

WORKFORCE MANAGEMENT ISSUES RELATED TO RETIREMENT PLANS

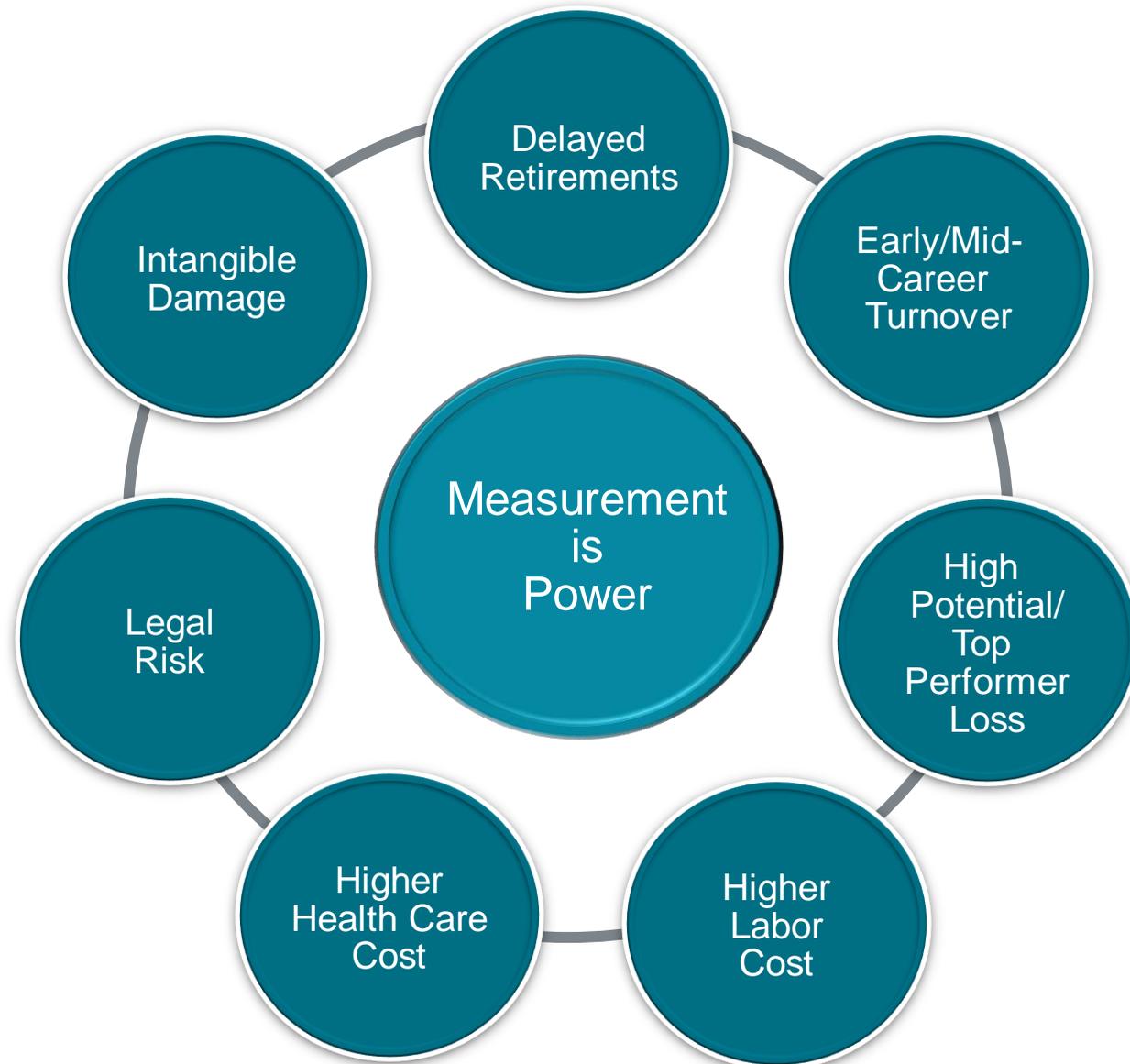
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Determining Optimal Plan Design

