

The Aging of the U.S. Workforce: Employer Challenges and Responses

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**Ernst & Young LLP Human Capital Practice
with the assistance of ExecuNet Inc.
and The Human Capital Institute**

January 2006



Executive Summary

Corporate America clearly understands that it will face a workforce shortage as retirements increase and it is just beginning to understand the strategic challenges it will face as a result of those shortages. While more than half of the respondents to the survey – entitled “The Aging of the U.S. Workforce” – agreed that the aging workforce is an issue that must be dealt with because it will lead to a workforce shortage, and almost two-thirds said that retirements in their organization will lead to a “brain drain,” less than one-quarter of those surveyed said that the aging of their workforce is an issue that is strategically very important to them. One-third of the respondents said that this issue is important to their organization’s overall goals and strategy.

Strategically, corporate America is focusing resources on more immediate issues. Despite the low number of employers who think that the aging workforce is a very important issue today, an overwhelming 90 percent of them are committed to putting formal retention programs in place in the coming years to help address this issue as it becomes more prevalent.

However, in support of data from previous studies conducted by other organizations, our survey results do show that at least some employers are dealing with the issues raised by the aging of their workforce today. With an estimated 14.5 percent of respondents’ workforces currently over age 55 and with just under 15 percent eligible to retire in the next five years, our respondents estimated that just over 10 percent of their current workers are likely to do so.

In light of these looming retirements, just under 40 percent of respondents noted that their number one concern is the availability of talent over the next five years. Other highly ranked areas of concern included retention of key employees and talent management (i.e., ensuring that the right employees are in the right positions).

With these impending workforce shortages, the question becomes: Will corporate America move from productivity to “reductivity?” Letting the brain drain flow—that is, not implementing retention plans or failing to consider how to leverage high-knowledge workers at retirement—can have a negative effect on overall productivity. We call this phenomenon reductivity—the systemic reduction in “business wisdom” that can extend learning curves, slow otherwise smooth processes, and cause duplication of efforts along the line of the “recreating the wheel” theory.

Based on the experience that Ernst & Young LLP has with many corporate clients, it is clear that governance and compliance issues—including the focus on human resource (HR) processes and systems in Sarbanes-Oxley Section 404 reviews—are of immediate concern to HR professionals. While many recognize that the aging workforce will be an issue in the coming years, today organizations are focusing their resources on dealing with these more pressing issues and will deal with the looming “wisdom withdrawal” when it becomes a more immediate concern.

For those who already have formal processes in place to transfer “business wisdom” from one generation to the next, succession planning, mentoring, and informal knowledge networks are the most common solutions, with mentoring showing the highest level of impact.

While a majority of our respondents (over 85 percent) had no formal programs in place to retain key employees, of those who did have programs, hiring retirees as consultants or contractors, retention bonuses, promoting a culture of generational diversity and pre-retirement planning programs proved to have the highest impact. With 90 percent of respondents stating that they intend to put some type of retention program in place, we can expect to see a number of the following formal programs grow in popularity over the coming years:

- Hiring retirees as consultants or contractors or creating an “on-call” pool of retirees
- Creating flexible work schedules
- Phased-in retirement
- Creating flexible or special benefits
- Mentoring
- Continuous learning and training
- Pre-retirement planning
- Delayed retirement enhancements to pension plans
- Workplace restructuring
- Creating a culture that promotes generational diversity
- Retention bonuses
- Career counseling
- Modifications to early retirement subsidies

Survey Objectives

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 on the human capital needs of U.S. businesses and other organizations.

Ernst & Young LLP’s Human Capital practice, in conjunction with ExecuNet Inc. and the Human Capital Institute, conducted a survey of HR executives at organizations throughout the U.S.

The purpose of the survey was to determine how organizations are responding to the issues posed by aging workforces. The survey examines whether organizations are identifying older workers who possess “business wisdom” that may be lost as these workers retire, with a specific focus to determine whether organizations are developing programs to retain those employees so that their wisdom is transferred to the next generation.

The survey specifically explored:

- The extent to which employers are monitoring the age profile of their workforces, especially the distribution of older workers and their eligibility for, and likelihood of, retiring over the next five years.
- How each organization views its aging workforce and its importance to the organization’s goals and strategies.
- Whether estimated retirements will cause a talent gap or “wisdom withdrawal” in specific organizational functions and levels.
- Whether organizations have formal processes in place to capture and transmit “business wisdom” and, if so, which ones are having a measurable impact.
- Whether organizations have measured the benefit costs associated with older workers delaying their retirement.
- Whether organizations have pre-retirement planning programs and, if so, what features these programs include.

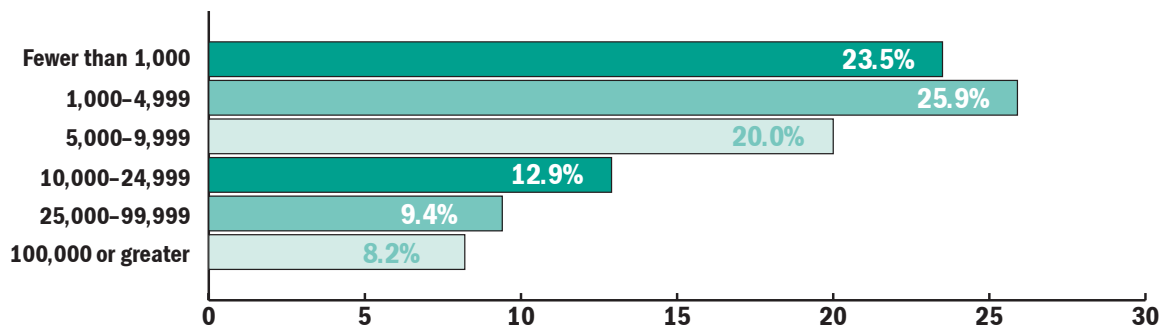
Characteristics of Survey Respondents

Survey findings are based on responses from HR executives representing a cross section of some of the largest employers in the U.S. in a variety of industry sectors. The survey was conducted electronically from November 11, 2005 to December 21, 2005.

Employer Size

Of those responding, 25.9 percent represented employers with 1,000–4,999 employees, 20 percent with 5,000–9,999 employees, and 12.9 percent with 10,000–24,999 employees. Employers with 25,000–99,999 employees comprised 9.4 percent of respondents and another 8.2 percent were employers with 100,000 or more employees. The remainder represented employers with fewer than 1,000 employees.

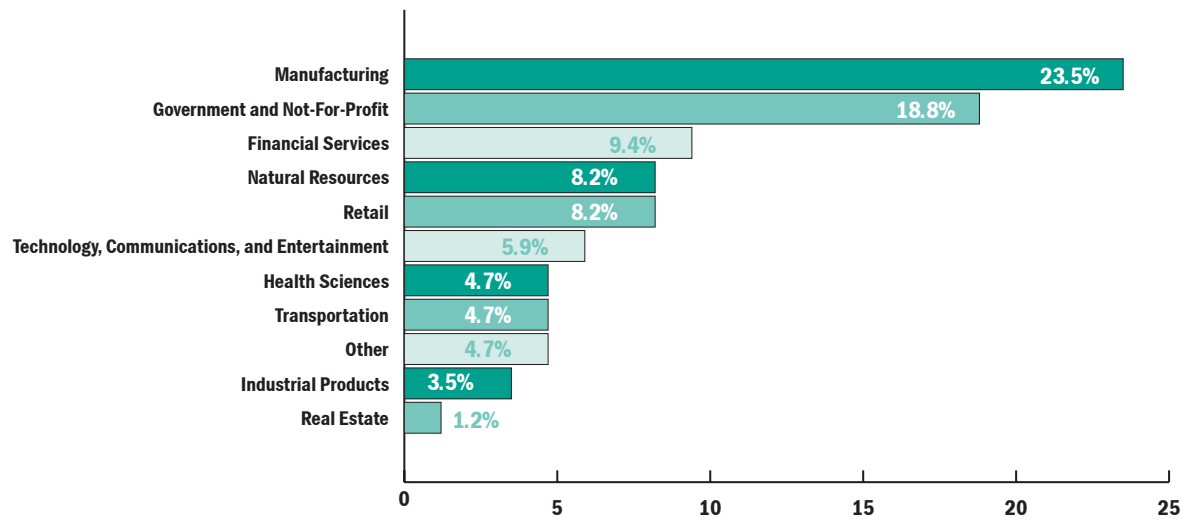
Size of organization



Industry Sector

While employers in virtually all types of industries responded, 23.5 percent of the respondents represented companies in the manufacturing industry. Government and non-profit groups accounted for 18.8 percent of respondents, and financial services firms for 9.4 percent. Natural resources and retail industries were each represented by 8.2 percent of respondents. Technology, communications, and entertainment accounted for 5.9 percent of respondents, followed by health sciences and transportation, each with 4.7 percent, and energy, consumer products, and industrial products, each with 3.5 percent. Other industries represented were: real estate, professional services, hospitality, construction, and aerospace.

