



# Embracing the Retirement Model for the Next Normal

by **Graham Cox** | *MetLife*

What a difference a year makes. Last October, official U.S. labor market data showed a stronger-than-expected net gain of 128,000 jobs,<sup>1</sup> the unemployment rate held steady at a historically low 3.6%,<sup>2</sup> and employee compensation, the largest driver of personal income, had grown by 0.4%.<sup>3</sup>

Prior to the COVID-19 pandemic, senior human resource executives were focused on very different business imperatives than today. Among them were building critical skills and competencies to drive future performance, identifying current and future bench strength to transform their organizations, focusing on organizational design and change management, driving digital transformation and investing in initiatives to drive employee satisfaction and engagement, especially in what had been a tight labor market.<sup>4</sup>

Today, nearly a year after the first person was diagnosed with coronavirus in the U.S., companies are almost singularly focused on recovery plans to deal with the economic and financial fallout. Most companies have reduced operational expenses, and many have downsized their workforces in an attempt to navigate an unprecedented and unpredictable businesses challenge. For the businesses that did find a new path to business resiliency and stabilization to survive, leaders are still figuring out how to manage their workforces through the “next normal”<sup>5</sup> to ensure that workplace transformations are effective, supply-chain disruptions are avoided, customer needs are met and shareholder expectations are managed.<sup>6</sup>

As business leaders address these new strategic priorities, more than 150 million U.S. workers continue to grapple with the effects of the pandemic. Many are now unemployed and, for older workers, involuntary job termination or “forced retirement” is causing worry about the loss of

health insurance and other benefits as well as the prospect of outliving their retirement savings. Those who remained gainfully employed are likely concerned about the longer term impact that market volatility will have on their employment and retirement outlooks.

This article will look at how the traditional retirement model had evolved prior to the pandemic and offer some recommendations that employers should strongly consider postpandemic to help their workers retire and thrive in the next normal.

## Evolution of the Traditional Retirement Model

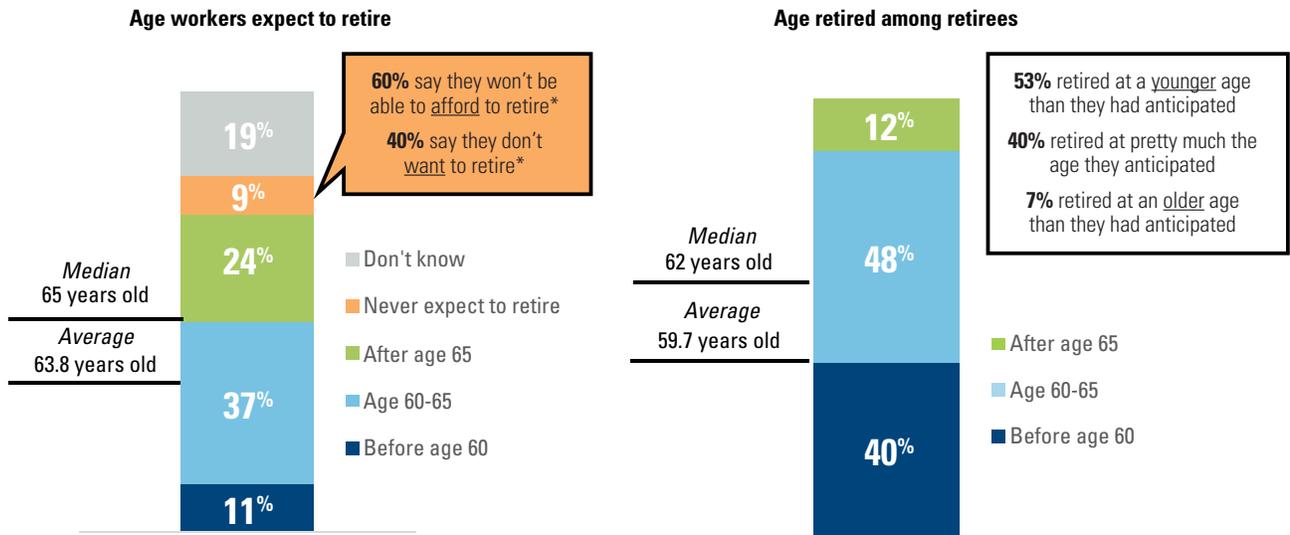
Over the last decade, well before the onset of the pandemic, many developments challenged the traditional notion that 65 is the standard retirement age. The traditional model of retirement—which assumed a fixed career end

