



The Business Case for

# Workers Age 50+



Planning for Tomorrow's Talent Needs  
in Today's Competitive Environment

A Report for AARP Prepared by Towers Perrin | December 2005

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# 50+

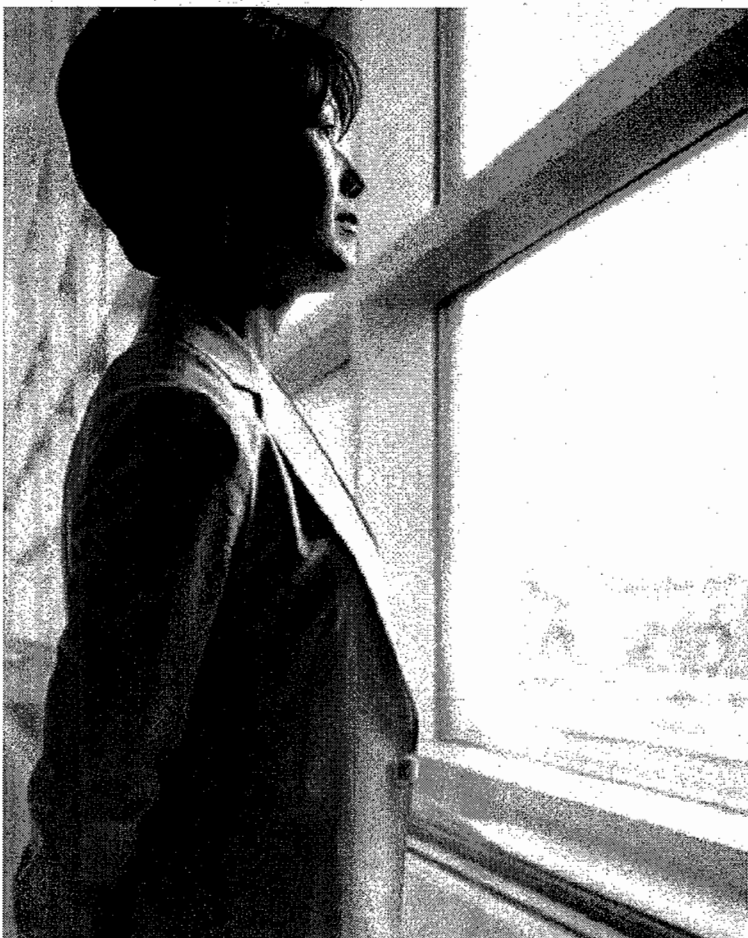
## The Business Case for Workers Age 50+: Planning for Tomorrow's Talent Needs in Today's Competitive Environment

### *Foreword*

Three important trends are converging that are having a dramatic impact on the American workforce:

- ❶ The workforce, and the population as a whole, are aging,
- ❷ Labor shortages are projected in a growing number of sectors of the economy,
- ❸ Many workers intend to continue to work beyond the traditional retirement age.

AARP has for many years educated employers and policymakers about practices that address the needs of a changing and maturing workforce.



## *Foreword*

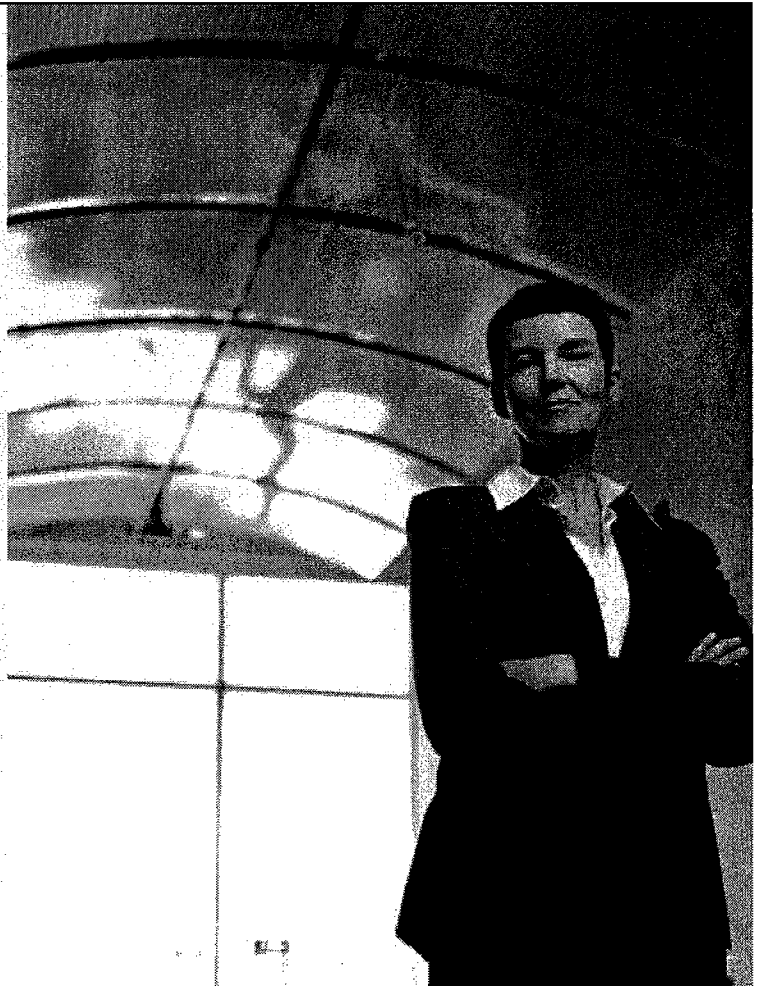
Now, this study breaks new ground on why employers should view 50+ workers as valuable contributors to their workforce needs. It provides documentation to the business community that attracting and retaining mature, experienced workers will become increasingly critical to maintaining a competitive advantage in the new labor market. In other words—it's a business imperative.

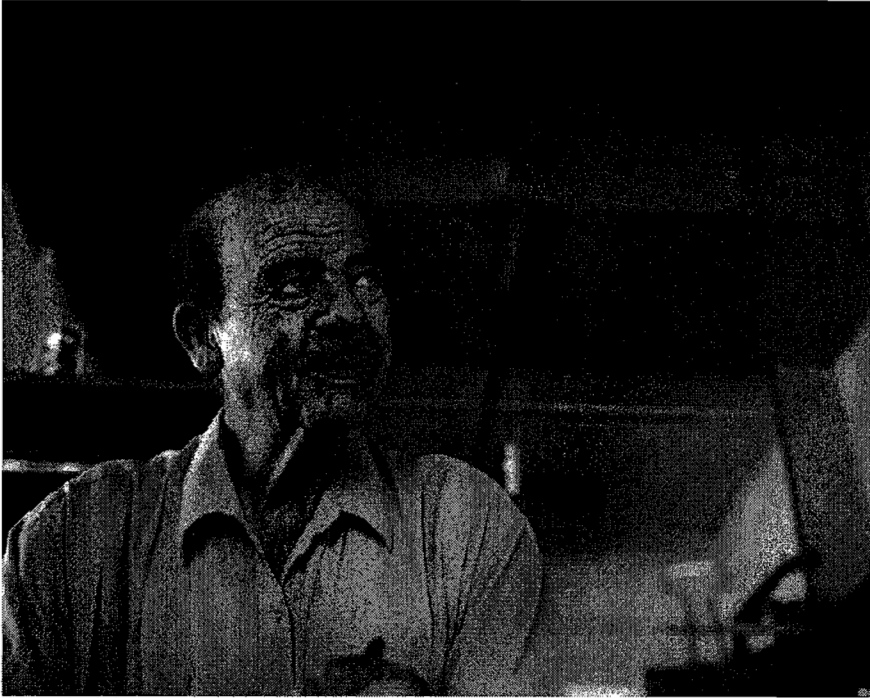
The demographic projections are clear. By 2012, nearly 20% of the total U.S. workforce will be age 55 or older, up from just under 13% in 2000.<sup>1</sup> This growth in the number of older workers reflects the fact that the population as a whole is getting older due to several factors, including the aging of the large Baby Boom Generation, lower birth rates and longer life expectancies.

With the pending retirement of the baby boomers—the first of whom will be eligible for early Social Security benefits in 2008—many analysts are predicting

growing labor shortages in tomorrow's workforce. In fact, some employers are facing that problem now. In addition to the widely publicized shortages of nurses and other health care professionals, organizations that rely on such specially trained individuals as teachers, engineers, and many other skilled people are feeling the pressure of labor shortages.

