RETIREMENT LIVING

Forced retirement?

U.S. firms fail to prepare for coming wave of older workers

By Andrea Coombes, CBS.MarketWatch.com
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SAN FRANCISCO (CBS.MW) -- Faced with greater financial responsibility for their retirement, workers plan to labor well past the usual retirement age. But are U.S. firms ready to keep them on?

Whether they're faced with shrinking retirement assets and health-plan benefits, or just eager to remain active, 78 percent of employees plan to work past traditional retirement age. Yet few firms are prepared for that shift, according to a new survey of 2,000 employees and 365 personnel managers by benefits-consulting firm Towers Perrin.

"There were two areas where we were surprised: Companies didn't seem to be looking into phased retirement programs and they also weren't looking at programs that would help people transition from their main career into their stage-two (retirement) career," said Ginny Olson, a principal in the retirement practice at Towers Perrin.

While 61 percent of employers said their workforce's average age is rising, and 48 percent said their workers will postpone retirement because of declining retirement-plan balances, only 16 percent were exploring phased retirement and 22 percent were re-training mature workers.

Phased retirement, in which workers scale back hours in the months or years approaching retirement, is among the most promising notions. It's "a win for the employee to work less but not hurt his pension, a win for employers who could retrain workers at a lower cost and a win for the country, with people working into retirement," said William Arnone, a partner in Ernst & Young's human capital practice.

Yet "virtually no major private-sector company has a phased retirement program," he said.

Benefit barriers

The obstacles to phased retirement are significant. For one, while many workers may want to scale back, they may need to tap pensions to financially handle part-time hours. But pension-plan regulations make it difficult to work and collect a pension from the same employer.

"Earning a paycheck from the same organization you're collecting a pension from has complications," said Valerie Paganelli, a senior retirement consultant with Watson Wyatt. "You can't do it until after normal retirement age and even then it often requires a suspension of your pension benefit." That means Congress may well have to legislate changes allowing phased retirement.

There's also the problem of benefit calculations: Pension payouts are often based on salary earned in the last years of employment. Dropping to part-time could significantly reduce pension benefits. Companies, however, could change their figuring to use, say, the highest-paid years rather than the final years.

Also, some 401(k)s and other defined-contribution plans don't allow distributions while working or "in-service," Paganelli said. Some employers set up their plans with the belief they shouldn't encourage workers to tap assets before retirement.

"But those decisions were made in the context of not anticipating 25 percent of their population is eligible to leave in the next 3 to 5 years," she said. Companies can change plans to allow for in-service distributions.

Companies that don't start addressing these concerns may soon find themselves losing much-needed talent. The coming wave of retiring baby boomers combined with fewer young adults stepping into their places means firms must start easing the way for older employees to continue working.

"Companies are not looking at the extent to which there is an older worker bubble," Arnone said. "They're not doing scenario planning that says 'what if 20 percent of my older workers plan to retire in coming years.' The window for doing this right is starting to close. The oldest boomers are at that magic age."

Let's be honest

Even absent structural pension changes, companies could be doing a lot more to improve workplace culture and other benefits.

"It's not hard for (companies) to help in career planning. In other words, move to an environment of trust where the person can openly discuss their future aspirations," said Bob Critchley, strategic consultant with DBM and author of "Rewired, Rehired or Retired."

"If someone at 55 dares at some company to say 'I want to work hard another eight months, then I want to phase down to 3 days a week,' there's a good chance they'll be hit in the next round of layoffs. (Instead) companies can create an honest career-planning environment," he said.

Some companies are experiencing the shift now. Over the past six months, consulting firm Deloitte has seen more clients seeking help with exit interviews to transfer knowledge from retiring workers.

Companies are "having a hard time finding people to replace some skill sets. They're trying to catalog what people know before they lose people," said Jeff Summer, national leader of human capital performance practice at Deloitte.

And some older workers are, on an informal basis, phasing into retirement. But "they may not be the type of arrangement that the employee is looking for," said Olson, of Towers Perrin. Most commonly, employees retire and then come back as independent contractors. But that leaves them ineligible for health and other benefits.

Some companies are sweetening the stay-at-work pot with more flexible work schedules. "You're starting to see a lot of companies paying for remote offices, paid time off or sabbatical opportunities," Summer said.

Other companies are improving the physical environment, adding benches by elevators and setting computers with larger print, said Roger Herman, chief executive of The Herman Group, a consulting firm, and co-author of "Impending Crisis: Too Many Jobs, Too Few People."

Companies that neglect these considerations "are missing the opportunity to exploit in a positive way a very important segment of the work force," Herman said. "They're going to miss the opportunity to work with people ... who may know the customers a whole lot better than the young folks do."

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