- Retirement program designs are usually viewed through the lens of finance
- Accordingly, decisions are made on the basis of:
 - Expense and contributions
 - Liability and Risk
- But it is labor productivity that drives true labor cost
- And it is workforce alignment that ultimately determines the contribution of an organization's workforce to business value
- And, as we all know, the retirement decision is ultimately an individual one
- Assessing plan design options, therefore, requires an analysis of:
 - Cost (as has been traditionally performed)
 - Workforce impact (including recognition that desired impact may vary with respect to different employee groups)
 - Ability to address individuality

The Unintended Consequences of Retirement Program Changes



Case Example 1: Confronting the Adverse Impact of a Loss of Incentives to Retire at a Global Consumer Products Company

Situation

- Large, branded company facing slow growth, almost all of which is driven by emerging markets, looks to develop a people strategy that fosters greater customer knowledge, faster, better innovation and stronger workforce diversity
- The company has traditionally built its talent from within, successfully relying on a premium rewards and employment package, to get talent to come and stay
- The company closed its DB plan in the late 1990s

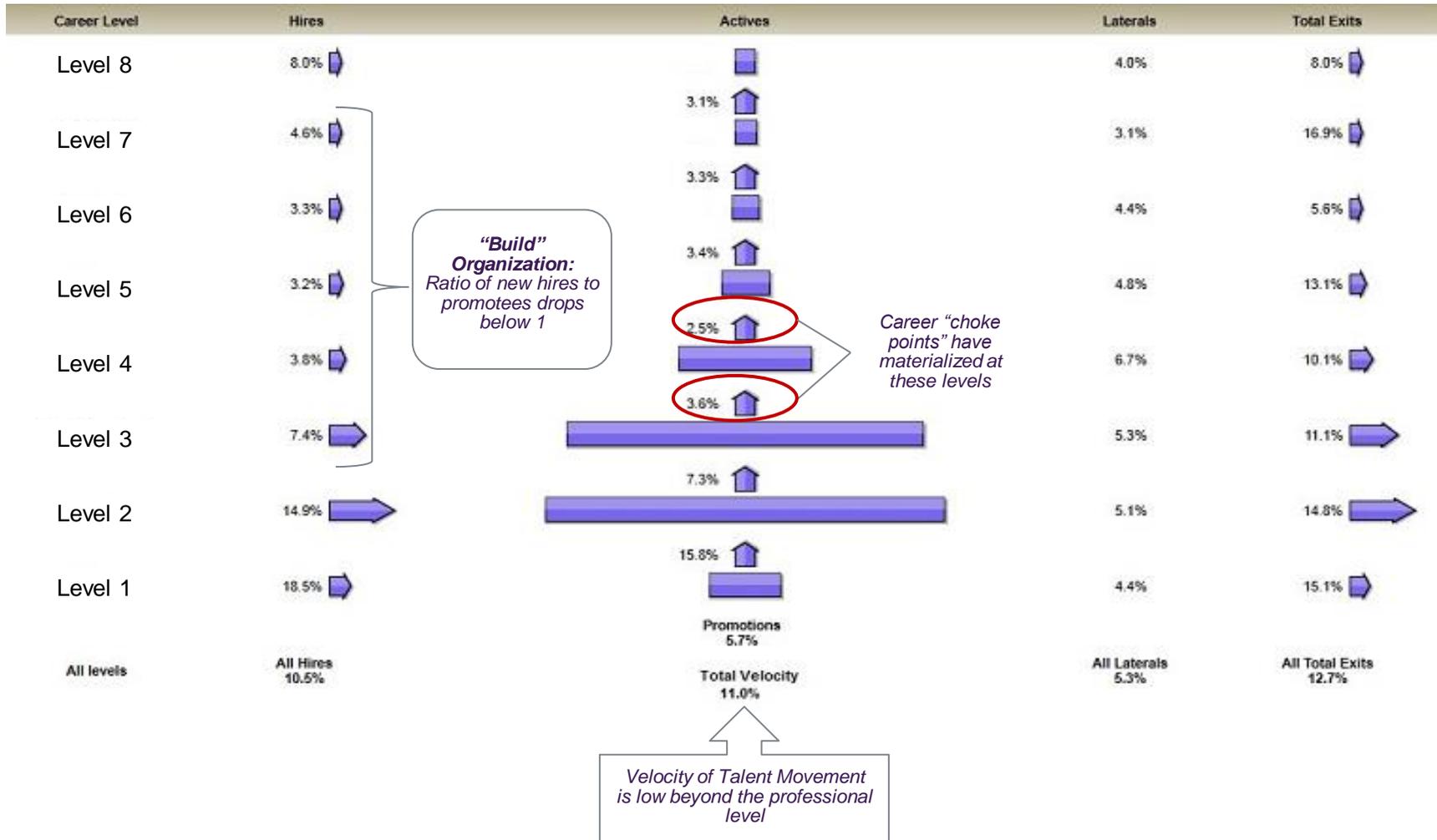
Presenting Problems

- Company experiencing significant back-up in its talent flows as more senior employees delay retirement due to erosion of wealth in retirement plans and high uncertainty about their ability to supplement retirement income from work in a weak economy.
- Absent business growth, this back-up in retirements blocks progression of more junior talent, stalling our careers and generating incentives for higher performers or the more marketable among them to leave prematurely.

Implications

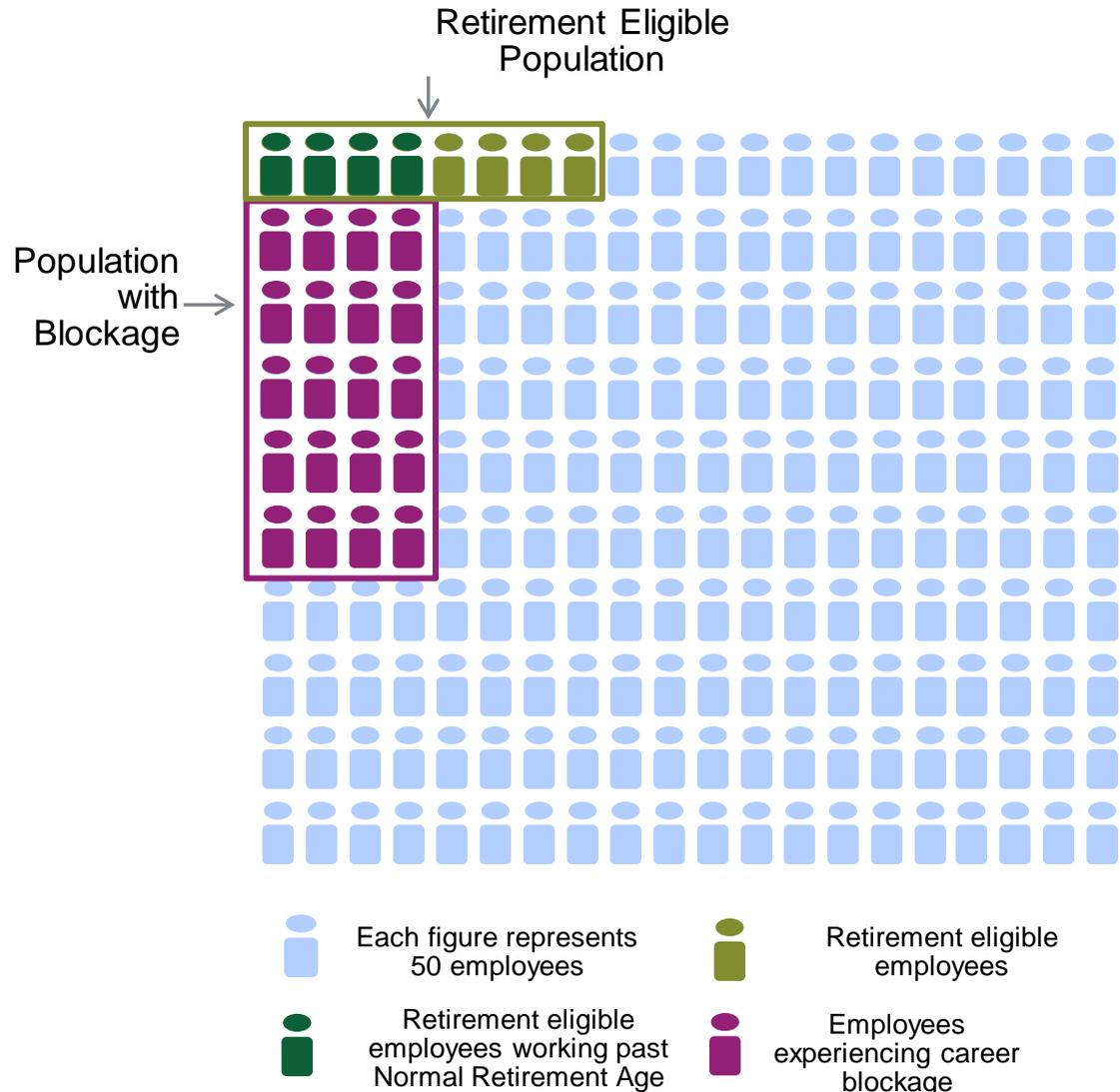
- Low “velocity” of movement, created ***in part*** by the existing retirement program is antithetical to successful realization of the company’s “Build” strategy with serious negative consequences to their business
- In this instance, a retirement program that delivered incentives for retirement eligible employees to leave, would outperform one whose incentives are completely disconnected from tenure