As a testament to the challenges on the horizon, 58% of HR managers responding to a 2005 AARP survey said that it is more difficult today than it was five years ago to find qualified job applicants. More than half of the HR





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managers believe that their companies are likely to face a shortage of qualified workers within the next five years.<sup>2</sup>

Fortunately, many of today's workers want to work and want viable work options later in life. AARP research found that 69% of individuals between the ages of 45 and 74 who are either working or are looking for work plan to work in some capacity during so-called retirement.<sup>3</sup> In another study, 68% of workers between the ages of 50 and 70 who have not yet retired reported that they plan to work in some capacity into their retirement years or never retire.<sup>4</sup>

In light of the declining proportion of younger workers and projected shortages, many employers will need to turn to mature, experienced workers in order to gain and maintain a competitive

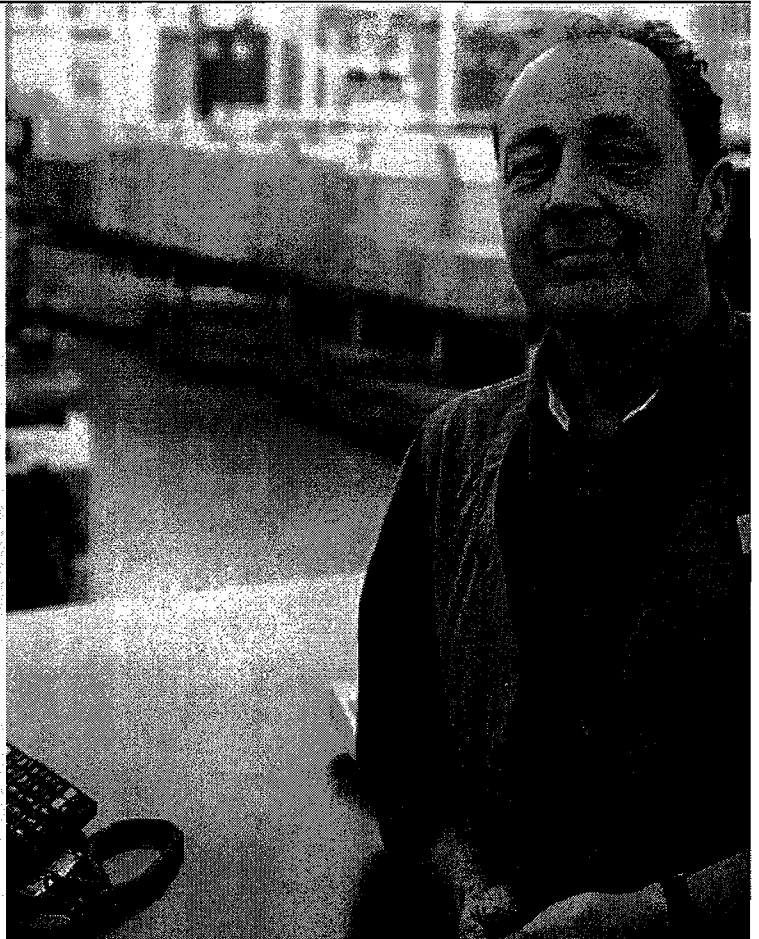
advantage. HR managers who may have once thought that older workers could be replaced by those fresh out of school will find themselves creating flexible work schedules, telecommuting options, training and education, phased retirement and "bridge jobs," expressly designed to encourage workers ages 50+ to remain on the job beyond the age at which they might otherwise retire.

Many companies, some of which are mentioned in this report, have already started to implement innovative practices to attract and retain mature workers. However, evidence shows that other employers are slow to accommodate and adapt to the changing workforce, no doubt because of negative stereotypes and outdated notions about the value of older workers.

## *Foreword*

However, this study presents the case that traits exhibited by midlife and older workers take on renewed value in today's economy—traits such as experience, loyalty, attention to task, perseverance, work habits and emotional maturity. The negative stereotypes about age are eroding as today's 50+ population redefines aging and demonstrates that they expect to continue being productive, engaged and active well into their 70s and beyond.

As the 76-million Baby Boom Generation nears traditional retirement age, many U.S. companies are facing a potentially significant loss of talent and institutional knowledge across key areas, including leadership, sales, and technical disciplines. While the impact of this undeniable trend will vary from industry to industry and among different job categories—many companies will be able to avoid the drain by encouraging today's 50+ workers to stay in the workforce longer.



In today's business environment, the most important value capital a company possesses is its human capital. Employers who recognize that fact and are prepared to meet the workplace needs of their people stay ahead of the curve. Studies have shown that companies that invest in their human capital realize a return on investment through an increase in their market value.

What has been missing until now is a thorough examination of the recruitment and retention of workers ages 50+ within a business case framework. Can a business case be made for attracting



and retaining these workers? This study affirms that, in fact, a case can be made.

*The Business Case for Workers Age 50+: Planning for Tomorrow's Talent Needs in Today's Competitive Environment* debunks many of the widely held misperceptions about the costs of older workers and demonstrates that companies should view 50+ workers as an essential part of the plan to meet their workforce needs. This study, prepared for AARP

by Towers Perrin, highlights the need for employers to consider costs with a broader lens and demonstrates that hiring 50+ workers is a solid and sound investment proposition.

It also shows, through documented best practices and case studies, how to develop and implement an effective strategy for retaining and recruiting workers 50+. By understanding how the changing demographics of the workforce impact business and by viewing workers 50+ as a solution to meeting workforce needs, companies can compete and win in the changing global marketplace.

Sincerely,

William D. Novelli  
Chief Executive Officer, AARP

Although the maturing of the workforce has been extensively studied and documented over the years, U.S. employers as a group have only recently begun to take a hard look at today's changing workforce realities.

For many companies in the United States, the changing demographics of the labor force and looming exodus of retirement-eligible employees pose significant challenges and opportunities in terms of talent retention, acquisition and management. While many 50+ workers may exit the workforce, others will be looking to stay, some in new occupations and roles. This presents an

opportunity for companies that take advantage of this evolving talent pool, and a challenge for those same companies to manage generational diversity effectively.

Some organizations are already struggling with talent shortages in certain positions (e.g., nursing, engineering, sales, leadership). Others are just beginning to wrestle with a host of talent issues that are frequently complex and may be critical to their ability to grow and innovate, serve an increasingly demanding customer base and, ultimately, achieve their strategic business and financial goals. Their leaders are beginning to ask difficult questions about an uncertain future, including:

What will happen within our employee population—and our business—as the demographics of the labor force change?

What are the economics of retaining and hiring 50+ workers?

What are the best approaches for retaining critical knowledge and making the most of the available talent?

What are the leading companies doing to address these issues?



Clearly, these questions have both economic and human resource policy implications for U.S. employers. It is one thing for an organization to recognize that programs to retain and hire workers 50+ may be needed to respond to evolving workforce demographics. It is quite another challenge for an employer to take effective action to retain, hire and manage today's changing workforce. Implementing human resource policies and practices that successfully address workforce demographics by explicitly encouraging and supporting the retention and hiring of 50+ workers remains an elusive goal for many organizations.

To promote a better understanding of mature workforce issues among major companies and to guide businesses in responding to those issues, AARP engaged Towers Perrin to study the financial and programmatic implications of responding to the changing demographics of the U.S. workforce. Specifically, AARP wanted to assemble evidence, derived from the best available data, to assess the strength of the business case for investing an employer's resources to attract and retain workers 50+. The analysis required Towers Perrin to distill evidence of the benefits of employing older workers, assess the costs associated with employing 50+ workers and challenge conventional assumptions about the financial and productivity implications of workers age 50 and older.

The study also focused on current views of work and retirement within the 50+ workforce and the kinds of employer investments in rewards and other workplace programs that may be needed to retain and attract 50+ talent. Finally, the study explored how employers have responded thus far to issues related to changing labor force demographics and the emerging practices taking shape in the areas of workforce planning and talent management. To understand how employers are responding, Towers Perrin conducted an extensive review of the available research and previously published studies on this issue. And to gain up-to-date insights, in-depth telephone interviews were conducted with senior human resource executives in 10 major organizations across the United States.

An overview of the study findings follows. For details of how the study was conducted, see page 23.






## Key Findings At-a-Glance

As the big Baby Boom Generation approaches traditional retirement age, many U.S. companies face a potentially significant loss of experienced talent in key roles ranging from leadership to sales to certain technical and professional disciplines and many skilled trades. And virtually all companies are likely to face a more competitive U.S. market for talent in the coming years.

The impact of changing labor force demographics and the impending boomer retirement wave will vary widely from industry to industry and company to company—and even among different job categories and positions within the same company. Some companies may be able to escape the talent crunch entirely if today's 50+ workers do, in fact, stay in the workforce longer than previous generations. Other companies are already feeling the talent pinch in some positions.



