C-suite execs have a laser-like focus on cutting costs, growing revenues, delivering a return on investment to shareholders and retaining top talent. Selling them on a retirement plan strategy takes the same kind of focus on the advisor’s part.

BY BRUCE SHUTAN
he inability to afford retirement has become an increasingly common and sad reality for many working Americans. Consider the case of a forklift operator with more than 30 years of service at Dinn Brothers Trophy, Inc. in West Springfield, MA, who had to keep working until his death in his mid-70s. The individual, who was hired by the family business patriarch, thought that he’d have enough to live on between his 401(k) savings and Social Security, but the numbers simply wouldn’t support it. He died of lung cancer at age 75 — never having a chance to retire.

Paul Dinn, Dinn Brothers’ president, views the firm’s 401(k) as a prudent investment in his nearly 100 employees that will pay off in terms of improving recruitment, retention, loyalty and morale. “Being such a small organization,” he says, “I see these people every single day, and I just want them to have the ability to relax as they get older as opposed to really struggling and lying awake at night thinking about where their next dime is coming from.” According to Hugh O’Toole, senior vice president of sales and client management for MassMutual’s Retirement Services Division, Paul Dinn’s forward-thinking view is not only commendable, but makes financial sense for the firm.

“There are parallels between an individual’s preparedness for retirement and the ability for companies to be and stay competitive,” says O’Toole. “It’s more than just a moral and ethical obligation to help Americans retire successfully. Industry data shows that helping employees be well prepared financially by their normal retirement date can have a positive impact on the company bottom line as well.”

While Dinn didn’t need to be sold on the value of retirement benefits, there are plenty of other skeptical C-suite executives who are much more concerned with reducing their soaring labor costs, particularly on the health care side of the equation. But putting these plans on the chopping block or avoiding sponsorship altogether could activate a demographic time bomb that triggers massive collateral damage.

Retirement readiness is “a global issue that we have to deal with” or face profound economic and social shifts, cautions Stig Nybo, President of Sales and Distribution for Transamerica Retirement Solutions. And it’s not just about dollars and cents, says Nybo, the author of Transform Tomorrow, a book on this topic.

It’s also about a moral imperative to do right by our fellow citizens. “I think passion needs to come into this discussion” without being preachy, he believes. “We have to get the savings rate up in the U.S. If we don’t, then the consequences are pretty dire from my perspective. Any economist would agree with that if they’re projecting what happens to our tax base when people fall off the proverbial cliff with respect to income.”

**Paying a High Price**

The high cost of supporting an aging workforce has raised eyebrows across countless C-suites, and without an adequate financial safety net in place, many Americans will need to work well into their golden years. Serving as a backdrop to this impending crisis will be a higher average life expectancy, and with that comes a greater prevalence of health challenges that could force workers to retire before they’re ready — or leave employers without a workforce that has the skills and experience they need to compete.

Key research conducted across age bands shows a significantly higher employer cost to insuring older employees. An analysis by MassMutual of data from a leading group health insurance carrier and various federal government agencies uncovered a more than 1,500% annual cost increase for employees 60 or older vis-à-vis employees 30 or younger. The calculation includes health care premiums ($9,000 vs. $2,500, respectively, for both groups) and disability insurance premiums ($532 vs. $32).

Viewed another way, the analysis revealed considerably higher annual employer-premium costs for medical and disability insurance as the number of older workers increased among three hypothetical companies, each with 1,000 employees and identical characteristics other than workforce demographics. For example, there was
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duration of injuries is much greater among older employees than their younger counterparts. People age 45 to 64 miss 66 days a year on average compared with 53 days for those age 20 to 34. When factoring in medical expenses associated with claims that were closed within two years, NCCI found a $2,576 cost differential between these two groups ($7,649 vs. $5,073).

Another major cost to consider is the impact of financial worries, which the Personal Finance Employee Education Foundation says can range anywhere from $750 to $2,000 per employee each year. The group also found that on average, poor financial literacy among 3,121 survey respondents triggered $300 more in health care expenses and $450 in lost productivity a year. The long-term danger is if these employees end up suffering from an indefinite state of “pre-senteeism” (employees who are sick but still come to work, and function at diminished capacity) or job lock, that erodes their health, loyalty and productivity.

