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EMPLOYERS' (LACK OF) RESPONSE TO THE RETIREMENT INCOME CHALLENGE

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Introduction

Employers have long had a significant impact on workers' retirement prospects. Aside from Social Security, employer retirement income plans are the most important source of income for the great majority of retirees. How long workers can stay employed also largely depends on employer hiring and retention and retirement decisions. Both of these functions – retirement income support and the separation process – are now in flux given scheduled declines in Social Security replacement rates, the shift from traditional defined benefit pensions to 401(k)-type defined contribution plans, and the decline in career employment relationships.

To assess the employers' response to changes in retirement income support and the work-separation process, the Center for Retirement Research at Boston College conducted a nationally representative survey of 400 employers.[1] The survey was conducted in 2006 and focused on the employers' response to the prospects of employees in their 50s. As reported in previous *Issue in Briefs*, the survey found that employers expect: 1) half these employees will lack the resources needed to retire at the organization's traditional retirement age; 2) one out of four will respond by wanting to stay on the job at least two years past that traditional retirement age; but 3) the employers are lukewarm about creating opportunities for even half of these employees to work longer.[2] Note that the survey was conducted well before the financial crisis; the retirement preparedness of workers has deteriorated since the survey – making potential employer responses all the more important.

The survey also asked employers about other retirement-related initiatives they might adopt over the next five to ten years. The survey inquired whether they might: 1) create employment opportunities for workers to stay on the job longer; 2) significantly increase their encouragement of retirement saving; 3) communicate with individual employees "to develop a plan that makes their retirement a more orderly and predictable process;" and 4) tighten performance reviews "to improve decisions on whether to retain or dismiss" employees.

This *brief* presents an analysis of these responses and what they say about the role of employers in the nation's retirement income system. The analysis finds that employer interest in these retirement-related initiatives is not a response to the retirement

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income challenge their employees face. As employers are not in business to provide their employees adequate retirement incomes, this finding is not especially surprising. But what is surprising is that employers are also not responding to the retirement challenge that they themselves face – the prospect of large numbers of employees wanting to stay on the job longer than the employer would like.

The challenge facing employers is, in part, tied to the sea change in pensions. Traditional defined benefit pension plans were designed to achieve two personnel management objectives: 1) to attract and retain young and prime-age workers; and 2) to retire older workers in an orderly and predictable fashion.[3] The survey results indicate that, in today's 401(k) world, employers continue to see retirement-related initiatives as a way to *attract and retain* employees but are essentially unresponsive to the need to *retire* employees in an orderly and predictable fashion.

Prospective Retirement-Related Initiatives

The survey asked employers to indicate how likely they were to adopt each of the four retirement-related initiatives listed above on a scale from 1 to 10, with 1 being "highly unlikely" and 10 being "highly likely." The results presented in Figure 1 show employers are most likely to increase their encouragement of retirement saving, with a median likelihood score of 8. The employers were equally likely to adopt each of the other three policies. But with a median likelihood score of 6, employers were only slightly more likely than not to accommodate half of their employees they expect will want to work longer, develop an individualized retirement planning program, or tighten performance reviews.

The survey also collected information on employer characteristics that might explain why a particular employer might adopt a particular policy. Regression analysis then identified the characteristics with a statistically significant effect.

The three types of characteristics included in the equations are:

General employer characteristics:

- Expected rate of employment growth over the next decade.
- Size (less than 1,000 employees or more than 1,000 employees).
- Pace of technological change.
- Difficulty in recruiting new workers.
- Industry (goods or services).

Characteristics related to an aging workforce and their potential effects on profitability:

- The share of workers age 50 or over.
- The employer's traditional retirement age.
- The expected effect, if workers stay on two or more years past that age, on the employer's knowledge base and labor costs.
- Whether the workers in question are rank-and-file or white-collar.