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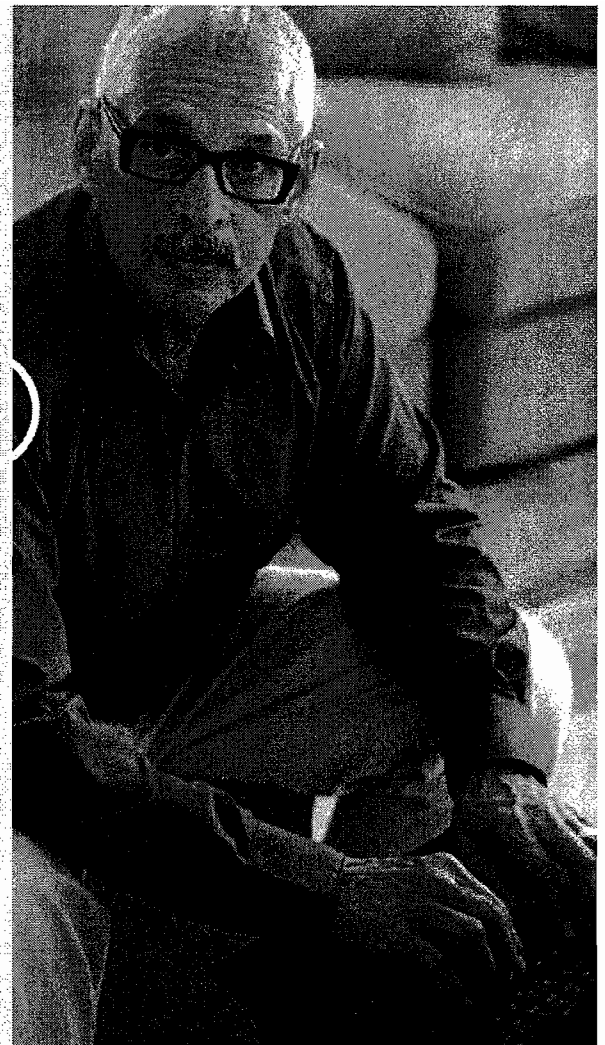


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Many U.S. workers today expect and want to continue working past traditional retirement age, for both financial and personal reasons. For many employers (and for some positions in almost every organization), workers 50+ represent a potentially attractive solution to near- and long-term staffing challenges—if companies are successful in retaining and attracting this growing pool of talent.

In considering the case for retaining and hiring 50+ workers, employers should look hard at the potential performance advantages of the 50+ workforce. Mounting evidence—both anecdotal and statistical—demonstrates that 50+ workers bring experience, dedication, focus, stability and enhanced knowledge to their work. About half the respondents to a recent survey by the Society for Human Resource Management (SHRM) said they are seeing many new workers who lack overall professionalism, written communication skills, analytical skills or business knowledge. Said SHRM President and CEO Susan Meisinger, “We know there will be millions of baby boomers retiring and that some workers now entering the workforce lack core competencies. There are serious HR and workforce issues that could undermine the nation’s global competitiveness. And HR must determine how to meet these challenges.”<sup>5</sup> Moreover, while some studies suggest that skills like manual dexterity may decline with age, others show that interpersonal skills (e.g., verbal communication) and tacit knowledge continue to improve or remain stable until very late in life.<sup>6</sup> Also, workers 50+ may have an advantage in positions involving direct customer contact with an older customer base.

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Beyond the potential performance advantages of 50+ workers is the issue of high personal motivation. According to Towers Perrin data, **older workers are more motivated to exceed expectations on the job than their younger counterparts are.** Motivation is strongly correlated with employees’ overall levels of “engagement” (i.e., willingness to invest discretionary effort in their work), and companies with more highly engaged employees outperform their industry peers on a range of key business and financial measures.

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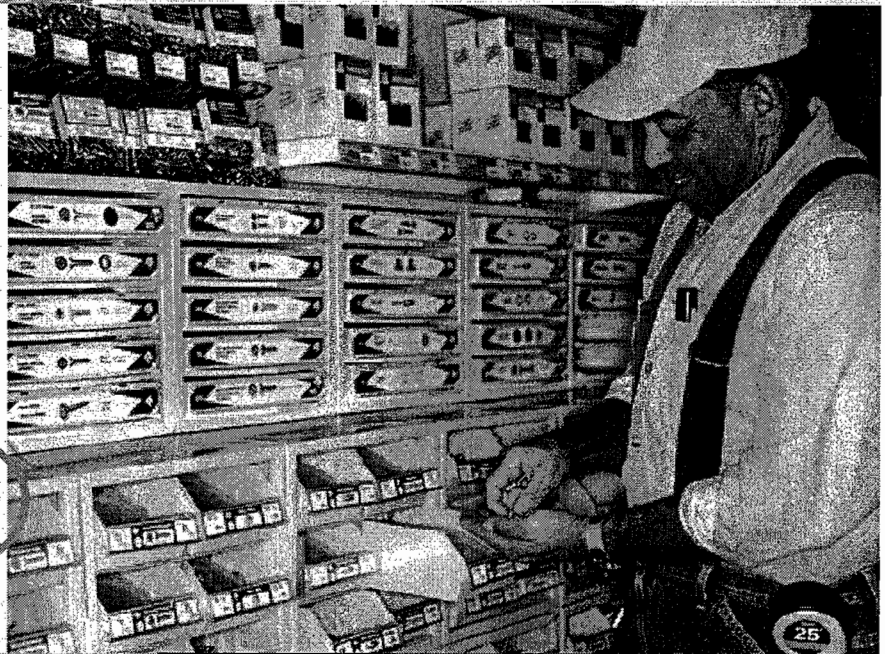
Towers Perrin’s analysis indicates that replacing an experienced worker of any age can cost 50% or more of the individual’s annual salary in turnover-related costs, and the cost is even higher in jobs requiring specialized skills, advanced training, extensive experience and knowledge—often possessed by 50+ employees. **The benefits of a stable workforce and avoiding turnover cost can exceed the incremental compensation and benefit cost for a 50+ worker.** Towers Perrin found the added compensation and benefits cost to be only marginally higher in many cases. Thus, the cost of employing workers should be evaluated with actual data and in the context of total labor cost, including the costs of hiring and getting new employees up to speed.



To retain, attract and engage workers 50+, organizations will need to offer the right mix of rewards, including health care benefits, innovative growth and development opportunities, competitive retirement benefits and, perhaps most important, flexible work and part-time employment opportunities. Companies will also need to pay closer attention to the work environment and cultural factors that contribute to a positive working experience for a multigenerational workforce.

A small—but growing—number of companies have begun to focus on the preferences of the 50+ workforce and to develop innovative talent strategies and programs to help them retain, recruit and manage 50+ workers more effectively. However, relatively few companies thus far have fully positioned themselves for the coming workforce demographic shifts.

8



*The prospect of a rapidly growing retiree population has significant implications for employers, not to mention public programs like Social Security and Medicare, and the U.S. economy overall.*

# What will happen within your employee population—and your business—as the demographics of the labor force change?



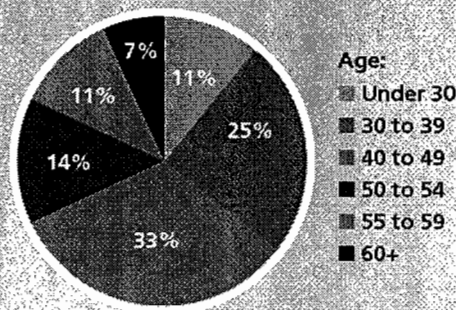
This is a good question—and one that is attracting more and more attention from economists, academics, the news media and employers themselves. One thing is clear: a significant demographic bubble known as the baby boom, which consists of about 76 million Americans born between 1946 and 1964, represents a large part of today's workforce. The leading edge of the baby boom is now approaching the age at which Americans have typically been retiring over the past few decades. The prospect of a rapidly growing retiree population has significant implications for employers, not to mention public programs like Social Security and Medicare, and the U.S. economy overall.

