

Is your aging workforce impacting your bottom line?

4 ways to help keep costs down

If you're like most employers, your workforce is growing older with many nearing or even beyond retirement age. But the numbers don't always add up for those hoping to leave their paychecks behind.

For those the closest to retirement (ages 55-64), retirement savings on average amounts to about \$148,000, according to a Government Accountability Office (GAO) study. That's pretty dismal, especially when you consider the cost of health care alone for a healthy 65-year-old couple could be upwards of \$377,000.¹

What's the result? More and more employees are staying in the workforce — long after they thought they'd retire. Nearly six in 10 employees say they'll need to retire later in life due to their current retirement savings situation.²

When employees don't have enough set aside to leave their current job, it can leave a big impact on the employer's bottom line. Take a closer look:

- **Greater payroll costs.** Each employee who can't retire costs an extra \$50,000 per year, on average — the difference between the salary of an older worker and a younger worker. Across an entire workforce the cost increase averages 1% - 1.5% per year.³
- **Higher insurance premiums.** As employees age, insurance premiums can skyrocket. The average 2017 monthly premium for health care coverage under a silver tier Affordable Care Act plan is \$871.01⁴ for a 60-year old. Double what it would be for someone half that age.
- **Bigger soft costs.** Delayed retirements can also lead to reduced productivity as workers age. And when older workers don't retire, it limits advancement opportunities for up-and-coming workers.⁵

Is it affecting your organization?



¹ 2016 Retirement Health Care Costs Data Report, HealthView Services.

² Employee Benefit Research Institute (EBRI), March 21, 2017.

³ "Older Workers Unable to Retire Cost Employers \$50,000 a Year," PLANSPONSOR, April 11, 2017.

⁴ "Aging Consumers without Subsidies Hit Hardest by 2017 Obamacare Premium & Deductible Spikes," HealthPocket InfoStat, Oct. 26, 2016.

⁵ "Older Workers Unable to Retire Cost Employers \$50,000 a Year," PLANSPONSOR, April 11, 2017.

What you can do to curb workforce aging

When it comes to getting a better handle on your aging workforce, consider these four steps to lower costs.

1 Know your workforce

Start by taking a closer look at your employee population. Get a count of all employees broken out by age band. This gives you a sense for the current state today.

Then ask your retirement plan advisor to model the consequences of workforce aging and the financial impact five years from now. Now you know what you may be up against.

Don't forget to remodel annually. And continue to focus on the liabilities on a regular basis.

2 Shift the focus

Rebalancing the health/retirement benefits allocation may help attract and retain employees without excessive medical claims who are ready to retire earlier.

Lowering the share of employee benefits dollars allocated to health care lets your organization offer a retirement program that stands out in the segment of the labor pool with the most in-demand skillset. As a result, employer and employee self-interests are better aligned.

One way to off-set the shift is by adding a high-deductible health plan with health savings accounts. This makes employees more engaged in health care costs while reducing your overall spend on the health insurance plan.

3 Stop early retirement programs

Early retirement programs can be difficult to run and manage. But implementing best practice plan design features can have a big impact on how early your employees can retire, often reducing or eliminating the need for this type of offering.

See how to increase participation and deferrals by redesigning your plan.

4 Create a retirement culture

Education efforts can help employees understand the importance of saving and the benefits of the workplace plan. Find out how your financial advisor and plan provider can help show them where they stand today and how they can make progress to reach the life they want in retirement.

Employees are more likely to save for retirement and leave the workforce on time if they have a general sense for what they need to save. Retirement should be a positive and possible goal.

Is it affecting your organization?



If some of this sounds familiar, an aging workforce may be taking a toll on your business. Look for these leading indicators that may suggest a future negative financial impact on your business:

Increasing health care, workers' compensation and other labor costs

Low retirement plan participation — this can lead to delayed retirement years (or even decades) down the road

Use of early retirement programs — these aren't needed when retirement plan participation is at the right level

Boost savings

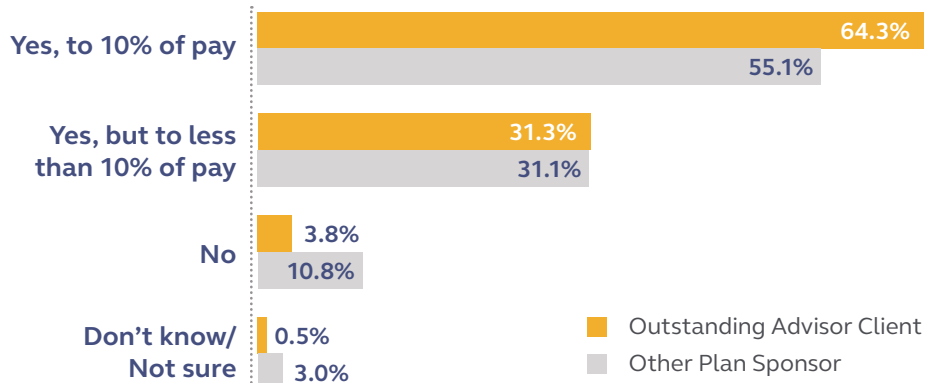
Retirement savings plan design can also have a big impact on how soon your employees retire. It's often more effective than participant counseling or education at changing participant behavior.⁸ That's because inertia tends to take over when employees try to plan for retirement. They often feel overwhelmed by their options, so they do nothing.

Check out several key features that work with inertia for the benefit of the employees:

- Immediate eligibility and vesting
- Automatic enrollment deferral rate of at least 6%
- Automatic annual deferral escalation to push deferrals consistently over 10%
- Annual sweep to automatic re-enroll any nonparticipants
- An employer matching contribution

Percent of plans using automatic deferral increases

As a result, more than 35% have seen average employee contribution rates increase 4% to 6% between 2015 and 2017.



Source: Financial Benefits for the Business: How Outstanding Retirement Plan Advisors Help CFOs, June 2017.

The bottom line . . .

Most employees want to retire on time.

And it's clearly in your best interest to help them get there. By taking four key steps, you can help reduce costs by moving your aging workforce off your payroll and into their golden years.

Getting started

You don't have to tackle this issue on your own. An experienced retirement plan advisor can help. A recent study by the Retirement Advisor Council shows advisors can help drive real-world results. The study looked at the experiences of more than 400 plan sponsors from private-sector organizations with at least 100 employees.

The results reveal working with an experienced retirement plan advisor can help organizations:

1

**Curb workforce
aging and associated
liabilities**

2

**Allocate benefits
dollars to mitigate
adverse employee
self-selection**

(i.e., having employees 'opt in' versus
'automatically' enrolling them in a
retirement plan)

3

**Implement plan
designs that ease
more employees
into successful
retirement**

Employers who work with advisors take positive steps to improve retirement readiness. Strategies include retirement plan design changes, as well as implementing high deductible health plans and health savings accounts.

By contrast, employers who don't partner with an outstanding advisor are more likely to resort to early retirement programs — instead of reforming benefits popular among job applicants and senior employees.

Among employers who partner with an outstanding advisor, more than four in five have rolled out progressive plan design such as automatic enrollment to new and existing employees. And, almost 65% escalate employees to contribute 10% of pay.



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