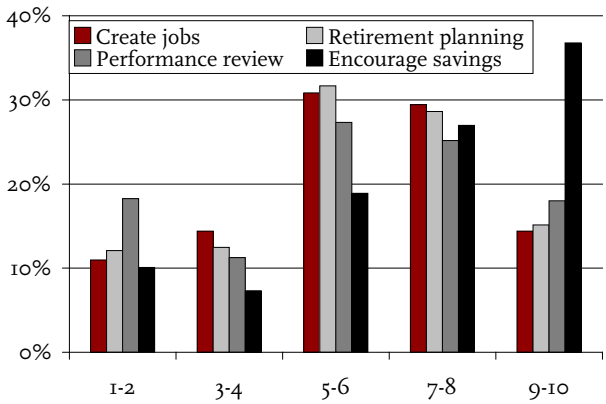
The significance of two key "retirement challenges:"

- Employees in their 50s who lack the resources to retire at the employer's traditional retirement age, as a share of the employer's total workforce.
- Employees in their 50s who lack the resources to retire and will respond by wanting to stay on the job at least two years past that age, again as a share of the employer's total workforce.

The first retirement challenge was used to identify an employer's response to the retirement-income needs of its employees. The second was used to identify an employer's response to potential disruptions in its traditional retirement process.

The results of the regressions are presented in the Appendix. A key finding is that – with one minor exception – *neither* "retirement challenge" had a significant effect on the likelihood an employer would adopt *any* of the four retirement-related policies.[4] This result suggests that neither their employees' retirement security nor the prospect of a disorderly retirement process currently influences employer retirement policies.

Figure 1. Employer Self-Reported Likelihood of Adopting a Retirement-Related Initiative



Source: Authors' calculations from Center for Retirement Research (2006).

The statistically significant effects identified in the regressions are presented in Figure 2. For each policy, the bars give the estimated shift in the likelihood of adoption. For dichotomous characteristics, such as having or not having more than 1,000 employees, the bar indicates the effect of having the characteristic. For characteristics measured on a scale, such as expected employment growth, the bar indicates the effect of a swing from the 20th to the 80th percentile response. For example, expected employment growth is measured on a scale from 1 ("significant contraction") to 5 ("significant growth"); the 20th percentile response, among the employers surveyed, was 3 ("not much change"); and the 80th percentile response was 5 ("significant growth"). So where expected employment growth had a statistically significant effect on the likelihood of adoption, the bar indicates the effect of expecting "significant growth" in employment as opposed to "not much change."[5]

What follows is a discussion of the characteristics identified as having a significant effect on the likelihood employers would adopt each of the specified retirement-related initiatives.

