CORPORATE BENEFIT FUNDING

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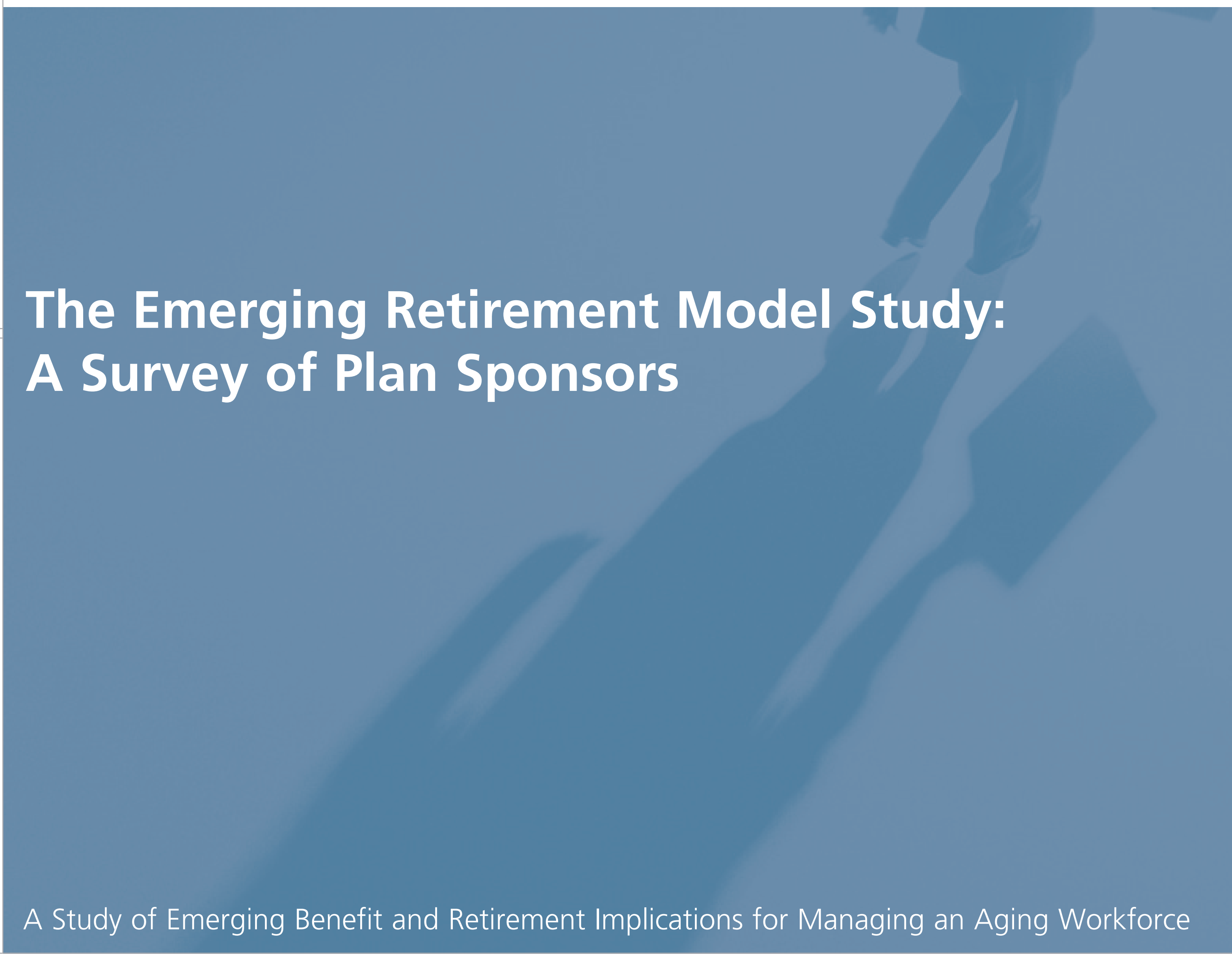

The Emerging Retirement Model Study: A Survey of Plan Sponsors

A Study of Emerging Benefit and Retirement Implications for Managing an Aging Workforce

DECEMBER 2009

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Executive Summary

What a difference four years makes. In 2005, *Forbes*[1] reported that about 76 million Baby Boomers, or those born between 1946 and 1964, are set to retire in large numbers by the end of the decade. Boomers make up about one-third of the U.S. workforce, and there aren't enough younger workers to replace them. Labor shortages in key industries will force a radical rethinking of recruitment, retention, flexible work schedules and retirement. Other reports[2] had echoed this concern: a mass exodus of older workers would lead to a dearth of knowledge at organizations, with shrinking numbers of employees waiting in the wings to fill the gap.

Those dire predictions about an impending older worker "brain drain" did not come true—at least not yet. Instead, current reports focus on major workforce reductions due to the difficult economic environment on the one hand,[3] coupled with older workers delaying retirement and staying in their current jobs on the other.[4] Contrasting employee studies from as recently as a year ago, the latter now has less to do with the fact that older workers are delaying retirement because they crave the mental/social stimulation of work.[5,6] Rather, many older workers have a more immediate and practical need to shore up their retirement savings while covering the cost of day-to-day living expenses because of market declines experienced over the past year. Today, many older workers, including members of the Silent Generation (born prior to 1946) and the oldest Boomers, are staying put.

Against this backdrop, MetLife conducted a survey of 240 plan sponsors at companies with at least 1,000 employees to examine employer attitudes and behaviors towards the aging workforce in the midst of a deep economic crisis, and recent regulation addressing the retirement security provided by pension and retirement plans. With this research, MetLife wanted to assess if and how plan sponsors are recalibrating issues surrounding the aging workforce and identify emerging practices that may be used to manage very experienced workers going forward.

The *MetLife Emerging Retirement Model Study* is the latest in MetLife's series of reports and analyses of the forces reshaping retirement, the aging workforce/lost talent and retiree benefits. Related studies include: *Buddy Can You Spare a Job?*; *Living Longer, Working Longer: The Changing Landscape of the Aging Workforce—A MetLife Study*; *Searching for the Silver Bullet—Leading Edge Solutions for Leveraging an Aging Workforce*; *The MetLife Employee Benefits Trends Study*; and the *MetLife U.S. Pension Risk Behavior Index.*[SM]

A New Retirement Model is Needed and May Be Emerging

The *MetLife Emerging Retirement Model Study* suggests that a new, recalibrated retirement model is needed—and is beginning to emerge. Unlike earlier, more traditional models of retirement that assumed a fixed career end date, 100% employer-paid defined benefits and clear boundaries between "work" and "leisure," the recalibrated retirement model contemplates a more gradual transition of older workers from full-time work to retirement. It also acknowledges that the burden of retirement security has, by and large, shifted to the individual. Finally, it takes into account that older workers, once they have reached retirement age, may move back into and out of the workforce for the social engagement, out of financial necessity, or both. After all, with increases in longevity, it wouldn't be unlikely for someone to live 20, 30 or even 40 years in retirement—a long time to contemplate staying out of the workforce.

This emerging retirement model won't likely provide a one-size-fits-all approach for employers. It's also unlikely that it will correlate with typical "firmographic" characteristics (industry, company size, etc.). Instead, it will be characterized by a fluid and flexible continuum of company-specific needs, strategies and solutions. It will be a continuum that will likely change over time in response to market conditions, employee/retiree needs and company objectives.

How close we are to this becoming accepted as a new norm remains to be seen. However, one thing is evident: without a company-specific perspective or framework for addressing an aging workforce, companies will be left with lasting concerns about the effects of the present (delayed retirement) and the inevitable (retirement)—without an approach to manage either proactively or effectively.

Knowledge Drain Concerns Trump Delayed Retirement

Despite the recent trend of older workers delaying retirement, the *MetLife Emerging Retirement Model Study* found that the current economic environment hasn't lessened employers' anticipatory anxiety around the retirement of their older workers. Among all employers surveyed, the large majority of today's employers remain much more concerned about the impact of the knowledge drain on their workforce—both today and in the next three-to-five years—than they do about the impact of their older workers seeking to delay retirement.

While conventional wisdom might suggest that the effect of workers now delaying retirement could ease concerns about the knowledge drain, this isn't the case. The impending knowledge drain is the primary concern of the majority of employers (74%) today, much more so than the impact of older employees delaying retirement (26%). The figures are nearly identical looking ahead to the next three-to-five years: concern about the impending knowledge drain is the primary concern for 70% of employers, while 30% are primarily concerned about delayed retirement.

Interestingly, the knowledge drain remains a concern even though two-thirds of employers (69%) surveyed for the *MetLife Emerging Retirement Model Study* said they believe that in the next three-to-five years employees will retire at even older ages than they are today.

This singular focus on the knowledge drain may be attributed to plan sponsors' strong feelings of anticipatory anxiety: a lack of preparation for the retirement of older workers and fear of the unknown (i.e., when employees will retire, how many will retire in a given year, what the impact will be to their organization's productivity, culture and bottom line). The idea that employers are concerned about the knowledge drain is not new—the potential effect of many experienced workers retiring closely together has been a widely discussed topic for the past several years. While some employers have taken action to address this selectively, these actions have not been enough to soften the significant concern about the knowledge drain that prevails.

Time on Employers' Side—But Is It Enough?

When it comes to preparing for and managing the knowledge drain, many employers seem to believe they have an important asset on their side: time. In addition to today's retirement delays, in the next three-to-five years the majority of plan sponsors surveyed by MetLife expect their employees to delay retirement by three years, on average. This delay may give employers extra time to assess the needs of their organization, calculate the cost of transferring knowledge and introduce a more comprehensive approach to transition knowledge. But, will it be a case of too little, too late? Perhaps. Despite strong concerns about the brain drain, most employers have not yet taken a holistic approach to the design and implementation of their workplace practices and programs aimed at transferring knowledge from their aging workforce to younger workers. To date, a range of programs and practices have been introduced, in many cases, on an ad hoc basis. The most common programs are related to training, telecommuting, flexible/seasonal employment, technology-based tools and retirement planning tools/seminars—all relatively straightforward to implement and manage.

In addition to not taking a holistic approach to their aging workforce practices and programs, just 3% of employers have calculated the cost to transfer knowledge from older to younger employees within their organizations.