### AT A GLANCE

- Financial losses caused by the COVID-19 global pandemic and the decline of postretirement benefits are likely to cause many older workers to delay retirement.
- More than half of employers say they wish more of their older workers would transition into retirement to allow for promotional/advancement opportunities for younger workers.
- Employers that want to address the needs of their older workers while also adapting to changes in their workforce and the economy can consider offering programs such as reciprocal mentoring, phased retirement programs, voluntary or contributory retiree benefits, as well as enabling workers to convert assets into income and taking a holistic approach to financial wellness.

**FIGURE**

**Workers Expect to Retire Later Than Today's Retirees**



\*Small base (n<100). Results should be interpreted as directional only.  
Source: MetLife's Evolving Retirement Model Study, 2020.

date, employer-paid postretirement benefits and clear boundaries between work and retirement—was replaced by a new and evolving model. This model has three components: (1) with the shift from defined benefit (DB) plans to defined contribution (DC) plans (e.g., 401(k) plans), retirees are shouldering more of the burden for their retirement security; (2) retirement has evolved to be more fluid—with an ebb and flow between work and retirement; and (3) for some workers, retirement is, or will now be, unattainable.

**Forced Retirements for Some, Elusive Retirement for Others**

Historically, the question of when to retire was the most important career decision for an older worker. To-

day, however, the bigger question is not when they will retire but if they can. The COVID-19 pandemic could have a profound impact on how workers answer that question. Prior to the pandemic, many people in the United States were still trying to recover financially from the 2008-09 Great Recession.<sup>7</sup> According to MetLife research,<sup>8</sup> some older workers (21%) had been delaying retirement, primarily to continue to build their retirement savings or maximize their pension benefits (45%).<sup>9</sup> In fact, older Americans had been anticipated to be the fastest-growing part of the workforce over the next five years, according to the U.S. Bureau of Labor Statistics.<sup>10</sup>

Whether that trajectory holds true remains to be seen, especially with

forced retirements being a fallout from the pandemic. An estimated 48% of adults are typically forced to retire early (often due to health reasons), according to the Employee Benefit Research Institute (EBRI), but that number appears to be rising due to COVID-19. In April 2020, the unemployment rate among workers age 55 and over had reached 13.6%, up from 2.6% in January 2020.

For those still working, the prospect of ever being able to retire may have dimmed. Prior to the pandemic, when MetLife surveyed employers, workers and retirees about how the needs of an aging workforce and the generations that follow are being addressed, 81% of employers said they have workers delaying retirement because they feel “financially trapped.” Although 9% of workers

said they never expected to retire, most workers (72%) expected that someday they would. A McKinsey Global Institute analysis, based on multiple sources, indicates that “the shock to our livelihoods from the economic impact of virus-suppression efforts could be the biggest in nearly a century.”<sup>11</sup> With more than half of workers already living paycheck to paycheck, being able to recover financially from the pandemic could be a monumental challenge, and the number of older workers who delay retirement, or never retire, could grow. The figure on page 9 compares workers’ expected retirement ages with the actual retirement ages of current retirees.

### Recouping Retirement Savings

While all workers have been affected by this year’s market volatility, older workers on the brink of retirement have much less time to recover from the market downturn than younger workers. With traditional DB pension plans now largely a relic of the past, today’s workers will rely on their own DC plan savings to fund their retirements, and they’ll need it to last for 20-30 years, or even longer, in retirement.

Last year, half of U.S. private sector workers participated in DC plans.<sup>12</sup> However, average 401(k) balances have been woefully low. In 2016, the most recent year for which reliable data are available, Americans had an average of just \$75,358 in DC plan savings, with a median balance of just \$16,836.<sup>13</sup> Even when coupled with Social Security benefits, with an average benefit of \$1,503 per month for retirees,<sup>14</sup> many people in the U.S. will struggle in retirement.

