Aging and Retirement

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Understanding and Enhancing the Workforce Impact of Retirement Plans

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A Framework for Action

Author Richard A. Guzzo
Co-President
Workforce Sciences Institute

Haig R. Nalbantian
Co-president
Workforce Sciences Institute

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Human capital is a key source of competitive advantage today and how retirement plans help maximize the value created from that capital cannot be ignored. Indeed, understanding retirement plans' contributions to organizational success merits equal footing to evaluations of plans' costs and risks. However, a systematic way of assessing plan impact has been lacking, until now.

Effectively conceived and designed, retirement plans meet business needs in two ways. Directly, they attract, retain, and motivate employees and they empower organizations to best capture the value of employee experience. Indirectly, retirement plans can positively affect the business when they are aligned with and support the impact of other practices—such as incentive, development, and career management programs—that shape the workforce needed for success, all while also meeting employee interests.

This report provides a framework for assessing how retirement plans best meet an organization's mission and objectives. The framework presents 10 key considerations that are framed as questions answerable uniquely in context of each organization's strategy and circumstances, which include how changes in broader economic and workforce factors can influence the effectiveness of plan designs. The framework also is very data-driven, containing metrics and measures of workforce dynamics that inform a current state assessment and project the future. Quantitative indicators of such things as an employer's relative emphasis on building versus buying the talent it needs, the uptake of employers' investments in developing employee capabilities, and how talent "flows" in the organization complement but substantially extend analyses typically used to evaluate retirement plans. A key organizing concept of the framework's questions and metrics is the "internal labor market" (ILM) dynamics unique to each employer and how retirement practices influence those dynamics.

The framework is action oriented. It enables companies to prioritize what changes are needed and where, such as for what critical employee segments or organizational units. Several examples and in-depth case studies illustrate successful applications of the framework and actions that can be taken from it. They also show the risks of failing to anticipate the likely workforce impact of changes in retirement strategies and plan designs and of plan changes that might be needed.

Section 1: Introduction and Objectives

Many business leaders today recognize that their workforces are vital assets of their organizations. The substantial financial outlays made on them are not just the costs of doing business but investments to bring about the right workforce with the qualities needed for business success. **Retirement plans and programs are investments that directly affect the ability of an organization to have the workforce that meets its business needs.** Those responsible for retirement plans—such as actuaries and leaders in HR and Finance functions—thus have a strategic role to perform in the service of organizational goals. But their task is challenging, requiring data and tools to understand the workforce implications of the programs they manage. Further, retirement practices also must accommodate the needs and preferences of employees in the pursuit of delivering the business's required workforce.

The importance of embracing a more strategic approach to the design and management of retirement plans is heightened by broad secular economic and social changes that are transforming the traditional employee lifecycle and, as such, the composition and dynamics of labor supply. The confluence of increased longevity (interrupted temporarily by the COVID-19 pandemic), a weakening of pensions in the private sector, rising income inequality, a demographically changing labor force, technological innovations affecting how and where work gets done, and changing employee values, expectations and cultural norms, are increasing the need and often the desire of employees to extend their working lives. Indeed, older workers are the fastest growing segment of the workforce. The share of those 65 and older who remain employed has nearly doubled in the last forty years and the size of the older workforce is about four times what it was in the mid-1980s.[1] Recovering from a modest dip during the pandemic, the labor force participation rate of those 55 and older is inching back to the 40% pre-pandemic level.[2] In face of persistent labor shortages in many sectors and employer concerns about the skills and work habits of younger workers, the business significance of older workers is clear. Employers can evaluate the opportunities and challenges of employing older workers and managing a multi-generational workforce. Designing pensions and other benefits that meet the needs of older workers is becoming an increasingly important part of the overall talent strategies of firms. Retirement and benefits professionals will also increasingly be called on to provide guidance for these new realities as they deliver their services.

This report examines how retirement strategies and program designs and features meet business and employee needs. The report:

- Provides a data-driven diagnostic framework for gaining insights about retirement plans and their consequences.
- Emphasizes the importance of the alignment of retirement with other workforce management practices, not just features of plan design.
- Advances a strategic, forward-looking view of retirement plan importance.
- Draws on recent research and case studies to support the framework and recommendations for practice.
- Presents diagnosis-to-action guidelines for making changes to retirement plans to better align them with employee and business goals.

Section 2: A Framework for Evaluating Retirement Plan Impact

SECTION 2.1 RETIREMENT TIMING

At the most fundamental level, the retirement benefits that employers offer impact their workforces in three ways:

- Attracting talent into the organization.
- Motivating individuals to stay with an employer and build tenure, experience, capability, and—often upwardly mobile—careers.
- Making timely exits from the organization through retirement.

Retirement benefits also serve broad social goals, such as helping provide for self-sufficiency during the non-working years of life and reducing demands on support from social and other sources, relieving the stress on adult children supporting retired parents as well as supporting macroeconomic performance. The focus here, though, is more "micro." Specifically, the focus is on retirement plans and their use to serve two related sets of needs, those of an employer and those of its employees. Meeting these two sets of needs is demanding, in part because retirement benefit plans exist in dynamic environments and in entities—e.g., government, not-for-profits—where employees contribute to organizational success in different ways. Competition and business strategies can change, for example, and those changes can bring with them new and different requirements for an organization's workforce. In some circumstances there may be a need for "new blood" to replace segments of a workforce whose capabilities and roles no longer fit the organizations' business directions. Other changes in business circumstances and strategy might heighten the importance of retaining long-service employees, those who are deeply knowledgeable of an organization's proprietary capabilities, culture, or customers. Similarly, the demographics of the labor markets from which employers draw their talent continuously evolve, as do individuals' work-related preferences and interests. Meeting both business and employee needs is quite a challenge, and a key to success involves aligning features of the design and use of retirement benefits to meet those needs.

Table 1 shows the outline of a framework for thinking about the alignment of retirement benefit programs with business and individual objectives in mind, arraying retirement events by their timing. The framework excludes the impact of retirement benefits on individuals' point-in-time choice to accept or decline job offers. Instead, the framework focuses on ways that retirement programs and practices can influence outcomes such as employees' motivation to stay with an employer, the pursuit of opportunities within an organization, and value of tenure and length of service to both employer and employee. Retirement practices are but one such source of influence on these types of outcomes; other talent management practices—such as those related to compensation, training, performance management, leadership development, lateral mobility, promotions—also influence them. The fit of retirement benefits with these other practices is addressed in detail in this report.

Table 1
A FRAMEWORK FOR RETIREMENT TIMING

Aligning Retirement Plan Strategies			
	Early Retirement	On-time Retirement	Late Retirement
Business Needs			
Employee Needs, Preferences, Intentions			

Importantly, there are multiple ways of defining what constitutes early, on-time, and later retirement.[3]

- Specific target ages—Early, on-time, or late retirement can be defined with reference to an employee's attainment of a target age, such as a plan's pension eligibility age or the age of eligibility for social security benefits (partial or full benefit).
- Employee intentions—The intent to withdraw from the workforce (or not) via retirement varies greatly among individuals. Some individuals might seek to build sufficient wealth to retire "early," and others might seek to remain employed with no expiration date in mind for working.
- Typicality—What is late or early can be defined in reference to normative data such as the observed most frequent or average age of retirements from an organization. This age will almost certainly differ across organizations and may change over time in response to shocks like the pandemic or economic downturns as well as in response to increases in life expectancy.
- Industry norms—Industries with greater concentrations of unions are likely to experience different ages of retirement when compared to non-unionized industries because the former have greater proportions of employees with access to, and participation in, retirement plans.[4] Also, retirement ages in industries with physically demanding jobs are likely to differ from retirement ages in industries with fewer such jobs.
- Household circumstances—For many older workers, household circumstances will influence what is on-time versus late retirement. Older workers who provide financial support to their adult children illustrate this. One recent survey finds that 61% of parents with adult children have "sacrificed" to help their children financially.[5] Another finds that 47% of parents with adult children provide them some form of financial support, such as for paying credit card debt or for discretionary spending.[6] These and other household attributes, which often are outside the purview of an employer, may be quite important to the individuals' definitions of early, on-time, or late retirement and which may at times create gaps between employers' and employees' views of "proper" retirement timing.
- The trajectory of labor cost versus labor value—competitive markets work to align wages and salaries with labor productivity at the margin. But there are a variety of reward and talent models that deliberately create a breach between pay and productivity.[7] Some of those models involve the backloading of rewards, with pay set below productivity early in career and exceeding productivity later in career. Where this happens, there will be economic pressures to limit the duration of the late career pay premium by getting employees to retire.