Limited Incentives to Retire - In the Context of Low Growth and a “Build” Talent Strategy - Result in Low Internal Labor Market Velocity, Significant Career Choke Points, and a Serious Drain of Top Talent



The Unintended Consequences of an Ineffective Retirement Program

- Each delay in retirement can block 5+ jobs.
- If 4% of your population is retirement eligible and half of those people choose to delay retirement, 10% of your employee population would experience promotion blockage.
- This means 1000 employees would experience promotion delays in a 10,000 employee firm.



Two Approaches to Identifying the Factors that Influence Retirement Decisions at Your Organization – One Relying on What Employees **SAY**, the Other Relying on What They **DO**

Conjoint Analysis of Importance

The focus is on stated importance: Employees' judgments about factors influencing the choice to retire

Analytic approach: Maximum difference conjoint analysis in a survey-response format

Strengths: Easy to administer, leverage points for designing a retirement offer

Statistical Modeling of Behavior

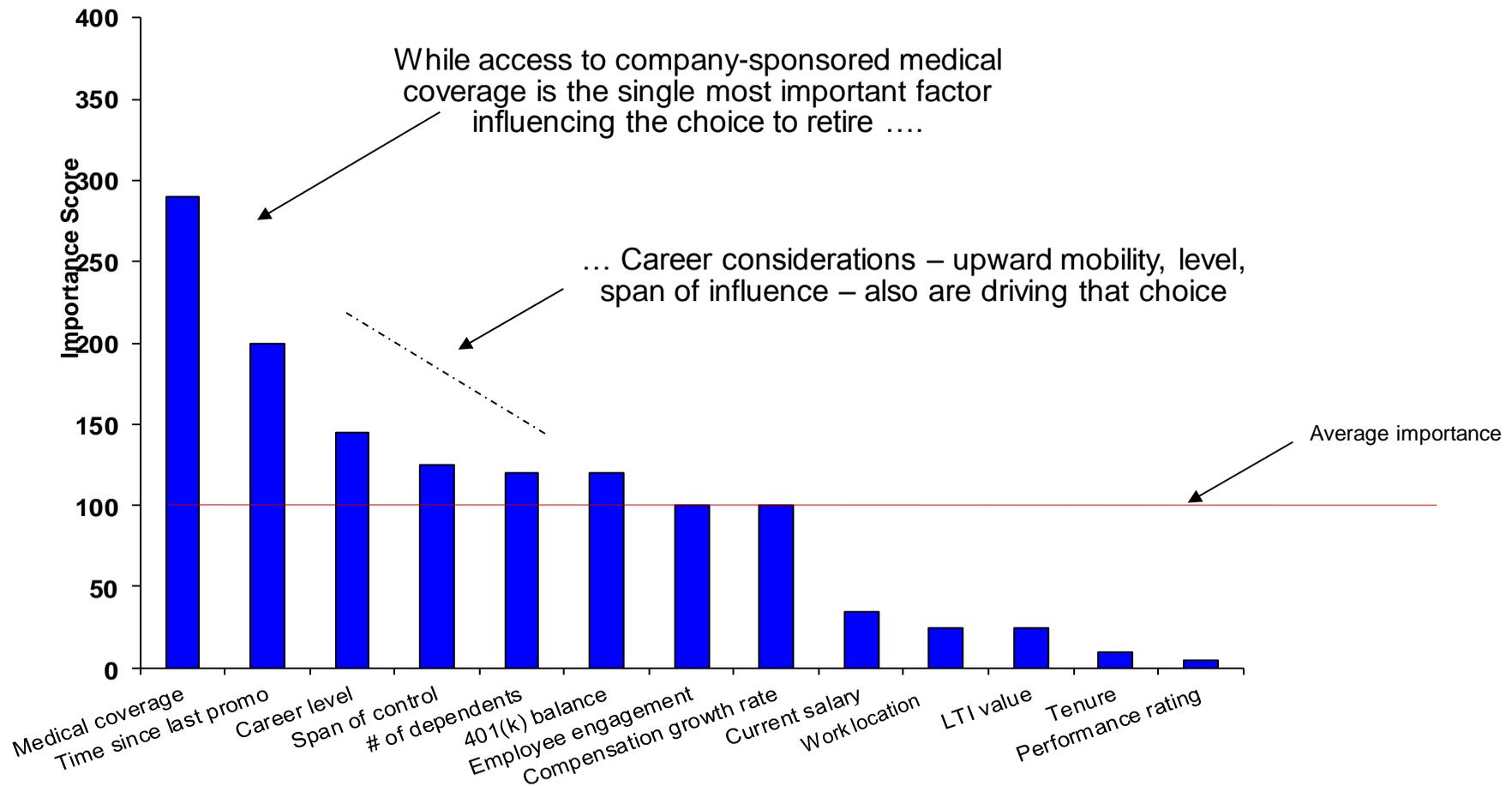
The focus is on behavior: Retiring or not at the point of eligibility