Following nearly a decade of stock market gains, recouping retirement losses will be a challenging task, particularly among those already at or near traditional retirement age. At a macrolevel, if market losses for the year are half of first-quarter 2020 losses—a scenario that EBRI defines as “optimistic”—the aggregate retirement deficit would increase by 2.6% or \$96.3 billion, according to EBRI’s calculations. The “pessimistic” scenario, however, which assumes investment losses at the same rate as that experienced during the previous crisis, would put losses at \$412.8 billion.<sup>15</sup>

### Decline of Postretirement Benefits

A lack of retirement savings is only part of the problem. Postretirement benefits such as retiree health care and other benefits are also on the decline. Originally offered as an inexpensive way to recruit and retain employees, companies started to rethink these benefits when health care costs began to soar and accounting rules were introduced requiring companies to account for retirement benefit liabilities on their financial statements.

Despite the decline in postretirement benefits, most workers today say they would be concerned if their employers did not provide access to benefits in retirement, such as medical (88%), prescription drug coverage (85%), dental (79%) and life insurance (66%). Unfortunately, fewer than three in ten employers do so for retirees (27% medical, 19% life, 19% prescription drugs, 13% dental)—down significantly from a decade ago when more than

nine in ten employers (91%) offered retirees medical benefits. The lack of continuing benefits can also contribute to older workers’ feelings of being financially trapped and, in turn, delaying retirement or remaining in the workforce indefinitely.

### Impact of Delayed Retirement

Today’s reality is that many workers either can’t or don’t want to retire. And, if they do retire, there is a good chance that they may return to the workforce in some capacity at some point during their retirements. This could be either to supplement their finances or to remain engaged socially.

Employers acknowledge that there are some advantages to older workers delaying retirement, such as the ability to retain specialized workers (71%) and more time for the transfer of knowledge to younger workers (69%). While there are some advantages, there may also be some challenges, especially when employees are delaying retirement out of financial necessity. For example, employers believe that older workers who continue to work past traditional retirement age out of financial necessity rather than personal choice incur higher health care claims (50%), are less productive (30%) and have higher incidences of disability (20%).

Delayed retirement is also having an impact on workforce management. More than half of employers (55%) say they wish more of their older workers would transition into retirement to allow for promotion/advancement opportunities for younger workers. Younger workers join in that sentiment,

with a third saying that older workers delaying retirement hinder their ability to get promoted (35%) and negatively impact their ability to receive salary increases (34%).

### Enabling Workers to Retire and Thrive

If the global pandemic has taught U.S. executives anything, it's that they need a lot of flexibility to adapt to changes in their workforce, their business and the economy. This is particularly true when addressing ways to enable workers to retire with confidence. Below are a few recommendations for embracing today's retirement model and addressing the needs of older workers as they prepare for—and transition into—retirement.

