Are Employers Prepared for the Aging of the U.S. Workforce?

by William J. Arnone

In anticipation of an aging workforce, human resource (HR) executives across some of the largest U.S. employers are taking a variety of approaches. After describing population trends, this article reports survey results revealing HR executives' varied responses to questions about human capital management, identification and transmission of business wisdom, retention of key employees and preretirement planning. It then discusses the business case for practices that help employers best manage an aging workforce, including succession planning, transmission of business wisdom through benefit design and retention programs for older workers.

INTRODUCTION

Few trends are as predictable and irreversible as the aging of the American population. What is much less certain, however, is the impact of this trend on the nation's workforce and the human capital needs of U.S. businesses and other organizations.

In November-December 2005, Ernst & Young LLP's human capital practice, in conjunction with the Human Capital Leadership Institute and ExecuNet, conducted a survey of senior HR executives at large organizations throughout the United States. The purpose of the survey was to determine whether and how organizations are responding to the aging of their workforces, such as by identifying older workers who possess "business wisdom" and who may also be retiring from the organization over the next five to ten years. *Business wisdom* is defined as business value that is uniquely derived from experience alone. A specific focus of the survey was to determine whether organizations are developing programs to retain those employees and to transfer their know-how and insights to the next generation.

Survey findings were based on responses from a sampling of HR executives from a cross section of some of the largest employers in the United States in a variety of industry sectors. Of those responding, most represented employers with 5,000 or more employees. Employers in all types of industries responded.

BACKGROUND AND PERSPECTIVE

An aging society faces many challenges that involve a broad range of economic, social, political and cultural issues. One aspect is the impact of an aging workforce on a nation's productivity, economic growth and global competitiveness. The deployment and contributions of older workers affect not only the economic and social well-being of the workers themselves, but also the standard of living enjoyed by current and future generations.

Like much of the rest of the developed world, the United States is undergoing a profound shift in the relative distribution of older people among its overall population. One factor is the dramatic increase in life expectancy. An American male born in 2000 has an estimated life expectancy of 74 years. For American women, life expectancy is 80 years. Men reaching age 65 have an average life expectancy of an additional 14.8 years; women have an additional 18.6 years. As a result of increases in average life expectancy, the number of Americans aged 65 and over is projected to more than double by the year 2030. As noted by Robert Friedland and Laura Summer in *Demography Is Not Destiny, Revisited:* "The population is anticipated to grow older than it is now, but the population already is older now than it has ever been."

A second factor is the relative growth of different cohorts in the population. The baby boom experienced by the United States from 1946 through 1964 resulted in approximately 12 million more births than the country had experienced in the 18 years prior (1928 through 1945) and over six million more births than in the subsequent 18 years (1965 through 1983). In the next 18 years (1984 through 2002), however, there have been almost as many births as in the baby boom (74.9 million versus 75.9 million).

Because of its relative size, as the boomer generation ages, it has a disproportionate impact on the overall age distribution of the nation's population in general and its workforce in particular. Boomers, who in 2006 range in age from 42 to 60, currently represent nearly one-half of the U.S. workforce. This is slightly more than the combined number of workers from the succeeding two generations. Between now and 2010, the number of U.S. workers ages 45 to 54 will grow by an estimated 21% and the number ages 55 to 64 will grow by over 50%.

Projected annual growth rates of segments of the population also differ significantly. From 2010 to 2020, the annual growth rate of the U.S. population ages 15 to 64 is projected at 0.3%, while the comparable rate for ages 65 and over is projected at 3.1%. Furthermore, almost 90% of the net increase in the traditional working-age population is projected to occur in the 55 to 64 age group.

Today, approximately 36 million people in the United States are aged 65 or older. This number represents 12.4% of the nation's population, or about one of every eight Americans. By the year 2030, people aged 65 and older are projected to constitute approximately 20% of the country's population, or one of every five Americans.

OLDER WORKERS

The labor force participation rate of older Americans is one indicator of the impact of these twin factors of individual longevity and generational relativity. Approximately 69% of men and 56% of women ages 55 to 64 were either working or looking for work in 2004. Men and women aged 62 (the earliest age at which Social Security retirement benefits may be received) and older are working more today than a decade ago. Nearly one in every five Americans aged 65 (the Social Security normal retirement age for those born before 1938 and the age of Medicare eligibility) and older is working.

Improved health (including perceptions among older people of the link between work and both physical and mental well-being), the need for income and health insurance coverage, the shift to a knowledge-based service economy and advances in technology are among the primary contributors to the labor force participation rate of older Americans and to prospects for an increasingly productive aging of the nation. As a result, traditional notions of the expected working versus retirement ages of the population are changing, as are the very concepts of work and retirement. For example, nearly two in five American men and three in ten American women ages 55 to 64 who have pension income are also employed.