Industry



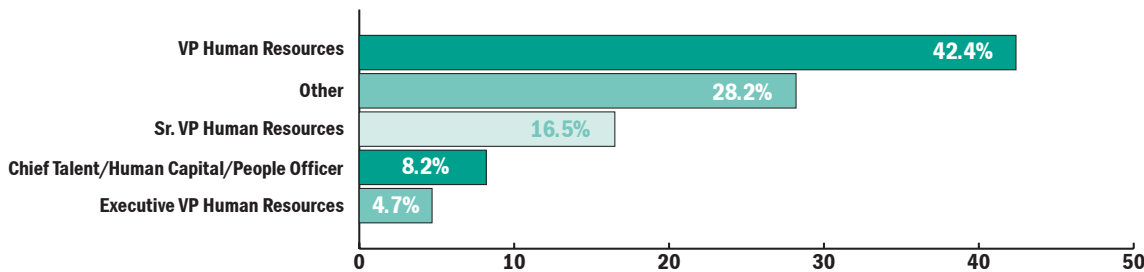
Respondents to our survey do not represent a statistical sampling weighted according to the proportions of older workers in each industry. According to the U.S. Bureau of Labor Statistics (BLS), more than 20 percent of the nation's 3.2 million federal employees were ages 55 or older in 2004, and, within the next five years, half of the federal government's civilian workforce will be eligible to retire. Nearly 20 percent of 16.7 million state and local government employees were age 55 or older in 2004. In comparison, just over 14 percent of private sector workers were ages 55 or older in 2004.

These statistics illustrate the significant challenge facing the public sector workforce in the next five years.

Respondents' Roles in Their Organizations

The most common leadership role held by individual respondents—just over 42 percent—was Vice President of Human Resources. Another 16.5 percent of respondents were Senior Vice Presidents of Human Resources and just over 8 percent were Chief Talent, Human Capital, People Officers. The remainder included Executive Vice Presidents, Senior Directors, Directors, Managers, and Coordinators of Human Resources or People, as well as benefits, compensation, and recruiting professionals.

Title



Background and Perspective

An aging society faces a broad range of economic, social, political, and cultural challenges. One critical dimension is the impact on national 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.

Aging of the U.S. Population

The United States is undergoing a profound shift in the distribution of older people in the overall population, with the primary factor being an 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 16 years; women have an additional 19 years. As a result of increases in life expectancy, the number of Americans age 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.”

The “baby boom” in 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 6 million more births than in the subsequent 18 years (1965 through 1983). In the next 18 years (1984 through 2002), however, there were almost as many births as in the baby boom (74.9 million vs. 75.9 million).

Today, out of a total U.S. population of nearly 300 million, approximately 35.9 million people are age 65 or older. This number represents approximately 12 percent of the nation’s population, or about 1 of every 8 Americans. By the year 2030, people age 65 and older are projected to constitute as much as 24 percent of the country’s population, or nearly one of every four Americans.

An aging population is not just an American phenomenon. The United States ranks 32nd among countries with high proportions of people age 65 and older. The world’s population age 65 and older is growing by an estimated 800,000 people a month. Demographers project that, by mid-century, people age 65 and over will comprise about 15 percent of the world’s population, up from about 7 percent today.

Older Workers

In the United States today, there are approximately 22.8 million people aged 55 and older who are working. They comprise approximately 16 percent of the workforce. The number of workers age 55 and over is growing four times faster than the workforce as a whole.

Because of the relative size of their group, as the Baby Boomers age, they will have a disproportionate impact on the overall age distribution of the nation's population in general and its workforce in particular. Baby 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 (Generation X, currently ages 23–41, and the Millennial Generation, currently ages 4–22).

Between 2000 and 2010, the number of U.S. workers ages 45–54 is projected to grow by just over 20 percent, while the number of those ages 55–64 is projected to grow more than 50 percent. In contrast, the number of workers ages 35–44 is projected to decrease by 10 percent over the same period of time. By 2012, the median age of the U.S. workforce is projected to reach an all-time high of 41.4 years and nearly 20 percent of workers in the nation will be aged 55 and over. In the same period, people in what has traditionally been viewed as the prime working years (ages 25–44) will fall to 43 percent of the U.S. workforce, down from 46 percent today.

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 15–64 (traditionally viewed as the total working-age population) is projected at 0.3 percent, while the comparable rate for ages 65 and over is projected at 3.1 percent. Furthermore, almost 90 percent of the net increase in the traditional working-age population is projected to occur in the age 55–64 group.

Improved health, 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” vs. “retirement” ages of the population are changing, as are the very concepts of work and retirement themselves. For example, nearly two in five American men and three in ten American women ages 55–64 who have pension income are also employed.

Increasing research attention is being given to the older segment of the nation's working population. Recent studies have explored various aspects of the aging of the workforce from the vantage point of both older employees themselves and of employers. The “Sources” section of this White Paper identifies many of the most significant recent studies on this topic, largely from the employer's perspective.

In 2005, for example, The Conference Board issued a report on the “mature workforce.” The report was the result of a survey of a working group consisting of executives from a cross-section of industries, staff and line functions, and job titles. Ernst & Young LLP's Human Capital practice was represented in this working group.

The Conference Board report's key findings were the following:

Shortages

- In industries in which a labor or skills shortage is already apparent, new recruitment, retention and work-time arrangements are being tested and implemented.
- Industries currently feeling the greatest pain in terms of skill shortages are oil, gas, energy, health care, and government.

Perceptions

- The maturing workforce is often seen as an issue to be dealt with, instead of an opportunity to be leveraged.
- Generational views differ on the concept of retirement. This affects knowledge transfer and mentoring opportunities.
- Stereotypes and assumptions exist about the mature workers' ability to stay innovative and productive, yet companies fear doing research.
- Forward-thinking organizations view mature workers within the framework of talent management.

Realities

- The maturing workforce is often isolated and couched in:
 - Work/life
 - Elder care
 - Diversity
 - Disability
- Retirement-eligible employees are not necessarily retirement prone. Employees want to continue working for both personal fulfillment and financial reasons.
- A corporate culture can limit or enhance views on the mature worker as being critical human capital and part of an integrated whole.
- It is not “politically correct” to discuss perceived or real cost concerns relating to the maturing workforce, so many companies don't discuss related issues or opportunities at all.
- “Tough issues” have to be acknowledged and researched if progress is to be made on fully integrating mature workers into the workforce.
- Both mature workers and younger workers can “retire in place” (i.e., remain on the job, but not working).

Practices

- Phased retirement practices are currently being done ad hoc and “under the table.”
- Companies are recognizing that a maturing workforce can have a positive impact on customer satisfaction and profitability, but not necessarily without effective intergenerational inclusion initiatives.