But simple retirement plan design changes could go a long way toward helping employees save more of their paychecks. One example the group cited involves offering a health care flexible spending account, which it estimates can help financially literate employees save their company up to $1,274 a year.

From Austerity to Optimization

But try telling that to the C-suite. Joseph F. DeNoyior, a managing partner with the Washington Financial Group in McLean, VA, recalls an eye-opening chat with the CFO of a government contractor with 300 employees and $30 million in revenue whose 401(k) plan dates back to 1989. The executive sought ideas on how to reduce the cost of the plan, feeling a common pressure to slash expenses from a fiduciary standpoint. But deep into the conversation, the CFO realized that the plan was competitively priced, the actual checks being written were minimal and the employer match as a percentage of payroll didn’t grow at all. The CFO was reluctant to shift more costs onto participants. It didn’t take long before they started discussing ways to contain rather than lower costs, as well as optimize the firm’s investment in its 401(k) plan.

When approaching the C-suite about the value of a 401(k), “Payroll taxes and medical costs are huge compared to what companies are putting into 401(k) plans,” DeNoyior points out. These higher health care costs are also eroding retirement savings levels. Of more than 1,000 employees responding to a Bank of America Merrill Lynch survey, 56% reported that higher health care costs over the past two years means they’re saving less for retirement.

When selling a retirement plan strategy to the C-suite, advisors must be mindful of the laser-like focus on cutting costs, growing revenues and delivering a return on investment to shareholders, according to Paul D’Aiuto, an institutional consultant with UBS Financial Services in Rochester, NY. “Ultimately,” he says, “the senior-management team also will want to concern themselves with retaining top talent.”

There isn’t necessarily an obvious link between a 401(k) plan and company growth or shareholder value, nor is it advisable to target retirement benefits for cost reduction. But retirement benefits certainly can help drive retention, which D’Aiuto says allows employees to deepen relationships with clients. The danger of losing top talent to a competitor is that happy clients also could exit, he adds.

Within the context of this door-opening discussion, he asks executives whether they have calculated the cost of benefits for an aging workforce. He wonders about another critical cost forecast that doesn’t receive enough attention. It involves lost productivity stemming from employees who are stressed about their finances and unable to afford retirement when their bodies start to break down as a natural part of aging.

These issues give way to other cost concerns, such as absenteeism and rising compensation among older employees. By making retirement readiness a top corporate objective, D’Aiuto believes that enabling younger generations to replace their older counterparts as part of a natural turnover will go a long way toward helping employers lower costs associated with benefits and compensation and increase productivity.

“What we have seen with our client base is those companies that have rich employee benefits, specifically on the retirement side, do, in fact, have happier employees who re-tire,” he reports. “And these companies have exceedingly hit their profit run years after year after year.”

An Investment in People

The data certainly provokes an economic argument for retirement outcomes. But the data itself may not be the most important or interesting part of this story.

“Using a combination of data analytics for each individual employee, behavioral finance techniques, plan design and next generation plan metrics, retirement plan providers can move the needle and drive the right employee behaviors toward a more secure retirement,” states O’Toole. “The opportunity for financial professionals is to convince C-suite executives that these plans aren’t a line-item cost of doing business so much as a smart and necessary investment in human capital that will pay frequent and meaningful dividends. Chief among them: improved recruitment and retention, higher productivity, and lower costs associated with group medical, disability and workers’ compensation claims, as well as reduced absenteeism, presenteeism, tardiness, stress and turnover.

“If employees are distracted by financial worries, they are going to be less productive and, likely, less happy and healthy in general,” says O’Toole.
He says the issue of retirement readiness presents a growing opportunity for retirement plan advisors to approach the C-suite within the context of a more holistic view of physical and financial employee wellness. Adopting this sales approach is a way advisors can differentiate themselves, according to O’Toole. Philip Altschuler, SVP of HR for Gables Residential in McLean, VA, actually found his C-Suite easier to deal with than many. The top brass at Gables believes it has a social responsibility to promote retirement readiness.