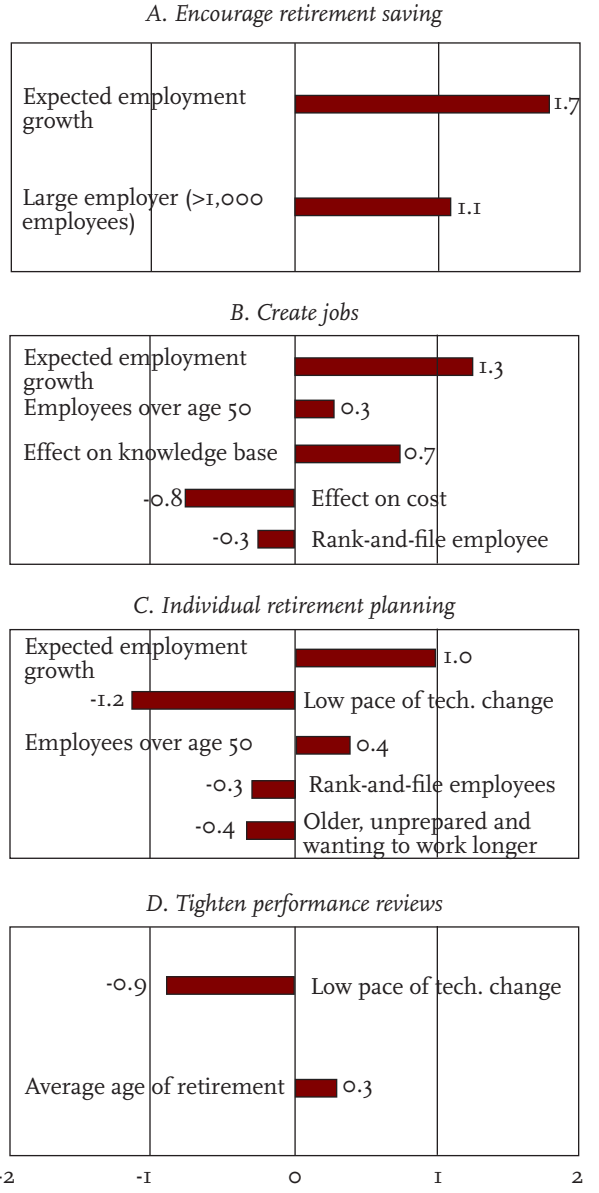
Encourage Retirement Saving

Of the four retirement-related initiatives, employers said they were most likely to increase their encouragement of retirement saving. On the likelihood scale from 1 to 10, the median response was a robust 8 and nearly 30 percent responded 10 – that an increase in their encouragement of retirement saving was "highly likely."

Panel A in Figure 2 shows that two characteristics – the employer's expected rate of employment growth and the size of the employer – have a statistically significant positive effect on the encouragement of retirement saving. Expected employment growth has a very large effect. A swing from the 20th to 80th percentile response – from "not much change" to "significant growth" – raises the likelihood an employer will increase its encouragement of retirement saving by 1.7 points – for example, from a 4 to a 5.7 on a scale that runs from 1 to 10. Having more than 1,000 employees also has a large effect, raising the likelihood an employer will increase its encouragement of retirement saving by 1.1 points.

The strong association with expected employment growth indicates that employers see the encouragement of retirement saving as an "employee benefit" useful in attracting and retaining workers. The

Figure 2. Factors with a Significant Effect on the Likelihood an Employer Will Adopt a Policy



Note: Effects are significant at the five percent level for panels A, B, and C. Effects are significant at the ten percent level for panel D. Magnitudes shown are either the effect of the characteristic (for "large employer," "rank-and-file employees," and "low pace of technological change") or the effect of a swing from the 20th to the 80th percentile response in the sample (all other characteristics, which are measured on an ordinal scale).
Source: Authors' calculations from Center for Retirement Research (2006).

strong association with size suggests that large employers are either better equipped to implement such initiatives or employ workers more likely to value the benefit. As noted above, the presence of a significant "retirement challenge" – either a large number of unprepared employees or a large number of employees wanting to say on the job well past the traditional retirement age – has no significant effect on the encouragement of retirement saving.

Create Employment Opportunities

As reported in an earlier *brief*, employers are generally lukewarm about creating employment opportunities for even half the employees they expect will want to stay on the job two or more years past the traditional retirement age.[6]

Panel B in Figure 2 indicates that a need to attract and retain workers, and the value employers see in older workers, makes them more receptive to creating opportunities for workers to stay past their traditional retirement age. Employers that expect rapid employment growth, and thus need to attract and retain more workers, are far more likely to create such opportunities. Employers that have a relatively old workforce that could soon be depleted by retirements or that see older workers as making a positive contribution to the organization's knowledge base are also more likely to create such opportunities. Not surprisingly, employers are less likely to do so if they view older workers as costly or if the older employees in question are rank-and-file as opposed to white-collar workers.

Employers are ignoring the need to create a more orderly retirement process.

What is truly unexpected, however, is that a relatively large number of employees wanting to stay on has no significant effect on the likelihood an employer would create opportunities for them. Neither their employees' need to work longer (the employees' retirement challenge) nor potential disruptions to the retirement process (the employer's retirement challenge) had any significant effect.