Benefits Not Yet Widely Viewed — or Used — as a Strategic Lever

Employers may be missing an opportunity to effectively deploy benefits to their workers to help manage the knowledge drain and/or address concerns about employees delaying retirement. Of those employers concerned more about delayed retirement than the knowledge drain, half (50%) believe that the number one reason for employees to delay retirement is to rebuild their retirement savings (e.g., 401(k) plan) in light of the recent economic downturn. According to the study, 38% of employers offer post-retirement employee benefits such as medical insurance, life insurance, dental insurance and prescription drug coverage — with current retirees and current workers (once they retire) more likely to be the beneficiaries. Of employers who offer post-retiree benefits, almost four in 10 (38%) believe that employee benefits have no role in older employees' decisions as to when to retire, 30% believe they encourage older employees to delay retirement and 32% believe they encourage older employees to retire. These findings highlight a major disconnect between what employers believe their employees need and the perceived impact of these programs on employees' retirement plans.

Given the economic landscape and the cost of providing employer-sponsored post-retirement benefits, most employers haven't strategically deployed these benefits to manage employee retirement. With benefits, on average, representing one-third or more of the money spent to compensate each employee according to the Department of Labor's Bureau of Labor Statistics,[7] it's a missed opportunity that so few employers recognize and appreciate the strategic role that benefits play in workforce management — particularly with regard to loyalty and retention.

More Regulatory Guidance Needed for Phased Retirement to "Take Off"

Critical challenges that may be standing in the way of implementing more holistic and comprehensive phased retirement programs include regulatory complexities and ambiguities involving federal tax and age discrimination laws, and a lack of a clear business perspective on the pros and cons of implementing phased retirement options. Phased retirement programs, as the term is used for purposes of this study, can consist of a workplace program (or set of programs) offered by employers in order to keep needed older employees who want to continue working, including flexible work arrangements, a gradual shift from full-time employment to full-time retirement, a shift in work responsibilities, hiring back retired employees, etc.

On a positive note, a provision in The Pension Protection Act, passed in 2006, has paved the way for employers to offer in-service retirement distributions to those who remain in the workforce to age 62 and older. This is generally viewed as helping to create a loose framework for employers seeking new models for phased retirement. While the *MetLife Emerging Retirement Model Study* found that employers have a high level of familiarity with the Pension Protection Act provision that allows for in-service retirement distributions to those who remain in the workforce to 62 and older, many report a need for clarification around the do's and don'ts of phased retirement. For example, many employers might want to experiment with incorporating phased retirement concepts into their qualified plans, but have been unable to do so because anti-cutback rules often preclude eliminating a qualified plan provision once it has been included in the plan. Similarly, as eligible phased retirees are older and typically higher paid employees, providing benefits to that group could violate the qualified plan nondiscrimination rules.

Perhaps that's why nearly two-thirds (65%) of employers report that their organization welcomes legislation/regulation that would encourage the implementation of phased retirement programs and create new ways to stem lost talent. Employers also support legislation to (1) allow employees to earn delayed retirement credits until age 72 and (2) reduce the amount lost when employees claim Social Security benefits while still working. But employers still need guidance when it comes to implementing programs to help keep pre-retirees in the workforce or manage them to retirement.

While 35% of employers are considering, or have already implemented, phased retirement programs at their organizations, a significant number of employers (50%) have not yet decided whether to implement these types of programs. This hesitation may have as much to do with anxiety around "not knowing what they don't know" as it does with the action steps employers need to take to stem the knowledge drain.

Major Findings

EMPLOYERS SHOW DEEP ANXIETY ABOUT AGING WORKFORCE—MOST CONCERNED ABOUT KNOWLEDGE DRAIN NOW AND IN THE FUTURE, LESS CONCERNED ABOUT DELAYED RETIREMENT

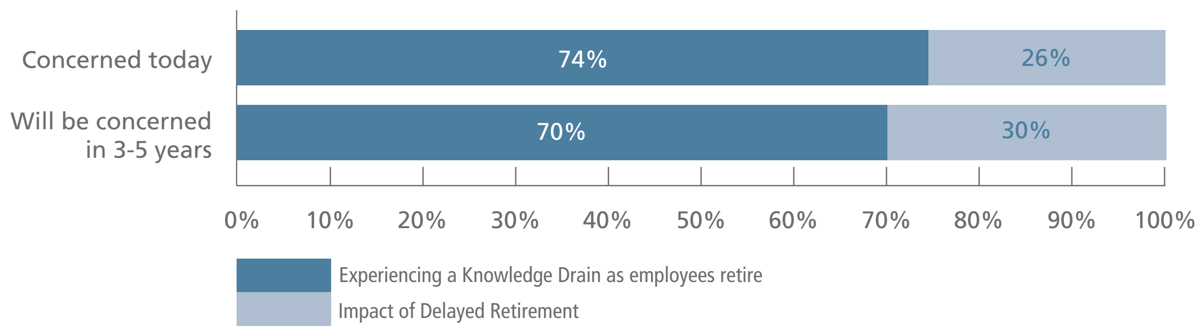
Despite evidence that employees are delaying retirement and staying in the workforce longer, employers remain deeply concerned—and anxious—about the impact of the knowledge drain on their organizations. A lack of information about when employees will retire, coupled with conflicting attitudes about the business benefits of employee retirement, has led to an overall sense of apprehension about the impact of the aging workforce on their organization.

Happily for most employers, study after study shows that today's Boomers plan to work longer. Earlier research by the MetLife Mature Market Institute, entitled *Living Longer, Working Longer*, for example, found that most older employees expect to stop working for pay at age 70.

These findings have done little to calm employers' concerns. According to the *MetLife Emerging Retirement Model Study*, when employers were asked about which of two retirement-related issues are closer to their view today, 74% of employers cited that they are primarily concerned about experiencing a knowledge drain as older employees retire and only 26% said that they are primarily concerned about the impact on their overall workforce as older employees delay retirement. The story is virtually the same when employers were asked to look ahead three-to-five years: 70% anticipate being primarily concerned about the knowledge drain vs. only 30% who anticipate being primarily concerned about the impact of delayed retirement.

Concerns about the knowledge drain cut across all sizes of organizations surveyed, from smaller employers (1,000–4,999 employees) to the largest with well over 10,000 employees, and across job functions. Nearly seven-in-10 (69%) employers are concerned about experiencing a knowledge drain among all employees, with just 20% concerned primarily with white-collar workers.

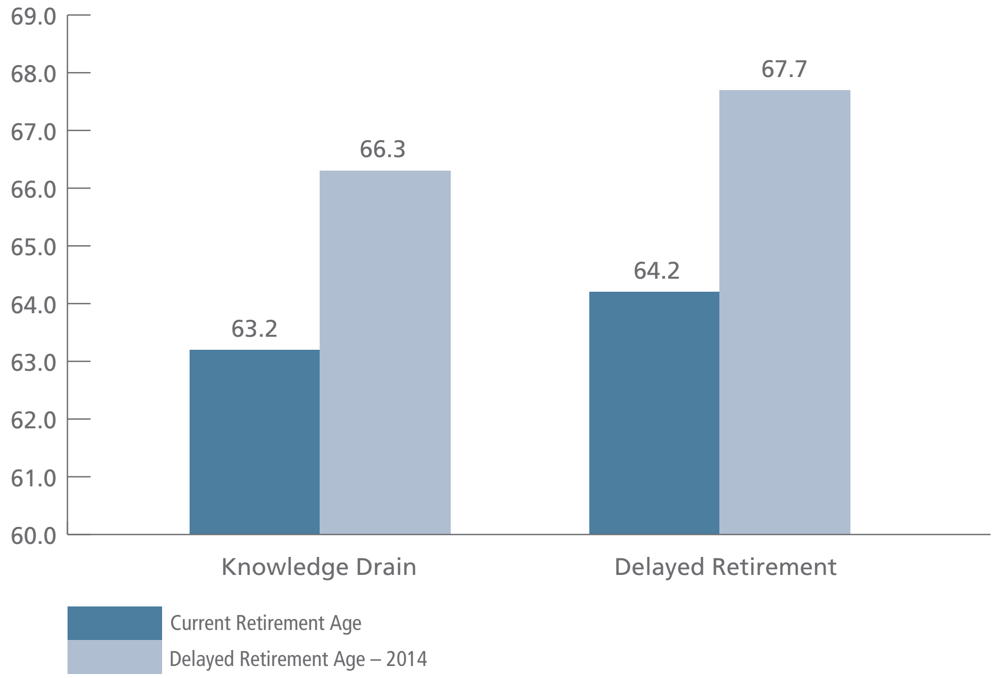
Concerns Relating to Employee Retirement, Today and in 3-5 Years



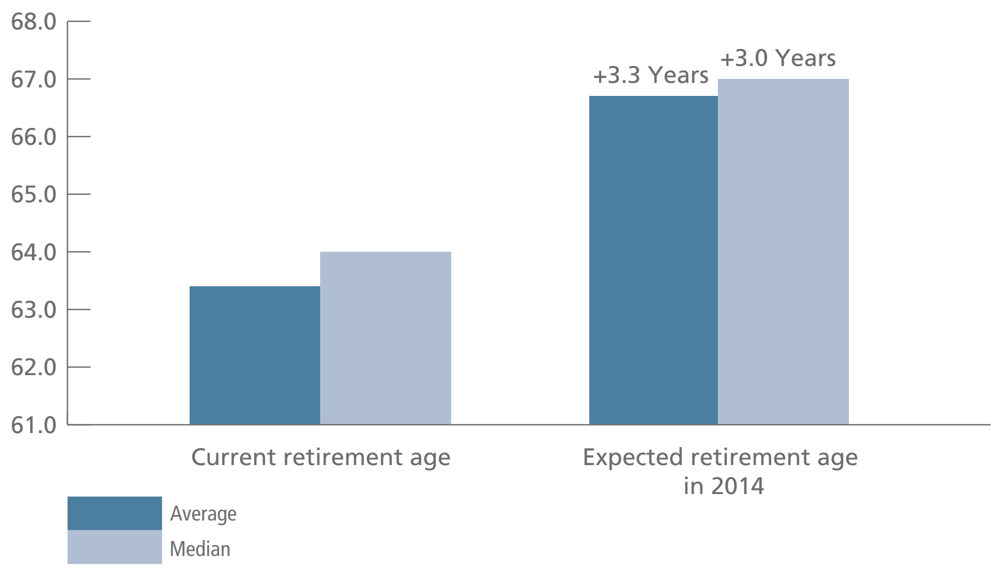
While the "brain drain" isn't a new concept—i.e., sectors heavily reliant on Silent Generation and Baby Boomer talent (such as government and the aeronautics industry) have been talking about the issue for years—concerns remain acute and broadly based. For most employers, anticipatory concerns about the impending knowledge drain are more pronounced than actual experience. According to the MetLife study, 63% of employers say workers have retired at the age anticipated over the past year—and 69% believe that workers will retire at older ages going forward. In fact, by 2014, most employers believe that their older workers will, on average, retire four years later—at 67 years old, versus the average of 63 years old today. At least in the short term, the "brain drain" appears to be more of a slow trickle than a mass exodus.

