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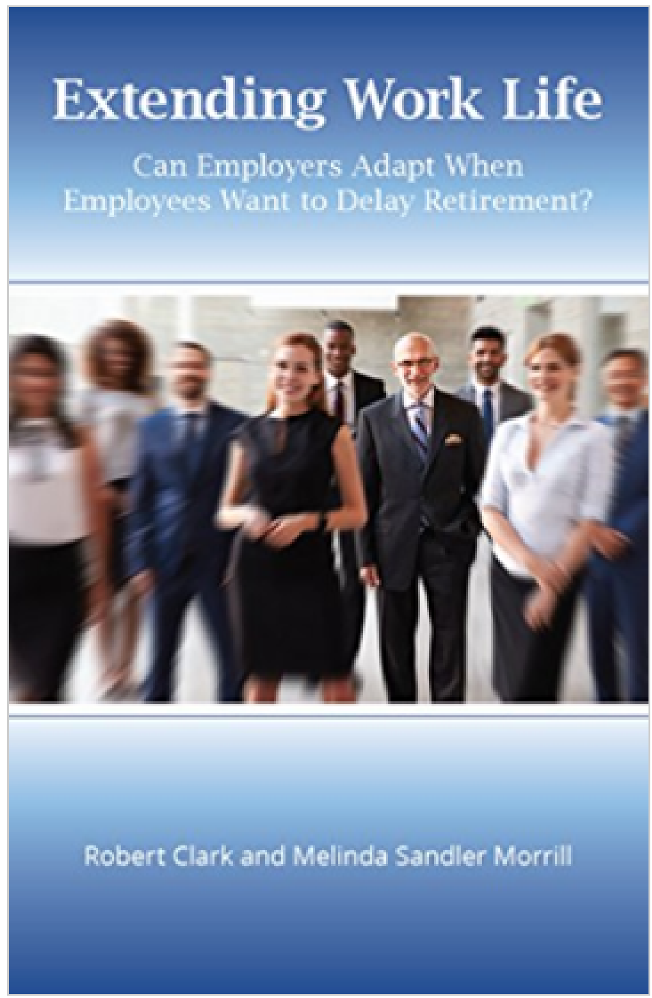
Can employers sustain profitability while employees delay their retirement?

Extending Work Life: Can Employers Adapt When Employees Want to Delay Retirement? By Robert L. Clark and Melinda Sandler Morrill. Kalamazoo, MI: W. E. Upjohn Institute for Employment Research, 2017, 79 pp., $14.99 paperback.



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Workers today face the predicament of having to save more than those who preceded them in order to achieve the same level of well-being in retirement. Two issues have beleaguered savers: (1) an imbalance in the Social Security worker-to-claimant ratio needed for Social Security to remain solvent and (2) Medicare facing a financing deficit, with the trust fund projected to be depleted by 2030. These issues, along with increases in life expectancy, have led retirees seeking to maximize their retirement portfolios to shift their retirement age from 66 to 70 years. Firms are facing a difficult decision on how to respond to delayed retirements by their employees. Older and more tenured workers place a significant burden on employers because of productivity uncertainties and defined benefit plan payouts. Older employees remaining within a company can also negatively affect its ability to attract new workers, because they restrict promotion opportunities and make employment with the firm less appealing to younger talent. In principle, employers can adopt employment or compensation rules to restrict or aid older workers in meeting their retirement goals. However, firms find it challenging to strike a balance between maximizing their marginal product of labor and minimizing the costs of labor in a delayed-retirement world.

Extending Work Life: Can Employers Adapt When Employees Want to Delay Retirement, by Robert L. Clark and Melinda Sandler Morrill, addresses the retirement

profitability puzzle for firms. Can firms retain a profitable labor cost strategy while employees are looking to delay retirement? *Extending Work Life* assesses the strategies employers can adopt to maximize profitability with a delayed-retirement employee pool. The assessment involves analyzing the costs and benefits of employment and retirement strategies, including evaluating the cost of employee benefits, alternative late-career employment arrangements, and the role of public policies. The book contains five sections: “The employers’ perspectives on delayed retirement,” “Costs and benefits of delayed retirement,” “Alternative late career employment arrangements,” “The role of public policies,” and “The future of working longer.”

In the first two sections, the authors attribute the reversal of a long-term trend of early retirement to employers switching from defined benefit to defined contribution plans. Defined benefit plans, which promise retirees a monthly benefit for life, have led to an increase in retirement costs to employers as life expectancy has increased (meaning more payouts but higher over-the-year inflation risks for employees). In contrast, within a defined contribution plan, an individual is not giving up a year of benefits by postponing retirement; instead, he or she is able to purchase a larger annuity the following year. This means that increases in life expectancy for participants in defined contribution plans are likely to provide an even greater incentive for individuals to remain within the labor force. The authors argue that the increase in supply of older workers will lead to lower relative wages in the long run, a cause for concern for employers who will be facing a productivity compensation deficit if the productivity of older workers does not reflect their higher earnings rates.

In the third section of the book, Clark and Morrill explain that some employers have adopted wage-earning models that underpay employees early in their careers but overpay them (relative to their production) in their final years of employment. Healthcare costs and benefits such as paid time off increase as workers age, further hindering their productivity relative to labor costs to firms. Clark and Morrill suggest that phased retirement plans, which set a predetermined departure date that ends the employer’s commitment to the employee, allow employers to ease the responsibilities of older workers. Phased retirement plans allow older workers to be mentors to new employees. This strategy reduces the number of hours worked and the amount paid to older workers, while allowing a firm to budget resources in hiring costs and wage allotment.

In the fourth and fifth sections of the book, Clark and Morrill explain the potential collapse of public policies governing retirement and the possibility of firms modifying employment contracts to accommodate delayed retirement. With the prospect of Social Security pensions being paid out later than anticipated or not paid at all—and with Medicare facing financing issues—Clark and Morrill again argue in favor of employees seeking further compensation to achieve the same level of well-being as those before them. To conclude the book, the authors return to their endorsement of phased retirement, but state that employee contracts that accommodate delayed retirement are subject to regulatory constraints and remain an imperfect strategy.

Extending Work Life presents many strategies that employers can use to address delayed retirement by their employees. These strategies are predicated on the idea that the marginal product of those employees should exceed the costs of benefit plans and employer wage payouts. Although the book outlines the method of determining which retirement strategy can maximize employee productivity, it does not single out any concrete strategy that will do so. Clark and Morrill state that because of a lack of quantifiable data on employee productivity, there is little information available to compare patterns of compensation and productivity.

Extending Work Life provides a balanced synopsis of the pros and cons of employer retirement strategies for employers and employees, rather than taking a hardline stance on which strategy is optimal for both employers and employees. Clark and Morrill outline how individual employers might view a sudden change in the retirement age of their current workforce, emphasizing how delayed retirement might not be desirable to individual employers. The authors speculate that as individuals choose to delay retirement, firms will respond by developing new types of employment contracts that are more suited to the preferences of older workers and more consistent with their changing value to firms. I highly recommend *Extending Work Life* to any reader. The book is an important aid in understanding the decisions faced by both employers and employees in managing a future of delayed retirement.