Communicate with Workers to Develop Individual Retirement Plans

Employers could implement a program aimed at "communicating with workers to develop a plan that makes their retirement a more orderly and predictable process" to achieve either of the two personnel management objectives served by traditional defined benefit pension plans – either to retain or to retire employees. A comparison of panels C and B in Figure 2 shows that many key characteristics that incline employers to adopt an individual retirement planning program also incline them to create opportunities for older employees to work longer. This finding suggests that employers primarily view individual retirement planning as a tool for retaining, not retiring, employees. This notion is reinforced by the fact that employers with a relatively large share of employees wanting to stay past the traditional retirement age are *less* likely to adopt such a program. Put another way, the smaller the share of employees who want to work longer, the greater the likelihood the employer will institute a retirement planning program. This relationship suggests that staffing issues, not a disruption of the employer's retirement process, underlies their interest in this initiative.

The one result that is difficult to interpret is that employers are more likely to adopt individual retirement planning if they characterize the pace of technological change in their organization as moderate or high. This result is difficult to interpret because some studies find the demand for older workers declines as the pace of technological change rises, while other studies find the opposite.[7] So it is unclear, among employers with a moderate or rapid pace of technological change, whether the somewhat heightened interest in the policy is driven by a desire to "retire" or "retain" older workers.

Tighten Performance Reviews

Unlike the other three retirement-related policies discussed above, tightening performance reviews "to improve decisions on whether to retain or dismiss" older workers is not designed to retain or attract employees. Our analysis identified two characteristics as having a significant effect on the likelihood an employer would adopt the policy – a low pace of technological change and an older average retirement age. Employers with a low pace of technological change are 0.9 point less likely to tighten performance reviews than those with a medium or high pace of technological change. A swing from the 20th to 80th percentile of the average retirement age – from age 60 to age 65 – increases the likelihood an employer would tighten performance reviews by a somewhat small 0.3 point.

The relationship between an interest in tightening performance reviews and the employer's pace of technological change does suggest an interest in sharpening the severance process – an interest reasonably associated with technological change, its varying effect on different jobs, and the varying ability of employees to keep up with changing technological demands.

What is striking, however, is that tightening performance reviews is not a response to a relatively large number of employees wanting to stay well past the traditional retirement age – an event reasonably associated with increased variation in the ability of workers to remain productive. Nor is the policy an alternative to creating employment opportunities for such workers – with employers that need workers creating jobs and those that don't tightening performance reviews. In fact, a simple correlation calculation shows that the likelihood an employer will tighten performance reviews is, in fact, *positively* correlated with the likelihood it will accommodate employees who want to stay on.[8] Tightening performance reviews is thus better seen as an adjunct, not an alternative, to a policy of creating opportunities for older employees to work longer.

Conclusion

Employers have a clear interest in attracting, retaining, and retiring employees in an orderly and predictable fashion. They had traditionally used defined benefit pension plans to help achieve these objectives. But the survey results suggest that employers have been slow to recognize the personnel management implications of the shift away from traditional pension programs. Their interest in retirement-related initiatives is still driven by their value in attracting and retaining employees. In no instance do employers appear interested in such policies as a way to terminate employment relationships in an orderly and predictable fashion. This lack of interest suggests that employers, like their employees, may be ill-prepared to manage their retirement challenge, a challenge that has intensified in the current recession.

Endnotes

1 The sample is representative of U.S. employment by employer size. Like the distribution of employment, three-eighths of employers in the survey have 1,000 or more employees, three-eighths have less than 100 employees, and one-quarter have between 100 and 999 employees. To reduce the noise in our relatively small sample, we excluded employers with less than 50 workers or with less than 10 percent of all workers age 50 or over. The sample is also reasonably representative in terms of geography, with 21 percent in the Northeast (versus 18 percent of U.S. non-agricultural employment), 35 percent in the South (the national percentage), 28 percent in the Midwest (versus 23 percent), and 16 percent in the West (versus 23 percent). Goods-producing industries (manufacturing, construction, and mining) are somewhat over-represented, accounting for 30 percent of the sample versus 20 percent of U.S. non-agricultural employment.