Even more recently, the U.S. Government Accountability Office (GAO), issued a December 2005 report to Congressional committees on older workers. The GAO stated that it issued this report because “(d)emographic changes pose serious challenges for employers, the economy, and older Americans.” In particular, the GAO noted that “the loss of experienced workers could have adverse effects on productivity and economic growth.” The GAO warned that “(p)otential skill gaps from impending retirements and a slowdown in the growth of the labor supply may make older workers a resource of growing importance.”

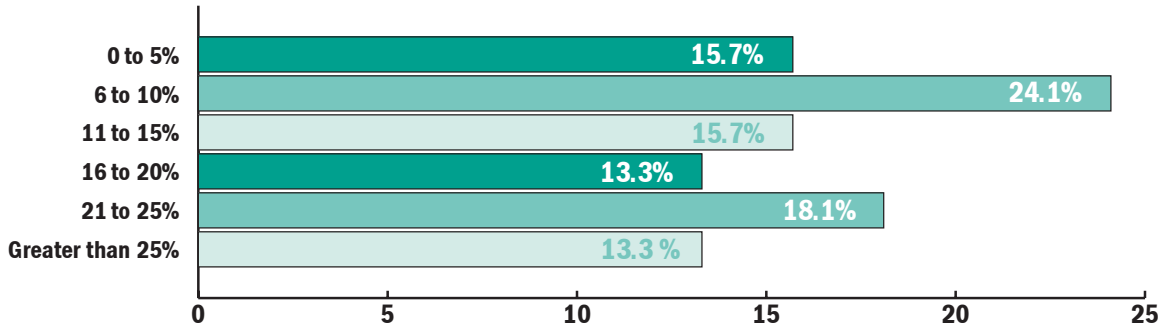
The GAO recommended that “the Secretary of Labor design a comprehensive and highly visible public awareness campaign as a way to help employers and employees plan better for the future and by so doing bridge the gap between employer and employee needs.”

Our survey and this White Paper elaborate on many of these and other recent findings.

Aging Workforce Profiles

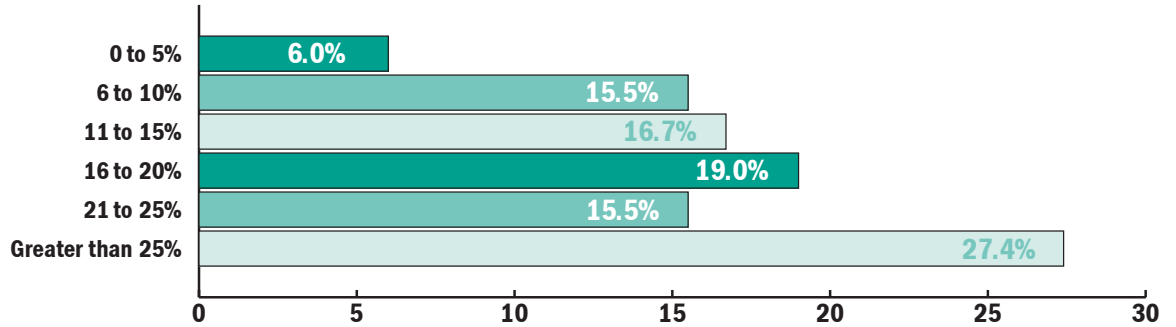
Of our survey respondents, 13.3 percent reported that greater than one-quarter of their current workforce is over the age of 55. Another 18.1 percent reported that nearly one-quarter (21–25 percent) of their workforce is over age 55. For 31.4 percent of respondents, more than one-fifth of their current workforce is over age 55.

Current workforce over the age of 55



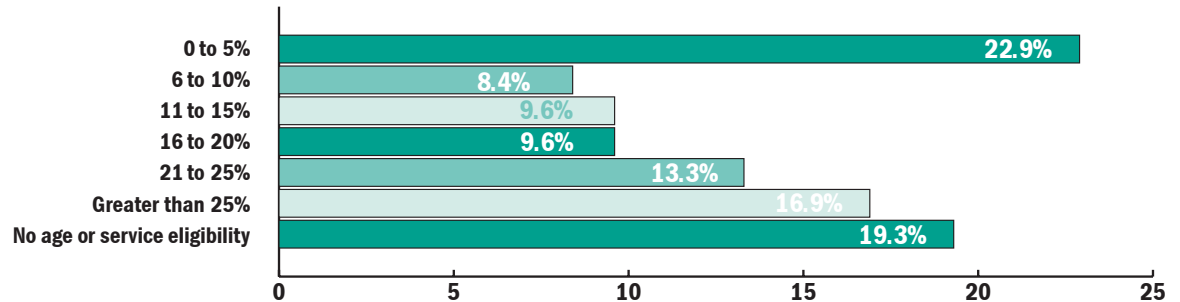
For 27.4 percent of respondents, workers over age 50 comprise more than one-quarter of their workforce. Another 15.5 percent of respondents reported that 21–25 percent of their workforce is over age 50. For 42.9 percent of respondents, more than one-fifth of their workforce is over age 50.

Current workforce 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 percent of respondents reported that more than one-quarter of their current workforce will be eligible to retire over the next five years. Other studies have estimated that nationwide just over 40 percent of the U.S. workforce will be eligible to retire during the next ten years.

Workforce eligible to retire

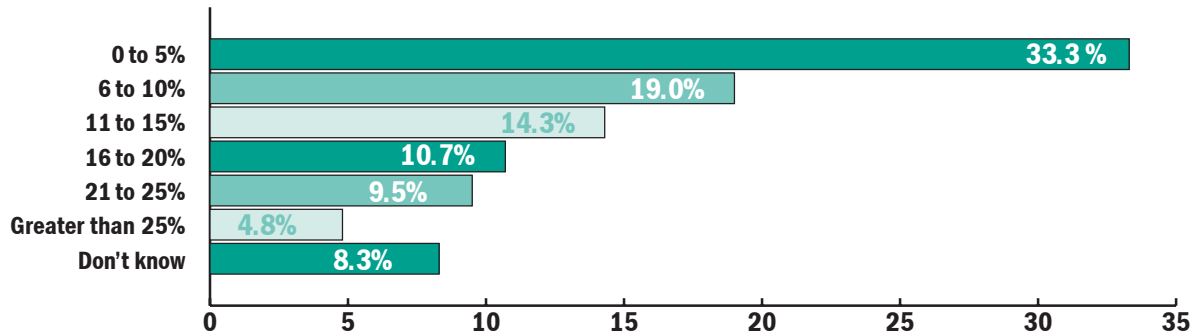


Given the prevalence of defined contribution and hybrid retirement plans in the United States, however, it was not surprising to see that just over 19 percent of respondents did not have retirement plans with age or service eligibility rules.

These responses indicate that employers have access to basic data about older workers as part of their workforce segmentation analyses. Whether employers are using such workforce profiles to monitor and project changes in their future workforces and their emerging human capital needs is another matter.

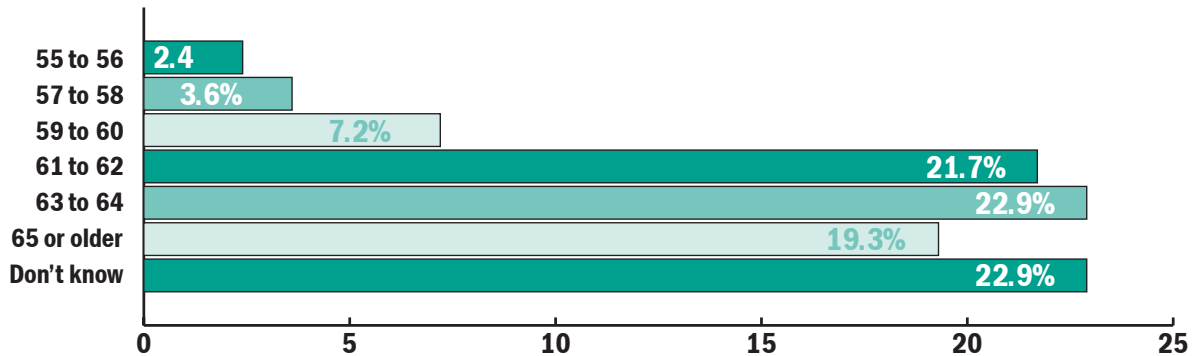
When asked what percentage of their workforce was likely to retire over the next five years, only 4.8 percent responded with an estimate of greater than one-quarter, and another 9.5 percent estimated that 21–25 percent would retire. For 14.3 percent of respondents, more than one-fifth of their workforce is likely to retire over the next five years. Over 8 percent of respondents did not know.