What is unknown, of course, is how the boomers themselves will behave. Experts predict that the boomers will stay in the workforce longer than the generations that

immediately preceded them. If so, the pressures on government programs and potential talent gaps facing employers will be reduced, allowing for a smoother transition for the labor market and the economy as demographics shift. Others believe that defined benefit pension plans offering attractive retirement benefits and company-subsidized retiree medical coverage will create an incentive for employees to retire early, and perhaps seek employment with a different organization. Although the prevalence of defined benefit plans has gradually declined in recent years, they continue to be offered by about two-thirds of the large U.S. employers in Towers Perrin's Employee Benefit Information Center database (which contains information on more than 700 U.S. *Fortune* 1000 companies and organizations of similar size not included in the *Fortune* listing, such as privately held companies, nonprofit organizations and large U.S. subsidiaries of companies headquartered overseas). Towers Perrin's workforce demographic data for large employers sponsoring U.S. pension plans show that almost one in five workers in these companies is retirement-eligible today—and another third of these workers will become retirement-eligible over the next five to 10 years. (See Figure 1.)

Figure 1

Current Workforce Profile for Large U.S. Employers with Pension Plans



Source: Towers Perrin 2003 workforce data for 335 large U.S. employers (i.e., *Fortune* 1000 companies and equivalents), covering more than three million employees. ©2005 Towers Perrin.

Virtually all companies will face a more competitive U.S. market for talent in coming years, along with the challenge of managing an increasingly cross-generational workforce, especially if significant numbers of boomers do, in fact, prolong their careers. Continuing productivity gains, immigration, off-shoring and new labor-saving technologies may help mitigate the staffing crunch for some

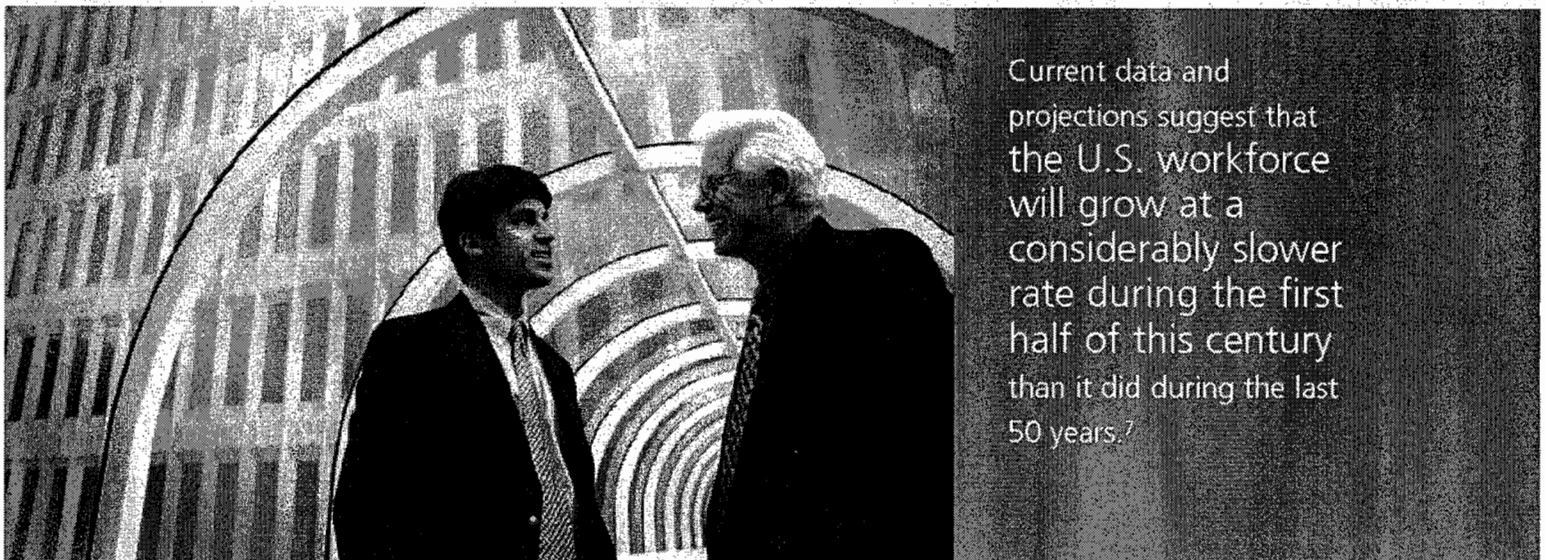
employees—and therein lies the opportunity, as demographics evolve, for companies to gain a competitive advantage by effectively deploying the skills and talents of all age groups.

When the predicted labor crunch comes, the nation's largest corporations are likely to feel the impact most profoundly, partly because of their hiring patterns over the past 30 to 40 years. Although each company's situation is

*When the predicted labor crunch comes, the nation's largest corporations are likely to feel the impact most profoundly, partly because of their hiring patterns over the past 30 to 40 years.*

companies. Current data and projections suggest that the U.S. workforce will grow at a considerably slower rate during the first half of this century than it did during the last 50 years.<sup>7</sup> This slowdown in labor force growth will occur at a time when many major companies are shifting their focus from business strategies geared to cost-reduction toward growth models that emphasize innovation and excellence in customer service. Such strategies depend on having the right number of engaged, service-focused

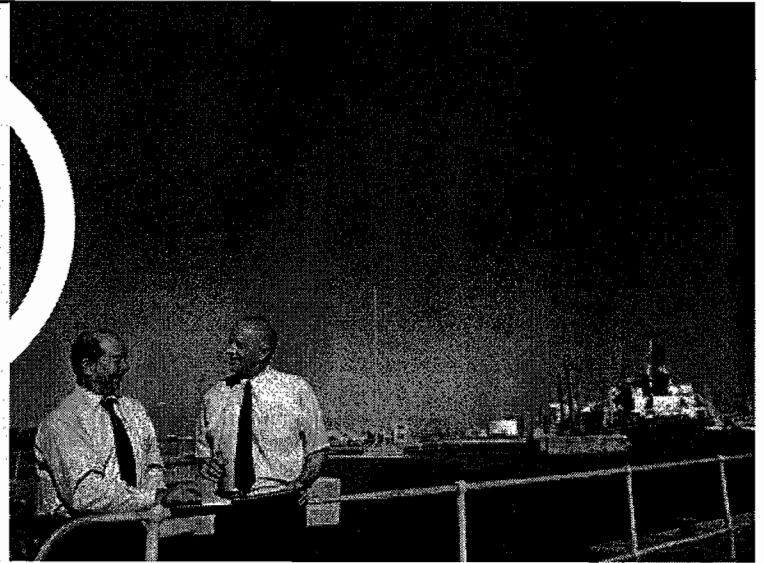
different, those in mature industries are clearly most at risk. The energy industry is a prime example, with its history of rapid growth in the 1960s and 1970s, followed by periods of downsizing in which relatively few new entry-level employees were hired. The result in some job categories is a workforce made up of large numbers of long-service workers, a smaller group of more recent hires and relatively few mid-career employees ready to step into the shoes of retirement-eligible boomers.



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## What are the economics of retaining and hiring 50+ talent?

While it is impossible to generalize about all the cost-value tradeoffs associated with 50+ talent, a compelling business case can be made for retaining or hiring 50+ workers for a wide range of jobs in corporate America today. In a nutshell, the added total labor cost of 50+ talent is only marginally higher in many cases, while the cost of replacing experienced workers is often significant. Talented experienced workers have distinct performance advantages in roles that require advanced skills, training, experience and knowledge of a company's business processes, people or customers. Without exception, the select group of 10 major U.S. employers interviewed for this study said that the experience, maturity and positive attitudes of their 50+ workers provide enormous value to their businesses.



These observations are consistent with the findings of two AARP surveys of human resource managers. In these studies, older employees were rated highly by the survey respondents on almost all qualities that employers consider most desirable.<sup>8</sup>

This does not mean, however, that firms should not take a close look at the cost of labor across all segments of the employee population. Some employers still believe that 50+ workers are more costly to employ than their younger counterparts. Few, however, have analyzed the drivers of total labor costs. Delving into these issues reveals a picture that is often very different from the one assumed.