Not surprisingly, employers who see "delayed retirement" as a bigger problem than "lost knowledge"—a group that accounts for roughly one-quarter (26%) of the plan sponsors surveyed—say their current employees are retiring, on average, one year later than those who are concerned about the knowledge drain. Employers concerned about delayed retirement are also more likely to predict that employees will retire at older ages over the next three-to-five years than those concerned about the knowledge drain.

Employer Estimates of Their Workers' Current and Expected Retirement Ages: Knowledge Drain vs. Delayed Retirement



Employer Estimates of Their Workers' Current and Expected Retirement Ages



PRODUCTIVITY AND CULTURE ARE CASUALTIES OF KNOWLEDGE DRAIN—BUT BOTTOM LINE WILL BENEFIT

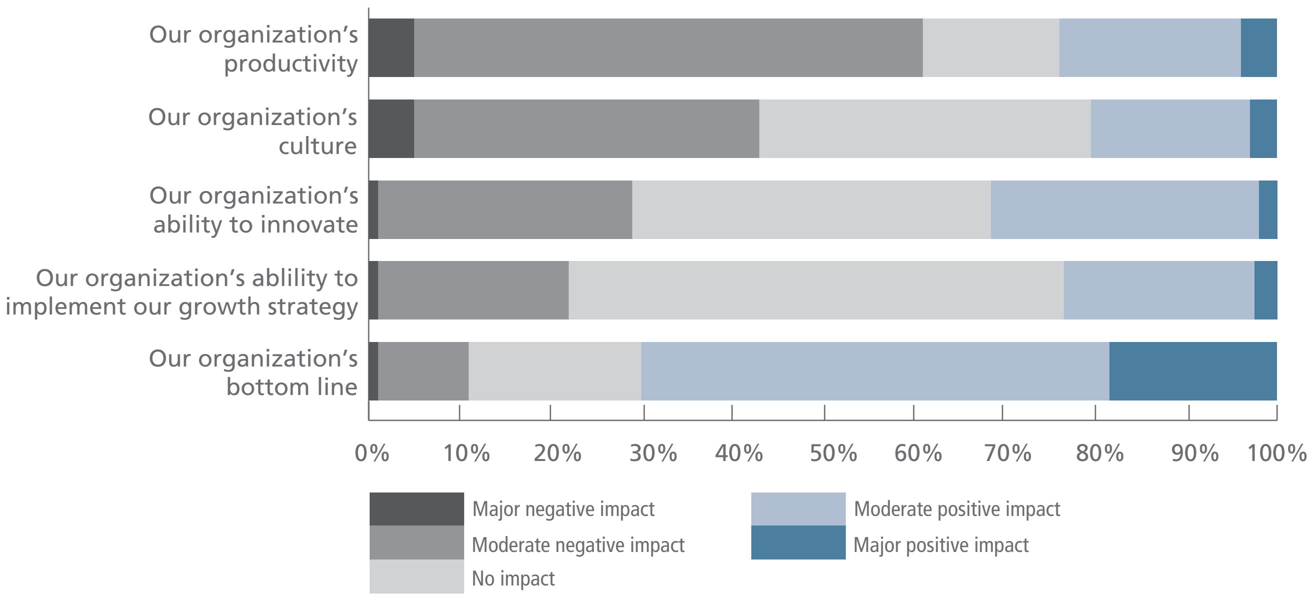
Regardless of when Boomers ultimately retire, one thing is inevitable: they *will* eventually retire. When that day comes, employers expect to see a balance of advantages (e.g., bottom-line savings, stronger growth, etc.) coupled with some disadvantages. Among the problems that employers anticipate are losses to the organization's culture and productivity. Employers' fear of lost productivity is interesting because it flies in the face of common corporate stereotypes that older workers are less dynamic (and productive) than their younger counterparts.

Among those employers concerned primarily with the knowledge drain, 62% believe that the retirement of their older employees has a moderate to major negative impact on their organization's productivity. Interestingly, this cuts across all industries, including manufacturing (62%), finance (59%) and services (69%).

Employers believe that culture also takes a hit when employees retire. Of those concerned primarily with the knowledge drain, four-in-10 (43%) employers believe that the retirement of their older employees has a moderate to major negative impact, with 37% saying it has no impact. The threat of lost culture may be so concerning to employers because of the impact that corporate culture may have on business issues like productivity, morale and employee performance. Once older, productive employees retire, employers may be concerned that the attitudes—and values—they helped to establish and inculcate may disappear as well.

"As an employer with an experience-rated health insurance benefit, [delayed retirement] has significantly impacted our premiums we pay," noted one employer. "[Delayed retirement] actually lowers the cost of the pension plans, but that savings is offset by the ongoing costs for medical coverage," commented another.

Impact of Retirement of Older Employees

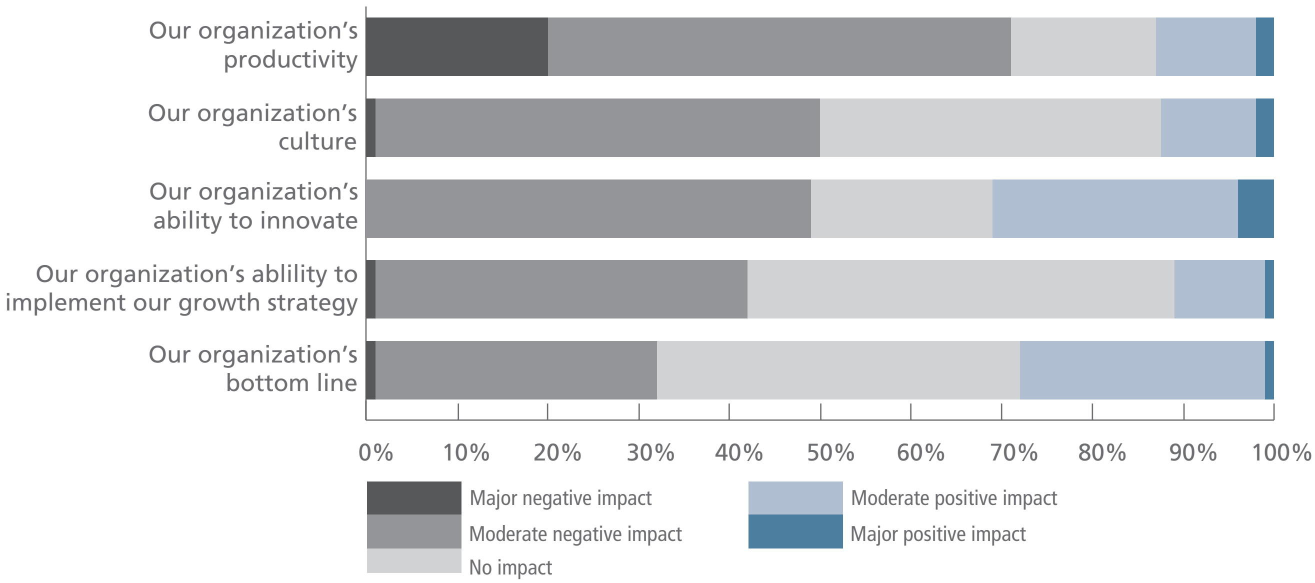


Seven-in-10 employers (71%) concerned primarily with employees remaining in the workforce—whether today or in three-to-five years—say that delayed retirement has a moderate or major negative impact on the bottom line. Employers concerned primarily about the knowledge drain—whether today or in the next three-to-five years—agree (71%).

"[Delayed retirement] has delayed the normal job promotion for energetic/skilled employees and stifled the best employees and potentially make them open to going elsewhere!" emphasized one employer.

Another had a different perspective: "We do not believe there is any negative impact on our benefits plans when our valued experienced employees continue to contribute. We have a loyal experienced productive worker setting the example for the younger rising talent—it's a great combination."

Impact of Delayed Retirement of Older Employees



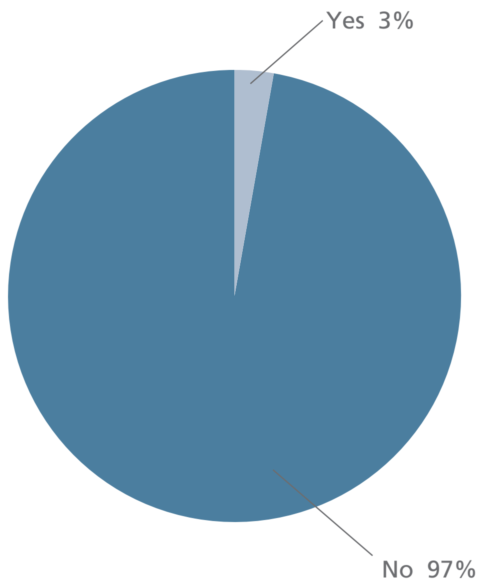
When it comes to growth and innovation, older worker retirement is seen again as a slight positive for employers. While employers concerned about the knowledge drain are evenly split on whether retirement has a moderate positive impact (21%) or a moderate negative impact (21%) on their organization's ability to implement their growth strategy, 41% of those concerned about delayed retirement believe it has a moderate negative impact while only 10% believe it has a moderate positive impact. One factor that could be contributing to these attitudes is the perception that if older employees don't retire, younger employees can't move up the ladder as quickly—potentially causing them to leave the organization and/or putting a cap on the number of new hires that employers could make.

Some employers also believe that innovation gets a boost from employee retirement—32% of employers concerned about the knowledge drain now or in the next three-to-five years say that the retirement of older workers has a positive impact on their organization's ability to be innovative, while 50% of those who are concerned about delayed retirement believe that delayed retirement has a negative impact on their ability to innovate.

DISCONNECT AMONG EMPLOYERS BETWEEN WORRY AND ACTION; DESPITE CONCERNS, FEW EMPLOYERS HAVE CALCULATED COST OF KNOWLEDGE TRANSFER

Given the concern over the impact of an aging workforce, it's surprising that so few employers have taken steps to assess—or curtail—the effects on their organizations. According to the *MetLife Emerging Retirement Model Study*, 97% of those employers concerned about the knowledge drain have not calculated the cost to transfer knowledge from older to younger employees.