Table 2 provides further examples—thumbnail scenarios—of a few of the many possible situations that can favor early, on-time, and later retirements.

Table 2
ILLUSTRATING THE RETIREMENT TIMING FRAMEWORK

Aligning Retirement Plan Strategies			
	Early Retirement	On-time Retirement	Late Retirement
Business Needs	A low-growth organization may want to incentivize early retirement to create opportunities for internal promotions of high-performing mid-career leaders.	Organizations may seek retirements at or near their pension eligibility age to provide for orderly, well-planned transitions out of the workforce.	Employers may seek to encourage later retirements by long-service employees who deliver great value to the firm.
Employee Needs, Preferences, Intentions	Employees' interests may increasingly emphasize non-work interests and goals as they age.	A targeted retirement age helps employees plan successfully for the financial aspects of retirement.	Employees with extended work horizons may seek flexible work arrangements to enable them to contribute beyond "retirement age."

The framework does not endorse one definition of retirement timing over others. Rather, its objectives are to:

- Highlight the importance of understanding what constitutes early, on-time, and late retirement on an organization-specific basis,
- Illuminate the needs being served by retirement timing, and
- Communicate the importance of identifying what's "right" for the needs of businesses and workforces.

Structured diagnostic work, described below, provides data-driven ways of gaining these insights and marshalling evidence needed to make decisions about how to best align retirement benefits practices with business and workforce needs.

Data-driven diagnosis is centered on a core concept: **Every employer operates a unique "internal labor market."** That concept is described in detail in the next section. Data can be used in many ways to quantify properties of a firm's internal labor market, some of which may be familiar to actuarial work and other ways less so. For clarity, Table 3 offers a glossary of terms this report uses in its description of characterizing internal labor market dynamics with data.

Table 3
A GLOSSARY OF TERMS

Term	Explanation
Age bands	Groupings of employees of "like" ages. There are no standardized age groupings for use by all. Defining appropriate age bands for workforce analyses can be informed with reference to the age distribution of a workforce and/or the purpose for creating age bands.
"Build" talent strategy	A build talent management strategy is characterized by hiring employees early in the career, continued investing in employee learning and development, filling position vacancies by promotions, guided career experiences, a greater emphasis on employee retention, and back-loaded reward practices that emphasize long tenure with the employer.
"Buy" talent strategy	A buy talent management strategy is characterized by hiring at all levels of the organization, acquiring experiences and capabilities developed elsewhere, at- or better-than-market compensation, and a lesser emphasis on employee retention. Employers' talent strategies typically have elements of both buy and build, but in different proportions.
Career level	Groups of positions (jobs, roles) that share the same level in an organization's hierarchy. There are no standardized career levels, although one general characterization of career levels comes from the U.S. Equal Employment Opportunity Commission (EEOC) which reports workforce data grouped by Executive/Senior-level Positions, First and Mid-level Officials and Managers, Professionals, Technicians, Sales Workers, Administrative Support, and Craft Workers. More often, organizations customize their specification of career levels based on considerations of the magnitude of differences in the scope of responsibility of roles at a lower level relative to the next higher level, the similarity of positions' place in an organization's pay grades, differences between levels in access to benefits (e.g., amount of annual vacation time), eligibility for certain assignments (e.g., overseas), eligibility for various forms of compensation (e.g., bonuses, equity), and the nature of reporting relationships. Most organizations settle on five to 11 custom-defined levels.
Internal labor market (ILM) map	A visual display of employee headcounts by career level and key events by career level, specifically entries into each career level by promotions and by hires and exits from each career level. Exits can be "all exits" or differentiated by type of exit (e.g., retirement, voluntary, and involuntary departures). Typically, ILM maps display annual averages of event frequency. Collectively, an ILM map shows annual average "talent flows." ILM maps can be created enterprise-wide or for targeted portions of an enterprise (e.g., a business division).

Job family	A group of related jobs or roles in a company. For example, a job family of “construction managers” might include these specific job titles: Concrete Foreman, Construction Area Manager, Construction Foreman, Construction Manager, Construction Services Manager, Construction Superintendent, Job Superintendent.
Position vacancy	A new or existing job currently unoccupied. Vacancies can be filled by new hires, internal lateral transfers, and promotions.
Tenure bands	Groupings of employees of similar years of service with an employer. Tenure banding can differ greatly across organizations. For example, firms that employ large numbers of early-career workers (e.g., large accounting firms) of which relatively few move on to Partner levels after 5–10 years will have a different tenure profile than, say, a wealth management advisory firm in which longevity is valued and five years of service is considered a minimum to become productive.
Velocity	The rate of internal movement of employees into new roles. Specifically, velocity = the sum of promotions + lateral moves divided by employee headcount. Velocity rates can be calculated for the organization overall, by career levels, by organizational unit, and so on. There are no benchmarks for velocity rates as what is a “good” rate depends on an organization’s build/buy talent strategy (build strategies often call for higher rates), the impact of velocity on workforce attributes such as skill development and turnover, and business considerations. Some firms have annual velocity rates of 30%+ while many have velocity rates in the single digits.

SECTION 2.2 INTERNAL LABOR MARKETS – A SYSTEMS VIEW

Organizations compete for talent in the external labor market, seeking to entice the best-fit individuals into their ranks, and retirement plans can influence applicants’ judgments of employer attractiveness. Once applicants become employees, retirement programs have their influence on the internal labor market dynamics of the employer. That is the focus here.

“Internal labor market dynamics” broadly refers to events and processes that shape critical outcomes such as the demographic composition of the workforce, capabilities, how well employees perform and create value for the enterprise, who stays and who leaves, the extent to which capabilities grow and respond to changing business needs, and the ability to lead.[8] Many other practices influence these outcomes such as compensation programs, orientation and on-boarding routines, and training and development investments. Specific practices often are found in some organizations but not others, such as formal job rotation programs for new hires and leadership development through expatriate assignments in global firms. Retirement benefits and practices, in one form or another, are nearly universal practices in larger-than-micro firms and they play a role in shaping the internal labor market dynamics. Of course, choosing not to offer a retirement benefit is a retirement strategy in itself.

Internal labor market dynamics are best understood as the result of a system of interconnected influences, retirement benefits being one such influence. Think of employers as orchestrators of the internal labor market "flow" of talent—that is, who joins, who stays, who is initially assigned to what roles, who moves laterally into a new role, and who moves up the hierarchy into positions of greater responsibility. As orchestrators, employers have many means of influencing talent flows to meet current needs (e.g., promptly filling customer orders) and to meet future needs (e.g., developing capabilities that will become valuable when an employee moves into executive ranks). These various influences can work together—that is, be aligned, complementary, and mutually reinforcing—or at times can be in conflict, as when one practice obstructs or inhibits the desired impact of another. Establishing a system of complementary workforce management practices is the goal.

