CANADIAN HR Reporter

THE NATIONAL JOURNAL OF HUMAN RESOURCE MANAGEMENT www.hrreporter.com MAY 18, 2009

Published by Thomson Reuters Canada Ltd.

Workers postpone retirement to save money

With employees working longer to recoup diminished savings, companies keen to streamline, cut costs are faced with dilemma

BY SARAH DOBSON

THE TUMBLING market has put a significant dent in pension savings, forcing employees to make some hard, long-term decisions when it comes to life after work. Workers' well-laid plans made years ago have crumbled along with their savings and, as a result, many mature workers are opting to stay at their desks longer, postponing retirement.

Nearly one-half (45 per cent) of 1,226 working Canadians expect to work later than originally expected (and one-half of those 45 per cent are aged 60 to 65), according to a survey by Sun Life Financial. And more than one-quarter of Canadian baby boomers plan to delay their retirement due to current economic conditions, according to an RBC poll. Among these, 45 per cent said the delay will be between one and two years, while 37 per cent said three to five years.

"Obviously there is concern amongst more mature workers in as much as they've just seen their savings, that they've held principally in mutual funds, pensions and other investment vehicles, dramatically drop anywhere from 20 to 50 per cent," said John Cardella, executive vice-president and chief people officer at Ceridian.

"As HR practitioners, we need to be cognizant of that and understand certainly there will be an impact with more mature workers wanting to stay on longer than they had anticipated."

An enlarged mature workforce can also translate to rising health-care costs and more instances of short- and long-term disability, which affect experience ratings, said Cardella. And the outbreak of the swine flu could result in continued weakness in the financial markets, with continued blows to retirement savings and, therefore, more hangers-on.

The potential glut of employees could be a welcome change from the labour shortage experienced months ago, but for employers hit hard by the recession, it creates a bottleneck.

"The trouble is we don't want them to necessarily work longer now. If you're wanting to cut back on staff versus expected retirements, it's a less painful way of dealing with it," said Dan Morrison, a Calgary-based senior consultant with the retirement practice for Western Canada at Watson Wyatt.

"So we do have a serious HR problem because employees (whom) you may have expected to retire may not be able to afford it."

Employees looking to recoup losses

With mandatory retirement largely banned in Canada, it's difficult to force employees out unless employers offer generous packages, he said.

"But if employees are worried about how quickly their investments will bounce back, they might look at the long term and say, 'Even with the package, it's not really affordable right now.' So I'm not sure you're going to get a lot of voluntary sign-ups for packages right now," said Morrison.

Employers can be creative, by offering part-time work, for example, but employees may prefer to keep earning full-time compensation until their savings are more solid, he said.

"There aren't a lot of easy answers, it's company by company, how to deal with the workforce, what kind of incentives to provide," he said.

Another option is to address the pension plans, but the limitations can outweigh the benefits. Cutting back on future benefits can save money but that's a very small piece of the overall pension cost, said Morrison.

"With a defined benefit plan, most of the liability is for past service and there aren't too many options for reducing the value of the past benefits," said Morrison.

"You can look at things like a change in the early retirement provision, if those are subsidized, for people who aren't yet eligible to retire. You have to be looking at the specific plan terms but in most plans, (for) people who haven't yet hit 55, you can actually reduce retirement subsidies and save money that way."

Bumpy succession planning?

Workers who postpone retirement could also make succession planning a little bumpy, as employers are challenged with freeing up positions intended for younger workers. One option is to find another role for the mature worker within the organization, such as a strategic or mentoring position, said Morrison.

Another challenge is managing the different generations, particularly if they have different agendas, said Cissy Pau, principal consultant with Clear HR Consulting in Vancouver.

"If you have an older worker who is delaying retirement for financial reasons, that's one thing — you need to manage that. But if they're sticking around because they really enjoy the work and they want to be a mentor and transfer their knowledge, that's a completely different set of circumstances. They're going to be much more motivated to be there. Someone who's just there for the money may be less willing to share their information or be managed by someone half their age," she said.

"You have to be more flexible and creative. And if you've got a great, stellar, retirement-age employee, see if there's a way to take advantage of that."

For some companies, the delay in time is a bonus, said Pau. If an older worker is keen to stay on, providing his knowledge while working half time, a company saves on salary costs but gains a mentor or coach to transfer that knowledge.

"It can work really to your advantage to have somebody post-retirement age, because it allows you to take your time to do your succession planning and to make sure someone's trained or developed properly, as opposed to someone leaving, and now you're scrambling, 'How are we going to replace this person?'"

The other dilemma for employers is the eventual economic recovery, so it's important to think long term and make sure not to alienate a company's best future leaders. Alberta, for example, will probably be back to a very hot labour market "and you don't want to put yourself in a position where you're not able to adjust quickly when that happens," said Morrison.