2 Munnell, Sass, and Aubry (2006); and Eschtruth, Sass, Aubry (2007).

3 Sass (1997).

4 The only statistically significant relationship between either "retirement challenge" and the likelihood an employer would adopt one of the four retirement-related policies was a small *negative* relationship between the share of an employer's workforce unprepared for retirement and wanting to work longer and the likelihood the employer would communicate with its employees to develop plans that make their retirement a more orderly and predictable process. This response will be analyzed further below.

5 The Appendix also includes a discussion of the regression methodology and gives the 20th and 80th percentile responses for characteristics measured on a scale.

6 Eschtruth, Sass, and Aubry (2007).

7 Studies such as Ahituv and Zeira (2005) and Beckmann (2005) support the conventional wisdom that a rapid pace of technical change adversely affects the employment prospects of older workers. Aaronson and Housinger (1999) and Bartel and Sicherman (1993) find otherwise. Bartel and Sicherman find a rapid pace of technological change associated with high levels of on-the-job training and barring technological shocks – which employers in our survey cannot foresee – this higher level of training in technologically dynamic organizations keeps older workers up-to-date and actually extends their careers vis-à-vis workers in less dynamic settings.

8 The correlation coefficient is a positive .15.

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APPENDIX

Appendix: Regression Results

Our regression analysis used a seemingly unrelated estimation to test the statistical significance of the identified effects. This procedure was done because whether an employer would adopt the various policies is decided simultaneously, so the likelihoods are related. Similarly, for each employer these decisions are all subject to the same employer characteristics. A seemingly unrelated regression accounts for the correlated errors and provides a more appropriate measure of statistical significance.

Additionally, for some data, employers provided separate responses for white collar and rank-and-file employees. For our analysis, we create two observations for each employer, one for white-collar workers and the other for rank-and-file workers. Thus the analysis was run with the cluster option, which adjusts the standard errors to account for repeated observations for each employer.

Three key variables in our regression were subgroups of each other – the percentage of employees who want to work longer is a subgroup of those who are unprepared, which is a subgroup of those who are over 50. For the latter two variables, we assumed that the increase in the percentage of workers from the 20th to 80th percentiles is distributed proportionally among the subgroups.

The regression results are reported below:

Table Ai. Likelihood to Increase Encouragement of Savings

Variable	Coeff.	t-stat	Percentile value 20th	Percentile value 80th	Effect of 20th - 80th percentile shift
General employer characteristics					
Employment growth[a]***	0.871	3.92	3	5	1.742
Company has more than 1,000 employees (large)***	1.136	3.83			1.136
Company has low technological change	-0.649	-1.14			-0.649
Recruitment of employees[b]	0.021	0.32	4	8	0.083
Goods and services industry	0.113	0.31			0.113
Older worker characteristics					
Total share of those age 50 or older	0.004	0.55	4.5	24.0	0.085
Retirement age[c]	0.012	0.32	5	0	0.062
Effect on knowledge if large number of employees stay longer[d]	0.034	0.26	3	5	0.068
Effect on labor costs if large number of employees stay longer[d]	-0.008	-0.06	2	4	-0.017
Rank-and–file	0.036	0.28			0.036
Retirement challenges					
Employees' Retirement Challenge: Total share of those age 50 or older and unprepared	-0.028	-1.24	.7	12.0	-0.322
Employers' Retirement Challenge: Total share of those age 50 or older, unprepared, and wanting to work longer	0.014	0.48	.3	7.9	0.104
Constant	3.034	2.51			
Number of observations = 542					

Notes: ***Statistically significant at 1%.
[a] Scale of 1 (significant contraction) to 5 (significant growth).
[b] Scale of 1 (extremely difficult) to 10 (extremely easy).
[c] Years prior to age 65.
[d] Scale of 1 (highly negative) to 5 (highly positive).
Source: Authors' calculations from Center for Retirement Research at Boston College (2006).