Who will most likely retire over the next five years?



Just over 19 percent 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 percent reported the average age at 63–64 and 21.7 percent reported the average age at 61–62. Only 2.4 percent reported the average age at 55–56. Almost 23 percent of respondents, however, did not know the average age of recent retirees.

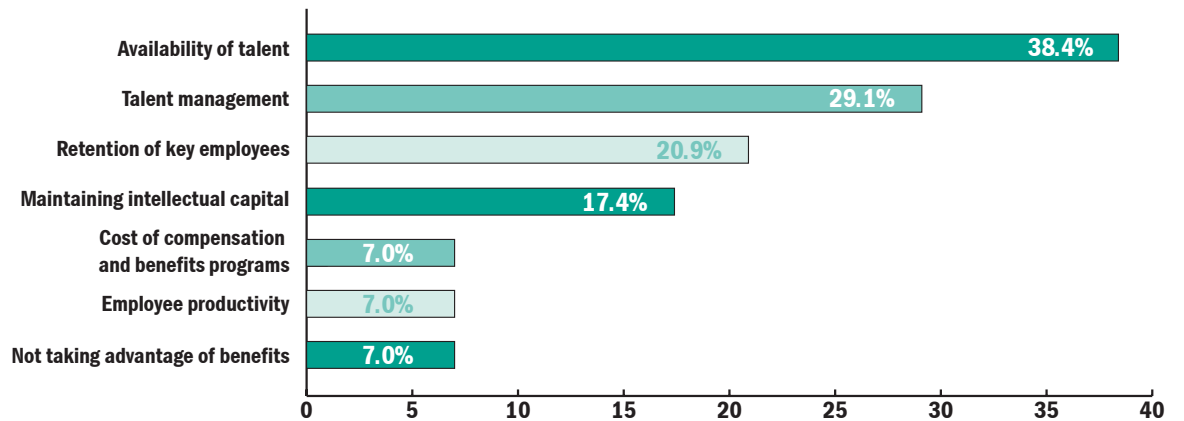
Average age of those who retired during the past 12 months



Attitudes Toward Human Capital

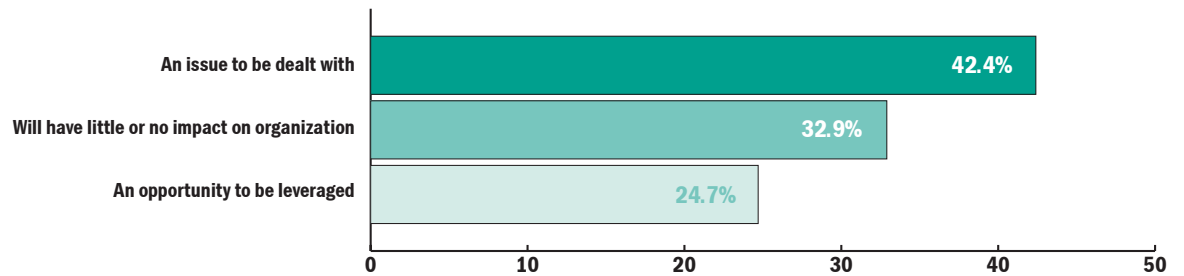
The availability of talent was rated as a top human capital concern (just over 38 percent). Talent management (right employees/right positions) was cited by 29.1 percent of respondents. Retention of key employees was cited by 20.9 percent and maintaining intellectual capital by 17.4 percent. The cost of compensation and benefit programs, people not taking advantage of benefits and related programs/systems currently in place, and employee productivity were each cited by only 7 percent of respondents. (Respondents were able to select up to three concerns.)

Human Capital issues of the most concern



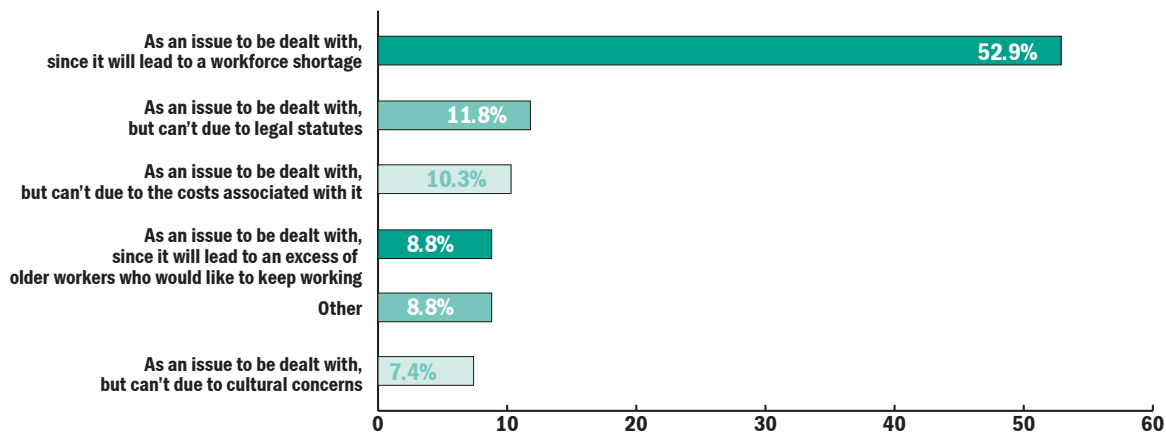
When asked how their organization viewed its aging workforce, 42.4 percent of respondents said that it was an issue to be dealt with. Only 24.7 percent viewed it as an opportunity to be leveraged. Surprisingly, nearly one in three respondents said it would have little or no impact on their organization.

How the aging workforce is viewed



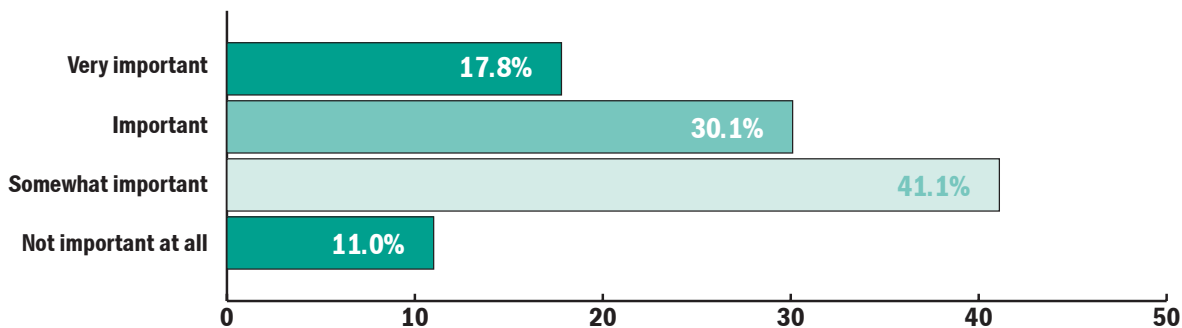
Of those respondents who described their aging workforce as an issue to be dealt with, 52.9 percent identified it as likely to lead to a workforce shortage. Only 8.8 percent expected it to lead to an excess of older workers who would like to keep working. Just over 11 percent said that they could not deal with this issue due to legal statutes, e.g., the Employee Retirement Income Security Act (ERISA) and the Age Discrimination in Employment Act (ADEA). Just over 10 percent cited costs associated with the aging workforce as a barrier to dealing with it and just under 8 percent cited cultural concerns as a barrier.

