Where There's Smoke, There's FIRE

Adjusting to Emerging Workforce Trends to Win the War for Talent

By Kyle Healy, Vice President, Corporate Development

Attraction and retention is simple: Serve your employees better. The problem will always be figuring out precisely what that means for your people.

What remains true across the board, however, is that better serving our employees means understanding their unique problems and needs to create new, targeted solutions to address them.

Over the last 45 years, real wages – the cash we give our employees to live on – have remained fairly static. This means that employees across the world, even within our own organizations, have not gotten a raise since they started working.

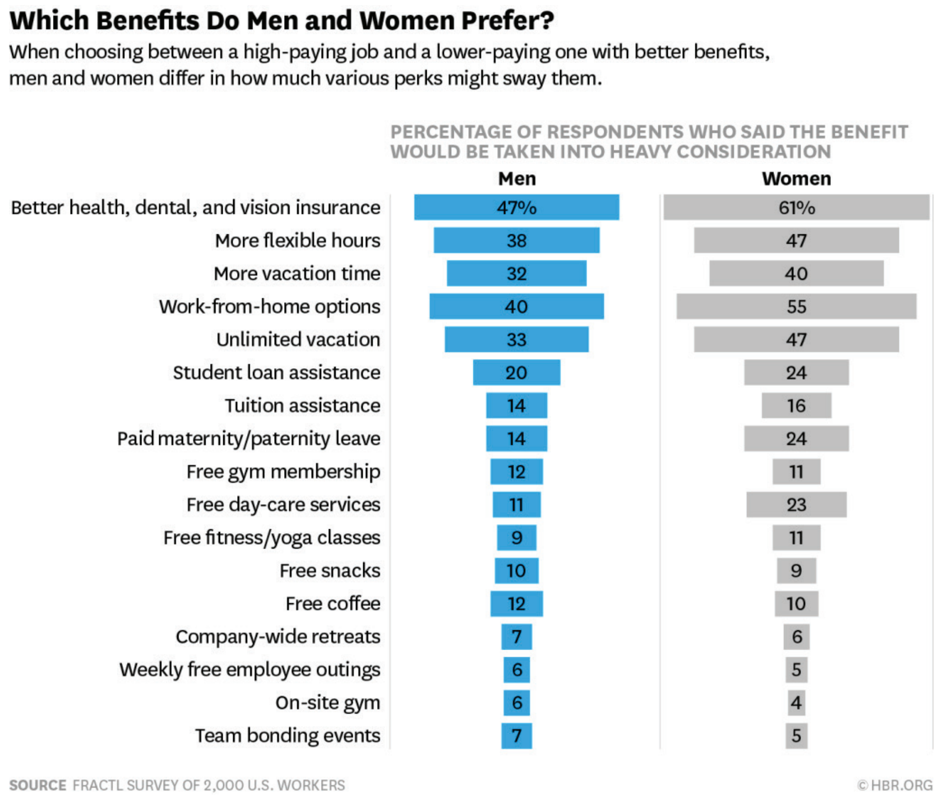
We Might've Started the Fire

In 1978, the average hourly rate earned in the US was $4.03 and represented the peak of purchasing power for US employees. That $4.03 in 1978 equates to $23.78 in 2019, but the current average hourly rate in the US is $22.65.[1]

Thus, a movement was born out of wage stagnation and the desire for employees to find more balance in their lives — "Financial Independence, Retire Early," or FIRE, a trend that gaining more attention over the last five years, especially among millennials and Gen Z cohorts.

Focused on getting a firm handle on spending, saving, and investing to create enough net worth to retire well before national norms, this financial independence – in theory – allows its followers to live the life they want to without the shackles of contemporary societal norms weighing them down.

Even if they haven't researched the FIRE movement specifically, stats show that early career employees don't necessarily subscribe to the same values and views of work as their later career cohorts. Interestingly, many of the core goals of the FIRE movement align with the same things we see employees looking for when they select an employer or a career: flexibility, diversity, freedom.



According to a 2017 survey on most desired benefits by market research firm Fractl, today's employees favor experiences, flexible work hours, collaborative work spaces, and similar "soft benefits." As you can see by the chart, both men and women referenced traditional benefits as the most likely to make them give heavy consideration to a job, but the next several after those table stakes are all focused on work-life balance and financial security.[2]

Fight Workforce Fire With Fire

The big question you probably have is "How does this impact me and my organization?" The answer is that this is an opportunity for attentive, forward-thinking companies to separate themselves in the war for talent.

Here're the facts:

- We are at a record low unemployment rate of 3.8%.[3]
- We've got 10,000 baby boomers retiring every day.[4]
- We have a national fertility rate of below 2, meaning we're not birthing enough workers to replace the ones leaving the workforce.[5]

We are quickly reaching a time when we will no longer be looking for talent. Instead, talent will be choosing employers the way they chose their college: The best talent will gather a handful of companies and pick their favorite.

Understanding what this burgeoning workforce values and providing support so they can achieve their goals is the only way organizations will be able to stand out, speak directly to these high talent individuals, and convince them that our organizations are where they belong, where they can grow, and where they will find balance.

The problem is employers still aren't great at helping employees create financial independence.

Employer based retirement plans are, obviously, the most common way we support employees' financial independence as employers, but it's not a perfect solution:

- As of last year, only 51% of organizations offered employees a contribution match via a company-based retirement plan.[6]
- One out of every four employees who has access to a match fails to fully take advantage of it, resulting in an estimated $24 billion in company matches left on the table every year.[7]
- The average percent of income an employee defers into a retirement account is only 7%.[8]
- The average salary in the US coming in at just over $59,000 per year.[9] That means that the average American is only putting away $4,100 dollars per year for retirement.