Indeed, number-crunching executives may not be as tough a crowd as one might expect. George Bachman, owner and president of a CFO service for small businesses called One CFO to Go, LLC in West Palm Beach, FL, believes most CFOs recognize the value of intangible measures of employee benefits satisfaction relating to loyalty, motivation and morale.

Gables Residential’s 401(k) plan participation was only about 40% among 1,124 eligible employees. When the Great Recession hit hardest, Gables noticed that some competitors froze matching contributions, but it resisted such a move and decided to educate employees about all the marketplace volatility. Gables more than doubled its plan participation rate to 83% with the help of automatic enrollment, which was instituted about three years ago.

Both auto-enroll and auto-escalation features represent an easy way to help move the needle on retirement readiness, DeNoyior says. But invariably, he reports, a C-level executive will request a projection on how it will raise company costs and matching contributions. That’s when the talk turns to match optimization.

For example, a 50-cent match on the dollar up to 6% of employee deferrals that will double under the auto-enroll feature could be lowered to 30 cents on the dollar up to the first 10% of employee deferrals. “What they’re doing is driving the deferral rate up through behavioral finance,” he explains. And while employees may object to such a move at first blush, given their overall financial literacy, he says research shows that education pays off and “employees will put in what you match up to.”

Of the more than 1,000 U.S. adults responding to a 2012 Harris Interactive survey on financial literacy, 42% gave themselves a grade of C, D or F on their knowledge of personal finance. “Why would the C-suite care about that?” DeNoyior asks. “As we know, if people are bringing stress to work, generally it impacts their ability to perform efficiently at the office.”

The true cost of sponsoring a 401(k) plan is minimal because participants tend to pay most of those expenses, especially investment management and recordkeeping fees, DeNoyior notes.

There’s a growing corporate awareness about the nation’s retirement readiness — or lack thereof, DeNoyior cites an Aon Hewitt survey of 425 companies representing roughly 11 million employees that found about 80% of the respondents plan to make financial wellness a top priority in 2013.

Plan sponsorship isn’t a concern so much as the need to beef up plan design. “If a company has a C-suite, they already have a retirement plan,” DeNoyior opines. “There are very few organizations that have C-level executives that don’t have a retirement plan.”

Adequate Benefit or Benefit Adequacy?

D’Aiuutolo sees a changing paradigm, which is determining how to make the 401(k) plan more than just a competitive benefit in a marketplace where defined benefit plans continue to dwindle. In keeping with that spirit, he says employers need to determine whether they’re more concerned with having an adequate benefit or benefit adequacy.

The former involves offerings that are comparable to competitors, while the latter involves a more thoughtful approach to income replacement over decades that actually allow employees to retire. Benefit adequacy also means contemplating real-life scenarios, such as caring about what happens to loyal employees with 40 years of service, as well as their dependents.

Other critical factors include plan design changes that make the most of reasonable employer matching contribution, sound investments and decision-support tools. The aim is to help “employees feel like they’re valuable commodities without increasing costs,” D’Aiuutolo says.

When talking to C-suite executives about the merits of a meaningful retirement plan, D’Aiuutolo always asks if they want employees to spend less time with their banks or worrying about how to put their kids through college and more time with clients or following company initiatives. He also asks if they want employees to be physically, mentally and financially fit late in their careers and prepared to achieve their goals — or hanging on for dear life. “Financial wellness is absolutely critical to the long-term success of the company,” he says.

Nybo says “there’s a certain point at which all of us become physically unproductive and even mentally unproductive ... And with all of the age discrimination concerns in the workplace, you can’t simply say to somebody, ‘It’s time to retire,’ even if they’ve become unproductive, because of the fact that they’re getting older.”

So the larger question then becomes, how will this phenomenon affect productivity on a macroeconomic level? Nybo suggests that more behavioral-finance research needs to be done to better understand “the anxiety that is created for employees knowing that they are not on the path to retirement” and its effect on productivity.

While advisors may be inclined to sell the value of retirement benefits as part of a high-level discussion on retirement readiness, Bachman advises against mentioning the social and economic implications beyond company walls. Instead, he says it’s best to focus on why the C-suite should care about their most valuable asset — their own employees.

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