What type of issue is it?



Almost half of the 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 percent rated it *somewhat important*. The remaining 11 percent rated it *not important at all*.

How important is the aging of your workforce to your organization's goals and strategy over the next five years?

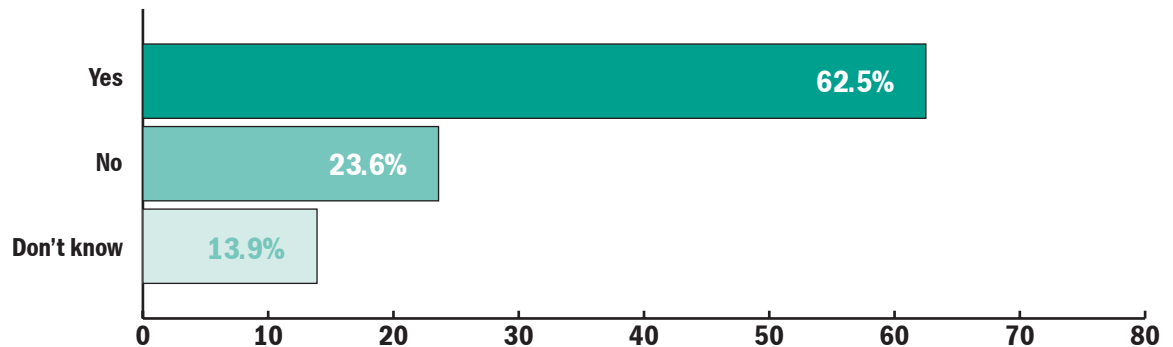


Identification and Transmission of “Business Wisdom”

Wisdom has been defined in various ways. For historian Theodore Roszak, it is “the hard-won result of experience and reflection.” Others have equated wisdom with “institutional memory.” For the purpose of this survey, we defined “business wisdom” as business value that is uniquely derived from experience alone.

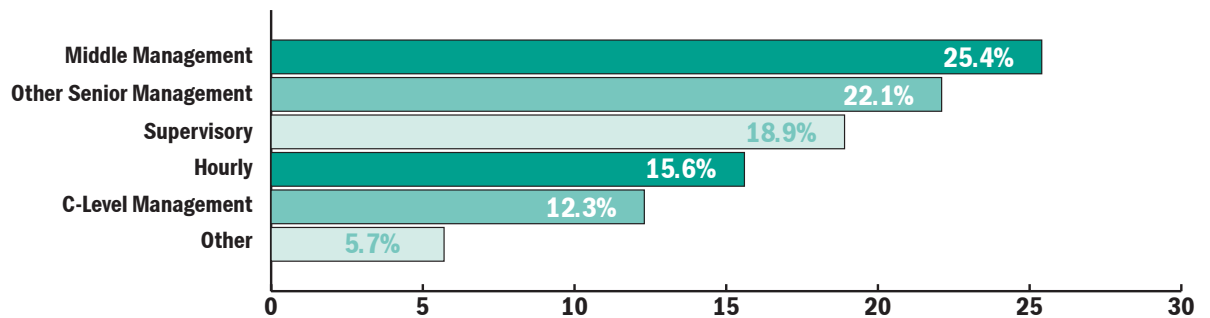
Over six in ten respondents believed that expected retirements over the next five years will cause a talent gap or “brain drain” in some functions of their organization. Nearly 24 percent did not. Another 13.9 percent did not know.

Will retirements cause a talent gap or brain drain?



When asked which levels of their organization will be most affected, 25.4 percent identified middle management and 22.1 percent identified senior management other than at the C-level (e.g., chief executive officer, chief operating officer, chief financial officer). For 18.9 percent of respondents, supervisory positions will be most affected, and for 15.6 percent of respondents, hourly employee levels will be most affected. Only 12.3 percent of respondents identified C-level management positions as most affected. (Respondents were able to select all that applied.)

Which levels will be most affected?

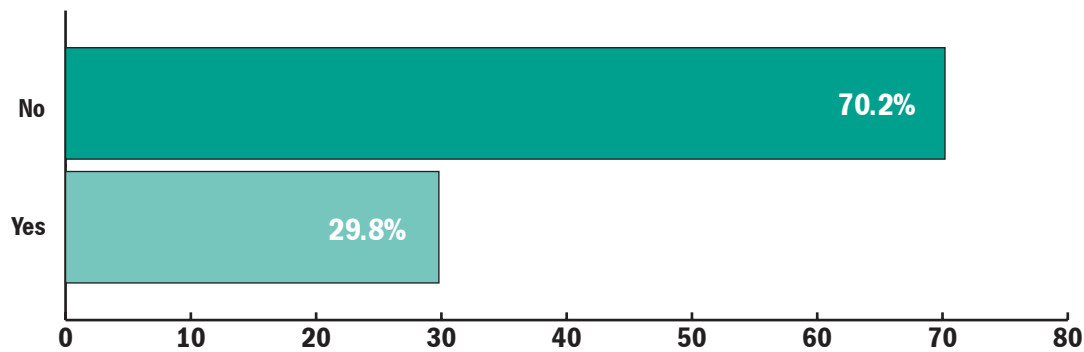


This response should be placed in the broader context of what is known nationally about today’s older workers. The vast majority of U.S. workers ages 55-74 today are employed in professional, management, service, office and administrative support and sales occupations. The number and proportion of older workers in each of these occupations is projected to grow considerably over the next decade.

While a higher percentage of professional/service-related jobs are held by older workers, blue-collar jobs are less likely to be held by older workers. Those blue-collar occupations with higher numbers of older workers are primarily in production and transportation.

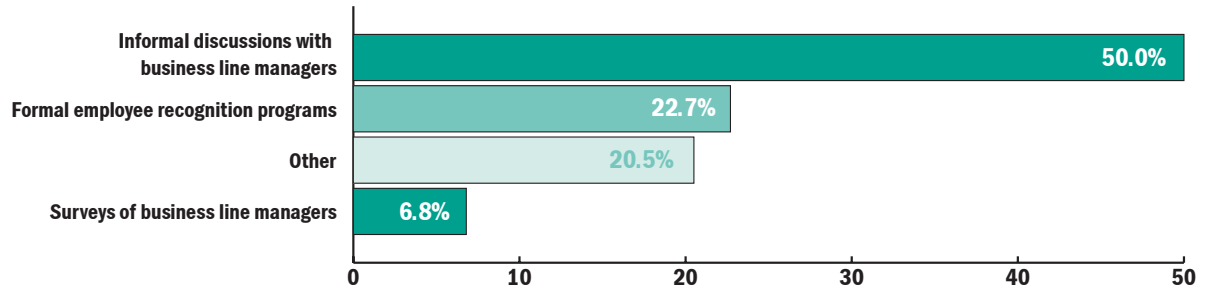
Only 29.8 percent of respondents said their organization attempted to define “business wisdom” and identify where it resides.

Has your organization attempted to define and identify where “business wisdom” resides?



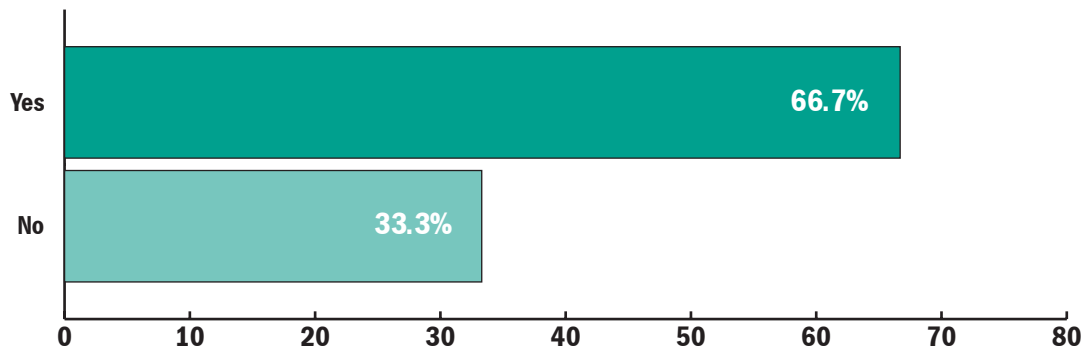
Of those who have identified and inventoried older workers within their organization who have “business wisdom,” more (50 percent) relied on informal discussions with business line managers to make this determination than any other method. Only 22.7 percent used formal employee recognition programs. 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; annual performance and talent review process; and mentoring programs with younger personnel. Only one respondent stated that he or she used “business wisdom inventory sessions with incumbents.”