- **Facilitate ways for the multigenerational workforce to positively impact the company's workforce needs.** Today, companies are managing five generations of American workers: *Silents* (born between 1925 and 1945), *Baby Boomers* (1946 to 1964), *Generation Xers* (1965 to 1980), *Generation Y* or *Millennials* (1981 to 1997) and *Generation Z* (born after 1997).<sup>16</sup> This is the first time in U.S. history that five generations have worked together at the same time, each with diverse viewpoints and expectations. In order to enable them to successfully work side by side and transfer their knowledge to one another, employers should consider reciprocal mentoring. In reciprocal mentoring, a junior team member “mentors” someone more senior and vice versa, and they exchange skills, knowledge and understanding. Each takes turns being the mentor and mentee. For example, younger workers might teach technological skills while older workers might discuss strategic issues and leadership skills.
  - **Determine whether to offer a phased retirement program.** Phased retirement programs can help to transition older workers gradually out of the workforce while allowing time for knowledge transfer and learning. Three in four workers (74%) say that when they reach retirement age, they would like their employers to enable them to transition gradually into retirement. Unfortunately, today only one in ten employers (10%) offers a phased retirement program,
- nearly equal to the 9% of employers that offered this type of program in previous MetLife research fielded a decade ago. Most employers (79%) say they have not decided or don't know whether they will implement a phased retirement program. When considering a phased retirement program, employers should familiarize themselves with current regulations, including the Pension Protection Act, and consult the Employee Retirement Income Security Act (ERISA) and tax attorneys.
- **Consider offering voluntary or contributory retiree health and nonmedical health benefits to facilitate retirement.** Postretirement benefits can have a significant impact on whether older workers feel ready to retire. Knowing that they have insurance coverage in place can help give them peace of mind about their retirement security. Consider providing access to employee-paid retiree health plans and other nonmedical health benefits such as life insurance and dental coverage.
  - **Enable workers to convert assets into income.** Employers believe that among the top reasons that older workers are delaying retirement is the fact that they cannot afford to retire and need income for expenses and bills. Since most workers are accustomed to living off their paychecks, it stands to reason that enabling retiring workers to continue that paycheck would help them enjoy a more secure and comfortable retirement. With the passage of the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, more companies are considering offering lifetime income options so that DC plan participants can convert a portion of their retirement savings into guaranteed lifelong income. That's good news for workers and retirees, since nearly all of them (95%) say it's important for retirees to have a source of guaranteed income they cannot outlive.
  - **Take a holistic approach to financial wellness.** Two in three U.S. workers are feeling more stressed than before the pandemic, with personal financial concerns their number one stressor.<sup>17</sup> Among those who strug-

Reprinted from the Fourth Quarter 2020 issue of *BENEFITS QUARTERLY*, published by the International Society of Certified Employee Benefit Specialists. With the exception of official Society announcements, the opinions given in articles are those of the authors. The International Society of Certified Employee Benefit Specialists disclaims responsibility for views expressed and statements made in articles published. No further transmission or electronic distribution of this material is permitted without permission. Subscription information can be found at [iscebs.org](http://iscebs.org).

©2020 International Society of Certified Employee Benefit Specialists

gle financially, 55% expect to postpone retirement due to their financial situation.<sup>18</sup> In the face of market volatility and unexpected day-to-day expenses, a robust financial wellness program can enable employees to manage their finances with confidence, from handling financial emergencies to paying down debt to saving for and transitioning into retirement.

## Conclusion

Prior to the onset of the COVID-19 pandemic, employers were already facing some challenges managing their aging workforces. With work and retirement patterns likely to be increasingly unpredictable going forward, employers must find creative solutions to help improve employee financial confidence and enable a smooth transition to retirement. Workers look to their employers to support them with retirement benefits and resources. By implementing some or all of the recommendations above, employers can help their employees have the confidence and financial stability to retire and thrive. 

## Endnotes

1. Bureau of Labor Statistics, U.S. Department of Labor, news release: "The Employment Situation—October 2019," [www.bls.gov/news.release/archives/empst\\_11012019.pdf](http://www.bls.gov/news.release/archives/empst_11012019.pdf).
2. Bureau of Labor Statistics, U.S. Department of Labor, The Economics Daily, "Unemployment rate was 3.6 percent in October 2019," [www.bls.gov/opub/ted/2019/unemployment-rate-was-3-point-6-percent-in-october-2019.htm](http://www.bls.gov/opub/ted/2019/unemployment-rate-was-3-point-6-percent-in-october-2019.htm).
3. National Retail Federation, "Monthly Economic Review," Jack Kleinhenz, chief economist, December 6, 2019, <https://nrf.com/research/monthly-economic-review-december-2019>.
4. Gartner, news release: "Gartner Identifies the Top Five Priorities for HR Leaders in 2020," December 4, 2019, [www.gartner.com/en/newsroom/press-releases/2019-12-4-gartner-identifies-the-top-five-priorities-for-hr-lead](http://www.gartner.com/en/newsroom/press-releases/2019-12-4-gartner-identifies-the-top-five-priorities-for-hr-lead).
5. McKinsey & Co, "The future is not what is used to be: Thoughts on the shape of the next normal," April 14, 2020, [www.mckinsey.com/featured-insights/leadership/the-future-is-not-what-it-used-to-be-thoughts-on-the-shape-of-the-next-normal](http://www.mckinsey.com/featured-insights/leadership/the-future-is-not-what-it-used-to-be-thoughts-on-the-shape-of-the-next-normal).
6. *Forbes*, "Q&A: Firing, Furloughing And More," By Jack Garson, April 28, 2020, [www.forbes.com/sites/jackgarson/2020/04/28/qa-firing-furloughing-and-more/#23a87f1c28ee](http://www.forbes.com/sites/jackgarson/2020/04/28/qa-firing-furloughing-and-more/#23a87f1c28ee).
7. *U.S. News & World Report*, "Study: 3 in 10 Americans Haven't Recovered from Great Recession," Andrew Soergel, July 13, 2017, [www.usnews.com/news/economy/articles/2017-07-13/study-3-in-10-americans-havent-recovered-from-great-recession](http://www.usnews.com/news/economy/articles/2017-07-13/study-3-in-10-americans-havent-recovered-from-great-recession).