AGING WORKFORCE PROFILES

Advanced human resource information systems permit employers to profile their workforces along many different dimensions, including age and years of service. But are employers proactively using these sophisticated software systems to monitor and project changes in their future workforces and in their future human capital needs, especially in tight labor markets?

Of our survey respondents, 13.3% reported that greater than one-quarter of their current workforce was over the age of 55. Another 18.1% reported that 21-25% of their workforce was over the age of 55. For 31.4% of respondents, workers over the age of 55 comprised greater than one-fifth of their current workforce. For 42.9% of respondents, more than one-fifth of their workforce is over the age of 50.

Defining eligibility to retire as meeting the age and/or years of service rules in their retirement plans, 16.9% of respondents reported that greater than one quarter of their current workforce will be eligible to retire over the next five years. Just over 19% of respondents, however, do not have retirement plans with age or service eligibility rules, which reflects the prevalence of defined contribution and hybrid retirement plans in U.S. industry.

When asked what percentage of their workforce was likely to retire over the next five years, only 4.8% responded with an estimate of greater than one-quarter. Another 9.5% of respondents estimated 21-25%

and 14.3% estimated 16-20%. Over 8% of respondents did not know.

Just over 19% of respondents reported that the average age of those workers who had retired from their organization during the last 12 months was 65 or older. Another 22.9% reported the average age at 63 to 64, and 21.7% reported the average age at 61 to 62. Only 2.4% reported the average age at 55 to 56. Almost 23% of respondents, however, did not know the average age of recent retirees.

ATTITUDES TOWARD HUMAN CAPITAL

The availability of talent was rated as a top human capital concern by just over 38% of survey respondents. Talent management (right employees/right positions) was cited as a primary concern by 29.1% of respondents. Retention of key employees was cited by 20.9% and maintaining intellectual capital by 17.4%.

When asked how their organization viewed its aging workforce, 42.4% of respondents said it was an issue to be dealt with. Only 24.7% viewed it as an opportunity to be leveraged. Surprisingly, nearly one in three respondents said it would have little or no impact on their organization.

Of those respondents who described their aging workforce as an issue to be dealt with, 52.9% identified it as likely to lead to a workforce shortage. Only 8.8% expected it to lead to an excess of older workers who would like to keep working. Just over 11% said that they were unable to deal with this issue due to legal statutes (e.g., the Employee Retirement Income Security Act, the Age Discrimination in Employment Act). Just over 10% cited costs associated with the aging workforce as a barrier to dealing with it and just under 8% cited cultural concerns as a barrier.

Almost half of respondents rated the aging of their workforce as very important or important to their organization's goals and strategy over the next five years. Another 41.1% rated it somewhat important, while the remaining 11% rated it not important at all.

IDENTIFICATION AND TRANSMISSION OF BUSINESS WISDOM

Wisdom has been defined various ways. For historian Theodore Roszak it is "the hard-won result of experience and reflection." For the purpose of this survey, we defined *business wisdom* as business value that is uniquely derived from experience alone.

Over six in ten respondents believed that expected retirements over the next five years will cause a talent gap or "brain drain" in some functions of their organization. Nearly 24% did not. Another 13.9% did not know.

When asked which levels of their organization will be most affected, 25.4% identified middle management and 22.1% identified senior management other than at the C-level (e.g., chief executive officer, chief operating officer, chief financial officer). For 18.9% of respondents, supervisory positions will be most affected; and for 15.5% of respondents, hourly employee levels will be most affected.

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Only 29.8% of respondents, however, said that their organization has attempted to define business wisdom and identify where it resides throughout their enterprise. Of those who have identified and inventoried older workers within their organization who have attributes associated with "business wisdom," more (50%) have relied on informal discussions with business line managers than any other method. Only 22.7% used formal employee recognition programs. Other methods cited were surveys of business line managers; succession planning discussions with management; surveys of terminating employees for undocumented knowledge; maintenance of formal knowledge management systems; creation of development plans based on input by incumbents; and mentoring programs.

Of those who attempted to define and identify business wisdom, two-thirds stated that their organization has in place formal processes to capture and transmit it. The most popular process was leadership succession planning (cited by 21.6% of respondents), followed by mentoring of younger workers by older workers (18.6%), informal knowledge networks (17.5%), and Web-based knowledge-management and transmission tools (15.5%). Interviews with retiring employees were used by 9.3% to capture and transmit business wisdom, and training programs conducted by older workers were used by 9.3% of respondents. Only 7.2% put knowledge transmission goals in the performance reviews of older workers.