Whether Plan Sponsors Concerned About Knowledge Drain Have Calculated Cost of Knowledge Transfer

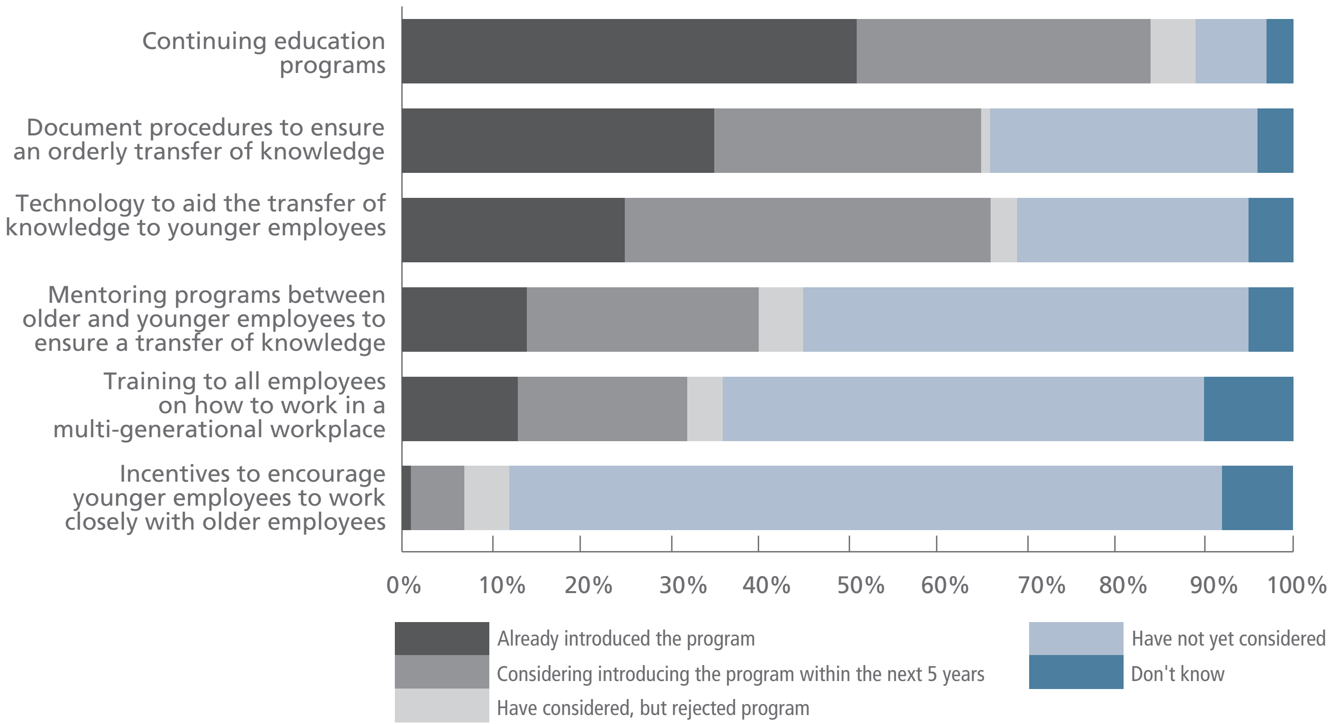


While the challenges employers face when it comes to assessing retirement patterns in the workforce are very real (e.g., anti-discrimination laws prohibit employers from asking when their employees might retire), it's surprising that so few employers are quantifying the cost and hedging against the knowledge drain they're so concerned about—potentially because they're uncertain about where to start or they don't know how to calculate the cost.

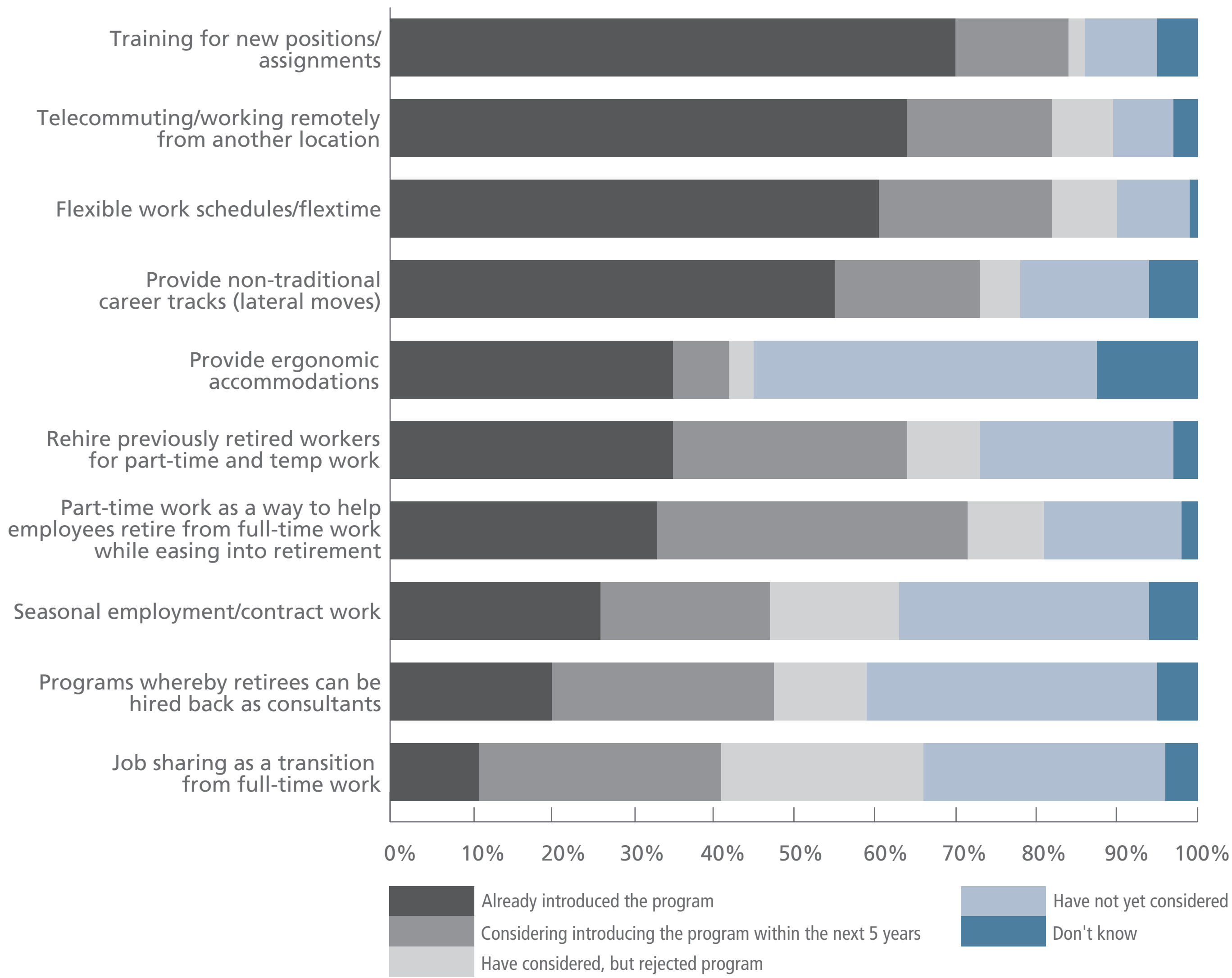
Against this backdrop, some employers have taken small steps toward putting programs and policies in place to manage this transition—albeit in a piecemeal fashion. Of those employers who have taken steps to manage their aging workforce, the most common are in the areas of training, telecommuting, flexible/seasonal employment, technology-based tools and retirement planning tools/seminars—all relatively easy to implement and manage, and key components to keeping older workers engaged in the workforce.

According to the study, the most popular initiatives implemented to manage the effects of the impending retirement of their older workers include: training for new positions (70%), telecommuting/working from a remote location (64%), career moves/lateral moves (55%), continuing education programs (51%), retirement planning seminars (49%) and education or tools to assess the impact of earlier vs. later retirement including the effect on Social Security and pension benefits (49%). Employers are also considering taking additional steps to manage the knowledge drain: four in 10 are considering introducing technology as a way to transfer knowledge to younger employees (41%), implementing part-time work programs as a way to help employees ease into retirement (39%) and offering pension benefits to partially retired/partially in-service employees (32%).

Workplace Practices and Programs: Transfer of Knowledge



Workplace Practices and Programs: Flexible/Creative Working Arrangements

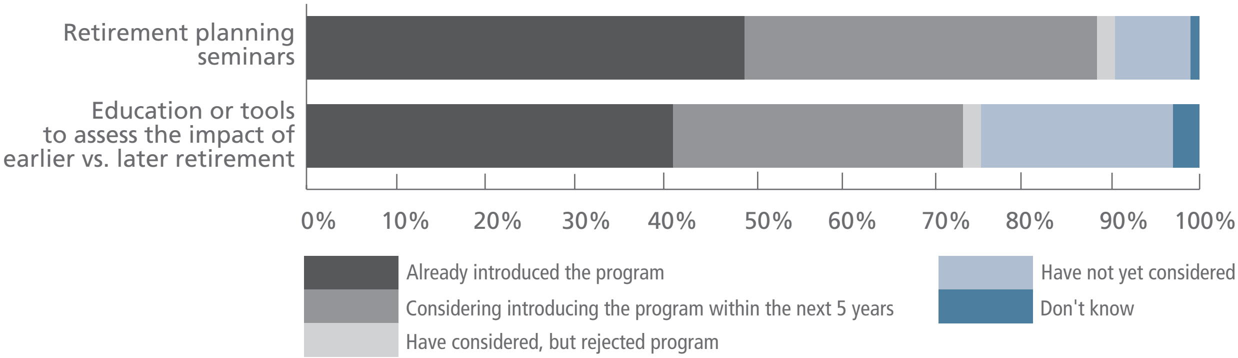


The MetLife Mature Market Institute's *Living Longer, Working Longer* study found that today's pre-retirees are redefining the way that employees, employers and policymakers think about "work" and "retirement." No longer are these seen as two separate phases. While the recent recession may be keeping more employees in the workforce full-time, the wheels had already been put in motion for employees to make the transition from "work" to "retirement" on their own terms. The *Living Longer, Working Longer* study found that motivations for work change significantly with age, as does the type of work and ways in which older employees work. The majority of employees at or near retirement age prefer part-time work, while younger employees prefer to work full-time.

As a result of individuals choosing to retire on their own terms, the very face of retirement has changed — and for many Americans, retirement no longer provides the same attraction and security as it once did. This is due, in large part, to increased longevity, the decreased prevalence of employer-sponsored defined benefit pension plans and other post-retirement benefits, job changes (especially in the early years of one's career) and inadequate savings. Further affecting employees' sense of financial security has been the market erosion of already inadequate savings, as well as sharp declines in home equity.