Retirement practices, thus, in part deliver value to the business by being well aligned with business needs and with other practices that impact talent flow. Here are a few illustrations of potential (mis)alignments:

- "High involvement work practices" (HIWPs) increase older employees' desires to work beyond typical retirement age.[9] HIWPs are those that provide employees with a greater say in decisions, more autonomy and control over work processes, and enable employees to perform "whole" jobs rather than performing just a few of the component activities that make up a job. These practices are often supported by team-based work arrangements, incentive pay, and provision of training and development opportunities. Depending on their rules and features, retirement benefits can complement or interfere with the effects of HIWPs on the intentions of older workers to continue to contribute.
- Older employees often respond favorably to flexible work arrangements. They opt into their employers' age-friendly work practices at appreciable rates (30% to 50%).[10] Further, it is estimated that the fraction of individuals working past age 70 would almost double, from 17% (without flexible hours) to 32%, if flexible work hours were available to all.[11] Aligning retirement practices with flexible work arrangements can deliver value to the business by capturing the productivity of older workers.
- Participating in training programs reduces older workers' intentions to retire.[12] Training increases the capabilities of all workers, young and old, and signals their intent to make future contributions to the business. Older workers' motivation to engage in training is a result not only of their own dispositions but also of the experience of their organization's support for older workers. The nature and administration of retirement practices give employees clear cues about their organization's support—or lack thereof—for older employees' continued development and contribution. And training programs can also meet the desire of older workers to continue learning and thereby enhance the value to them of remaining employed.
- Employer's estimates of cost and value can be a source of influence on retirement timing. Older workers' costs often are higher than average in a workforce because of their benefit costs and because their careers and seniority may have carried them to higher pay levels. Organizations know older workers' costs. However, organizations routinely fail to know the value created by older workers. Recent research that integrated analyses from 23 companies and over a million employee-years of working found no relationship between employee age and business unit performance, where performance was measured in financial terms (e.g., profit, revenue growth).[13] It would be simple but false for employers to assume that they do not get commensurate value in return for the often-higher costs of older workers. Rather, testing that assumption by assessing the value older workers create will let companies know when steering older workers into retirement is a productive or counterproductive idea.

Systems thinking—which emphasizes a search for complementarities, synergies, multiple pathways of influence, and the value of varying perspectives—is an aid to employers' choices about how best to align practices that influence their internal labor market dynamics and talent flows. **For retirement program managers, then, one implication of a systems-thinking approach is a call to go across intra-organizational boundaries and pursue aligned practices by collaborating with those who have responsibilities for other workforce practices**—e.g., career development, training, succession planning, performance management, etc.—that also influence internal talent flows.

The following two case examples provide detailed examinations of the importance of alignment. The first, a case of misalignment, describes how weak incentives to retire resulted in too few vacancies of positions that could be filled by high-performing mid-career employees. With upwardly mobile careers stalled, many quit. The second case describes how tweaks to the rules of an existing pension plan align it with a policy of reduced work requirements to forestall retirements and keep high-value employees in the organization, extending their service.

Section 3: Two Case Examples

The following two cases are actual examples of how retirement plan choices can end up in and out of alignment with other organizational practices that shape each company's workforce. These are two quite contrasting employer situations, one depicting how its internal labor market dynamics and retirement timing fail to align with business and employee interests and the other illustrating changes to achieve excellent alignment.

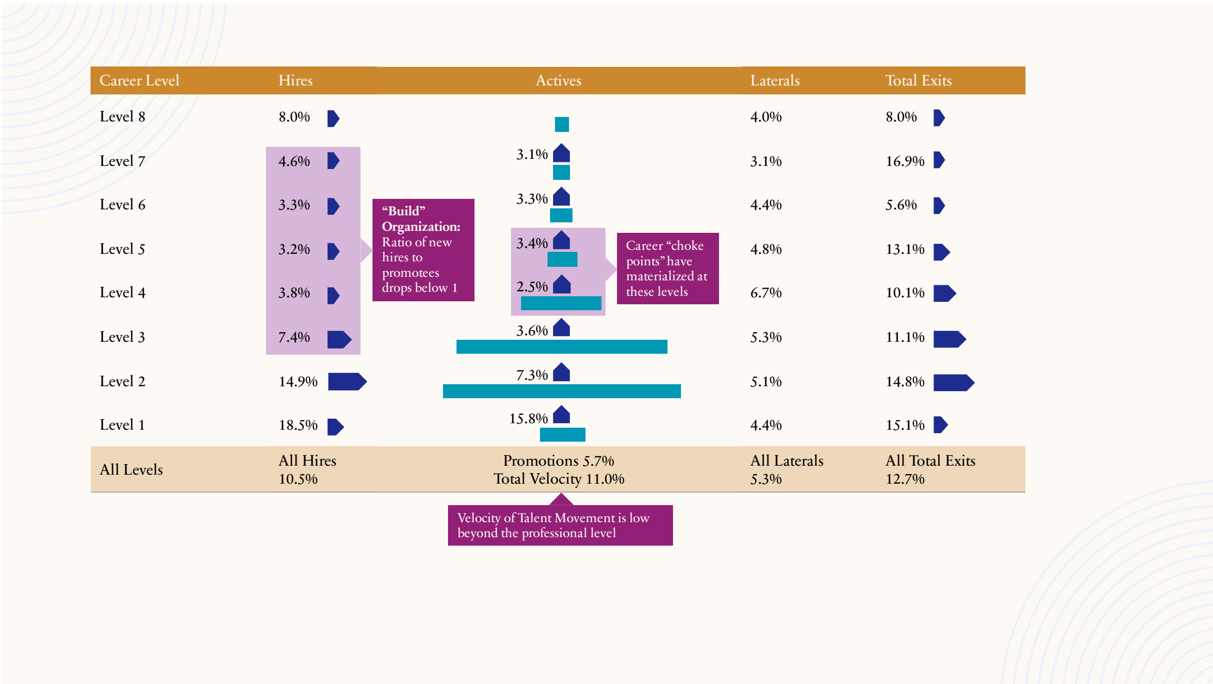
SECTION 3.1: CONSUMERCO

A well-known global consumer products company—"ConsumerCo"—was experiencing significant unwanted turnover among its "up-and-coming" professional and managerial employees. This erosion of an internal talent pipeline was especially concerning to the executive team because it undermined the company's long-standing build-from-within ("build") talent strategy. The company had traditionally focused its hiring on lower, entry-level jobs, percolating employees up through the career hierarchy as they honed their knowledge, expanded their capabilities, and demonstrated their worth. Mid-career hires of seasoned professionals occurred infrequently. This strategy was grounded in leadership's recognition that homegrown talent, steeped in unique, company-specific knowledge, work processes, technologies, internal employee networks, and customer relationships was a source of premium value, above and beyond what it could secure from the external labor market.

To be effective and sustainable, "build" talent strategies require reward practices that value employee tenure, typically by emphasizing employee development and advancement into higher levels rather than simply paying for years of service. Such a strategy requires maintaining a significant amount of "velocity" in its internal labor market, where velocity refers to the rate of promotions and lateral moves. Velocity keeps homegrown talent "in the game."

Figure 1 is a visual representation of ConsumerCo's internal labor market dynamics—specifically, talent flows by career levels. Recent average annual rates of hires, promotions, lateral moves, and exits are depicted per career level.

Figure 1
CONSUMERCO'S INTERNAL LABOR MARKET (ILM) MAP



Source: H.R. Nalbantian, "Navigating Human Capital Risk and Uncertainty with Advanced Analytics." Mercer white paper, June, 2017.