Analytic approach: Statistical modeling of the factors influencing actual choices made by employees

Strengths: Company-specific models, leverage points for designing a retirement offer, predicting acceptance

Many Factors Can Influence the Choice to Retire – Hypothetical **SAY** Example

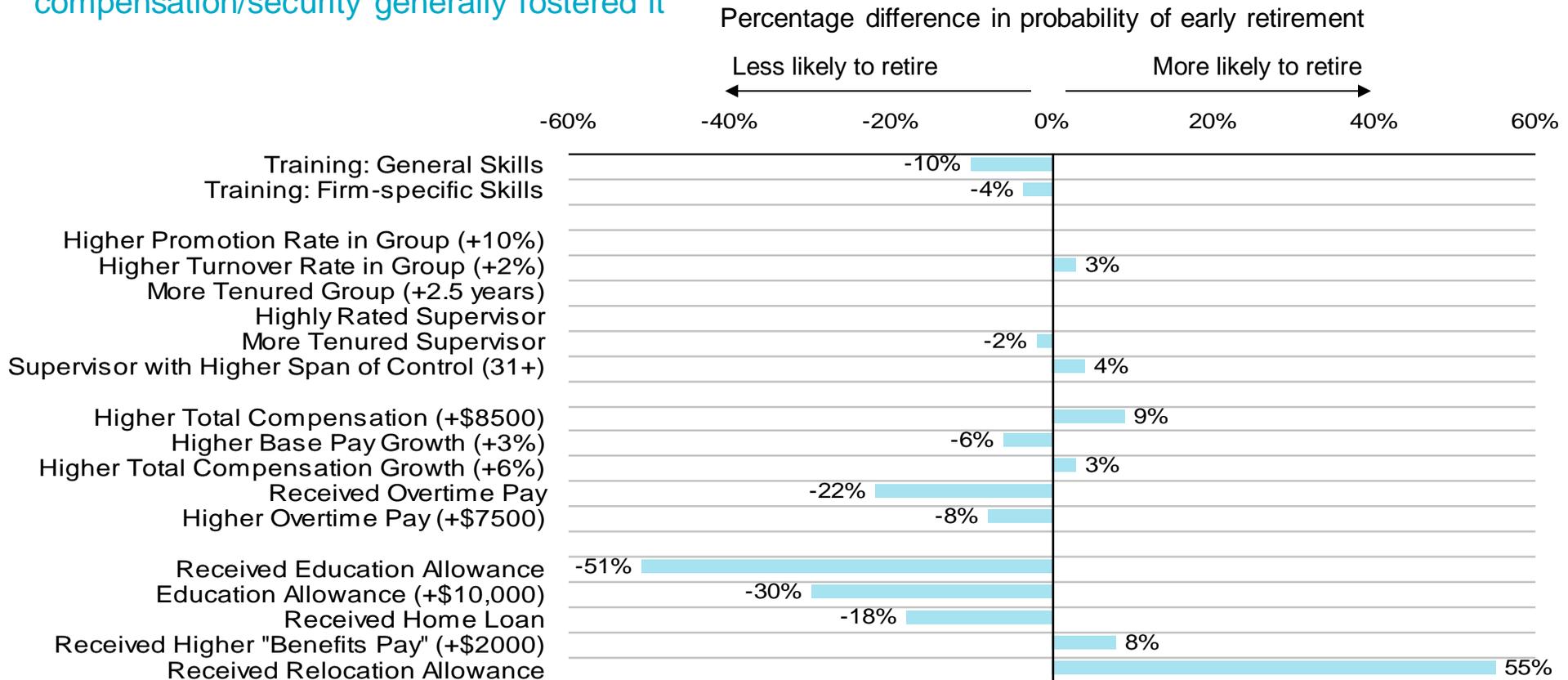
Identifying the Factors that Actually Influence Retirement Decisions is Essential to Designing the Right Solutions for “On Time” Retirement