Towers Perrin's data show that four components—cash compensation, health care benefits, retirement benefits and paid time off—make up 97% of average total compensation costs in large U.S. companies. The relative level and mix of the components vary by industry. Depending on how the programs are structured, the cost of the components will increase with a combination of factors:



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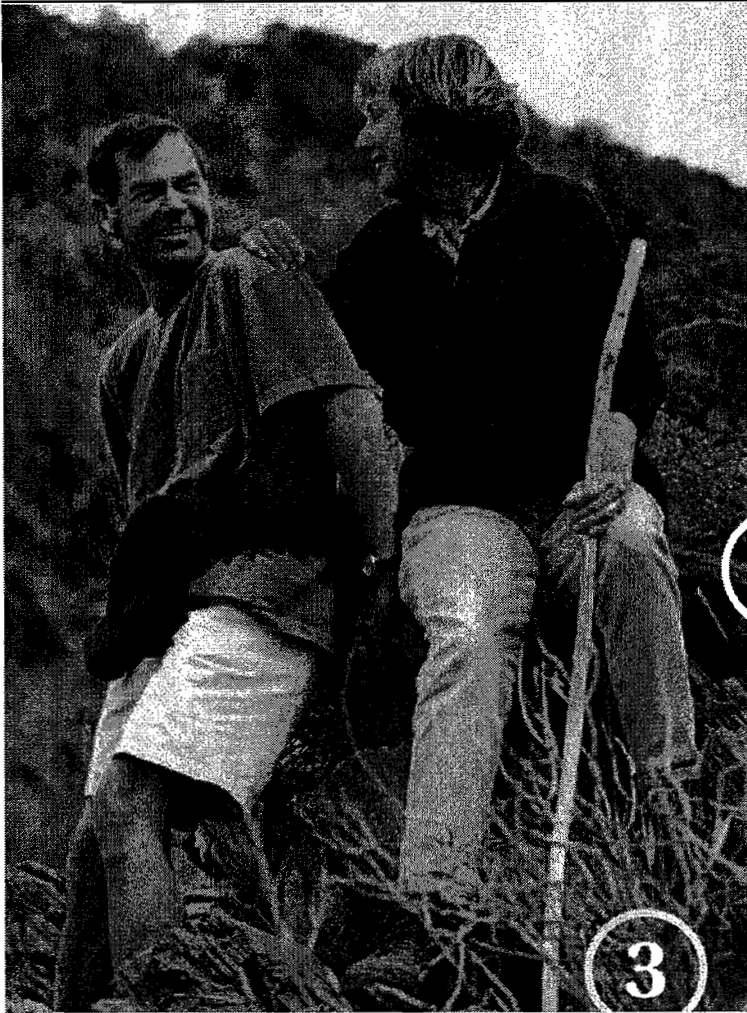
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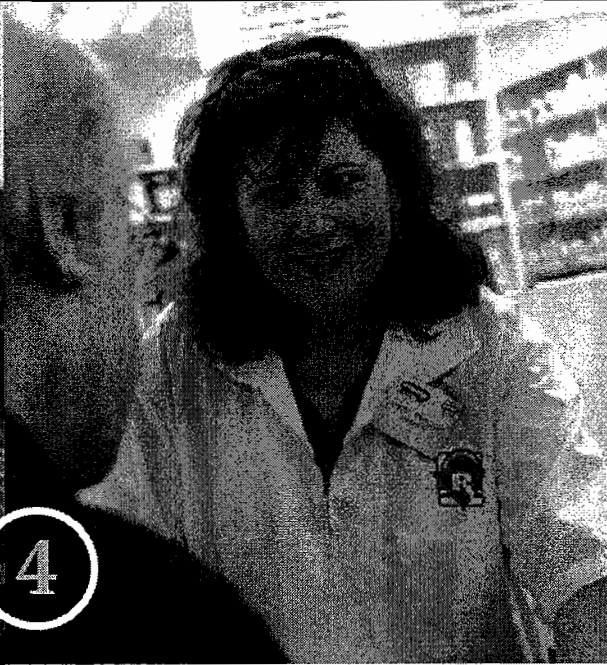
① **Cash compensation costs.** Since companies typically calibrate pay levels to approximate the market median for each position, these costs depend more on individual ability, experience and performance than on age. Employees performing the same jobs at roughly the same productivity level would expect to receive about the same **cash compensation**. Increases over time depend on employees demonstrating increased productivity, developing new competencies and capabilities, or taking on added responsibility. There should be no significant age-related differences in pay levels for employees doing the same jobs at the same level of performance.

② **Retirement benefit costs.** 401(k) plans, which are provided by virtually all large employers, are age-neutral, as the sponsoring employers contribute a set percentage of covered compensation for all eligible employees, either automatically or on a matching basis. Traditional **defined benefit pension plans**, on the other hand, are structured to reward long-service, career employees. For employers that sponsor defined benefit pension plans, costs are higher for older workers because of the time value of money and for long-service workers because of the fundamental decision to reward career employees. As some firms move away from classic defined benefit pensions, however, the cost focus will shift to defined contribution savings plans and become directly related to pay.





③ **Paid time-off costs.** Time-off costs are not directly related to age. The cost of vacation and other paid time off increases with years of service because employers typically offer more vacation time to employees with longer tenure. As a result, the cost of paid time off for the average employee with 20 years of service is typically double the cost for newly hired workers in large U.S. companies. However, a newly hired 50+ worker's vacation cost is equivalent to that of new hires at any age.

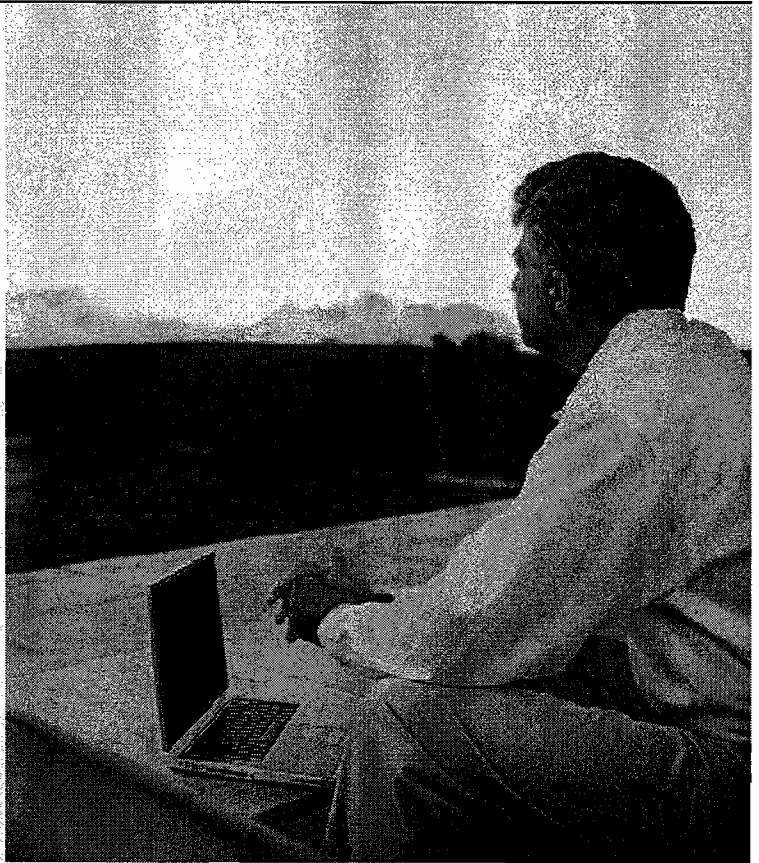


④ **Health care costs.** A number of factors drive differences in employer-paid **health care costs**. The incidence of specific health risks (e.g., high blood pressure, obesity, smoking) has a major impact in driving up health care costs. These factors, which vary from person to person regardless of age, can have a more profound effect than age alone on total health care cost. Towers Perrin's analysis of company-paid medical claim costs shows that employees age 50 to 65 use on average from 1.4 to 2.2 times as much health care as workers in their 30s and 40s. Note, however, that these comparisons are based on average costs. Some workers will have costs that are below the average and some will have costs that are higher. Another offsetting factor to consider is that Towers Perrin's research establishes that older workers may be more effective partners in employer efforts to promote better consumer behaviors in health care purchasing.<sup>9</sup>

To sum it all up, the largest component of total compensation (cash compensation) is driven chiefly by the employee's skills, responsibilities and individual contribution, rather than by age. Paid time off is a service-based reward and retirement costs are influenced by a combination of tenure and age. Health care costs are driven by a wide range of factors, including individual health risks, age, dependent coverage and health care utilization.

Because the economic considerations identified are driven by a combination of plan design, tenure, age, health risks and one-time costs, it is useful to assess two hypothetical business case scenarios:

① **Retaining 50+ workers.** This first scenario assumes a large, mature organization with a relatively modest and predictable growth strategy. The organization has a group of incumbent employees age 55 with 20 years of service; these employees could potentially retire, leaving jobs that would need to be filled with replacement employees. This analysis focuses on the economics of two alternative approaches for filling the vacant jobs:



1. Allow natural retirement trends to evolve with limited efforts to keep incumbents, so that the employer succeeds in **retaining 20%** of the experienced incumbent staff and fills the resulting vacancies from the broad labor pool; or alternatively,
2. Mount a focused effort to **double retention to 40% of the experienced workers**, reducing the need to hire from outside labor sources and increasing such benefits as knowledge retention and mentoring, and avoiding some turnover costs.