These facts cut across all income categories, geographic locations, and other demographics. It gets even scarier when we isolate the younger cohorts. According to the National Institute on Retirement Security, two thirds of millennials have nothing – zero – currently saved for retirement.[10]

Coincidentally, financial wellness continues to rank as the category of employee benefits most sought after by early career employees. According to the 2018 PWC Employee Financial Wellness Survey:

- 25% of respondents wanted access to a financial wellness benefit with access to unbiased counselors.
- 56% of millennials are more likely to say they are loyal to their company if their company shows how much they care about their financial well-being.
- 67% of millennials are likely to be attracted to another employer from their current one if the new employer shows they care more about their employees' financial well-being.

There's No Time Like the Present

The right way forward is clear, but employers are of course wary of the costs associated with more expansive financial wellness benefits. Some of those costs are obvious, and others are surprising.

According to TD Ameritrade, individuals who fit the category of "financially independent" retired, on average, at the age of 62, even after achieving financial independence at the average age of 57. Conversely, the average current active employee doesn't expect to retire until 66, and that number is inching up.[11]

For employers, this delta between financially independent individuals and everyone else matters.

Prudential Financial conducted an employer impact analysis of delayed or deferred retirement on organizations. They found that, in a 3,000 person company with a $200 million dollar workforce cost, for every one year of delayed retirement among a workforce, there's an annual impact of 1% to 1.5% of additional workforce costs.[12]

Companies with late retirements pay up to $3,000,000 more per year for their workforce than they would if they achieved timely retirement for all employees.

But that doesn't necessarily mean it's best financial interest to help employees retire too early, even though, as we've covered, better serving them in managing their finances is important. Statistically speaking, employee productivity peaks between 40 and 45, plateaus until they reach the age of 55 and then slowly starts to decline as they approach 60 and beyond.[13]

It's difficult, but the key is hitting the sweet spot between supporting timely retirement for all employees and cultivating a workplace where employees want to work after achieving financial independence. Financial wellness programs should empower employees without encouraging them to leave your company before their most productive working years.

When it's all said and done, understanding the cost and impact of delayed or deferred retirement and establishing a plan to help create financially independent employees is actually not even about the employees. It's about the sustainability of your organization.

Doing Something About It

DEBT RELIEF AND FINANCIAL SUPPORT

According to the Federal Reserve, total US student loan debt now stands at $1.56 trillion dollars and there are 44.7 million holders of that debt. 11.5% of these loans are either more than 90 days overdue or in default.

Last year, Abbott Labs made the news by applying for and receiving a special exemption to offer student loan repayments as a form of a qualified deferral inside their 401(k) plan.

The theory was that their employees were not maximizing the available employer match they were providing due in large part to burdensome monthly student loan payments. Instead of limiting the access to the employer match to employee 401(k) elections, they re-structured their plan so that payments towards a student loan repayment would also qualify employees for the employer's portion of the 401(k) contribution.

There is essentially a continuum of benefits employers can provide to employees to help them with their student loan debt, from simple loan refinancing all the way to more complex benefits like the Abbott plan.

Whatever is right for your company, we are seeing a large majority of employers exploring and implementing these benefits every day.

FINANCIAL LITERACY

While we've already talked at length about the importance of financial literacy and attention to your employees, passively providing information isn't enough.

The right financial literacy partners or platforms combine awareness, education, and one-on-one coaching to drive huge levels of improvement to employee financial security.

There are a number of solutions in this space, so it's important that you work with your advisors to find the one that fits your firm, your employees, and your benefits methodology best.

REIMAGINED INSURANCE AND RETIREMENT SOLUTIONS

Not everything you do has to be completely new.

Plenty of insurance-based products are being revitalized or repurposed as a result of the focus on financial wellness younger career employees are requiring of their employers. For example, Long-Term Care.

Long-Term Care was hugely popular in the 90s and early 2000s, both as an individual product and a company-based benefit, but due to some bad underwriting work, it became unprofitable for insurance companies and so most carriers stopped offering it by 2010.

With the huge increase in baby boomers retiring coupled with impacts of the financial crisis on this cohort's nest eggs, many millennials have become burdened with supporting their parents during their retirement, especially when catastrophic medical conditions hit. For this reason, millennials deeply appreciate LTC policies that provide riders which extend coverage to parents.

LTC is not the only way to repurpose traditional work place benefits, but remember that giving your best employees a benefit could help them get more time, refocus their efforts at work and alleviate some stress.

PUTTING PEOPLE FIRST

Ultimately, it all comes down to caring.

From the top down, leaders have to care authentically about the well-being of their employees. That mindset will drive you to find new solutions to your employees' biggest problems.

Organizations that put their people first, make time to know their employees on a person-to-person level, and develop solutions to help each employee with their unique journey will never have to worry about the war for talent or a contracting labor pool.

Instead, the best talent will gravitate to them and worker harder than they would if they were anywhere else.

Employee Benefits — And a Whole Lot More

NFP is a leading insurance broker and consultant that provides employee benefits, property and casualty, retirement, and individual private client solutions through our licensed subsidiaries and affiliates. Our expertise is matched by our commitment to each client's goals and is enhanced by our investments in innovative technologies in the insurance brokerage and consulting space.

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