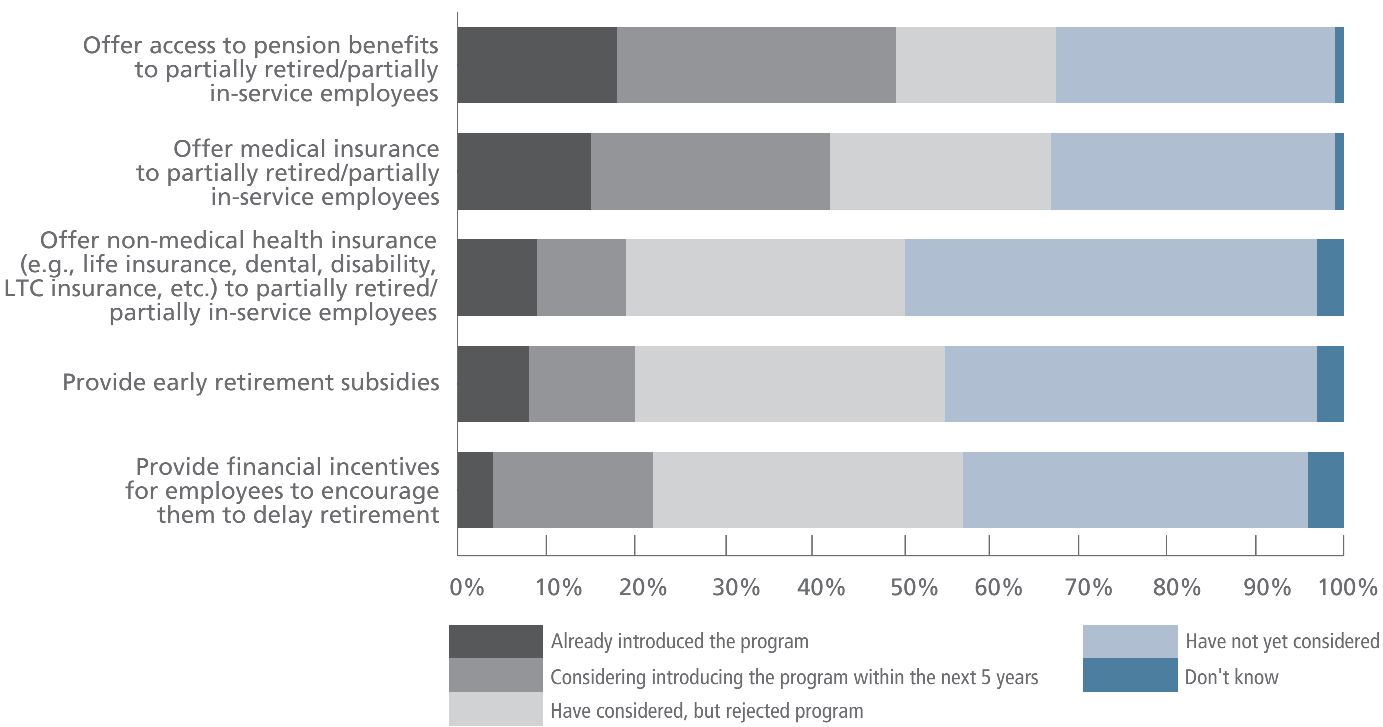
Perhaps that's why in light of the gradual erosion of some safety nets — coupled with recent economic challenges — the majority of employers are taking an active interest in helping their employees plan for retirement through educational tools and assessments. Nearly three-quarters (74%) of employers have either introduced (or plan to introduce) education or tools to help their employees make smart retirement decisions — e.g., earlier vs. later retirement and when to take Social Security and pension benefits. In addition, nine-in-10 (89%) employers have already introduced (or intend to introduce) retirement planning seminars for employees.

Workplace Practices and Programs: Retirement Education



However, employers are less eager to embrace financial incentives to stem the impact of "lost knowledge"—e.g., rewards to encourage younger employees to work closely with others, access to medical and non-medical benefits for partially retired employees and financial incentives to delay retirement. One-third of employers (35%) have considered, but rejected, offering financial incentives for employees to encourage them to delay retirement. One-third (35%) have also considered, but rejected, providing financial incentives to help employees retire at a younger age than the traditional retirement age.

Workplace Practices and Programs: Employee Benefits

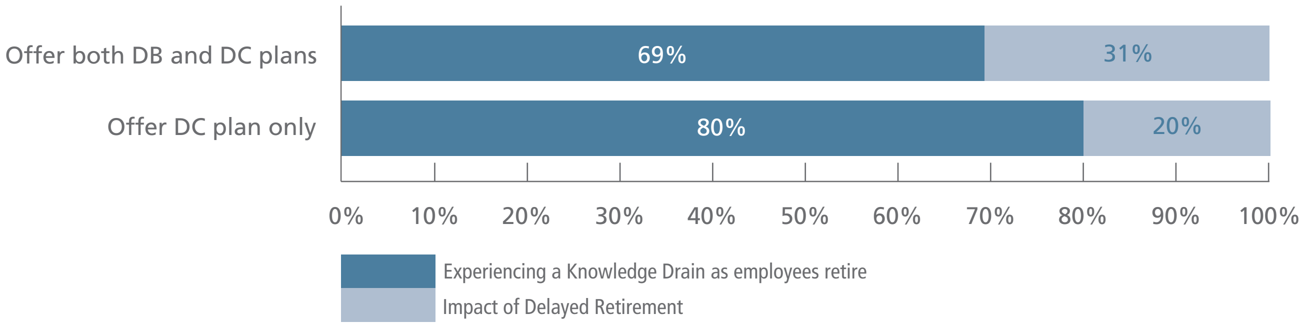


While it's not surprising that employers are reluctant to incur the financial costs associated with offering incentives—especially in this economy—employers do believe that employees remain with their firms and, by extension, in the workforce because of the benefits they receive. According to the study, employers believe that retirement benefits (51%), a regular paycheck (23%) and medical insurance (9%) are the key incentives for working longer.

THE IMPACT ON THE KNOWLEDGE DRAIN WEIGHS HEAVIER ON COMPANIES OFFERING DEFINED CONTRIBUTION PLANS ONLY

The impact of the knowledge drain weighs even heavier upon those employers who only provide a defined contribution plan to employees, versus those who offer both defined benefit (DB) and defined contribution (DC) plans.

Concerns About the Knowledge Drain by Type of Plan Offered



Among the survey respondents who offer a DB plan (51% of all respondents), 97% indicated that their company has offered a DB plan for 20 years or more, including 36% of respondents who said their company has offered a DB plan for 40+ years. Among those whose company offers a DC plan, 51% have offered the plan for less than 20 years.

Additionally, companies that offer a DB plan have been in business for a longer period of time than "DC plans only" and because of their experience with their DB plans, which by their nature are generally designed to provide retirement income based on the employee's final or career average pay, they tend to have significant amounts of insight into their workers' retirement patterns, including when their older workers will likely retire. Another reason that DB plan sponsors can predict retirement more easily is that DB plan design elements are structured around specific events, such as normal retirement age, to facilitate a more orderly transition into retirement. Conversely, since DC plans are savings plans and have no structural elements related to retirement events, they are unable to assist employers who offer "DC plans only" to adequately predict retirement patterns of their workers.

Defined contribution plans have only been around since 1978, and it's the Baby Boomer generation, which is only now approaching retirement, that will be the first generation to retire in large numbers with a DC plan only.

To compensate, perhaps, plan sponsors who offer "DC plans only" are taking proactive steps to manage the knowledge drain by implementing programs that may encourage employees to delay retirement. These employers, more so than their "DB and DC plan" counterparts, appear to believe that employee benefits are an important driver of loyalty and retention. According to the study, 53% of employers who offer "DC plans only" see medical coverage as a key reason that employees delay retirement (compared with 41% of employers overall). As a result, 35% of employers in the "DC plan only" segment are considering introducing medical insurance to partially retired/partially in-service employees within the next five years, compared to just 21% of employers who offer both "DB and DC plans."

Additionally, plan sponsors who offer a "DC plan only" are implementing programs and policies that aid in knowledge transfer, and are more likely to support incentives to keep older workers in the workforce. Nearly nine in ten (88%) plan sponsors who offer "DC plans only" support legislation that would allow employees to earn Social Security delayed retirement credits until age 72, instead of age 70, compared to 75% of employers who offer both DB and DC plans. Similarly, 87% of plan sponsors who offer "DC plans only" support protection of Social Security benefits for "normal retirement age" employees who continue to work, versus 74% of those who offer both DB and DC plans.

But more than their DB counterparts, employers who provide "DC plans only" are seeking additional legislation and regulation around phased retirement programs. While both groups (those who offer "DB and DC plans" and those who offer a "DC plan only") are very or somewhat familiar with the provisions of the Pension Protection Act, 76% of those who offer "DC plans only" believe that regulatory complexities and ambiguities impact their organization's ability to offer a phased retirement program, compared to 65% of employers who offer both DB and DC plans.

Similarly, 56% of employers who offer "DC plans only," and 45% of employers who offer both plans, believe that rules prohibiting the modification of plan distribution options (and other features) are a key barrier to phased retirement programs.

Employers who offer both DB and DC plans—which tend to be in financial services, manufacturing and healthcare—are more likely to offer post-retirement benefits (53%) now and in the future than those who offer a "DC plan only" (21%). Nearly two-thirds (65%) of employers who provide both a DB and a DC plan offer medical insurance to current retirees versus 24% of those who provide a "DC plan only." Nearly two-thirds (63%) with both plans also provide medical insurance to current workers once they retire, and to future hires once they retire (47%). Just 18% of those who provide a "DC plan only" will provide medical coverage to future hires once they retire. Perhaps that's why, as noted earlier, DC-only employers see medical coverage as a key reason why employees delay retirement; employees with a "DC plan only" may be reluctant to retire before they are able to receive Medicare benefits because they would likely be left without any medical coverage. Other benefits provided by those with DB and DC plans include: dental insurance (18%), life insurance (33%) and prescription drug coverage (44%) to current employees.