Note the low levels of talent velocity. Overall, just under 6% of employees were promoted annually, but promotion rates in the middle ranks were even lower, dropping to 3.6% at Level 3 (senior professionals) and only 2.5% at the beginning manager level (Level 4). These levels constituted bottlenecks to upward mobility. Further, low promotion rates were not offset by higher levels of lateral moves, moves that might be part of career development and a signal of career progress. Importantly, deeper-dive analyses showed that the employees most likely to leave the organization from levels with bottlenecks were their high performing and high potential employees.

One cause of this low velocity—and of unwanted talent losses—was a slowdown in rates of retirement. Like so many of their peers, ConsumerCo had frozen its defined benefit (DB) plan years before, implementing a defined contribution (DC) plan funded in part by company stock and profit-sharing. Confronted by poor stock price performance and uncertainty about future employability in a weak job market, many older, higher-level employees were choosing to stay in their jobs. Their delayed retirements had significant ramifications for the entire workforce by diminishing opportunities for others to advance internally. In a slow-growth business environment, there were too few internal openings available for employees in the talent pipeline to maintain adequate career opportunity and value, triggering unwanted exits.

ConsumerCo was facing the unintended long-term consequences of the decision made to freeze their pension plan. **Company leaders thought they were reducing risks and costs associated with DB plans. But in the process, they were creating a new risk: Losing direct influence over the retirement decisions of a broad group of employees.** This presented a real challenge. The company found that the loss of a source of influence over employee exits—the pension plan—brought with it a loss of control over other aspects of talent flows, most dramatically, promotion rates for its best employees. This directly compromised its ability to shape the workforce to meet business needs.

The analysis of the company's talent flow dynamics prompted leadership to act. Re-introducing the DB plan was not in the cards, so they turned to other dimensions of talent management. They overhauled their performance management and leadership development programs to better identify top talent that they needed to keep, and they worked to manage career opportunities more tightly, ensuring that opportunities went to top talent. More broadly, they embraced a philosophy of "up, over, or out" by placing greater emphasis on lateral moves as an antidote to career stagnation. Fortunately, these talent interventions succeeded in reviving the strength of their internal labor market and reversing the talent drain that was threatening to cripple them. In summary, the case is a sobering reminder of the influence of retirement plans and practices on broader talent management dynamics in a firm.

SECTION 3.2: PROFESSIONALCO

The experience of a large, global professional services firm, "ProfessionalCo," shares certain similarities with ConsumerCo. It, too, pursued a "build" talent strategy and it, too, had frozen its DB plan, although far more recently. Consequently, it had a highly tenured workforce and many of its members had substantial DB benefits coming to them in retirement.

Unlike ConsumerCo, ProfessionalCo was enjoying robust business growth and profitability. Its stock price had increased substantially, creating wealth for employees who held stock in their 401(k) accounts, who participated in stock-based employee savings accounts, and those awarded stock as part of their annual compensation. Those sources of wealth, plus the pension benefits for those still covered by the recently frozen DB plan, provided for the financial security of retirement-age employees.

One interesting feature of DB plans is that they provide inherent incentives for employees to retire once they are eligible because the income foregone with each year of continued work is forever lost to the employee. In effect, those who continue to work past plan-defined retirement eligibility sustain a "tax" on their current employee earnings, a tax that can grow each year an employee continues working. While many factors influence the decision to retire or continue at work (e.g., health, household circumstances, positive career experiences in the workplace), the lost pension value will create a strong incentive for employees to leave.[14]

This feature gives DB plans a natural place in support of "build" strategies by providing incentives for employees to come and grow with the company but also to leave "on time." As such, **DB plans can contribute to maintaining adequate ILM velocity by facilitating the opening of positions for more junior talent in the internal pipeline.**

These properties served ProfessionalCo well for many years. **But a DB plan can become an obstacle in an environment where the business would benefit by retaining older, highly tenured professionals who were driving revenue growth**, as was the case in ProfessionalCo. Leadership knew that many senior professionals preferred to continue to work, especially on a reduced schedule, but the provisions of the current retirement plan made it difficult to accommodate them. In fact, the company found several examples of prominent senior professionals who "retired" to collect their pensions and who then went on to work for competitors. Something needed to be done to retain those valued senior employees.

Consequently, company leadership decided to implement a new program targeted at retaining the value of retirement-age employees. Essential features of the new program were:

- The program was voluntary; eligible employees could opt in with the approval of their business leader.
- Program-eligible employees were those vested in the pension plan and age 62 or older.
- Those who opt in would collect 100% of their pension benefit.
- To meet the tax requirements of a qualified pension plan, two participant groups were identified, those whose monthly pension benefit would exceed a specified threshold dollar amount and those with a below-threshold monthly benefit.
    - Above-threshold employees—typically those who would meet the definition of highly compensated employees—who opted in were asked to specify an anticipated retirement date up to 24 months from program entry and were required to reduce their work schedule to anywhere from 40% to 60%, per their preferences.
    - Below-threshold employees who opted in would collect their full pension benefit for up to 24 months but were required neither to specify an expected retirement date nor to reduce their work schedule, although they could reduce with leadership approval.

The combination of reduced workloads, often preferred by older workers, and the ability to not "pay the tax" of foregone pension benefits was a great draw for many of the company's senior revenue-generating professionals. The program offered the opportunity for them to extend their careers on favorable terms and for the company to continue to capture the value they create. The program was well received and quickly populated with volunteers.

Section 4: Implementing the Framework

The two case studies illustrate the workforce impact and strategic significance of retirement plan designs. **The challenge for retirement professionals is to anticipate the broader workforce consequences of their design decisions and ensure effective alignment is achieved**.

The framework is designed to facilitate the process of evaluating and designing retirement strategies in the unique business and workforce context of each organization. A practical way to deploy the framework is to pose a series of questions concerning the core business and workforce strategies and realities that can help determine the objectives of the retirement plan and influence its effectiveness.

Below are 10 questions that speak to important linkages between business strategies and workforce requirements as well as among other key components of workforce strategies. We explain the rationale for each question and how each relates to decisions about retirement plan design. In posing these questions, it should be recognized that in conglomerate businesses, the workforce requirements of different business entities may differ substantially and need to be accommodated.

Business Strategy

Question 1: How would you characterize the organization's business situation and strategy?
Rationale: Business strategies speak to how an organization makes money and the basis on which it competes. They relate to such areas as customer selection and segmentation, geographic reach, production volume, product/service quality, production processes, use of technology, emphasis on innovation, branding and, of course, pricing, among other things. Business "situations" include rates of anticipated growth and/or contraction, market competitiveness, maturity of business, and whether the organization is in a steady state or involved in significant transformation requiring significant changes in what is needed in and from the workforce. As business strategies and situations condition workforce requirements, they inevitably have implications for how an organization structures its rewards, including its retirement plan design. Changes in the business situation, perhaps due to changing economic or industry conditions, are likely to trigger the need for changes in retirement strategies and plan designs, a challenge for something that is at its core a long-term commitment.

Workforce Requirements

Question 2: What workforce characteristics and behaviors are most critical to the success of the business and how are they changing (if at all)?
Rationale: Workforce strategies generally follow from business strategies and are designed to ensure that the organization secures the workforce it needs to meet business goals. An effective workforce strategy defines the most critical workforce requirements, comprising both the size and composition of the workforce. The latter may relate to the importance of experience, depth or breadth of knowledge, educational attainment, technical expertise, demographic mix, resilience and agility, teamwork, and collaboration, to name a few. A workforce strategy establishes a blueprint of actions to deliver on such requirements and motivate performance. Through their influence on the attractiveness of employment at the organization and the timing of retirement, retirement plans play a role in shaping an organization's workforce. In the very least, retirement professionals should pay heed to developments affecting the

most critical job families to ensure their designs are facilitating the "right" patterns of entry, development, and exit with respect to those job families.

