Freedom 75?

Inadequate savings, shifting demographics are changing the dynamics as older employees remain in the workforce

By *Jann Lee*

As Canada's population ages and concerns about retirement income adequacy mount, employers will need to not only reassess their pension and benefits programs but also look at how they can manage changing workforce demographics.

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The number of older Canadians in the job market continues to increase, according to a recent Statistics Canada labour force survey. It showed the number of employees aged 55 and older rose by 128,000 in October 2016 in comparison to the previous year, making that group the fastest-growing segment of the labour force.

While Canada's aging population is a factor in the trend, it's also true that many older workers will likely continue to work and delay retirement, says Wanda Morris, chief operating officer and vice-president of advocacy at CARP (formerly the Canadian Association of Retired Persons). "Now that people are living longer, this idea of not being

SAVINGS GAP A BIG FACTOR IN DELAYED RETIREMENT

While there are seniors who continue working for pleasure, many do so out of necessity, says CARP's Wanda Morris. "Some people want to retire but they can't because they don't have the financial resources," she says.

In 2016, the Broadbent Institute published a report that showed 47 per cent of Canadians aged 55 to 64 hadn't accrued employer pension benefits.

The median value of retirement assets for members of that age group with no accrued pension benefits was just over $3,000.

About half of those without an employer pension plan hadn't saved enough to supplement government benefits for a year, the report found.

The gap in retirement savings isn't surprising considering the fact that only 22 per cent of employees in the private sector have access to a workplace retirement plan, says Matthew Williams, senior vice-president and head of defined contribution and retirement at Franklin Templeton Investments. That compares to 90 per cent for the public sector, he notes.

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able to work after the age of 65 just doesn't hold water anymore."

Many people continue working because they find their jobs engaging, says Louise Koza, director of total compensation at Western University in London, Ont. Many of the university's full-time faculty members, she notes, do delay retirement.

"It was a very comfortable employment situation, and [professors] were still very active in their teaching and research," says Koza. "So they continued to work well beyond 65. . . . We've got some active faculty members in their 80s still working."

While many employees may genuinely want to continue working, the shift towards defined contribution plans has also made it harder for some people to retire with sufficient income, says Hubert Tremblay, a principal at Mercer. "We always said to clients that the risk is transferred to employees when you switch to a DC plan. But you also need to remember that there's risk left behind with employers, and one of those risks is workforce planning possibilities for employees late in their career," says Tremblay.

The squeeze on mid-level talent

Postponing retirement can affect a company's ability to retain key talent, according to Faisal Siddiqi, a pension consultant and actuary at Xerox HR Services.

"Senior people are usually at the top and if they're not retiring, then what you will have is a cascading effect," says Siddiqi. "The people who want to move up to senior level will have to wait, and what will happen is that companies typically keep on hiring people from university but the middle will get squeezed out."

The issue affects talent retention because mid-level employees are "the engine of companies," notes Siddiqi, adding those workers are future leaders who often train entry-level staff fresh from university. "So, if they leave the organization, they take all the talent and knowledge with them. . . . The last thing [companies] want to do is set up a system so that people feel they need to leave."

Employers, then, face an awkward situation, says Gordon Frost, talent business leader at Mercer. "Normally, retirement would create opportunities for junior people to move up. But because the people at the top aren't leaving, then that creates a blockage throughout the organization where there's less promotion and less opportunity for career advancement," he says.

The trend has expanded the number of generations in the workforce, Frost notes. "So that creates some challenges as far as how do different people work effectively in teams. . . . These are all the things that employers will need to consider."

To address the issue, companies can redesign job roles so employees move along a lateral career path, instead of the typical linear approach, according to Frost. Organizations that follow a linear approach have job titles that carry a distinct set of responsibilities, he says. But under a non-linear approach, companies can allow some responsibilities to overlap, something Frost notes is useful for those with phased retirement programs because it allows other staff to cover some of the work of the senior employee who's working part time.