Table A2. Likelihood to Create Jobs

Variable	Coeff.	t-stat	Percentile value 20th	Percentile value 80th	Effect of 20th - 80th percentile shift
General employer characteristics					
Employment growth[a]***	0.667	3.70	3	5	1.334
Company has more than 1,000 employees (large)	-0.236	-0.94			-0.236
Company has low technological change	-0.656	-1.53			-0.656
Recruitment of employees[b]	-0.023	-0.44	4	8	-0.093
Goods and services industry	-0.177	-0.65			-0.177
Older worker characteristics					
Total share of those age 50 or older**	0.015	2.26	4.5	24.0	0.293
Retirement age[c]	0.030	0.99	5	0	0.149
Effect on knowledge if large number of employees stay longer[d]***	0.327	2.76	3	5	0.655
Effect on labor costs if large number of employees stay longer[d]***	-0.412	-3.52	2	4	-0.824
Rank-and–file**	-0.276	-2.00			-0.276
Retirement challenges					
Employees' Retirement Challenge: Total share of those age 50 or older and unprepared	-0.015	-0.82	.7	12.0	-0.168
Employers' Retirement Challenge: Total share of those age 50 or older, unprepared, and wanting to work longer	-0.011	-0.39	.3	7.9	-0.081
Constant	3.584	3.47			
Number of observations = 542					

Notes: ***Statistically significant at 1%; **Statistically significant at 5%.
[a] Scale of 1 (significant contraction) to 5 (significant growth).
[b] Scale of 1 (extremely difficult) to 10 (extremely easy).
[c] Years prior to age 65.
[d] Scale of 1 (highly negative) to 5 (highly positive).
Source: Authors' calculations from Center for Retirement Research at Boston College (2006).

Table A3. Likelihood to Communicate with Employees about Retirement Planning

Variable	Coeff.	t-stat	Percentile value 20th	Percentile value 80th	Effect of 20th - 80th percentile shift
General employer characteristics					
Employment growth[a]**	0.495	2.44	3	5	0.989
Company has more than 1,000 employees (large)	0.105	0.38			0.105
Company has low technological change***	-1.151	-3.04			-1.151
Recruitment of employees[b]	0.009	0.15	4	8	0.034
Goods and services industry	0.027	0.09			0.027
Older worker characteristics					
Total share of those age 50 or older***	0.020	3.07	4.5	24.0	0.382
Retirement age[c]	0.040	1.33	5	0	0.201
Effect on knowledge if large number of employees stay longer[d]	0.015	0.13	3	5	0.029
Effect on labor costs if large number of employees stay longer[d]	-0.199	-1.55	2	4	-0.397
Rank-and–file**	-0.284	-2.22			-0.284
Retirement challenges					
Employees' Retirement Challenge: Total share of those age 50 or older and unprepared	-0.004	-0.26	.7	12.0	-0.051
Employers' Retirement Challenge: Total share of those age 50 or older, unprepared, and wanting to work longer*	-0.050	-2.17	.3	7.9	-0.380
Constant	4.475	3.76			
Number of observations = 542					

Notes: ***Statistically significant at 1%; **Statistically significant at 5%; *Statistically significant at 10%.
[a] Scale of 1 (significant contraction) to 5 (significant growth).
[b] Scale of 1 (extremely difficult) to 10 (extremely easy).
[c] Years prior to age 65.
[d] Scale of 1 (highly negative) to 5 (highly positive).
Source: Authors' calculations from Center for Retirement Research at Boston College (2006).