Critical Talent Shortages

Question 3: Is the organization experiencing any serious talent shortages and, if so, among what jobs or types of employees?

Rationale: Talent shortages can impede business success, especially if they occur in critical jobs. They can cripple the ability of organizations to adjust to the workforce required by business transformation. For this reason, more and more organizations are resorting to disciplined workforce planning to identify looming gaps and close them. The pace of retirement can be both a contributor and a solution to talent shortages. "Early" or excess retirements not only deprive the organization of experienced senior talent but can slow the transmission of knowledge to more junior talent and new hires. Inadequate retirement can impede the organization's ability to bring in new types of talent required by the business and bloat labor costs. To the extent retirement professionals have a handle on workforce projections and potential talent gaps, they will be better positioned to help the organization use retirement design as part of their workforce planning arsenal.

Workforce Investments

Question 4: To what extent does the organization make investments in workforce development?

Rationale: Organizations differ in the extent to which they invest in developing their employees' skills, knowledge, and capabilities, either through formal external or internal training or on-the-job learning, including formal job rotation programs. Some training may be general in nature, conveying knowledge and skills that will be of value to other employers. Some may be very specific to the organization, involving unique organization tools, knowledge, and processes. The level and nature of investment can have important implications for the value of retaining employees and for the organization's reward structure. Depending on the nature of training and learning, heavy investments in employee development often require the backloading of pay and benefits to ensure a reasonable return for the employer. Retirement plans can be a key vehicle to accomplish a transfer of earnings from early to later in an employee's career.

Value of Employee Tenure

Question 5: Does length of service and experience in the organization contribute significantly to business performance?
Rationale: Research shows that employee tenure is generally productive. Indeed, on average, having a more tenured workforce is associated with better business performance.[15] Still, organizations differ with respect to the relative value of homegrown versus general, bought-in experience. As we saw in the cases of ConsumerCo and ProfessionalCo, recognition of the value of employee tenure can be a driving force behind an organization's workforce strategy. And the ability to capture that value can be strongly influenced by the organization's retirement plan. Gaining an understanding of the value of employee tenure can serve as a guide for retirement plan design. Sometimes the value of tenure will be implicit in the policies and practices of an organization, for example, in the organization's pattern of hiring. Sometimes, it's possible to measure the value of tenure by examining business results. Statistically modeling the drivers of business performance, ProfessionalCo found that tenure among sales and delivery teams was the single biggest predictor of year-to-year revenue growth among its large national clients. Hard evidence of this kind can be invaluable in getting executive teams to embrace policies and practices that require up-front investments but produce payoffs over the longer term. It can certainly demonstrate the value of taking a strategic approach to retirement design.

"Build" versus "Buy"

Question 6: Does the organization tend to "Build" or "Buy" its workforce and to what extent does the approach vary across business units, geographies, and/or job families?
Rationale: Perhaps nothing is more fundamental to a talent strategy than the decision on the balance of "Build" versus "Buy." It drives many other aspects of talent management, including the total rewards strategy. The issue is always a matter of degree, whether one mode dominates the other and the direction the needle is moving. As we saw in our case studies, an organization's position on the spectrum of "Build" versus "Buy" has profound implications for retirement plan design. Build organizations will likely do better with a retirement plan that delivers incentives for employees to stay and grow with the firm, but also to leave on time. Organizations that are more oriented to buy their talent, perhaps because their talent requirements are changing rapidly, or they are dependent on a constant feed of different kinds of employees with different kinds of skills and knowledge may do better with retirement plans that prevent lock-in of employees and are more oriented to value contemporaneous and long-term performance rather than tenure. Retirement plans are a pivotal piece of the reward structure influencing the "Build"/"Buy" balance. Retirement professionals need to be cognizant of this strategic orientation and carefully assess the implications for their design parameters.

Talent Velocity and Career Bottlenecks

Question 7A: What is the extent of talent velocity in the organization—i.e., combination of promotions and lateral moves? Question 7B: Are there career bottlenecks—levels in the organization hierarchy—where promotion rates decline dramatically relative to adjacent levels?
Rationale: Talent velocity is a key marker of the degree to which organizations are oriented to career rewards and value, directly affecting the efficacy of a "Build" talent strategy. Velocity is often affected by decisions about the timing of retirement, as seen in the case of ConsumerCo. The same is true about the existence and location of career bottlenecks. If bottlenecks are severe or if they are located at relatively low levels in the career hierarchy, they can contribute to unwanted talent loss, undermining the talent pipeline. Measuring talent velocity and identifying bottlenecks are relatively easy. As these are fundamental characteristics on an organization's internal labor market which both condition and affect the efficacy of retirement plans, it is of high value for retirement professionals to determine the state of each. They can then use these data to inform design decisions, potentially allowing the organization to use retirement strategies to engineer changes in internal labor market dynamics to help achieve their workforce objectives.

Flexible Work Arrangements (FWA)

Question 8: To what extent does the organization provide flexible work arrangements (FWA) for employees—for instance, part-time employment, flex time, job sharing, remote or hybrid working?
Rationale: In recent years, flexible work arrangements have become an important part of organizations' talent strategies. They gained more acceptance during the COVID-19 experience and are also viewed as a key component of strategies to improve workforce diversity, equity, and inclusion. Organizations differ in their approach to FWA and what they do has implications for retirement solutions—e.g., extending employment for retirement eligible employees might involve reduction or "flexing" of work hours. FWA can be central to strategies around older workers, either to induce retirement eligible employees with vital skills and knowledge to stay on longer or as a way to induce "graceful" exits among those resisting retirement. Retirement professionals will be well served understanding the role of FWA in organizations they serve and the potential to rely on such arrangements to help achieve the goals of the retirement plan.

Retirement Rates

Question 9: Is the rate of retirement too low, too high, or just right?
Rationale: As we've seen in our discussion of internal labor markets, retirement rates have a direct influence on the overall talent dynamics of an organization. Because talent flows interact and operate as a system, retirement rates systematically affect the actual and potential rates of exit, hires, promotion, and lateral moves and, thereby, what the workforce is shaping up to be. While retirement rates are generally small relative to all exits, in certain circumstances their effects can be magnified through the cascading interactions with the other talent flows. This is what we saw in the case of ConsumerCo where interactions with the "Build" strategy created a severely damaging multiplier effect of delayed retirement on the operation of the company's internal labor market. Retirement rates can vary across business units and job families, creating different policy imperatives within the business. Retirement professionals need to constantly assess whether retirement rates, and where they are trending, are aligned with talent requirements. Nothing is more directly relevant to the application of the framework than this as the answers inform objectives with regard to the timing of retirement.

Reward Philosophy

Question 10: How would you characterize the dominant reward philosophy or model of the organization?
Rationale: As retirement plans function as part of total reward practices, it is always helpful to get a handle on the dominant reward philosophy of the organization. Reward strategies can be rooted in competitive benchmarks, organization "best practices," or in the beliefs or philosophies of CEOs. In the age of analytics, reward strategies are based increasingly on hard evidence on what workforce characteristics create value in the organization and therefore need to be rewarded. Often there are misalignments between what an organization needs to reward and what it actually rewards, due to complex interactions among reward elements. In the best of circumstances, retirement plan designs should reinforce the core aims of the organization's reward strategies. In the very least, they should not be working at odds with those strategies. By posing more explicit questions about the over-arching reward philosophy and how it is expressed in the various reward components, retirement professionals can help ensure they are informing their design decisions by considerations of alignment.