How have you identified and inventoried older workers within your organization who have the skills and attributes associated with “business wisdom?”



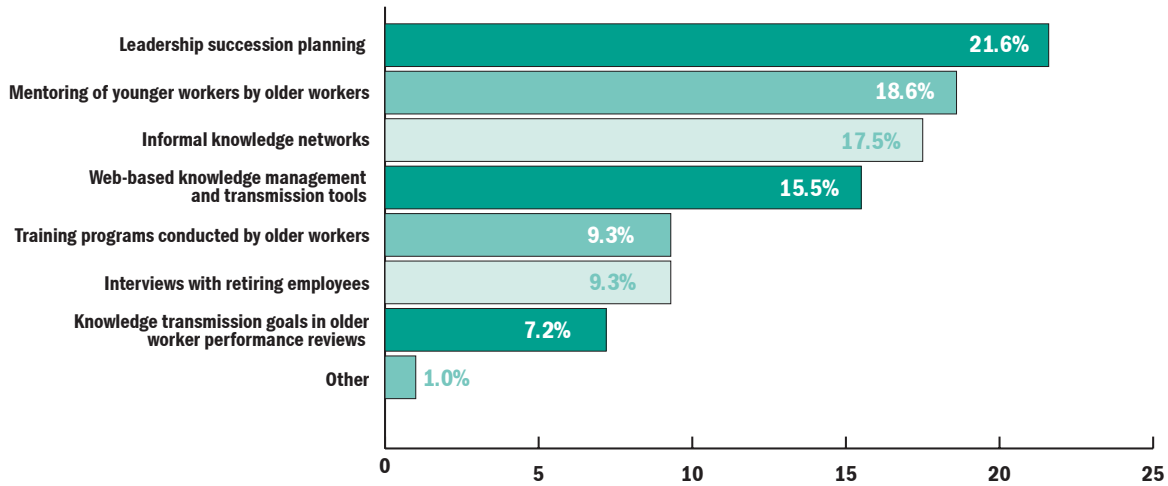
Of those who attempted to define and identify “business wisdom,” two-thirds stated that their organization has formal processes to capture and transmit “business wisdom” in place.

Does your organization have formal processes in place to capture and transmit “business wisdom?”



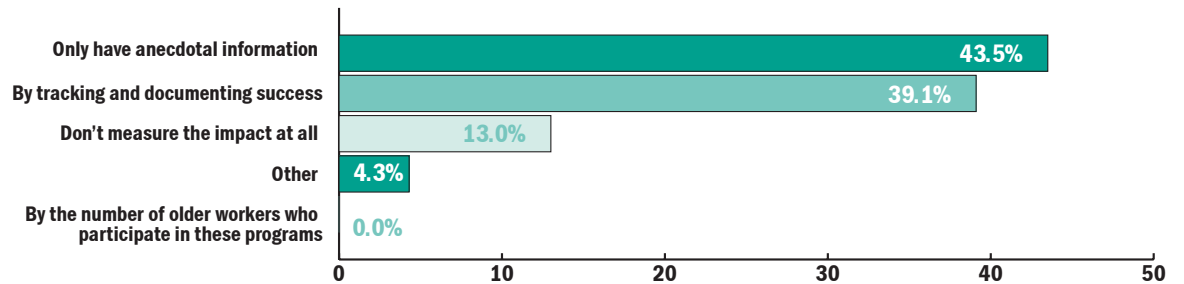
The most popular process was leadership succession planning (cited by 21.6 percent of respondents), followed by mentoring of younger workers by older workers (18.6 percent), informal knowledge networks (17.5 percent), and Web-based knowledge management and transmission tools (15.5 percent). Interviews with retiring employees were used by 9.3 percent to capture and transmit “business wisdom” and training programs conducted by older workers were used by 9.3 percent of respondents. Only 7.2 percent put knowledge transmission goals in the performance reviews of older workers. (Respondents were able to select all that applied.)

If yes, which of the following do you have?



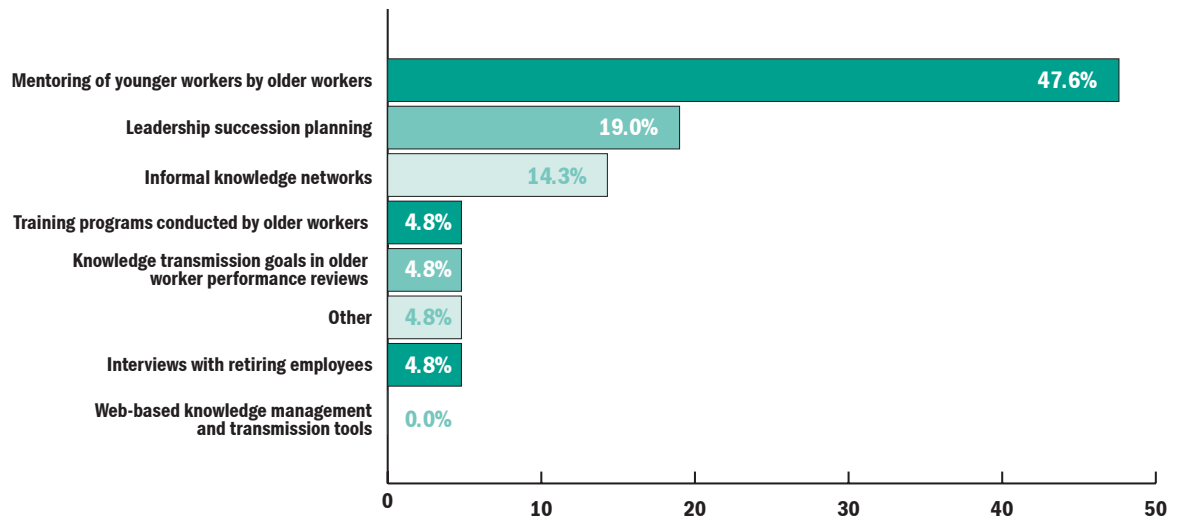
When it comes to measuring the impact of these programs, 43.5 percent relied only on anecdotal information. Nearly two out of five respondents said that they tracked and documented successful knowledge/wisdom transfer results, while 13 percent of respondents did not measure the impact at all.

How do you measure the impact of these programs?



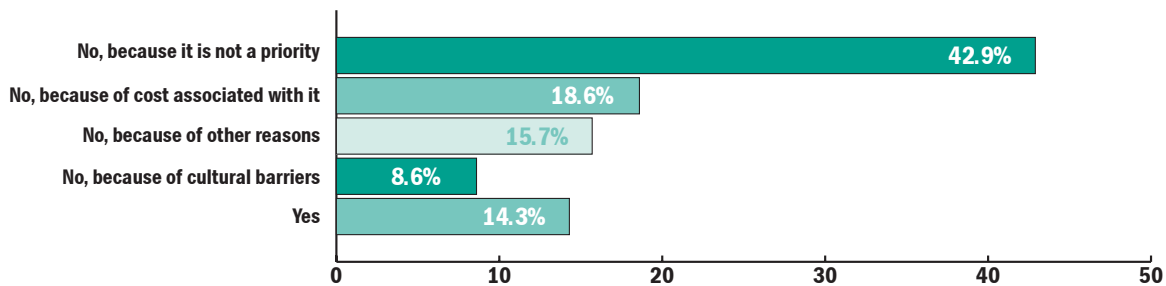
Respondents who did measure the performance of these programs found only three that they rated as high-impact efforts. Mentoring was rated highest by 47.6 percent. Leadership succession planning was rated highest by 19 percent and informal knowledge networks were rated highest by 14.3 percent of respondents. None of the other programs was rated highest by as many as 5 percent of respondents.

