Using Data to See Who is Ready to Retire (or Not)

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Introduction

Do any of these workforce issues sound familiar?

• **Workforce Planning**
  – Is a significant portion of your population over age 50?
  – Do you have challenges with senior level succession planning?

• **Retirement Readiness**
  – Are you concerned your population is/will not be financially prepared to retire?
  – Have you needed to allocate dollars to incent retirements?

Employers often have untapped sources of information to address these issues. Use them!
Detailed Information → Targeted Solutions

Insight into Employees + External Factors = Retirement Readiness Analysis
<table>
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<th>Agenda</th>
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<tr>
<td>• Importance of Retirement Readiness</td>
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<tr>
<td>• Quantifying Retirement Readiness</td>
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<tr>
<td>• Identifying Issues: Applying Solutions</td>
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What is Retirement Readiness?

Defining Retirement Readiness

• A key factor to retirement is financial preparedness
  – More than 70% of employees said “not having enough money to retire” is the major reason for working longer than preferred

• Sibson defines Retirement Readiness as the ability to retire with sufficient income that is expected to maintain the current standard of living during retirement

1 According to the Society of Actuaries’ 2015 Risks and Process of Retirement Survey
Retirement Readiness and Your Enterprise

Are your employees transitioning successfully into retirement as they approach the latter part of their careers to allow for successful workforce planning?
Why Do We Care About Retirement Readiness?

Knowledge is Power

Understanding where the potential for vulnerabilities exist in 1, 5 or 10 years allows you to guide informed workforce and succession planning

Delving into the population, especially in business-critical divisions, can uncover where some of these weaknesses may exist

Why Do We Care About Retirement Readiness?

Late Career Retirements

- Consequences of retaining late-career employees include:
  - Clogging the promotional pipeline
  - Risk of lower engagement and productivity
  - Maintaining a typically higher salary which could be used more efficiently elsewhere
Why Do We Care About Retirement Readiness?

**Early Retirements**

- Consequences of unexpected early retirements include:
  - Loss of knowledge transfer in key areas
  - Additional training and recruiting costs
Why Do We Care About Retirement Readiness?

Return on Investment

- In addition to soft costs, there are real dollar consequences to delayed retirement (which may result from not being retirement ready)
  - An employee delaying retirement from age 65 to 70 costs the employer $164,000

According to MassMutual’s 2018 article, “Revealing Financial Risk”
• Importance of Retirement Readiness

**Quantifying Retirement Readiness**

• Identifying Issues: Applying Solutions
Underlying Factors of Retirement Readiness

- How to convert 401(k) into an annuity?
- How will markets perform?
- Participating in a pension plan?

Likelihood that individuals will outlive their assets in retirement is dependent on . . .

Savings and Income

- Need for long-term care?
- Desire to leave inheritance?

Longevity and Wellbeing

14B-12
Do You Quantify Readiness?

Measuring Retirement Readiness

- Most plan sponsors do not have a formal metric to track their employees’ retirement preparedness\(^1\)
- Some organizations that do track employee retirement preparedness only do so as employees approach retirement age

A retirement-readiness analysis should include one or more of the following metrics:

- Replacement ratio
- Wealth-accumulation target
- Retirement-readiness grade

Knowing employees’ standing on the readiness spectrum involves:

- Understanding what savings employees need for a secure retirement
- Gathering financial and other data on all employees
- “Running the numbers” to determine how each employee stacks up
Metrics: Replacement Ratio

Replacement Ratio: The required income for retirement as a percent of income just before retirement

- Sibson considers 80% a reasonable benchmark, although there is certainly a range of acceptable percentages.
- Social Security, other retirement vehicles, and savings and other assets make up replacement income; the proportion of these sources will vary by generation.
Expected Sources of Income in Retirement by Generation

- **Silent Generation**
  - Ages 69-89
  - Employer-sponsored pension: 15%
  - Social Security: 53%
  - Employment income: 5%
  - Personal savings/investments: 5%
  - Other: 15%

- **Boomers**
  - Ages 50-68
  - Employer-sponsored pension: 18%
  - Social Security: 41%
  - Employment income: 19%
  - Personal savings/investments: 5%
  - Other: 5%

- **Gen Xers**
  - Ages 38-49
  - Employer-sponsored pension: 3%
  - Social Security: 33%
  - Employment income: 12%
  - Personal savings/investments: 30%
  - Other: 3%

- **Millennials**
  - Ages 25-37
  - Employer-sponsored pension: 4%
  - Social Security: 26%
  - Employment income: 12%
  - Personal savings/investments: 32%
  - Other: 4%

Metrics: Wealth-Accumulation Target

Wealth-Accumulation Target: A specific amount of savings relative to compensation at current age

• As with the replacement ratio, there is no one “right” answer for a wealth-accumulation target. Sibson believes a multiple of 10 is a reasonable target at retirement age 65
Metrics: Wealth-Accumulation Target

Tracking Employees’ Progress Towards Retirement

- The wealth-accumulation target depends on retirement age.
- A balance of 10-times pay would replace 80% of a person’s income at age 65.