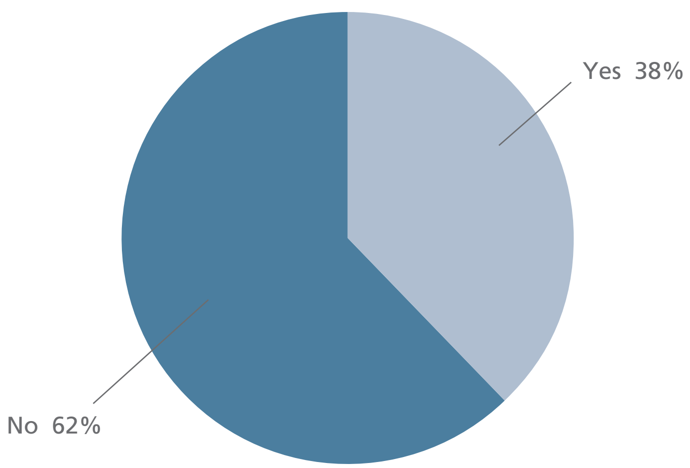
POST-RETIREMENT EMPLOYEE BENEFITS OFFERED BY SOME, BUT USED AS STRATEGIC LEVER BY FEW

In contrast to recent research studies indicating that employees want to remain in the workforce primarily for the social and intellectual stimulation it provides,[5,6] 87% of employers who are concerned about the impact of delayed retirement say employees are primarily working longer to rebuild their retirement nest eggs in light of the recent economic downturn. Other reasons employers cited for why their workers are working beyond traditional retirement include: wanting to work long enough to qualify for Social Security benefits (67%), needing income to meet their day-to-day expenses/pay their bills (63%) and wanting to maintain medical coverage until they qualify for Medicare (41%). Only 41% of employers believe their employees stay in the workforce for social reasons—i.e., 24% of employers believe their employees enjoy the mental stimulation of work, 12% believe they want to maintain social contact and only 5% say their workers appreciate feeling needed for an assignment.

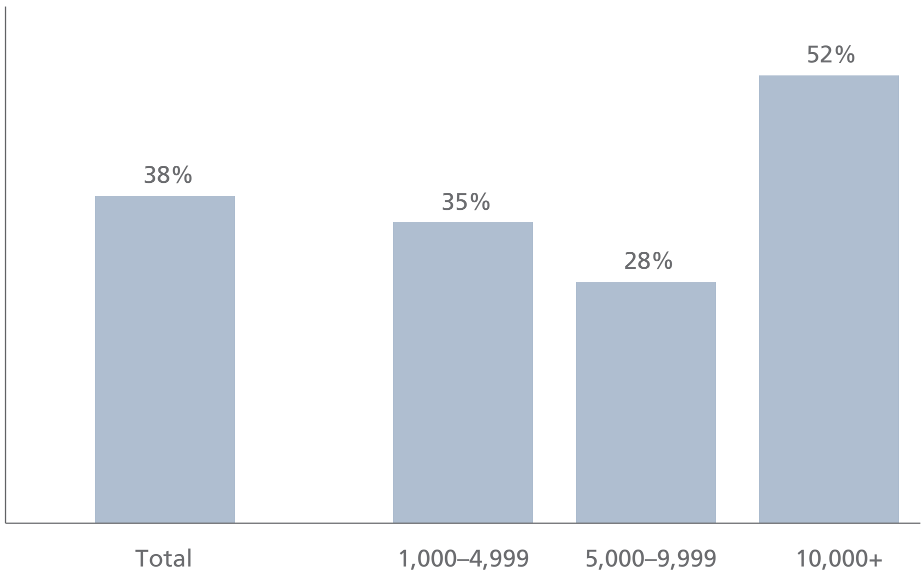
Despite the importance ascribed to retirement benefits (e.g., DB plans, 401(k) plans and post-retirement benefits such as medical insurance), surprisingly few employers acknowledge a link between offering post-retirement benefits and employees' decisions as to when to retire. While nearly four-in-10 (38%) companies offer post-retirement benefits, as a group, employers remain equally divided on the role that their organization's post-retirement benefits have on their employees' decision about when to retire. Among those companies that offer post-retirement benefits, more than one-third (38%) say they have no impact on employees' retirement decisions, 30% believe they encourage older employees to delay retirement and 32% believe they encourage older employees to retire. At the same time, four-in-10 (42%) employers concerned about the knowledge drain—and 38% of all employers who offer post-retirement benefits—see no connection between post-retirement benefits and an older employee's decision when to retire. Until plan sponsors better understand the role that benefits play in the retirement equation, employers are unlikely to take full advantage of a key asset at their disposal.

"We consider benefits an extremely important aspect of employment. We are aware that many employees decide to stay with us to retain their retiree medical coverage," according to one employer. Another commented, "Our plans are established to attract and retain [workers] (for which we may be doing too good of a job)."

Companies That Offer Post-Retirement Benefits

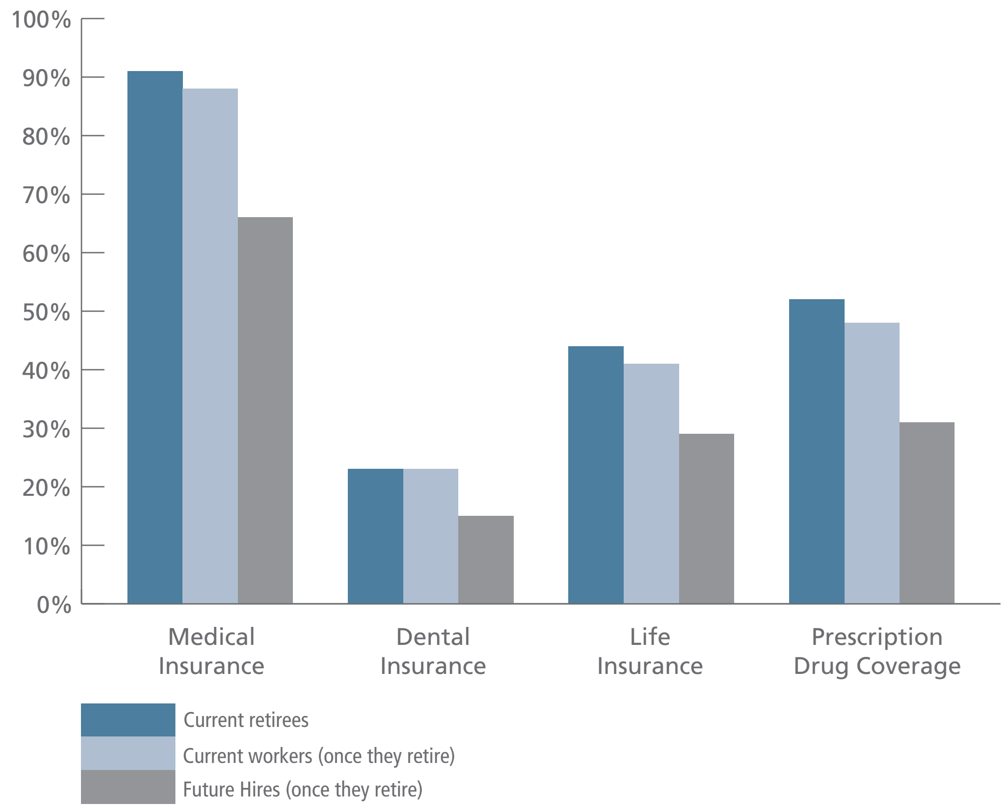


Companies That Offer Post-Retirement Benefits by Company Size



Perhaps in light of recent economic conditions, and concerns by many employers about the rising cost of healthcare, employers are most likely to offer post-retirement benefits to currently retired employees (91%) and current workers once they retire (88%). But two-thirds of employers (66%) still plan to offer post-retirement benefits to future hires.

Post-Retirement Programs Offered and to Whom

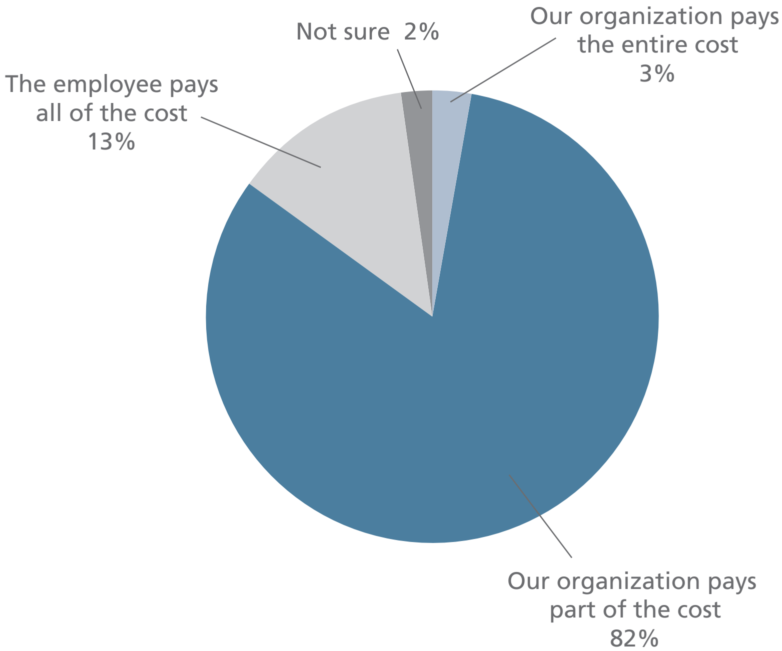


"Our biggest concern," according to one employer, "is access to affordable health insurance prior to becoming Medicare eligible. We have conducted a number of studies to determine the cost of early retirement incentives and providing access to post-retirement group health insurance benefits (without employer contributions), but the cost of these contemplated programs was prohibitive—so we've done nothing."

The most common post-retirement benefit offered by employers is medical insurance, with 91% of employers offering it to current retirees, and 88% offering it to current workers once they retire, followed by prescription drug coverage (52% and 48%, respectively), life insurance (44% and 41%, respectively) and dental insurance (23% for both current retirees and current workers once they retire).

The lion's share of post-retirement benefits is paid through a cost-sharing arrangement—with 82% of organizations paying at least part of the cost. Today, very few organizations (3%) pay the entire cost of the post-retirement benefits they offer their employees and relatively few employees (13%) have to shoulder the entire financial burden.

Post-Retirement Benefits—Who Pays?



PHASED RETIREMENT PROGRAMS MAY OFFER A WAY TO MANAGE KNOWLEDGE DRAIN, MORE LEGISLATION/REGULATORY GUIDANCE WELCOME

Phased Retirement Key to Recalibration

As employers look to manage the risks associated with the retirement of their older workers — i.e., who and how many workers will retire, and from what areas of their business — they're looking more closely at phased retirement.

Until recently, employers haven't had to grapple with the challenges posed by retirement *en masse*. It's only now, with the oldest Baby Boomers quickly approaching retirement and youngest members of the Silent Generation exiting the workforce, that employers have faced the dual challenge of helping employees plan for their retirement while they manage the knowledge drain.