Section 5: Measures and Methods

SECTION 5.1: IDENTIFYING THE RIGHT ISSUES

Answers to Section 4's questions about business context, plans, strategies, and current workforce dynamics inform choices about how retirement programs can be designed and implemented in ways that best serve business and workforce needs. **When considering changes to plan designs two interrelated issues always are important to address, the business strategy and its requirements of the workforce—such things as size of, skills, experiences, attributes—to achieve strategic objectives successfully.** Business strategies often are clear, documented, and widely understood, although uncertainty about them may arise with leadership changes, disruptions to an industry, and the rise of new technologies. While most companies can easily state their business strategy, many struggle to state the strategy's requirements of a workforce. These often go overlooked. Whether recognized explicitly or not, it is a company's internal labor market dynamics that will—or will fail to—deliver the workforce characteristics required for success. Consequently, at a minimum identifying at least the top-of-the-list workforce requirements is essential.

Not all of Section 4's questions and issues will be relevant to all circumstances. Career bottlenecks may not exist in some organizations yet may be a dominant concern in others; anticipated talent shortages for key roles may not bother some employers while for others such shortages may pose a huge operational challenge. Thus, when considering potential changes to current retirement practices or when assessing their fit in the broader system of practices, a useful early step is to sort out which issues are most relevant to the current situation and thus are deserving of investing time and resources to investigate.

Identifying which issues to investigate almost always necessitates the retirement professional to collaborate with others. Leaders in operations, HR, customer relations, strategy, and other functional areas are collaborators for identifying the right set of focal issues to address. Many of these same leaders also will be sources of expert opinions and insights about the issues. Additionally, for many issues organizations can also draw on quantitative workforce data for insights. The mix of qualitative and quantitative sources of insights are described next in an issue-by-issue format.

SECTION 5.2: INFORMING ISSUES WITH DATA

There are immediate advantages to addressing issues with hard data. These include precision, discovery, providing a foundation for shared agreement among decision makers about "the facts" while dispelling misperceptions and false impressions, seeing trends and making forecasts, and exploring "what-if" scenarios to estimate possible effects of changes in management practices. Retirement actuaries generally require little persuasion about the value of quantitative data, and other leaders increasingly embrace the value of data-driven decision making as more data, and more analytics, pervade business operations. This evidence-based approach is consistent with the rapid growth of "people analytics" functions that deliver analyses to guide managerial action.

Table 4 lists each of the key issues from Section 4 and describes sources of data for informing them. The term "data" is used here to refer to both numeric and qualitative information as might be gathered through conversations, interviews, and document reviews.

Table 4
ISSUES, DATA, AND METRICS

Issue	Data
Business Strategy	*High-level characterization of business strategy* Growth, entering new markets, transformation, margins, retrenchment, new competitors, new product introductions. *Sample data and metrics*: Insights from operational and functional leaders, strategy documents, financial reports.
Workforce Requirements	*Workforce characteristics critical to achieving strategic objectives* Technical skills, collaboration, customer service orientation, demographic diversity, depth of experience. *Sample data and metrics:* Insights from business and HR leaders, talent strategy documents, headcounts by job families with skills critical to strategic objectives, workforce demographics (age, gender, race/ethnicity), average employee tenure by key occupational groups.
Talent Gaps	*What and where any talent shortages are anticipated* In part this is a quantitative estimate but also is an estimate of the criticality of shortages—anticipated shortfalls of employees may be few but critically important due to the nature of the roles. *Sample data and metrics:* Insights from operational and HR leaders, where excess turnover occurs, turnover rates relative to replacement rates, turnover/replacement by career level and/or job families, time to fill critical vacancies.
Workforce Investments	*The extent to which an employer invests in workforce development* Training, education support, coaching, career advancement programs, leader/executive development programs, etc. *Sample data and metrics:* Participation rates in programs, number/types of programs offered, development budgets, employee survey responses regarding development opportunity.
Value of Tenure	*The extent to which length of service with the employer contributes to performance* Greater tenure can bring greater institutional knowledge, larger internal networks, knowledge of customers, efficiency, and experiences helpful to future performance. *Sample data and metrics:*

	Insights from business and HR leaders, relationship between tenure and compensation, pay-tenure relationship by career levels, value of tenure to employee retention.
“Build” vs. “Buy” Talent Orientation	*Meeting talent needs from within or from outside* Extent of emphasis on long-term employment, retention, development, and promotion from within versus hiring. Most organizations are a mix of both and the issue is whether one orientation predominates. *Sample data and metrics:* Insights from business and HR leaders, talent management documents, ratio of position vacancies filled by new hires relative to promotions (by career level), rates of velocity (proportions of employees promoted and/or making lateral moves in a year). An ILM map as in Figure 1 provides a holistic view of an organization’s orientation.
Career Bottlenecks	*Places or levels in an organization where promotion rates fall precipitously* Related to “Build” vs. “Buy;” promotion rates tend to decline at higher levels of the hierarchy. *Sample data and metrics:* Insights from HR leaders; promotion rates into next-higher career levels; comparative promotion rates by line of business, geography, or function; by key job families; by demographic groups.
Flexible Work Arrangements	*Flexibility concerns a variety of ways of accommodating alternative ways of working in response to employee preferences and needs* Examples include optional part-time employment, flexible work schedules, reduced hours, hybrid work arrangements, compressed workweeks. *Sample data and metrics:* Insights from HR leaders, talent strategy policies, number of flexible programs in place, % or number of employees participating in flex programs, % part-time employees, % hybrid, % participation in flex programs by employee age bands (e.g., by retirement-age; however, that is defined by the organization), and by career levels.
Retirement Rates	*Volume and characteristics of recent retirees* The key concern is whether rates of retirement are “optimal”—for example, whether too many high performers are retiring “prematurely” or whether too few retirements occur, thus blocking advancement opportunities of others. *Sample data and metrics:* Trends over time in retirement rates, retirement rates by age band, by career level, by tenure band, by critical job families, by business lines, by function.
Dominant Reward Philosophy	*Is there a prevailing philosophy or “style” of allocating compensation, promotion, and other rewards?*

	Pay for performance, pay-to-market, emphasis on promotions as a major driver of compensation, team-based rewards, “backloaded” rewards favoring longevity of employment with the company. *Sample data and metrics:* Insights from employees and HR leaders, reward strategy documents, impact of most recent performance rating on promotion and pay increase, extent of pay differentials between successively higher career levels, pay-to-market data, employer-initiated turnover rates by career level.

Workforce metrics, whether they are current-state snapshots or trend lines over time, are incredibly useful when the facts are interpreted in the unique context of each organization. Few external benchmarks exist for the metrics identified in Table 3, for good reason. What is good for one organization in terms of metrics such as promotion rates, build/buy ratios, and so on may not be good for another organization. **Interpreting data within the context of one’s own organization is the way forward when using the evidence to achieve better alignment among practices, including the design and use of retirement benefits, to meet employee and business needs.**

Metrics most often are descriptive data, depicting a current state. But workforce analytics need not be only about describing current states. A great benefit of the vast amount and accessibility of Human Resources Information Systems (HRIS) and related data is that it makes it increasingly possible to use that data to determine cause-and-effect relationships. The causes of internal labor market events are the concern here. Why do only some of the retirement-eligible employees retire “on time?” Why do career bottlenecks arise in organizations—is it something about the people or about how they are deployed? Understanding quantitatively what’s causing critical events involves deeper-dive analyses, typically those that rely on a variety of statistical modeling methods. We simply observe that (1) the growth of available workforce data is making it possible to identify causes and consequences with more certainty, and (2) the greater the knowledge of causes and consequences of internal labor market events the greater the confidence leaders can have that actions taken to influence those events will have their desired effect.