Frost also emphasizes the importance of

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BENEFITS COVERAGE FOR OLDER WORKERS

As more older workers delay retirement, some insurers have started changing their coverage, says Accompass' Sandra Ventin. Here's a look at how benefits can change:

Life insurance

Most insurers end coverage at age 70 but they've been under pressure to extend the age limit, notes Ventin. If they do go beyond 70, the trend is to remove the link to earnings and move towards a flat benefit level in the range of $25,000 to $50,000, she says.

Long-term disability coverage

"The old rules were that it absolutely ended at 65, but there's one insurer that will underwrite to 70 and others are considering [extending the age]," says Ventin.

Medical and dental plans

Ventin notes there has been a trend to extend the termination age to 75 and beyond. However, insurers will look at plans individually and may adjust their pricing in line with the risks, she says.

Travel insurance

Most insurers restrict coverage for workers over the age of 70, says Ventin. "There are two factors the insurers would look to reduce when someone is over the age of 70. One would be the number of days you can travel per trip, and second would be the claim payout maximum in the event of a medical emergency."

succession planning to ensure future employees are ready to gradually take over the responsibilities of older workers. "There's a lot of solutions that are tech-based that companies can keep in place to capture knowledge and transfer it to others," he says.

Employee benefits for seniors

Besides the organizational issues, delayed retirements can also lead to an increase in benefit claims, says Siddiqi. "As people get closer to retirement, it's natural for aging people to get sick more often and get exposed to medical problems that people get in old age. . . . So they'll have higher health claims," he says.

The catastrophic elements of a benefits plan, such as high-cost drugs and emergency travel insurance, will be a particular source of pressure, according to Sandra Ventin, associate vice-president at Accompass Inc.

Drug coverage for seniors varies by province, of course. But provincial formularies may not necessarily cover high-cost drugs, says Ventin. "The employer may be on the hook for [the drugs not covered]. That's the confusion."

As well, benefits coverage can change for senior workers, Ventin points out. "It's important for employers to communicate to older employees, as they may not be aware of how their plans change when they reach a certain age."

As a result, some employers may ask employees to obtain individual coverage, but that conversation can be challenging as those plans typically charge higher premiums, says Ventin. "Every employer is wrestling with this issue. A lot of it comes down to the employment contract and their commitment to supporting an older workforce."

Phased retirement

Among the options for employers is a voluntary phased retirement program with incentives to boost the interest in it, says Siddiqi.

"You could give people additional service under the pension plan so that the value of their pension increases," he says. "You can give them an extra one or two years' pay to cover them

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over for the initial part of their pension or a lump-sum payout."

In the case of Western University, the organization values its senior professors' tenure and experience but it also hopes to give new professors and doctoral candidates a chance to teach, says Koza.

In 2007, the university moved to address the issue by introducing a phased retirement program for full-time faculty members aged 55 and up, according to Koza. Professors who participate in the program can work part time while receiving pay (based on how much they continue to work), health and pension benefits and a financial supplement they can claim before or after retirement. According to Koza, the supplement is calculated according to a professor's annual salary but it also takes other factors into consideration.

However, the program does come with a caveat. Participants must commit to an irreversible retirement date and they can only stay in a part-time work arrangement for up to three years, says Koza. She estimates about 50 employees a year have opted for phased retirement since the program began.

But before implementing a phased retirement program, employers should consider several factors, such as whether the option will be available to everyone or only to a particular group of employees, says Frost. A universal program may lead to the loss of key talent, he says. "If you offer the program to everybody, then [you] don't necessarily have an influence on who accepts and who doesn't and the kind of take-up rate you get."

Frost suggests employers should consider the option carefully and says that if they do offer it, they can inform eligible employees but reserve the right to approve or reject applicants.

Besides the phased option, another way to ease employees into retirement is to allow them to retire when they choose and then rehire certain people as contract workers, says Tremblay. He adds that while such an arrangement may be more expensive for companies since they'll be paying both pensions and salaries, they get the benefit of holding onto key talent.

Whatever employers choose to do, they need to be thoughtful when addressing such a sensitive issue, says Ventin.

"It's not good enough to say, 'My competitor does this, so therefore I have to do that.' I think you have to look at your own demographics to see how big your risk looks like for people still working beyond 70." BC

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