Today, phased retirement programs present one of the most promising ways for employees and employers to manage this important transition. While recent government legislation — including changes in the Pension Protection Act (PPA) of 2006 that allows for in-service retirement distributions to those who remain in the workforce to age 62 and older — have helped to make it easier for employers who offer a DB plan to consider phased retirement programs, the concept and implementation of phased retirement programs continue to be mostly uncharted territory.

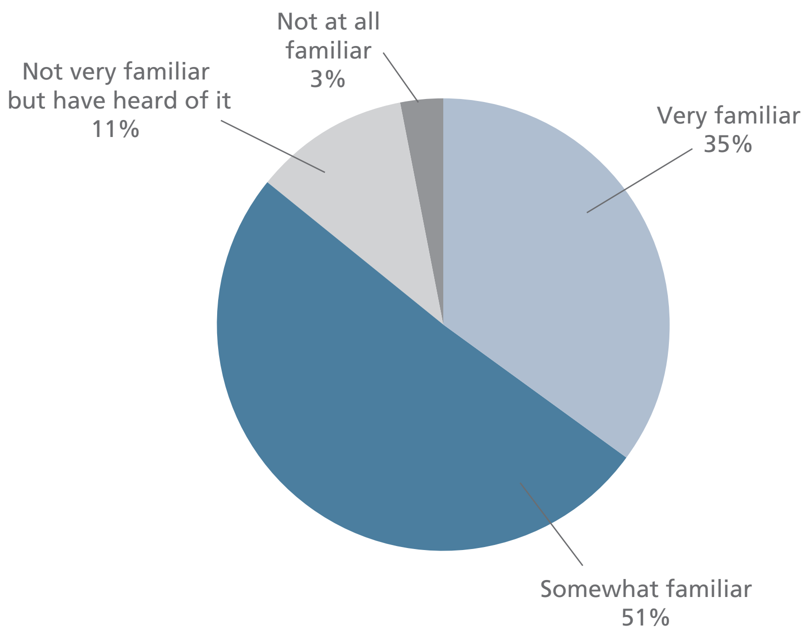
Currently, there is no commonly accepted definition of phased retirement. As noted earlier, for the purposes of this study we have defined phased retirement as a workplace program (or set of programs) that may include such things as flexible work arrangements, a gradual shift from full-time employment to full-time retirement, a shift in work responsibilities, hiring back retired employees, etc., offered by employers in order to keep needed older employees who want to continue working.

Employers Welcome More Legislation/Regulation

Employer familiarity with the PPA is high — 35% of all employers say they are very familiar with provisions that allow for in-service retirement distributions to those who remain in the workforce to age 62 and older and 51% say they are somewhat familiar with that provision. Among organizations familiar with the PPA provision, 28% state that they have already begun in-service distributions, which is somewhat surprising since the PPA provisions formalizing this are relatively recent. Still, there are significant challenges — i.e., complexity, rigidity and existing regulation — that prevent broad-based adoption of phased retirement programs.

One employer commented that the recent delayed retirement of its employees has "provided breathing room to better consider phased retirement."

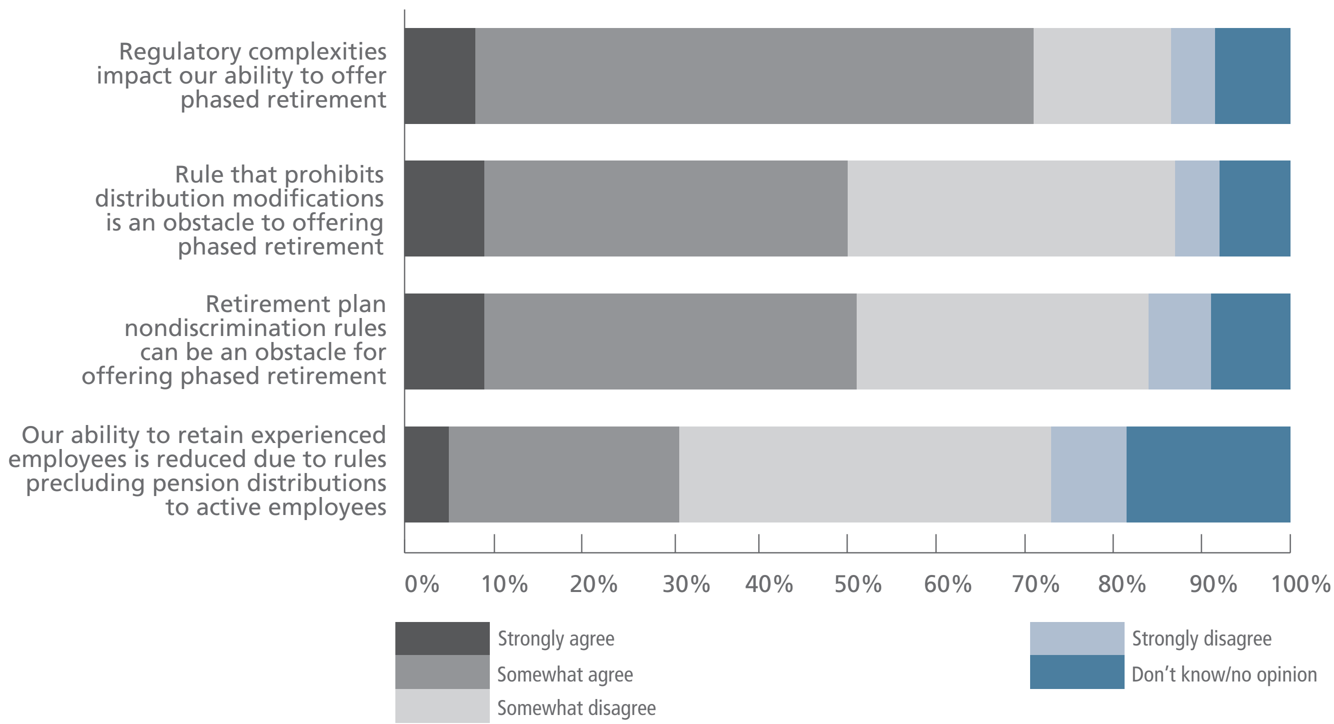
Whether Plan Sponsors Are Familiar With PPA Provisions for In-Service Retirement Distributions



Seven-in-10 employers (71%) strongly or somewhat agree that regulatory complexities and ambiguities involving federal tax and age discrimination laws impact their organization's ability to offer a phased retirement program. About half (51%) of employers also strongly or somewhat agree that the retirement plan nondiscrimination rules can be an obstacle to an effective phased retirement program for their organization.

Employers also show concern that a lack of flexibility could impact their ability to implement phased retirement programs. Half (50%) of employers—and 61% of employers who have already implemented, or are planning to implement, a phased retirement program—say that one of the obstacles affecting their organization's ability to offer an effective phased retirement program is the rule that generally prohibits plan distribution options and other features from being eliminated or modified once they are included in the plan.

Potential Obstacles to Offering a Phased Retirement Program



From a tax perspective, there is a rule that prevents 401(k) plans from making benefit payments before an employee fully separates from service or reaches age 59½. While this restriction is 2½ years earlier than the rules for pension plans, it still is not effective for addressing the issue. The 2008 ERISA Advisory Council's Working Group on Phased Retirement found that the risk of IRS enforcement of the no-in-service-distribution rule has had the unfortunate impact of encouraging some employers to adopt policies and procedures that discourage any type of rehiring former employees.[8] According to the Council's analysis of phased retirement issues, some employers want to ensure that their pension plans remain qualified and do not want to be accused of violating the in-service distribution rules with any type of retire/rehire controversy. Therefore, as the Working Group reported, in an abundance of caution, some employers adopt overly conservative policies and procedures that impose minimum time periods before an employee can be rehired or that completely prohibit rehiring of former employees. As one might imagine, these restrictions are making it exceedingly burdensome for employers to figure out how to structure an approach to phased retirement.

While the provision in the Pension Protection Act now allows for in-service retirement distributions to those who remain in the workforce to age 62 and beyond, most employers (65%) welcome additional legislation/regulation that would encourage the implementation of phased retirement programs. Additionally, 82% of employers would support recently introduced legislation, if reintroduced and passed, which would allow employees to earn delayed retirement credits for Social Security purposes for an additional two years until age 72 instead of 70, and 80% of employers would support legislation that reduces the amount of Social Security benefits lost to employees who claim their Social Security benefits under the Normal Retirement Age while still working. These changes could potentially go a long way in helping enable the phased retirement model to take hold.

Despite regulatory complexities and ambiguities, which are prompting a need and desire for more legislation/regulation, companies appear to be adopting some aspects of phased retirement programs. Half of all employers (50%) say they now offer — or plan to offer — access to pension benefits to partially retired/partially in-service employees, and 42% now offer, or plan to offer, medical insurance to partially retired/partially in-service employees.

Benefit policy, as well as in-service pension distributions, could have a range of potential workforce effects. For example, in-service distributions could encourage older workers to more readily accept an arrangement to move from full-time work to part-time status. In other cases, offering benefits only to those fully retired could encourage older workers to transition more quickly into full-time retirement, instead of remaining in the workforce part time. Every company is unique in its workforce management needs and objectives, and so should carefully consider how such programs will work in its specific case.

While 35% of all employers have considered, but decided against, introducing financial incentives to encourage employees to delay retirement, more employers focusing on the knowledge drain (21%) than delayed retirement (8%) are considering introducing such incentives within the next five years, perhaps in an effort to stem the drain. Looking at industry differences, manufacturing companies (27%) are the group that's most likely to consider offering financial incentives within the next five years to encourage workers to delay retirement versus the financial (23%) or service (16%) industries. And, while early retirement subsidies have also been rejected by 35% of employers, the finance industry (40%) is most likely to decide against introducing these programs in the next five years versus the manufacturing industry (30%).

A factor that may be impacting the number of employers offering "phased retirement programs"—or implementing pieces of phased retirement programs—is the lack of an industry or trade group dedicated *singularly* to education and public policy initiatives in support of these programs. Fortunately, other industry groups—such as the American Benefits Council and the Employee Benefits Research Institute—are studying this issue carefully and have begun to provide guidance to help employers implement phased retirement programs.[9] Without that focus, many employers would be left to figure it out on their own. This is a daunting task, especially without having a good understanding of their employee population's needs when it comes to transitioning to retirement or the complex regulations that impact an organization's ability to implement phased retirement programs.

A NEW MODEL EMERGING?