Section 6: Implementation Considerations

The intent behind the framework is not to turn retirement professionals into workforce strategists but to increase their awareness of the broader workforce implications of retirement plan design and how they are affected by other aspects of rewards and talent management. Effectively used, the framework offers a practical way for these professionals to take the most relevant contextual factors and inter-relationships into consideration as they make design decisions. This can help ensure retirement strategies and plan designs align with business and talent needs.

Four factors will influence the practical utility of the framework.

Expanded Data and New Tools

The data typically captured by actuaries who are involved in annual valuation and monitoring of pension plans, for example, is a perfect source for some measures and metrics spelled out in Table 3. Familiar as this data is, it was never designed to capture the full set of issues identified in that table, nor was it designed to address matters such as alignment of workforce management practices or the extent to which workforce attributes meet the needs of business strategies. Consequently, such actuarial data needs to be supplemented. Most supplemental data will likely come from the same source as valuation data, the HRIS database, but will require a far more extensive download. Compared to valuation data, that download will cover all employees, not just those eligible for pension benefits, as well as more variables and multiple years. Other sources of data may need to be accessed as well, but an expanded HRIS data download is necessary for addressing the issues listed in Table 3.

As noted earlier, many of the measures required are simple descriptive statistics. These can go a long way to illuminate the issues at hand. But some of the issues are better captured using more advanced statistical modeling. For instance, a proxy for the value of tenure and the degree to which the organization pursues a “build” strategy is the relative value of tenure to employees as reflected in their compensation. Measuring the “return to tenure” for employees can be first approximated by comparisons of pay of employees in different tenure bands. A more refined and accurate measure is the coefficient (or “weight”) on tenure derived from a multivariate statistical model of base or total compensation. Such a model would include a minimum set of explanatory variables known to commonly influence pay, factors such as career level, job family, supervisor status, tenure, education, location, and performance. The coefficient on tenure will provide an “all else equal” estimate of the value associated with additional years of service. Such a model will also allow for comparisons of the relative value of tenure versus age, providing insight into the distinction between firm-specific and general experience. Pay models of this kind are routinely used by organizations as part of their pay equity assessments. As such, those in charge of retirement plan design and maintenance may be able to draw on existing results as part of the diagnostic process.

While pay can be estimated using simple point-in-time data, other workforce or business outcomes often are best informed by longitudinal data. So, for instance, to ascertain whether changes in retirement rates are affecting the talent pipeline, it can be useful to statistically model the drivers of promotion and turnover, again using multi-variate specifications to help isolate the effect of specific factors, using multiple years of data. In our experience, three to five years of data is a good target period for organizations with more than 500 employees. Organizations with lower headcount may need to use more years of data to make such modeling statistically feasible.

To be clear, successful execution of the framework does not require such comprehensive statistical modeling of internal labor market dynamics. Drawing on simple descriptive statistics will usually be sufficient for most purposes relating to the framework.

Expanded Relationships

Execution of the framework will be facilitated by active engagement with a broader group of stakeholders than may be commonly observed in routine actuarial assignments. These would include leaders from across the HR and Finance functions as well as with members of the executive team. For instance, gaining a grasp of an organization's business strategy may require hearing directly from senior business leaders who know best where the business is heading, what the business requires in and from its workforce, and where the greatest risks to business success lie. Getting comfortable engaging with senior leaders outside the "customary" domains of benefits, finance, and legal/compliance can be both a challenge and an opportunity. In the best of worlds this will be done in concert with the benefits and finance professionals routinely involved in retirement plan design and maintenance. It becomes a collaborative process designed to improve decision making. Making the case for why this is worth the investment of leadership time is an important part of the process.

Expanded relationships and collaboration are also essential parts of the data collection and analysis process. Evidence-based workforce strategy and management has evolved significantly in the past several decades and with it has come the emergence of in-house analytics functions. Most large corporations now maintain analytics units. These units routinely collect and analyze the kind of data laid out in Table 3, often providing executives, department, and line leaders with monthly dashboards and scorecards of metrics covering many key areas of workforce management, including many of those indicated in the table. As such, it may well be that many of the metrics required are already calculated and available. Engaging with the workforce analytics function to review the metrics in Table 3 is an important first step in the process. Making the analytics function a full-fledged partner in the diagnostic work is likely the most efficient and effective way to secure the data and insights required. They may welcome the opportunity to provide such high-value services.

Finally, engagement with the organization's talent and total reward leaders is especially useful. The framework reflects the view that retirement plans are a key component of total rewards with strong inter-relationships with other talent management practices. As understanding the underlying rewards strategy is an important part of the framework itself, working in concert with rewards and talent leaders will benefit the process and all involved.

Overcoming Inertia and Resistance

The press for collaboration across functions and domains not typically involved in retirement plan design and maintenance is no small order and is likely to meet with resistance. The tendency to favor "business as usual," to put professionals in silos with clear and rigid boundaries is strong in many organizations. It creates inertia. People are busy; people tend to like routine. A process that calls for professionals to move beyond their silos and engage in work outside their fixed responsibilities can cause discomfort, or worse. Some may feel the retirement professional is encroaching on others' responsibilities, even threatening their turf. "Why are you asking such questions?" "Why do you need to engage with these executives?" These are questions—challenges—frequently encountered. But it is a worthy challenge, with the potential to deliver a big payoff to the organization and retirement professionals. The description of the framework provided in this paper and the rationale for the data and insights sought are designed to help address anticipated skepticism and foster the collaborative approach we advise.

A Change in Mindset

Perhaps the most important element in the successful implementation of the framework is embracing the mindset behind it. Retirement professionals must look at retirement plan design and maintenance through the lens of cost and risk to the employer, as well as focusing on issues of compliance. These remain key considerations. The framework imposes a broader view of the impact of retirement plans, such as how they influence the ability of an organization to shape its workforce, to assemble and effectively manage the human capital required to deliver business results. We have seen that retirement plan design, working in conjunction with other reward and talent management practices, directly affects internal labor market dynamics which explicitly or implicitly embody the workforce strategy of the organization and "create" its workforce. **In an age where the effectiveness of human capital management is a key source of competitive advantage, the workforce impact of retirement plans cannot be ignored. It merits equal footing to the routine evaluation of costs and risks.** Indeed, as ConsumerCo learned, changes in their retirement plan led to unintended negative consequences involving the creation human capital risks that weren't even on the radar, let alone evaluated. The risks and associated costs to the business were substantial, requiring solutions that themselves were costly. A broader, "systems" mindset is necessary to avoid unintended consequences of this kind and make retirement professionals strategic players in the creation and execution of effective workforce strategies.

Section 7: From Diagnostics to Design

Diagnostic work may call for changes to retirement plans and practices. Those changes may seek to keep older workers in the workforce longer, extending their careers and contributions to the business, or may seek to encourage retirement exits (or discourage late retirements) for reasons such as restoring healthy internal labor market dynamics or responding to new business requirements for the workforce.

Changes can have both symbolic value and/or financial value to employees. For example, when changes made to retirement plans co-occur with other changes to create age-friendly workplaces (e.g., adopting more flexible work schedules) workers are cued to perceive a supportive organizational climate for older workers which, quite apart from any direct inducements, can raise their engagement and intent to stay.