Which has the highest impact so far?



Retention of Key Employees

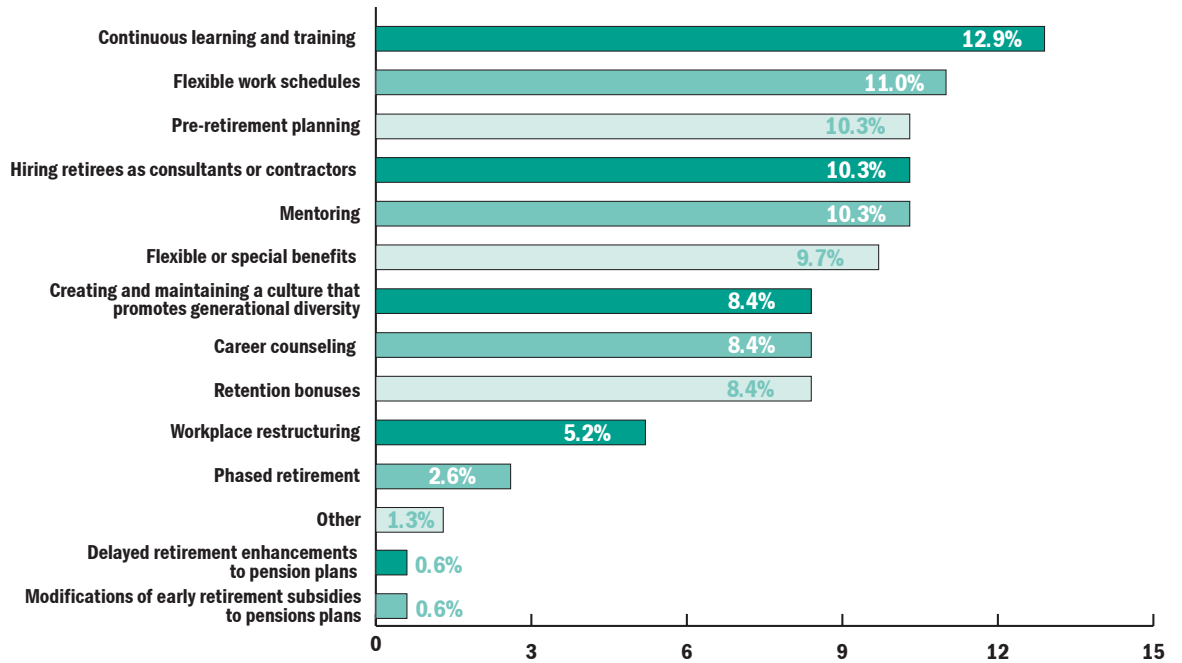
Few employers are undertaking programs aimed specifically at retaining older workers. Only 14.3 percent of survey respondents said that their organization had any ongoing and formal programs to retain key employees based on “business wisdom.” Of those that did not (42.9 percent), the most frequent reason given was that such programs were not a priority. Costs were cited by another 18.6 percent and cultural barriers by another 8.6 percent.



Does your organization have any formal retention programs?

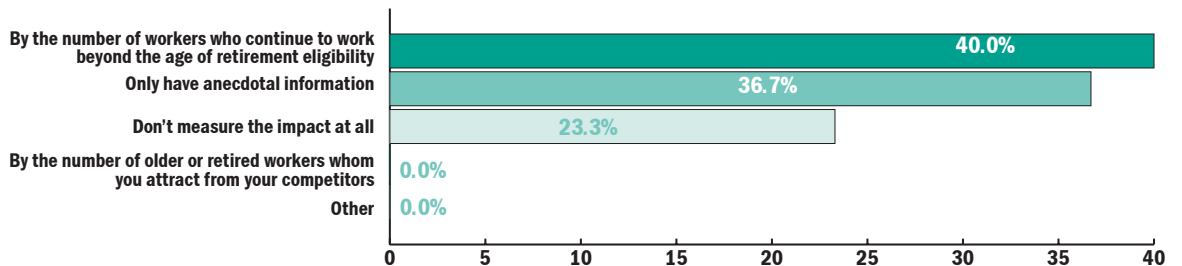
Of those that did have programs to retain key employees based on “business wisdom,” the most popular were continuous learning and training (12.9 percent). Next in popularity was a flexible work schedule (such as job-sharing, telecommuting, and work-life balance), identified by 11 percent. Pre-retirement planning was identified by 10.3 percent of respondents, as was hiring retirees as consultants, contractors, or mentors. 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, etc.) were identified by 9.7 percent, followed by promoting a culture that promotes generational diversity, retention bonuses, and career counseling, each of which was identified by 8.4 percent. Workplace restructuring was identified by 5.2 percent. Only 2.6 percent of respondents identified phased retirement as one of their ongoing retention programs.

If yes, does your organization have any of the following ongoing and formal retention programs?



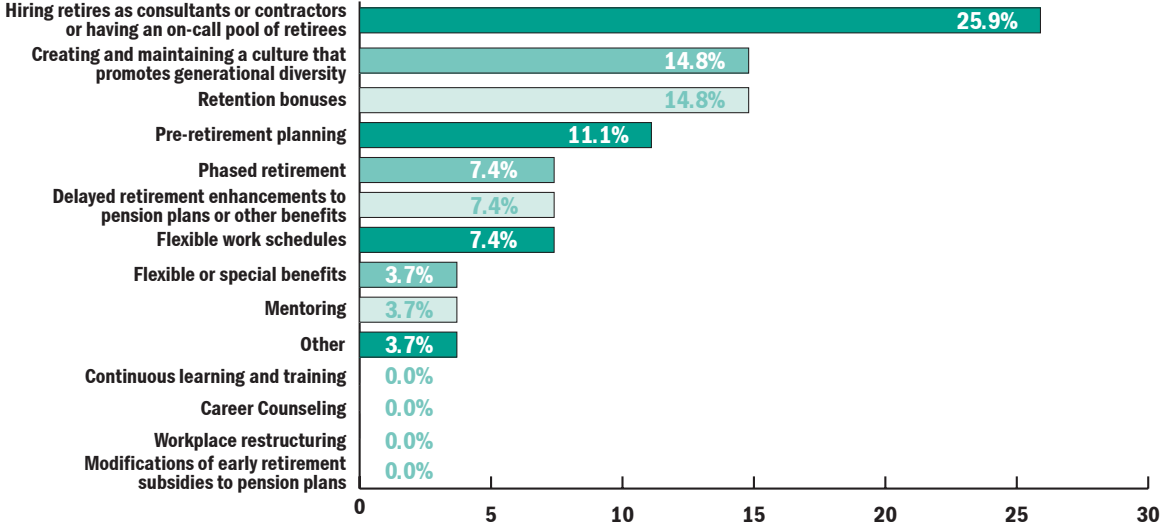
When it comes to measuring the impact of these programs, 40 percent of respondents said that they tracked the number of workers who continue to work beyond the age of retirement eligibility under their organization’s retirement plan. Another 36.7 percent rely only on anecdotal information and 23.3 percent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

How do you measure the impact of these programs?