The *MetLife Emerging Retirement Model Study* identifies the challenges that many employers are facing as they assess the impact of the aging workforce on their organization and consider what policies and programs may be best suited to address them.

Unlike earlier traditional models of retirement generally built around a fixed career end date, 100% employer-paid defined benefits and clear boundaries between "work" and "leisure," the emerging recalibrated retirement model contemplates a more gradual transition of older workers from full-time work to retirement.

Future retirement models won't likely correlate with typical "firmographic" characteristics (industry, company size, etc.) but, instead, will aim to address a continuum of company-specific needs, strategies and solutions. In contrast to previous models, the new, recalibrated model will likely be company-specific, fluid and rooted in employer need and employee behavior. It will also be shaped by some or all of the following environmental factors:

> The need to, first and foremost, account for a more gradual transition of older workers from full-time work to retirement;

> The need to acknowledge that many workers may be relying, by and large, on their own retirement savings (however modest it may be), coupled with a monthly check from Social Security, which, for the average retiree today, totals only $1,153 per month.[10]

> The need to contemplate that many future retirees won't have access to post-retirement benefits such as health insurance, life insurance, dental insurance and prescription drug coverage, if current trends remain unchanged. Major public policy changes such as healthcare reform could, of course, affect the overall way in which medical (health) insurance and health-related benefits are accessed and delivered in the workplace.

> The need to anticipate that, particularly if the extension in retirement and retirement transitional behavior takes hold and becomes common, when the economy recovers, employers may find that employees may choose to continue working for another reason altogether — the social and mental stimulation it offers. These are all reasons why they may need or want to work longer and/or slowly transition into retirement.

Some employers are already experimenting with ad hoc "phased retirement" programs without necessarily articulating them as such. But phased retirement programs, while valuable, are generally much more tactical than strategic at their present stage of development. It's clear that a new retirement model is needed — and is beginning to emerge.

For employers, the new and emerging retirement model may be just the antidote that they need to calm their fears about managing the loss of valuable knowledge that has made their company as successful and competitive as it is today.

Conclusion

IMPLICATIONS FOR EMPLOYERS

Employers are facing a monumental challenge when it comes to managing their aging workforce. In a way, this is even greater than the challenge experienced in the early 20th century when employers were first faced with addressing the impact of employees without the means to retire. The challenges faced by that generation of employers eventually led to the rise of the defined benefit system as a means for employers to have an orderly way to manage their aging workers into retirement. Today, in the midst of a difficult economic environment, employers are feeling the dual—and often conflicting—pinch of managing the business implications of employee retirement (i.e., the positive impact on the bottom line versus weakened productivity) and the organizational need to stem the knowledge drain. At the same time, fewer or less effective benefits tools are available to help than in the past, with the well-documented shift from DB to DC plans.

The good news is that employers have time…but not much. Employers believe that the recent market volatility and economic slowdown of the last two years have prompted many older employees to stay in the workforce longer—not out of a desire to stay meaningfully engaged but, rather, out of financial necessity. Most employers have already witnessed their workforce retiring at older ages, and most believe this trend will continue.

Against this backdrop, plan sponsors have been granted a slight reprieve—at least temporarily. This additional time should allow them to analyze how their organization will be affected by the impending knowledge drain (whenever it happens) and, perhaps more importantly, what they plan to do about it.

It's not surprising that plan sponsors are apprehensive about the future of their workforce. But along with this apprehension comes a sense that further direction, including additional regulation/legislation, can give plan sponsors much-needed guidance when it comes to implementing phased retirement programs. These employers believe that as the retirement model evolves, they need more flexibility to adapt to changes in their workforce, their business and the economy.

Whether employers will address the knowledge drain with the same clarity with which they've managed other workforce challenges remains to be seen. However, one thing is clear: significant concerns about (and challenges related to) knowledge transfer will not self-resolve. Employers need to take proactive steps to manage the impending knowledge drain. And, they should aim to start right away.

STRATEGIES FOR CONSIDERATION

Absent further public policy direction, there are steps that plan sponsors can take to start to manage the knowledge drain and the business implications of retirement:

> **Start addressing knowledge transfer today.** There won't be a perfect solution for every company, but it's important for you to start working on the issue sooner rather than later. Consider having close-to-retired workers lead training sessions on areas of expertise; formalize a mentoring system between younger and older employees; and, have older workers document case studies and firm history.

> **Add your company's voice to the public policy debate about the future of retirement security and health care.** Consider encouraging the inclusion of affordability and access to health care for older workers in the health benefit public policy priorities. Also consider asking for clarification concerning regulations that are ambiguous and/or are having a chilling effect on your ability to manage your older workforce. Specifically, recommend approaches that can help you plan for the future of your workforce without fearing discrimination lawsuits.

> **Try to assess employees' intentions as a way to plan for the future.** Assessing employees' goals and career path may provide insight into emerging retirement plans. For example, asking *all* employees "Where do you see yourself in five years?" or "What is your next career goal?" may provide near and longer-term insights into employees' expectation about retirement. Another consideration may be to conduct an anonymous survey of your workforce to uncover insights to help you manage the knowledge drain.

> **Determine if a formal phased retirement plan makes sense for your company.** For those employees that want to stay in the workforce because they rely on their income, they want to continue to build their retirement savings or they want the social contact or mental stimulation associated with work, consider offering job sharing, part-time arrangements or contract work. These programs can help to gradually phase older workers out of the workforce, while allowing time for continuing knowledge transfer and learning. To get started, familiarize yourself with the Pension Protection Act and the guidance it provides. You should also consider consulting with ERISA and tax attorneys before you implement a phased retirement program to ensure that your company isn't going to run afoul of existing laws or potential new ones.

> **Consider offering voluntary or contributory retiree health and non-medical health benefits particularly if you are interested in facilitating earlier retirement.** You may want to consider using your company's group purchasing power to offer fully or mostly employee-paid retiree health plans and other non-medical health benefits, such as life insurance, dental or long-term care insurance. These programs can provide employees with access to benefits at relatively little administrative burden for companies. They also can help employees to plan ahead for their retirement security by allowing them to purchase the benefits during their working years, but with portability so that their coverage continues once an employee retires. Post-retiree benefits can have a significant impact on older employees feeling ready to retire. By knowing that they have insurance coverage in place, older employees could potentially have greater peace of mind about their retirement security.

> **Consider providing retirement education to your workforce.** If you are not already doing so, you may want to consider offering retirement education programs, which can help employees realize and prepare for the costs associated with retirement such as healthcare, prescription drug cost and long-term care. It can also help them determine when to start receiving benefits from Social Security—indeed, in most cases, it "pays to wait." According to MetLife's most recent *Employee Benefits Trends Study*, employees have a growing appetite for advice and guidance specifically in retirement planning offered through the workplace. More than half of all surveyed employees are interested in receiving retirement-related advice in the workplace. This desire has understandably increased under the current economic conditions, especially among older workers. Fifty-one percent of all workers—and 55% of older Boomers—indicate an interest in access to financial planners for retirement through their employers—up from 44% in 2007 and 29% in 2006.

> **Help shift your workers' retirement focus from assets to income.** As the burden of funding retirement has shifted from employer to employee, defined contribution plans, such as 401(k)s, have become the primary source of retirement savings for an increasing number of Americans. Yet, DC plans were originally designed as supplemental retirement savings vehicles and were generally never intended to provide guaranteed lifetime income. Explain how plan participants should focus on their retirement savings—not as an end game—but, rather, as a means for creating guaranteed income for life. Consider adding income annuities inside your company's DC plan either as an allocation option or a partial distribution option or both. Provide solutions to help older workers bridge the income gap if they decide to wait to take Social Security in order to maximize their benefits.

In 2008, the ERISA Advisory Council's Working Group on Phased Retirement submitted the following recommendations to the Secretary of Labor for consideration:[8]

RECOMMENDATION 1:

Serve as a Catalyst to Remove Legislative and Regulatory Impediments to Phased Retirement Arrangements. The Council recommends that the Department of Labor initiate, facilitate and engage in efforts to assist the development of sound retirement security policy that addresses phased retirement programs. Despite the fact that substantially all of the major impediments to phased retirement that witnesses identified are not under its jurisdiction, the Department of Labor's general jurisdiction over labor and retirement security issues makes it a natural choice to be a thought leader in this area. Specifically, the Department of Labor could serve as an influential catalyst to achieving necessary reforms by passing along to Treasury the following Council recommendations, for Treasury's consideration in developing a legislative program to meet the retirement security needs of American workers and employers' desire for workforce flexibility: (a) tax-qualified pension plans should be permitted to make in-service distributions beginning at early retirement age (with or without early retirement subsidies), and (b) tax-qualified 401(k) plans should be permitted to make in-service distributions without penalty beginning at early retirement age/age 55.

RECOMMENDATION 2:

Ensure that any Phased Retirement Regulatory Regime Is Reasonable. The Council recommends that the Department of Labor initiate, facilitate and engage interaction between the appropriate regulatory agencies to make sure that any regulatory requirements applicable to a phased retirement program strike a reasonable balance between protecting employees and not imposing unnecessary requirements on employers and plan sponsors that could undermine the goal of increasing phased retirement opportunities. In the spirit of doing no harm, [the Council] recommends that the Department of Labor use its influence to prevent any new legislative or regulatory scheme from imposing too many new requirements.

RECOMMENDATION 3:

Develop Expanded and Updated Educational Materials. The Council recommends that the Department of Labor create new resources or revise previous resources pertaining to phased retirement. The Department of Labor could issue a new publication that provides assistance to employers and employees who are struggling to cope with the challenges of any phased retirement opportunities. Such assistance should specifically explain the implications of continued employment vs. early distribution on the employee's lifetime retirement income. Alternatively, the Department of Labor could update one of its existing publications, such as Taking the Mystery Out of Retirement Planning. The Department of Labor could use its website or training seminars to provide this type of assistance to employers and employees.

Methodology

From August through September 2009, MetLife commissioned Asset International to conduct online surveys with 240 employers from companies with at least 1,000 employees. The respondents consisted of executives who were either the final decision maker, had a lot of influence or had a moderate amount of influence in the selection of employee benefits and/or retirement benefits that are offered to their organization's employees. Their titles ranged from Owner; CEO, President or Chairman; CFO/Treasurer; Senior Vice President; Vice President; Assistant Vice President; and Director. Each respondent works for an organization that offers either a defined benefit pension plan (DB) or a defined contribution plan (DC), or both. Finally, respondents came from companies that offer at least two of the following employee benefits where the organization pays some or the entire premium: medical insurance, dental insurance, disability insurance or life insurance.

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