When it comes to measuring the impact of these programs, 43.5% of respondents stated that they rely only on anecdotal information. Nearly two out of five respondents said that they tracked and documented successful knowledge/wisdom transfer results. Another 13% of respondents do not measure the impact at all.

Of those respondents who do measure the impact of these programs, only three were rated as high-impact efforts. Mentoring was rated highest by 47.6%. Leadership succession planning was rated highest by just 19%, and informal knowledge networks were rated highest by 14.3%.

RETENTION OF KEY EMPLOYEES

Few employers are undertaking programs aimed specifically at retaining older workers. Only 14.3% of survey respondents stated that their organization had any ongoing and formal programs to retain key employees based on business wisdom.

Of those that do, the most popular were continuous learning and training, identified by 12.9% of respondents. Next in popularity was a flexible work schedule (such as job sharing, telecommuting and work-life balance), identified by 11%. Preretirement planning was identified by 10.3% of respondents, as was hiring retirees as consultants or contractors. Flexible or special benefits of particular interest to older workers (e.g., 401(k) catch-up contributions, long-term care insurance, dependent care spending accounts, elder care) were identified by 9.7% of respondents, followed by creating and promoting a culture that promotes generational diversity, retention bonuses and career counseling, each of which was identified by 8.4%. Workplace restructuring was identified by 5.2%. Only 2.6% identified phased retirement as one of their ongoing retention programs.

When it comes to measuring the impact of these programs, 40% of respondents said that they tracked the number of workers who continue to work beyond the age of retirement eligibility under their organization's retirement plan. Another 36.7% rely only on anecdotal information and 23.3% do not measure the impact at all.

Of these programs, 25.9% of respondents said that hiring retirees had the highest impact. Creating and maintaining a culture that promotes generational diversity was rated by 14.8% as having the highest impact, as were retention bonuses. Preretirement planning was rated highest by 11.1% of respondents.

Looking ahead to the next few years, 90% of respondents stated that they intend to put some type of retention program in place. Specifically, 11.2% said that they are considering hiring retirees as consultants or contractors or using on-call pools of retirees. Flexible work schedules are also being considered by 11.2% of respondents. Phased retirement, mentoring, and flexible or special benefits of particular interest to older workers are each being considered by 10.2%, followed by continuous learning and training by 9.2% and preretirement planning by 7.1%.

PRERETIREMENT PLANNING

While 47.1% of survey respondents reported having a broad financial planning program for all employees, only 16.5% stated they had any type of preretirement planning program for older workers. Of those employers who have preretirement planning programs, the average length of time these programs have been in existence is just over 13 years.

CONCLUSION AND RECOMMENDATIONS

One need not accept dire predictions of a looming talent shortage in order to make the business case for attracting and retaining older workers. If there in fact is such a shortage, then no longer is workforce planning a zero-sum game, in which jobs for young workers depend on moving older workers out. Regardless of future workforce demographics, employers need to assess the attributes of certain older workers that translate into unique contributions to their enterprise and that complement, rather than compete with, what younger workers offer. This perspective is consistent with a human capital framework that views people as a differential investment, not an undifferentiated expense.

The age-old concept of wisdom is critical to this assessment. The notion of business wisdom needs to be systematically applied by HR professionals as part of overall workforce planning. Starting with a definition of wisdom that is specific to their industry, employers need to conduct a wisdom inventory of their workforce. The goal of such an inventory is to identify those individuals whose employment and life experiences have endowed them with unique insights into their business, and who have demonstrated the rare capacity to make sage judgments in changing environments. This effort should not be limited to the executive suite or managerial ranks.

Without a deliberate and carefully executed plan to retain the right individuals in the aging segment of their workforces, employers run the risk of a significant wisdom withdrawal due to premature retirements. The consequences of such a withdrawal of human capital are likely to harm both the employer (especially if such high-value workers deploy their capabilities on behalf of competitors) and individual workers who will be deprived of the fulfillment that comes from being engaged in productive work at peak performance. Our nation will also suffer from the wasting away of those older Americans who still have so much to offer.

Transmitting Older Workers' Business Wisdom Through Benefits Design

The findings of the *Aging Workforce Survey* support the notion that the looming wisdom withdrawal is a stealth issue, especially in the larger, more complex organizations where the cumulative effect will start showing vulnerabilities. And the need to do an assessment of your workforce, along with your compensation and benefits plans, is paramount.

