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Retirement age? What retirement age?

By **India Suter |** October 18, 2018 at 10:07 AM


It's not just those reaching retirement age in the next few years that have to worry—things look even bleaker for Millennials and Gen Xers.

For the past 70 years or so, an implicit contract between American workers and employers has essentially dictated the terms of retirement. Work hard during your productive years, the contract said, and you'll be taken care of when you're older. And the arrangement was largely successful—at least until recently.

First through pensions, then through defined contribution plans, such as employer-sponsored 401(k) plans, employers provided for their employees' long-term well-being in acts of corporate responsibility that doubled as a loyalty-building program. Yes, there were exceptions, but most employees who spent within their means and progressed steadily down their given career path could expect to retire at 60 or 65 without sacrificing their quality of life.

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Employees today, however, have a decisively less secure outlook for their retirement. More than 80 percent of Americans are concerned they will not be able to afford a comfortable retirement, according to a survey conducted earlier this year. The fear, to put it plainly, is outliving retirement savings: Two thirds of those surveyed believed there was at least “some likelihood” of it happening to them.

These beliefs are not expressions of irrational 4 a.m. anxieties or the fears of a populace scare-mongered by the media. A look at the state of those factors affecting retirement security shows that Americans have good reason to be apprehensive.

The origins of the crisis

David Blanchett of Morningstar, the investment research firm, recently declared in Barron’s that now is “the worst time to retire since just before the dot-com bubble burst,” pointing to rising volatility, inflation and interest rates as the causes. But it is not just those reaching retirement age in the next few years that have to worry—things look even bleaker for Millennials and Gen Xers.

The causes of this crisis are in fact things we already know about how the economy has changed in recent decades. Consider:

- **Social security benefits today cover less than 30 percent of a median-income worker’s pre-retirement salary.** That number is down from 40 percent two decades ago. Worse, by 2022, the money going into social security is expected to be less than the amount being drawn, which will eventually lead to the fund’s depletion in 2034. No one knows what will happen at that point, but the uncertainty means that those saving now have to plan their retirement fund under the assumption that social security will not cover any significant percentage of their pre-retirement income.
- **Americans aren’t saving the same as they used to.** Between burdensome school loans, higher rents and stagnant wages, young people today have difficulty saving like their parents did. This is not one of those issues stemming from millennial spending habits (which have been grossly exaggerated), either. One in three baby boomers has $25,000 or less in retirement savings and one in five Americans has no retirement savings whatsoever. Given all that, it’s no surprise (although it’s certainly an indictment of the current retirement system) that 40 percent of workers aged 50-60, and not currently in poverty, are expected to fall into poverty or near poverty within ten years of retiring.
- **People are living longer.** Social security taxes were first collected in 1937, when the life expectancy for men and women was 58 and 64 respectively. Today, the average life expectancy is 79; however, retirement planners suggest planning far beyond even that. Thirty years is standard, but some planners recommend for their retirement fund to support them until age 100. That seems to put workers in the position to put more money aside out of each paycheck – which is next to impossible for a large proportion of families – or working later into life.

How the crisis affects employees and employers alike

We cannot talk about how the crisis affects employees without talking about how it affects employers. The employer-employee relationship has evolved greatly over the last 50 years, especially with the US moving to a service economy. Both parties are inextricably bound to one another and will need to continue to be engaged to address the retirement crisis.

Case in point: Employees who have not saved enough cannot leave their jobs at 65 anymore. A rational decision for employees, it is nonetheless certain to result in employees who do not really want to be in their jobs for several more years. A Politico report estimates that businesses are losing up to 10 percent in productivity, or around $50,000 a year on average, because retirement-age workers are staying on the job.

The retirement crisis has subtler effects, too. Research finds that financial well-being influences both individual performance and overall organizational performance. These sorts of “spillover” effects, when personal stressors, such as a seriously ill family member or the fear that one’s retirement situation is precarious, are well documented in organizational psychology, and should figure in an organization’s decision about what kind of retirement benefits and programs to offer.

Employer intervention

While many media outlets focus on strategies for the individual, employers also have an essential role to play in remedying the retirement crisis, starting with their own employees. It is not just a matter of corporate responsibility, but also organizational success.

This article is the first of three on the topic of how businesses should respond to the retirement crisis. In the next installment, I will discuss how organizations can help alleviate their employees’ retirement woes. After that, I will cover the role of the benefit manager in mitigating the crisis.

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