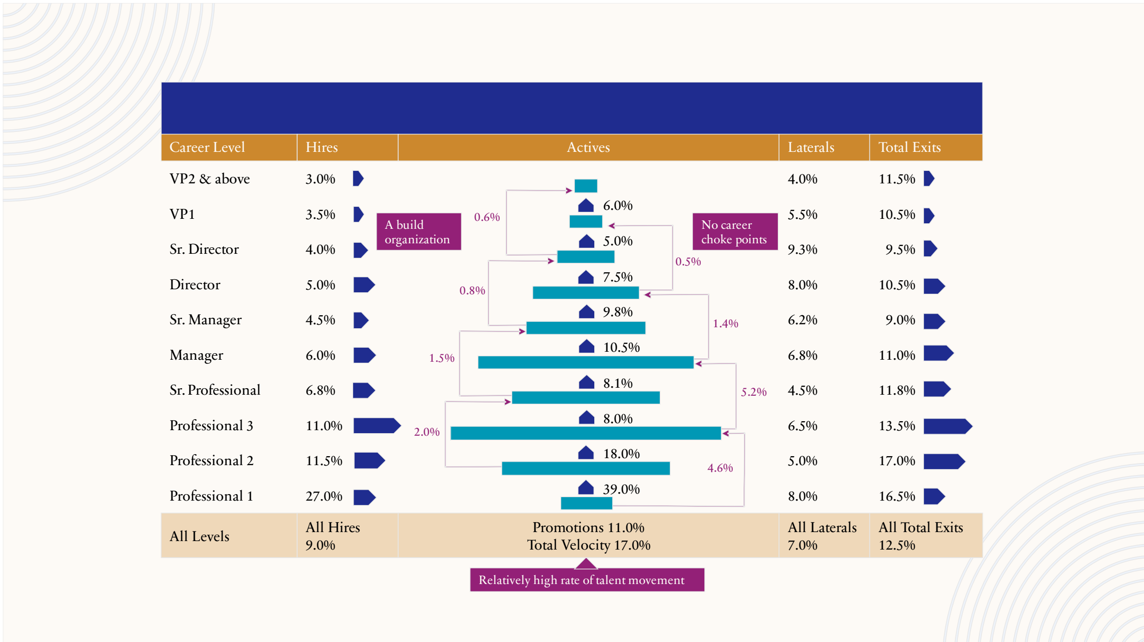
Some of the leverage points—areas of opportunity—for design and practice changes to increase the desired impact or retirement plans and/or to better align them with other workforce practices include:

- **Apply fund surpluses** to re-open DB plans and increase the number of eligible employees
- **Targeted early retirement windows** to workforce segments to encourage exists where most needed
- **Phased retirement programs** that enable employees to extend working lives on terms favorable to both employer and employee
- **Early retirement penalties or deductions** to encourage longevity with the firm
- **Service requirement rule changes** to influence employee retirement timing
- **Terminal earnings definitions and formula changes** to influence retirement timing
- **Lump sum inducements** to stay/go
- **Add benefit options** (e.g., bequeathing of benefits) and rules of eligibility for new options
- **Increase employees' options for collecting retirement benefits** with eligibility tied to age and service requirements (e.g., annuitizing 401(k) assets through the DB plan) [16]
- **Align retirement plan design** with other practices known to retain older employees (e.g., support for engaging in training, flexible work practices, high-performance work practices)
- **Communicate** how retirement plan features are aligned with other age-friendly workforce practices

In the best of circumstances, the likely workforce impact of retirement plan designs and changes will be anticipated and addressed from the start to pre-empt unwanted workforce outcomes. Clearly, this was not what happened in the case of ConsumerCo described earlier in this paper. Their decision to freeze and ultimately eliminate their DB plan was taken based exclusively on narrow financial considerations and motivated by recognition of what others in their industry and the economy overall were doing. As such, they laid themselves bare to a host of painful, unintended consequences which ultimately had to be addressed through accommodations of the organization's talent and reward strategies. Once they'd abandoned the DB plan, it was hard to contemplate going back. Their focus had to be on using other levers of talent management to address the challenges.

In stark contrast is the case of another well-known global consumer product and health company, PharmaCo, which a few years back faced similar pressures to abandon their long-established DB plan. Members of their Board of Directors were agitating for the executive team to bite the bullet and discard the DB plan, especially those influential Board members who invoked their experience with other prominent companies that had moved to DC only retirement plans. PharmaCo's leadership, backed by HR, intuitively appreciated that the company DB plan was a valued and integral part of the company's overall reward package that undergirded their focus on the long-term. Informed by the ConsumerCo story, the benefits leaders undertook a careful evaluation of the talent dynamics of the organization and the influence of the DB plan.

Figure 2
PHARMACO'S ILM MAP



Source: H.R. Nalbantian. "The Value of Experience: Implications for Pension Plan Design" Presentation at Society of Actuaries Retirement Section Council. November 4, 2022.

Like ConsumerCo, the company's ILM map showed a strong orientation to building their workforce from within, not surprising for a company with long product development cycles. But the similarities to ConsumerCo ended there. Overall talent velocity was very robust, driven by relatively high rates of promotion and lateral moves. Particularly noteworthy was the absence of career bottlenecks at any point in the career. While promotion rates did decline progressively as employees moved up the career ladder, they remained significant enough—in concert with associated pay increases at higher levels—to maintain strong and increasing career value. It was not surprising then that there was no significant problem of unwanted turnover and higher performers and up and coming talent were the ones most likely to stay. Unlike in the case of ConsumerCo, the incidence and timing of retirement were on target. In fact, during the period analyzed, the share of total exits attributable to retirement doubled. Retirement eligible employees were leaving "on time," helping the organization to maintain a vibrant, career-driven internal labor market

The diagnostic assessment provided strong evidence that PharmaCo operated a well-aligned talent strategy in which the development of firm-specific human capital was supported by a rewards program that strongly emphasized careers. The DB plan served as a lynchpin of this reward strategy, motivating younger talent to come and grow with the company while also encouraging employees to retire once eligible. Abruptly eliminating the DB plan without taking account of its pivotal role would create a serious risk to the talent strategy of the organization. For a talent dependent firm, this could be catastrophic. Armed with the data and insights of their analysis, the benefits team provided a convincing argument to the company Board to postpone taking drastic action on the DB plan. The careful documentation of the role of the DB plan and projections of the likely workforce consequences of abandoning DB convinced the Board to hold off on the dramatic changes that they had contemplated.

Section 8: Conclusion

Undertaking the kind of diagnostic evaluation represented here offers benefits leaders the opportunity to deliver greater strategic value to the organizations they serve. From a solutions perspective, the challenge in the current environment is to find ways to create DB-like incentives within the context of a DC pension plan. While a few companies such as the Aerospace Corporation, General Motors, and, famously, IBM[17] have recently reopened their DB plans to take advantage of relatively high interest rates and inflation, this remains a very unlikely step for most companies needing to recover the right retention and retirement incentives. More likely solutions will revolve around instituting phased retirement options, embracing flexible work arrangements for experienced workers, and/or enhancing the substance and accessibility of opportunities to transform DC distributions into guaranteed annuity income. The latter solution is aimed to reduce perceived risks associated with retirement in an uncertain economic environment. Determining the optimal solution will become more evident following a data-based assessment of internal labor market dynamics and the likely workforce impact of proposed actions. **"Normalizing" new diagnostics is a challenging new charge for retirement professionals, one in keeping with the growing role of big data and analytics in workforce strategy and management.**

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Retirement plans often are thought of as rather blunt instruments. In fact, they have many malleable features that can be designed and redesigned to best serve evolving workforce and business needs. And the cumulative effects of several small changes to plan designs could be substantial. Importantly, though, retirement plans do not stand alone: they are part of a system of practices shaping a workforce. Consequently, retirement plans and practices not only have direct effects on workforces but also indirect effects, those that occur in combination with the effects of other workforce management practices and programs. Well-aligned practices are the key.

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And from the SOA Research Institute:
Steve Siegel, Sr. Practice Research Actuary, ASA, MAAA

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Society of Actuaries Research Institute
8770 W Bryn Mawr Ave, Suite 1000
Chicago, IL 60631
www.SOA.org