can work in some manner into their late 60s or 70s. Otherwise, they might need to learn how to live at a reduced standard of living compared with their working years.
- Delaying retirement, even for a few years, can significantly increase the eventual retirement income.
- Most of the increase in retirement income comes from delaying both Social Security benefits and savings drawdown; the additional retirement contributions made between age 62 and retirement only modestly increase the eventual retirement income.

These conclusions can provide justification for the downshifting strategy previously described. With such a strategy, older workers can extend their work lives; free up time to enjoy life; and earn a permanent, lifetime increase in their eventual retirement income.

This kind of information can help older workers decide when to retire and whether to continue working full-time or part-time until they retire. This information can also help them decide whether reducing their standard of living is an acceptable price to pay for their retirement freedom.

This information is also useful to help older workers and their advisors decide how much investment risk to take for their savings in retirement. Social Security benefits protect against longevity, inflation and market risks and represent a large portion of the retiree's retirement income portfolio.

Only the savings drawdown is subject to these risks, and it typically represents a smaller portion of total retirement income. Assuming investment risk on this portion of retirement income may be an acceptable price to pay for the potential for savings to grow in retirement.

How Can Older Workers Extend Their Earning Years?

The following are different ways that older workers can continue working.[21]

- Continue at their current job, full-time or part-time, as long as it meets their needs and employers are satisfied with work performance.
- Do the downshift: Work just enough to cover living expenses, maintain social contacts with fellow employees and continue health insurance. This can enable Social Security benefits and retirement savings to grow and can free up time to pursue personal interests.
- Find a bridge job, working part-time for a few years after a full-time position ends and full retirement begins, often in a worker's current field of work.
- Pursue an *encore career,* where a worker pursues a new career for several years. Encore careers often build on the skills and contacts workers have made throughout their careers.
- Create or expand on a *slash career* that combines making money with pursuing interests. For example, someone who calls herself an accountant/yoga instructor might still work both jobs but perhaps do more yoga and less accounting to more fully enjoy her work.
- Volunteer for a cause or sign up for an internship, either of which might lead to paid work.
- Become self-employed as part of the gig economy. This often involves doing projects or contract work.
- Start a business, preferably without spending a lot of money to get it going.

Creative employers can accommodate their older workers and retirees with many of these situations. An important potential component of an employer's overall retirement program could be to offer alternative career paths for older workers who want to reduce their hours or responsibilities. Employers may also look for ways to accommodate workers whose health is less than excellent or very good but who nevertheless can continue to be productive in meaningful ways.

How Employers Can Help

Here are some ideas on how employers can help older workers and retirees address these serious challenges.

- They can offer part-time work or flexible work schedules to help older workers who want bridge jobs.
- They can accommodate older workers' desire for an encore career by allowing lateral transfers to positions outside the worker's career path and experience. Offering training to older workers can enable such transfers.
- Employers could accommodate older workers' desire for gig work by hiring their retirees for specified, self-contained projects or seasonal work.
- An additional benefit of offering bridge, encore or gig work could be the opportunity to transfer knowledge and mentor younger workers. Older workers could be granted *emeritus* or *senior advisor* status. This idea can enable older workers to step down in their responsibilities with dignity, which can help them to overcome psychological barriers to downshifting. It also helps younger workers accept and recognize the value of older workers.
- Employers can examine the work environment and/or restructure job requirements to accommodate older workers who are sufficiently healthy to work but are in less than excellent health.
- Employers can encourage volunteering through formal support programs. Research shows that volunteering can be win-win opportunities that benefit workers and communities. Older workers are more likely to continue volunteering in retirement if they volunteer during the years leading up to their retirement.[22]
- Employers can provide retirement income analyses under various work and retirement scenarios, similar to the example in this article. This will help older workers understand the implications of delaying retirement and decide whether it's desirable to work part-time for a while. There are a few ways to meet this goal: Employers can prepare and distribute retirement income statements, host online retirement

modeling tools and/or offer retirement advice through the 401(k) plan.

- Employers can redesign their 401(k) and defined contribution plans to help older workers build a portfolio of retirement income. They can offer a retirement income menu that complements the familiar investment menu.[23] This will help older workers with the challenge of deciding how to deploy their retirement savings and can help increase retirement incomes by offering institutionally priced solutions.[24]
- Lack of affordable health insurance before Medicare eligibility at age 65 can be a retirement showstopper for most older workers. To meet this challenge, employers could offer health insurance for older workers who choose an alternative career path, as previously described. Another idea is to extend coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) beyond the minimum requirement of 18 months for older workers who lose eligibility for health insurance by retiring or reducing their work hours.
- Employers could extend their health and wellness programs to older part-time workers and recent retirees to help them extend their working lives. They can offer financial wellness programs to help workers learn how to make the most of reduced incomes and also extend these programs to their retirees.

By adopting many of the ideas in this article, employers will send a powerful message to their entire workforce: The employer cares about workers of all ages and is compassionate. This will help build trust and brand loyalty.

Many employers are wringing their hands about a potential retirement crisis, worrying that older workers will be a drag on productivity and block the careers of younger workers. But this so-called retirement crisis is the result of one of humankind's greatest achievements: the longer lives that many people are living.

Most people in their 50s, 60s and 70s would rather work on the challenges of financing longer lives than be dead. So instead of being paralyzed about a retirement crisis, let's figure out how to benefit from older workers' life experiences and emotional intelligence and how they can contribute to a vital and productive workforce.

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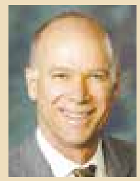

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Adopting these ideas might take a lot of work for both employers and their older workers. There are many difficult cultural and legal issues to work through. But nobody said it would be easy for millions of older workers to finance their longer lives. And we really have no reasonable alternative.

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