## AUTHOR



**Graham Cox** is executive vice president and head of retirement and income solutions at MetLife, where he has responsibility for a number of institutional businesses including pension risk transfer, annuity and investment products for defined contribution plans, corporate and bank-owned life insurance, funding for postretirement benefits, and structured settlements. He also is president of Metropolitan Tower Life Insurance Company. Cox joined MetLife in 1995. He is a graduate of the University of Manitoba and is a Fellow of the Society of Actuaries.

8. MetLife's *Evolving Retirement Model Study*, 2020, [www.metlife.com/evolving-retirement-model-study/](http://www.metlife.com/evolving-retirement-model-study/). Unless noted otherwise, all MetLife research cited in this article is from this study.
9. Small base (n<100). Results should be interpreted as directional only.
10. Bureau of Labor Statistics, "Older workers: Labor Force Trends and Career Options," Mitra Toossi and Elka Torpey, May 2017.
11. McKinsey & Company, "Beyond coronavirus: The path to the next normal," March 2020, [www.mckinsey.com/industries/healthcare-systems-and-services/our-insights/beyond-coronavirus-the-path-to-the-next-normal](http://www.mckinsey.com/industries/healthcare-systems-and-services/our-insights/beyond-coronavirus-the-path-to-the-next-normal).
12. Bureau of Labor Statistics, U.S. Department Labor, "Establishments Offering Retirement and Healthcare Benefits: Private Industry Workers," [www.bls.gov/ncs/ebs/benefits/2019/ownership/private/table01a.pdf](http://www.bls.gov/ncs/ebs/benefits/2019/ownership/private/table01a.pdf).
13. Jack VanDerhei, Sarah Holden, Luis Alonso and Steven Bass. "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2016." *EBRI Issue Brief*, No. 458, and *ICI Research Perspective*, Vol. 24, No. 6 (September 2018), [www.ebri.org/docs/default-source/ebri-issue-brief/ebri\\_ib\\_458\\_k-update-10sept18.pdf?sfvrsn=bca4302f\\_6](http://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_458_k-update-10sept18.pdf?sfvrsn=bca4302f_6).
14. U.S. Social Security Administration, January 2020, [www.ssa.gov/news/press/factsheets/basicfact-alt.pdf](http://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf).
15. *Pensions & Investments*, "EBRI: pandemic likely to worsen U.S. retirement savings deficit," Margareda Correir, April 21, 2020, [www.pionline.com/retirement-plans/ebri-pandemic-likely-worsen-us-retirement-savings-deficit](http://www.pionline.com/retirement-plans/ebri-pandemic-likely-worsen-us-retirement-savings-deficit). Note: EBRI's projections take into account potential market losses as well as layoffs, possible termination of small defined contribution plans, suspensions of defined contribution employer matches, and employee use of coronavirus-related hardship withdrawals and loans.
16. Pew Research Center, [www.pewresearch.org/fact-tank/2018/04/11/millennials-largest-generation-us-labor-force/](http://www.pewresearch.org/fact-tank/2018/04/11/millennials-largest-generation-us-labor-force/).
17. 18th annual MetLife *U.S. Employee Benefit Trends Study* (Wave 1: Prepandemic and Wave 2: Start of the COVID-19 pandemic), 2020.
18. *Ibid*.