Average per-employee costs for the mix of all employees filling the jobs in question—retained incumbent employees and new hires—were analyzed. The results show

how average per-employee costs can change as a result of this effort to **retain** more 50+ workers.

② **Attracting new 50+ workers.** The second scenario focuses on a fast-growing company that finds itself needing to fill a number of newly created jobs. Retirement trends typical for the industry also contribute to the number of open job slots. The analysis again focuses on the economics of two ways of responding to the staffing need:

1. From the current applicant pool, hire a set of workers consistent with the applicant demographics, **80% of whom are age 40 and 20% of whom are age 55**; or alternatively,

2. Via increased outreach to the 50+ talent pool (e.g., through implementation of extended work hour and location flexibility), fill the open slots by **doubling the percentage of age-55 hires to 40%, with the age-40 group at 60%.**

Average per-employee costs for the mix of all new hires who fill the jobs were analyzed. In this scenario, the results show how average per-employee costs can change as a result of the effort to **hire** more 50+ workers. (*Figure 2 summarizes the results of these analyses.*)



Whether in the context of retaining a larger segment of the 50+ workforce or targeting additional hiring of 50+ workers, the comparative cost differences are balanced—if not outweighed—by other factors.

In the hypothetical analyses in the exhibit below, all new hires for the jobs in question were assumed to either be age 40 or age 55, and all retained incumbent workers used to fill those jobs were assumed to be age 55. In reality, of course, the age mix of employees in a particular position within any organization will be more diverse as it is unlikely that either all new hires will be the same age or all incumbent workers will be the same age.

As described below and summarized in the estimates in Figure 2, by increasing retention significantly, the employer would avoid a portion of the one-time costs of turnover. The annual difference in average per-employee cost associated with enhanced retention ranges from 1% to 3% and is modest if the experienced worker is well

suited for the position. If the new hire departs soon after being hired, the effective turnover costs would be greater than those estimated and would enhance the retention case.

The last row of Figure 2 demonstrates that, if the mix of new hires shifts using focused outreach and doubles the percentage of new 55-year-old workers from 20% to 40%, the organization would experience only a minimal cost impact—roughly 1% of the average cost per new employee. Given this negligible difference, the hiring decision is likely to be overshadowed by differences in other worker characteristics, such as experience, training and job performance.

The actual numbers will differ from the estimated averages shown here depending on the actual characteristics of the compensation

**Figure 2 Value and Cost Comparisons: Summary of Analysis of Focused Retention and Attraction**

Position: (Industry)	Engineer (Energy)	Sales Manager (Financial Services)	Nurse (Health Care)	Store Manager (Retail)
Key value differentiators	<ul style="list-style-type: none"> <li>• Higher motivation</li> <li>• Skilled talent shortages</li> <li>• Experience and knowledge premium</li> <li>• Knowledge transfer</li> </ul>	<ul style="list-style-type: none"> <li>• Higher motivation</li> <li>• Lower turnover</li> <li>• Experience and knowledge premium</li> <li>• Alignment with customer base</li> </ul>	<ul style="list-style-type: none"> <li>• Higher motivation</li> <li>• Skilled talent shortages</li> <li>• Experience and knowledge premium</li> <li>• Alignment with customer base</li> </ul>	<ul style="list-style-type: none"> <li>• Lower turnover</li> <li>• Alignment with customer base</li> <li>• Scheduling flexibility</li> </ul>
One-time turnover cost as a percent of total annual compensation cost	38%	33%	29%	39%
Estimated difference in average per-employee total compensation costs associated with doubling the retention of workers age 55 with 20 years of service from 20% to 40%	3%	1%	2%	2%
Estimated difference in average per-employee total compensation costs associated with doubling the percentage of new hires age 55 from 20% to 40%	1%	<1%	1%	1%

Source: Towers Perrin data for large U.S. employers (i.e., Fortune 1000 companies and equivalents) and analysis of data from the Saratoga Institute and other sources; for more data, methodology and assumptions, see Section III of the full report. ©2005 Towers Perrin.

and benefit programs the company sponsors, health risks, as well as on the actual data for the mix of the long-service older workers and the new hires in question.

In short, whether in the context of retaining a larger segment of the 50+ workforce or targeting additional hiring of 50+ workers, the comparative cost differences are balanced—if not outweighed—by other factors. In the case of retention, the offsetting factors are the turnover-related costs of replacing veteran employees with deep institutional knowledge and job-related know-how and the time it takes to select and train new workers to be fully productive. In the case of hiring, the age-based compensation cost differences are negligible relative to total labor cost and, thus, make a strong business case for

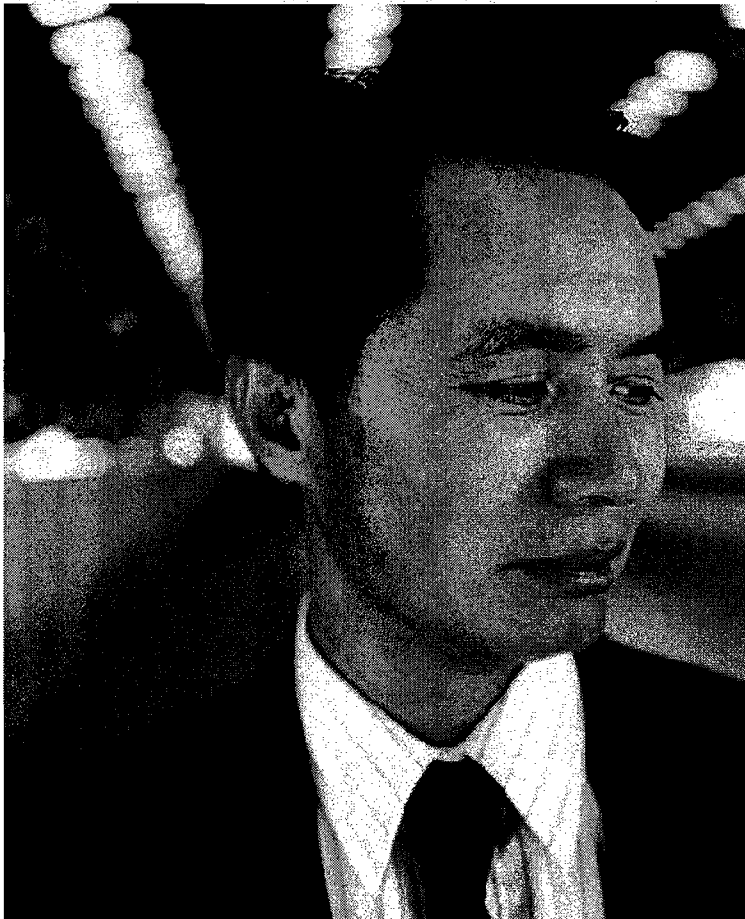
recruiting at all ages to maximize business performance and the organization's return on the available talent.

And what about the productivity side of the equation? The impact of aging on worker productivity is highly dependent on the specific job and work performed. In most cases, employers can expect that a 50+ worker

*The myth that older workers are inflexible and uncreative is not grounded in fact.*

will be more productive than someone younger and with less on-the-job experience. Academic studies of physical attributes like strength and manual dexterity have found that workers' abilities tend to decline with age. But, increasingly, due to the growth of the knowledge economy, the proportion of jobs requiring relatively little physical effort has increased considerably over the past few decades. Moreover, research on cognitive functioning and skills that are learned over time (e.g., verbal communication) shows that abilities in these areas improve with age.<sup>10</sup>

The myth that older workers are inflexible and uncreative is not grounded in fact. Economist David Galenson of the University of Chicago suggested that creativity comes in two forms: conceptual innovation (bolt-from-the-blue, mold-breaking new ideas) and experimental innovation (new ideas that are extensions of current practice). The former comes from perspectives unfettered by conventional ways of doing things, while the latter comes from a lifetime of observation and learning. Older workers are better at experimental innovation, and organizations clearly need both kinds.<sup>11</sup>





The age 50+ worker also has a strong sense of personal motivation to succeed on the job. According to a major study Towers Perrin conducted in 2003 among roughly 35,000 employees working for midsize and large U.S.

*The age 50+ worker also has a strong sense of personal motivation to succeed on the job.*

companies, employees over age 50 were more motivated to exceed expectations on the job than were younger workers. This finding refutes the myth that the 50+ worker is inclined to “check out” after decades in the workforce.