Importance scores are scaled so that the average score is 100.

This Global Company Statistically Estimated the Drivers of Actual Decisions to Retire Early – an Actual DO Example

Education, training, pay growth and overtime helped delay retirement whereas higher compensation/security generally fostered it



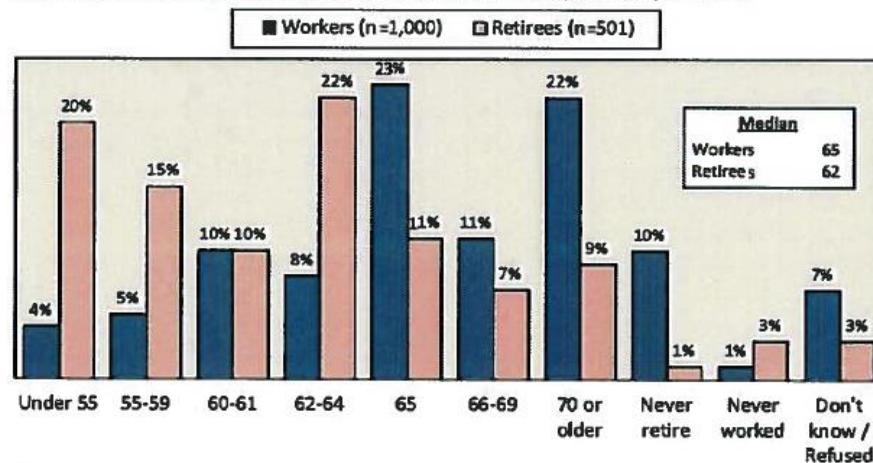
The models on which these results are based control for individual attributes and organizational factors. All effects are significant at the 5% level unless otherwise noted.

Stuff Happens

- Retirement happens at a different age than “the plan”
- Workforce exit is for a reason other than retirement
 - Health
 - Family
 - Economic conditions
 - Retirement of peers

Expected Retirement Age

Realistically, at what age do you expect to retire?/How old were you when you retired?



Source: Employee Benefit Research Institute and Greenwald & Associates, 2014 Retirement Confidence Survey.

Finding the Optimal Design for On-Time Retirements

Answer three key questions:

1. What is the true cost of delayed/early retirement for the organization?
2. What is the value of tenure to the business(es)?
3. Is the value of tenure to employees properly aligned with its value to the business(es)?

And use that information coupled with data on actual retirement choices to resolve the third question:

4. What is the optimal design of inducements for “on-time” exits from the workforce?

With strong workforce analytics, you can bring innovative approaches to solution design and implementation, to best serve your organization's business interests