Table A4. Likelihood to Tighten Performance Reviews

Variable	Coeff.	t-stat	Percentile value 20th	Percentile value 80th	Effect of 20th - 80th percentile shift
General employer characteristics					
Employment growth[a]	0.169	0.76	3	5	0.338
Company has more than 1,000 employees (large)	-0.242	-0.79			-0.242
Company has low technological change*	-0.909	-1.82			-0.909
Recruitment of employees[b]	-0.064	-0.93	4	8	-0.257
Goods and services industry	0.0105	0.31			0.105
Older worker characteristics					
Total share of those age 50 or older	-0.002	-0.20	4.5	24.0	-0.031
Retirement age[c]*	0.062	1.77	5	0	0.312
Effect on knowledge if large number of employees stay longer[d]	-0.178	-1.34	3	5	-0.356
Effect on labor costs if large number of employees stay longer[d]	-0.033	-0.25	2	4	-0.067
Rank-and–file	0.070	0.51			0.070
Retirement challenges					
Employees' Retirement Challenge: Total share of those age 50 or older and unprepared	0.032	1.55	.7	12.0	0.373
Employers' Retirement Challenge: Total share of those age 50 or older, unprepared, and wanting to work longer	-0.030	-1.08	.3	7.9	-0.229
Constant	6.517	5.28			
Number of observations = 542					

Notes: *Statistically significant at 10%.
[a] Scale of 1 (significant contraction) to 5 (significant growth).
[b] Scale of 1 (extremely difficult) to 10 (extremely easy).
[c] Years prior to age 65.
[d] Scale of 1 (highly negative) to 5 (highly positive).
Source: Authors' calculations from Center for Retirement Research at Boston College (2006).

Table A5. Summary Statistics

Variable	Mean	Std. dev.	Min.	Max.
Dependent variables				
Likelihood to encourage savings	7.14	2.75	1	10
Likelihood to create jobs	5.80	2.38	1	10
Likelihood to communicate retirement planning	5.90	2.40	1	10
Likelihood to tighten performance reviews	5.76	2.68	1	10
General employer characteristics				
Employment growth[a]	3.88	0.72	2	5
Company has more than 1,000 employees (large)	0.42	0.49	0	1
Company has low technological change	0.12	0.32	0	1
Recruitment of employees[b]	5.75	2.07	1	10
Goods and services industry	0.32	0.47	0	1
Older worker characteristics				
Total share of those age 50 or older	16.24	14.36	0	100*
Retirement age[c]	-1.43	3.68	20	-10
Effect on knowledge if large number of employees stay longer[d]	3.85	1.03	1	5
Effect on labor costs if large number of employees stay longer[d]	3.23	1.01	1	5
Rank-and–file	0.50	0.50	0	1
Retirement challenges				
Employees' Retirement Challenge: Total share of those age 50 or older and unprepared	8.19	10.34	0	95.07*
Employers' Retirement Challenge: Total share of those age 50 or older, unprepared, and wanting to work longer	4.93	8.11	0	95.07*

Notes:
[a] Scale of 1 (significant contraction) to 5 (significant growth).
[b] Scale of 1 (extremely difficult) to 10 (extremely easy).
[c] Years prior to age 65.
[d] Scale of 1 (highly negative) to 5 (highly positive).
*Although most employer responses for the total share of workers age 50 or older are within the 0 to 24 percent range, our regression analysis does include a few employers with 95 to 100 percent of their total workforce age 50 or older. Additionally, these same employers estimated a high percentage of their workforce nearing retirement and unprepared, as well as nearing retirement, unprepared, and wanting to work longer. When these statistical outliers are excluded, the regression results do not change materially. The only notable difference is a positive effect – which is significant at the 10% level – of the employees' retirement challenge on the employer's likelihood to tighten performance reviews.
Source: Authors' calculations from Center for Retirement Research at Boston College (2006).

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The Center for Retirement Research at Boston College was established in 1998 through a grant from the Social Security Administration. The Center's mission is to produce first-class research and forge a strong link between the academic community and decision makers in the public and private sectors around an issue of critical importance to the nation's future. To achieve this mission, the Center sponsors a wide variety of research projects, transmits new findings to a broad audience, trains new scholars, and broadens access to valuable data sources. Since its inception, the Center has established a reputation as an authoritative source of information on all major aspects of the retirement income debate.

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