The same 2003 study explored the related concept of “employee engagement,” which Towers Perrin defines as employees’ willingness and ability to contribute to company success, or put discretionary effort into their work, in the form of extra time, dedication and energy.

Through the study, Towers Perrin investigated the link between employee engagement and business performance. By analyzing reported financial data on the more than 1,000 U.S. companies for which many of the 35,000 survey respondents work, the study concluded that companies with higher levels of employee engagement outperform those with lower engagement on a number of key financial benchmarks, including revenue growth and cost management. In short, employee engagement and superior business performance are strongly intertwined.

The study also found a strong inverse relationship between employee engagement and turnover. Not surprisingly, employees who are more engaged are less inclined to leave their employers. Given the high cost of turnover, this is an important consideration for companies thinking about how to maximize the business value of their workforce investments.

## What are the best approaches for retaining critical knowledge and making the most of the available talent?

This is likely to be the billion-dollar question for many companies. Surveys by AARP, Towers Perrin and other organizations show that most of today's 50+ workers plan to continue working in some capacity in retirement, many of them well beyond traditional retirement age.<sup>12</sup> With the decline in both prevalence and typical benefit level of defined benefit pensions and retiree medical coverage over the past several decades and the losses in 401(k) accounts and other savings that many employees suffered when the stock market sank early in this decade, many working Americans are concluding that they can't afford to retire as early as previous generations. And, with today's longer life expectancies, many others want to continue working, at least part time, for the personal fulfillment and involvement that working brings.

What is also clear is that employers seeking to tap this pool of talent are certain to have a lot of competition for these workers and will need to offer the rewards and other workplace programs that 50+ workers want and expect. At the top of this list, according to a recent Towers Perrin survey of 1,500 workers 50+ employed by large U.S. companies, are key financial rewards—specifically, health care coverage and competitive retirement benefits.

Close behind are important intangibles, including work-life balance, respect for their skills and recognition for individual contributions. Given the widespread desire among 50+ workers for flexible working arrangements and part-time employment, companies that offer such opportunities will have a leg up in attracting and retaining this growing talent pool. AARP research yielded similar findings. In a survey of 2,001 workers ages 50 to 70, respect from employers, flexible

*Employers seeking to tap this pool of talent are certain to have a lot of competition for these workers and will need to offer the rewards and other workplace programs that 50+ workers want and expect.*

work options, opportunities for training and new experiences, competitive health care benefits and competitive retirement benefits were issues identified as important to most 50+ workers.<sup>13</sup>

These considerations have obvious implications for companies' talent strategies. From our interviews with leading employers in various industries, it is clear that some are making the most of their scheduling flexibility to aggressively recruit 50+ workers and retirees. For other organizations, meeting tomorrow's workforce needs will depend more on their ability to rebuild the talent pipeline from the ground up.

## What are the leading companies doing to address these issues?



Surprisingly, relatively few major employers thus far have taken a close look at how current demographic trends are likely to affect their future talent needs. In a 2002 Conference Board survey of 150 senior human resource executives, for example, roughly two-thirds of the companies surveyed had not yet developed an age profile of their workforces.<sup>14</sup>

However, this appears to be changing. Interviews conducted for this study with leading employers (and Towers Perrin's consulting experience) show that a growing number of companies today are starting to analyze their workforce demographics and implement targeted strategies and programs to recruit and retain 50+ talent and capture the knowledge of workers nearing retirement. There is also growing employer interest in phased retirement programs designed to enable employees to withdraw from the workforce gradually. At present, pension rules and other legal concerns pose a barrier to formal programs of this sort in companies offering defined benefit pension plans.<sup>15</sup>

Although successful approaches are as varied as the organizations that use them, here are some of the key steps that are critical to any company's efforts:

- 1 Inventory your current talent and define your future needs, based on an analysis of your organization's near- and long-term business plans.
- 2 Model your cost trends to understand the business case for investments needed to attract or retain 50+ workers, focusing on total compensation costs for the various talent pools and taking into account one-time turnover costs.
- 3 Pay equal attention to revenue and performance considerations, including the impact of employee engagement on company performance and turnover risk.
- 4 Study the available labor pool and define your talent strategies, keeping in mind the specific requirements (physical, mental and scheduling flexibility) of each job.
- 5 Align reward programs to support your business and talent objectives.
- 6 Align workplace policies and culture, as all of the available research points to the work environment as a key consideration for 50+ workers in deciding whether to join or stay with an organization.

As in all areas of business, careful planning and execution are paramount. In a changing world, it is critical to set aside assumptions and preconceptions that are not supported by fact. **Companies that take well thought-**

**out action today to address tomorrow's workforce realities will be in a better position to compete for talent and stay ahead of the curve as workforce demographics shift.**



## About the Study

Compiled in the winter and spring of 2005 by a team of consultants and associates in Towers Perrin's HR Services business, the findings presented in this report were drawn primarily from the following sources:

**AARP research.** Much of the information about the attitudes of 50+ workers toward work and working in retirement comes from recent nationally representative surveys conducted by AARP. AARP's 2002 survey (*Staying Ahead of the Curve: The AARP Work and Career Study*) included more than 2,500 workers ages 45 to 74, while its 2003 survey (*Staying Ahead of the Curve 2003: The AARP Working in Retirement Study*) included 2,001 workers ages 50 to 70. Information about employer attitudes toward 50+ workers comes from AARP's 2000 survey entitled *American Business and Older Employees* and its 2005 survey *American Business and Older Employees: A Focus on Midwest Employers*. Information about employer best practices for an aging workforce comes from *Staying Ahead of the Curve 2004: Employer Best Practices for Mature Workers*, which spotlights innovative practices used by recent and former AARP Best Employers for Workers Over 50 and other companies.

### **Towers Perrin's proprietary data.**

Information on current workforce demographics, compensation and benefit programs and costs in large U.S. companies and one-time hiring and turnover costs comes primarily from an analysis of several Towers Perrin databases, supplemented by data from Medstat, the Saratoga Institute and other sources. Much of the workforce analysis is based on Towers Perrin's 2003 data for 335 large U.S. companies (i.e., *Fortune* 1000 and

equivalents) sponsoring defined benefit pension plans in the United States. This database, covering approximately three million employees, is representative of large employers and the workers employed by them in a wide range of industries. Information on benefit prevalence and costs is drawn primarily from Towers Perrin's 2005 Employee Benefit Information Center database covering more than 700 large U.S. employers (i.e., *Fortune* 1000 and equivalents) in a range of industries. The detailed cost analysis focuses largely on positions in four industries: energy, financial services, health care and retail. (See Section III of the full report for details.) Information on employee engagement and some of the information on employees' views on rewards, retirement and working in retirement are based on various Towers Perrin surveys of employees working in large U.S. companies. (See Sections II and IV of the full report.)

### **Other previously published research.**

Information on broad U.S. workforce demographic trends, work and aging, labor productivity and prevalent employment practices among U.S. companies comes from an extensive review of the available academic and technical studies and published research by U.S. government agencies and other organizations, including the Conference Board, Society for Human Resource Management and others. (See Sections I, II and V of the full report for much of this information.)

**Employer interviews.** To gain a deeper understanding of the range of challenges and issues facing major U.S. employers in relation to the aging workforce—and how specific companies are addressing these issues today—the research team interviewed representatives of 10 leading organizations in the energy, financial services, health care, retail and other industries. (*Highlights of some of these interviews can be found in the case studies presented in Section V of the full*

*report.*) AARP and Towers Perrin would like to express their appreciation to these individuals who gave so generously of their time and insights.

Except in cases where the employers interviewed asked that their companies not be identified in this report, all sources of information are noted in the body of the report, exhibits or footnotes.

## Endnotes

<sup>1</sup>Mitra Toossi, "Labor Force Projections to 2012: The Graying of the U.S. Workforce," *Monthly Labor Review*, February 2004.

Mitra Toossi, "A Century of Change: The U.S. Labor Force, 1950–2050," *Monthly Labor Review*, May 2002.

<sup>2</sup>*American Business and Older Employees: A Focus on Midwest Employers*, AARP, 2005.

<sup>3</sup>*Staying Ahead of the Curve: The AARP Work and Career Study*, AARP, 2002.

<sup>4</sup>*Staying Ahead of the Curve 2003: The AARP Working in Retirement Study*, AARP, 2003.

<sup>5</sup>Society for Human Resource Management press release, June 20, 2005.

<sup>6</sup>See Section II of the full report for an overview of this research.

<sup>7</sup>Mitra Toossi, "A Century of Change: The U.S. Labor Force, 1950–2050," *Monthly Labor Review*, May 2002.