Compensation and benefits programs, in most cases, were developed to encourage various behaviors in the employee base, such as retiring in the 60 to 65 age range. The features were put in for sound business reasons at the time; but times change. If an assessment shows that there are pockets of vulnerability if groups of employees retire without transferring their unique business wisdom to the next generation of employees, then programs should be reevaluated and possibly altered to encourage different behavior—such as delaying retirement.

This is a highly complex process that may involve many possible solutions that are ongoing in nature. It cannot be solved with a one-time quick fix. There are far-reaching implications from a cost, governance, strategic, cultural and philosophical perspective. As such, it would require involvement from across the organization including HR, finance, tax, accounting, C-suite executives and the board of directors. Often projects of this magnitude don't get off the ground for one simple reason: Who will take control?

Once the team has been decided, the first step in the process is to conduct an evaluation of where the company is going, what skill set it will need to get there and whether or not it will lose that skill set in the next five to ten years. That requires companies to take a close look at the makeup of their workforce to identify strategic groups or areas in the organization that are particularly vulnerable to retirements.

There is often much discussion as to the level of productivity of older workers. But it's not an issue that should be looked at in just one segment of the employee population. A performance management system should be in place in every company as a foundational program key to an organization's success and key to maintaining its competitiveness. This system can determine the productivity of all employees at any and all ages. It can also be used to identify areas of vulnerability.

Once the key groups of employees are identified, a cost/benefits analysis must be conducted. Assuming that older workers cost too much—and you can save money by not changing a thing so they retire as expected—is an overly simplistic and unrealistic way of approaching the situation. While younger employees result in lower compensation costs, the lost productivity that results from training them for their new roles could end up costing substantially more. You can't look at this issue in a vacuum. Any decision, even keeping everything the same, has a domino effect on all costs.

Managing Succession Planning

Managing *succession planning*, the transfer of business wisdom from one generation to the next, can expose your company to tremendous risk if not handled correctly. It is an issue that can impact the company's:

- Cash flow
- Culture
- Ability to compete for top talent
- Productivity.

Prior to developing any succession management program, it is essential to determine what will motivate the targeted groups. Employers that have done a particularly good job preparing employees for retirement with financial education programs and generous

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401(k) matching programs may need to provide incentives for key employees to stay—longer. On the other hand, employers that have not adequately prepared employees for retirement may find a majority of their aging workers—both the targeted and non-targeted employees—need to work longer for financial reasons and will require little or no incentive to stay. Recognizing what will motivate your key business wisdom will impact decisions around benefit design changes.

Retention activities aimed particularly at older workers need not come at the expense of younger workers. Creating a culture that values older workers need not be viewed as devaluing younger workers. ◀

While there are a number of benefits that can affect retirement behavior, none are more influential than retirement programs themselves. Ultimately, people do what you pay them to do, be it senior managers who can be managed through supplemental employee retirement plans (SERPs), stock options and restricted stocks, or the general employee base with stay bonuses built into retirement plans.

The preference is always to keep things as simple as possible. Unfortunately, a simplistic approach treats everyone the same way, and satisfying your workforce with one broad stroke can work for a while only if there is stability in your workforce. Once mass retirements start occurring, that stability is gone. As a result, you need to change your benefits programs with surgical precision. There is a lot of creativity you can apply to these situations as long as you pay attention to the regulatory environment and avoid changes that result in discrimination charges.

Some possible approaches to take with 401(k) programs could include:

- Specialized benefit layers that might be focused on specific groups, levels or grades of employees
- Providing annuity options when people leave the firm to help them manage the risk of their portfolio. Employers can arrange for more efficient annuity purchases on behalf of their employees. Similar to health plans, these would not be purchased by employers themselves, but they could arrange for a group purchase to defray the cost of commissions and fees.
- Emphasize education to make sure employees save as much as they can in order to be prepared for their retirement.

To the extent that employers can accommodate these, they will be an attractant to a workforce that is getting older and a workforce with valuable skills.

Adding Retention Programs

In addition to benefits redesign, there are many programs that employers can put into place to manage the risk of wisdom withdrawal, including:

- Instituting flexible work and phased retirement arrangements
- Bringing their own retirees back on a contractual basis through other entities
- Redesigning compensation and benefit plans
- Establishing sound preretirement planning programs
- Initiating training and leadership development activities that explicitly focus on wisdom as a recognized and transferable quality.

Retention activities aimed particularly at older workers need not come at the expense of younger workers. Creating a culture that values older workers need not be viewed as devaluing younger workers.

Time is running out as millions of boomers reach early retirement ages. Employers need to act now to develop and implement strategies that focus on this vital segment of their workforce. ◀

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