Target DC Balances as a Multiple of Pay by Age

1 Sibson Consulting, 2018
Metrics: Retirement-Readiness Grade

Retirement-Readiness Grade: A qualitative assessment that considers quantitative metrics

- A Retirement-Readiness Grade can be the key to engaging employees

- Sibson proprietary grades are determined from three criteria:
  1. Expected Replacement Ratio
  2. Likelihood of attaining threshold
  3. Variability of potential outcomes
Metrics: Retirement-Readiness Grade

Segmenting a population by grade can help isolate groups that need special attention.
# Metrics: Pros and Cons

<table>
<thead>
<tr>
<th>Metric</th>
<th>Pros</th>
<th>Cons</th>
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<tbody>
<tr>
<td>Replacement Ratio</td>
<td>• Direct measure of retirement readiness</td>
<td>• Difficult for employees to track progress towards goals</td>
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<td>• Easy to understand</td>
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<td>Wealth-Accumulation Target</td>
<td>• Establishes a path to retirement that can be followed</td>
<td>• Determining can be complex</td>
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<tr>
<td>Retirement-Readiness Grade</td>
<td>• Qualitative and quantitative assessment</td>
<td>• Less specific than other metrics</td>
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<td>• Most understandable</td>
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<td>• Allows for easy segmentation</td>
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Each has unique attributes and adds value in the right context
• Importance of Retirement Readiness
• Quantifying Retirement Readiness

• **Identifying Issues: Applying Solutions**
Repacking Your Data

The ability to look at the subgroups within your population and see what behaviors may be unique to each subgroup

But what types of subgroups might be in your population?
### Data Repacking: Cohort Tendencies

<table>
<thead>
<tr>
<th>Years out of college (student debt)</th>
<th>Performance level</th>
<th>Compensation Arrangement</th>
<th>Age</th>
<th>Geographic location</th>
<th>Career stage (early, mid, late)</th>
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<tbody>
<tr>
<td>Medical plan utilization</td>
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Analyzing your data may uncover unique patterns within specific cohorts of your population. You may even uncover cohorts you did not even realize existed!
<table>
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<tr>
<th>Life Stages</th>
<th>Description</th>
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<tr>
<td>Concerned mature copers</td>
<td>Distracted breadwinners</td>
</tr>
<tr>
<td>Content and in control</td>
<td>Self-directed intensive users</td>
</tr>
<tr>
<td>Struggling towards retirement</td>
<td>Stressed and seeking help</td>
</tr>
<tr>
<td>Busy, healthy and employed</td>
<td>Young family</td>
</tr>
<tr>
<td>Cost-conscious conservatives</td>
<td>Aspiring singles</td>
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I’ve Analyzed My Data . . . Now What?

Determining trends in data is a large portion of the work, but is not the end-goal.
Identifying the underlying issues hidden beyond the data allows for creation of targeted solutions.
Create Targeted Solutions

1. Identify the trends in the data by cohort
2. Engage directly with employees affected (and not affected?) by the trend
   – Utilize surveys, focus groups, and interviews
3. Enact changes based on feedback to further organization's business and workforce objectives
   – What are my workforce needs, concerns and opportunities that are uncovered by the data?
   – What am I trying to accomplish with my benefits programs?
Case Study

The Investigation Into Insufficient Investments [401(k) Deferrals]

A company realizes that workers at one of its locations contribute to their 401(k) at a much lower rate than the rest of its population.

Data Repacking

• In an effort to understand the root cause, the company combines its HRIS, retirement, and health election/claims data.

• Finding: Workers with the lowest deferral rates are enrolled in the richest medical plans—paying for more coverage than most need.
Case Study

Unpacking Trends

• The insufficient deferrals are a **symptom** of the underlying healthcare issue

• The health care issue is an **internal** issue—workers not realizing which plan is right for them—and can be addressed **within the plans**

• **Solution:** Targeted communications and employee education

**Outcome:** Employees are back on track saving for retirement, avoiding future workforce planning speedbumps for the company
Key Takeaways

• Retirement readiness is important—for the enterprise too!
• Track and quantify—and not just near retirement!
• Follow a process!
  – Break data into cohorts and analyze
  – Supplement with direct engagement
  – Implement solutions
“Data, I think, is one of the most powerful mechanisms for telling stories. I take a huge pile of data and I try to get it to tell stories.”

–Steven Levitt, Co-author of Freakonomics

What stories lay hidden within your data?
Thank You!

Questions