<sup>8</sup>*American Business and Older Employees*, AARP, 2000, and *American Business and Older Employees: A Focus on Midwest Employers*, AARP, 2005.

<sup>9</sup>*Making Health Care Consumerism Work—Aligning Employer and Employee Interests*, Towers Perrin, 2004.

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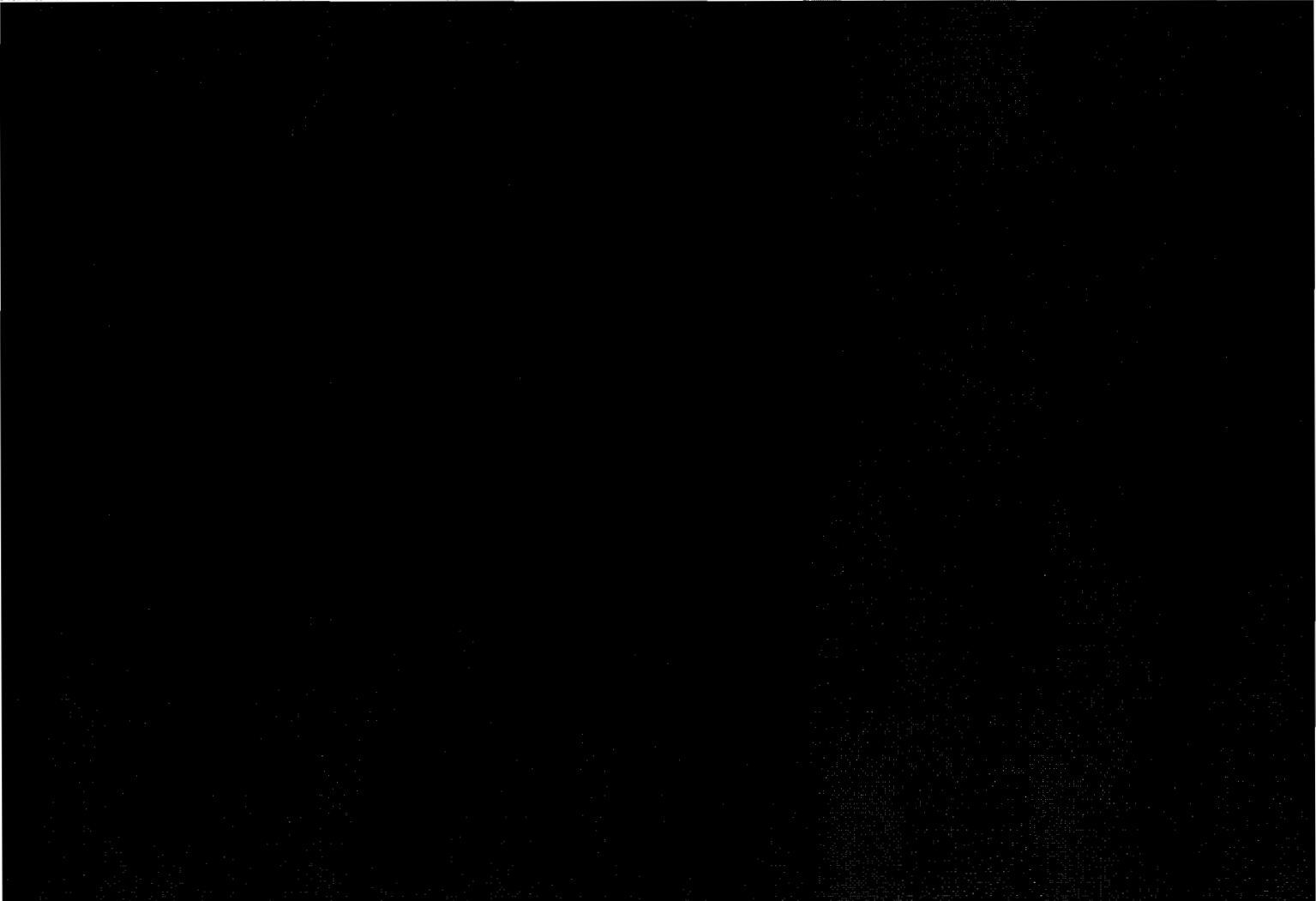
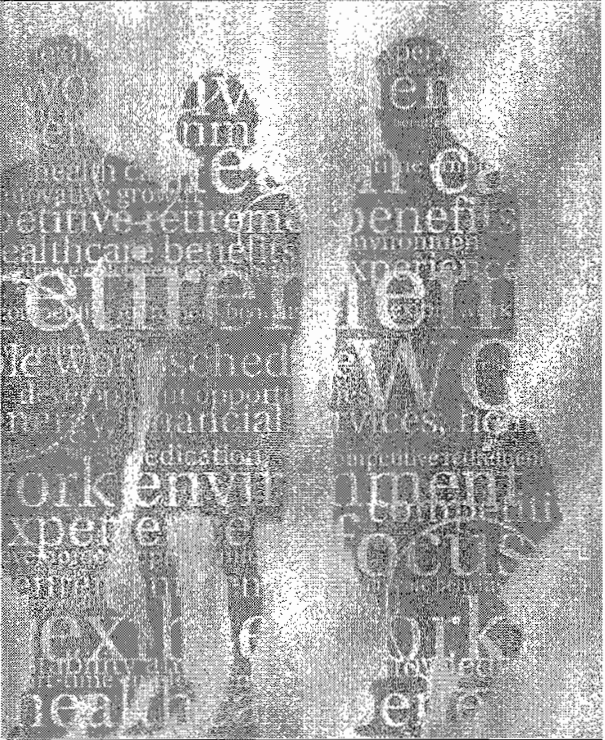
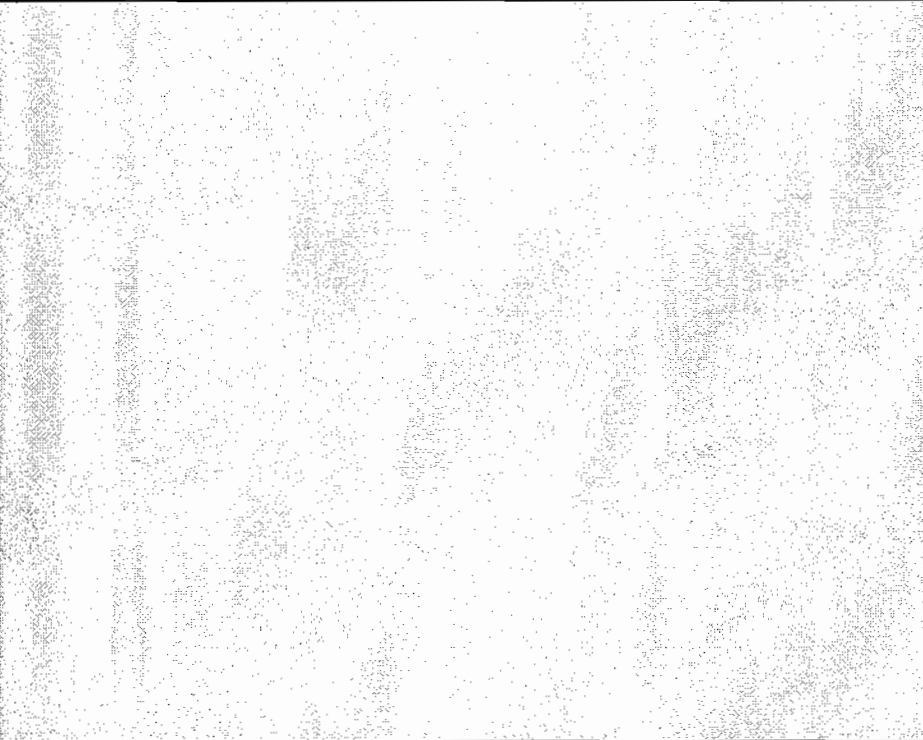
<sup>11</sup>David Galenson, *A Portrait of the Artist as a Very Young or Very Old Innovator: Creativity at the Extremes of the Life Cycle*, National Bureau of Economic Research, 2004.

<sup>12</sup>*Staying Ahead of the Curve 2003: The AARP Working in Retirement Study*, AARP, 2003.

<sup>13</sup>*Staying Ahead of the Curve 2003: The AARP Working in Retirement Study*, AARP, 2003.

<sup>14</sup>*Valuing Experience: How to Motivate and Retain Mature Workers*, The Conference Board, 2003.

<sup>15</sup>But see IRS Proposed Regulations, REG-114726, December 2004, providing parameters for formal phased retirement programs.





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