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Protection during working years impacts retirement outcomes

Second in a weekly series on workplace benefits optimization

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Leakages from DC plans are a serious concern, according to the Center for Retirement Research at Boston College in its 2015 report. (Photo: Thinkstock)

Nearly two-thirds (65 percent) of finance executives say that employee benefits are critical to attracting and retaining employees, according to the 2016 Prudential and CFO Research survey, "The Value of Employees' Financial Wellness." Yet, they also cite cost control as a top concern.

To balance these two goals, employers often turn to benefits optimization, an approach to designing benefit plans and portfolios to maximize desired workforce outcomes, such as retirement readiness and productivity, against a given benefits budget.

Using data analytics, employers can develop customized solutions that optimize not only a specific benefit plan, but their entire portfolio of benefit offerings. Because the design of any one plan may have unintended consequences for other plans in a portfolio, employers should consider the interdependencies among plans and how the offerings work together.

The following example illustrates the opportunity to optimize a benefit portfolio by integrating protection and retirement benefits within the portfolio.

Maximizing retirement readiness

Ideally, a benefits portfolio should have the right combination of protection and retirement benefits, because employees' financial behaviors and benefits usage during their working years may have an impact on their retirement security. Without adequate protection, a disability, critical illness, or accident may cause an employee to halt DC plan contributions or withdraw retirement savings.

Leakages from DC plans are a serious concern, according to the Center for Retirement Research at Boston College in its 2015 report "The Impact of Leakages on 401(k)/IRA Assets." Employees withdraw about $57 billion each year from their retirement accounts before reaching retirement age, observes a 2015 article by *BenefitsPro*.

That equates to about one half of employers' matching contributions to employees' accounts. About 11 percent of these withdrawal events

In addition to workforce management implications, delayed retirements have a significant direct financial cost to employers. (Photo: Thinkstock)

were attributable to the onset of poor health, notes a 2010 report from the Urban Institute, "Understanding Early Withdrawals from Retirement Accounts." This finding indicates that many employees turn to their retirement accounts to cover out-of-pocket expenses related to a disability or medical event.

These early withdrawals can significantly strain retirement savings. A 35-year-old who withdraws $25,000 from a retirement account may forgo over $140,000 in future retirement benefits, according to Smart401(k).com's Early Withdrawal Impact Calculator. Having adequate disability, critical illness, or accident coverage may prevent employees' need to withdraw retirement savings, relieve their financial stress, and help them to retire when they wish.

3 benefits of employer protections

Employers also reap benefits. Adequate protection for employees can help employers:

- Protect the investment they make through their matching contributions.
- Improve workforce productivity by improving financial wellness and mitigating employees' financial stress.
- Enable their employees to retire when they wish, reducing workforce issues, such as a lack of engagement from older employees who want to retire, and turnover amongst younger employees due to lack of progression.

In addition to workforce management implications, delayed retirements have a significant direct financial cost to employers. Research conducted by Prudential and the University of Connecticut shows that, on average, a one-year increase in the average retirement age may result in an incremental 1–1.5 percent of annual workforce costs.

Taking a holistic approach to benefits optimization may help identify interdependencies, gaps, or overlaps among plans so that employers can maximize their desired outcomes and get the best "bang for their benefits buck."

To learn more, read "Insights for Optimizing Your Employee Benefit Program."

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