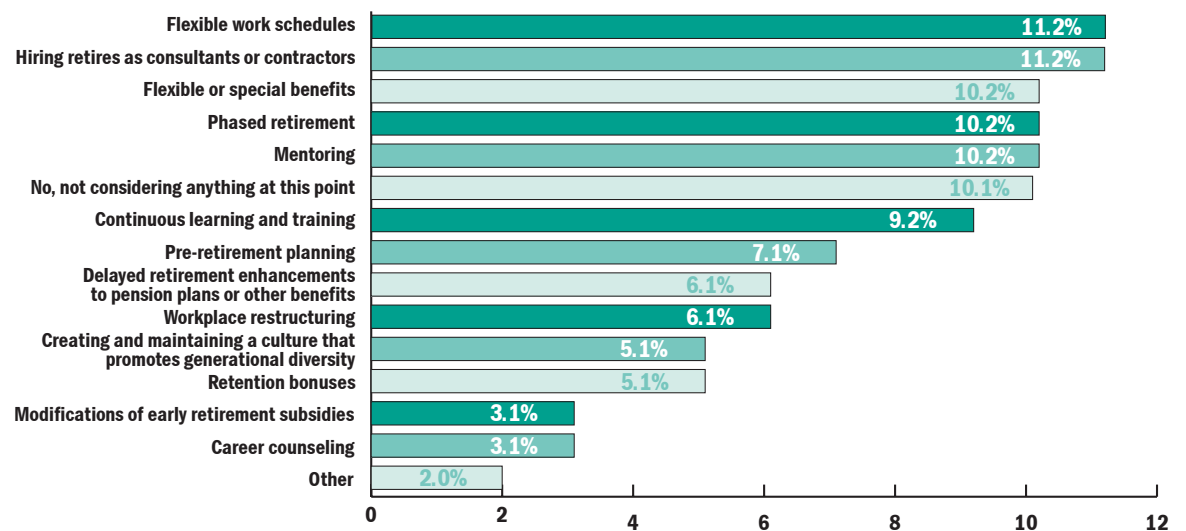
Of these programs, 25.9 percent of respondents said that hiring retirees had the highest impact. Creating and maintaining a culture that promotes generational diversity was rated by 14.8 percent as having the highest impact, as were retention bonuses. Pre-retirement planning was rated highest by 11.1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

Which formal retention programs have had the highest impact so far on older worker retention?



Looking ahead to the next few years, 11.2 percent 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 percent of respondents. Phased retirement, mentoring, and flexible or special benefits of particular interest to older workers are each being considered by 10.2 percent, followed by continuous learning and training by 9.2 percent and pre-retirement planning by 7.1 percent.

Formal activities considering to retain and/or attract older workers



Phased Retirement

Older workers have expressed an interest in some form of phased retirement, such as a reduced work schedule so they can begin receiving partial payments from their retirement program(s).

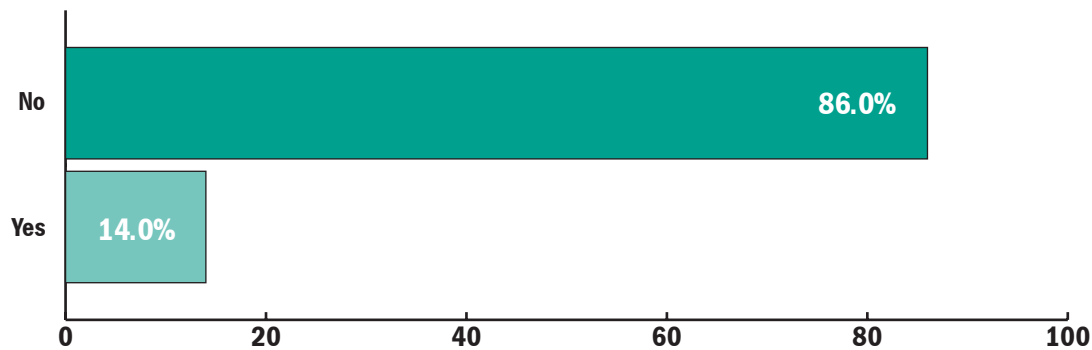
Yet, a 1999 survey by Watson Wyatt found that 70 percent of employers without phased retirement programs had simply not even considered them as options. Since that survey was conducted, the U.S. Treasury Department has issued a proposed regulation governing in-service pension plan distributions as part of such programs. Older workers who reduce their work schedules by at least 20 percent would be eligible to receive a pro-rated portion of their pension benefits. Phased retirement arrangements would be required to be voluntary and in writing. Despite having the guidance of this proposed regulation since November 9, 2004, few employers have implemented phased retirement programs. Some, in comments to the Treasury Department, have expressed their concern that the proposed regulation is too administratively cumbersome. Final regulations have not yet been issued.

State and local governments have the most experience with one form of phased retirement—the deferred retirement option program (DROP). A DROP enables eligible older workers, typically teachers, to continue to work for a government employer beyond normal retirement ages and build additional retirement plan income.

Benefit Cost Considerations

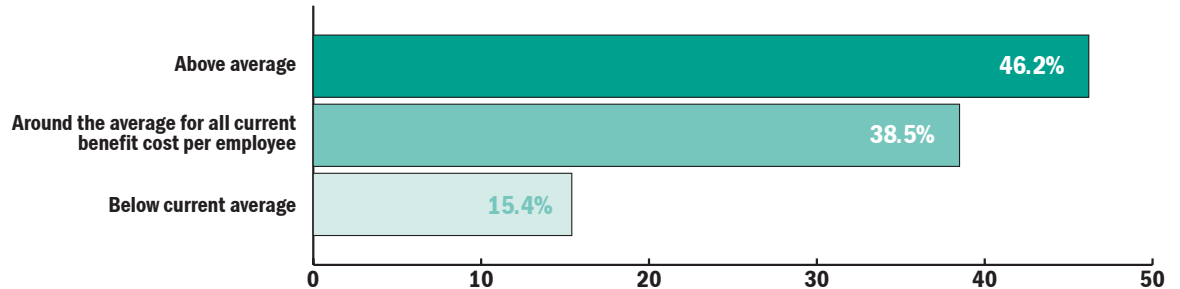
Only 14 percent of respondents have measured the benefit costs associated with workers continuing on past their normal retirement dates.

Have you measured the benefit costs associated with workers continuing on past their normal retirement dates?



Of those who have, 46.2 percent found the costs to be above the average for all current benefit costs per employee, while 38.5 percent found them to be around the average and 15.4 percent below average.

If you already measured your cost for the older workers, have you found the cost to be:



The health care costs of an aging workforce should concern employers. As people age, they tend to utilize more, and more costly, health care services. The treatment costs for conditions such as cardiovascular disease and diabetes are significantly more, on average, for older patients, due to progression of the disease. Additionally, the usage of prescription drugs increases dramatically with age.

Annual health care costs can increase by as much as 3 percent as a result solely of a one-year increase in the average age of an employee population. This increase is in addition to increases based on other factors influencing an employer's health care costs, such as increases in the cost of services, increases in the number of services utilized, the mix of services utilized, and any cost shifting by providers of services (e.g., hospitals, physicians, etc.) from mandated, fixed-price programs (e.g., Medicare, Medicaid) to the programs typically offered to employees.

According to the Kaiser/HRET Survey of Employer-Sponsored Health Benefits 2005, health care costs for single and family coverage averaged \$4,024 and \$10,880, respectively, in 2005. These numbers imply that a typical employer with 1,000 employees covered under its health care plan can expect an increase of as much as \$250,000 annually if the average age of its employee population increases by just one year.

Employers that offer retiree medical benefits, however, often find that it costs less to maintain an individual as an active employee than of as a retired member of the health plan. Costs associated with a retiree who is not yet eligible for Medicare (i.e., under age 65) can be 2.5 times as much as an active employee’s health care costs. Although a significant portion of this difference is attributable to aging, other factors may influence the cost differential between an active and a retired employee, including time available to seek treatment (active employees are more likely to seek self-care treatments to reduce the time needed to leave work to visit a physician), social needs (some retirees see physician office visits as an opportunity to compensate for the loss of social interactions that occurred in the workplace), and the better overall mental and physical state associated with a more active individual.

Pre-Retirement Planning

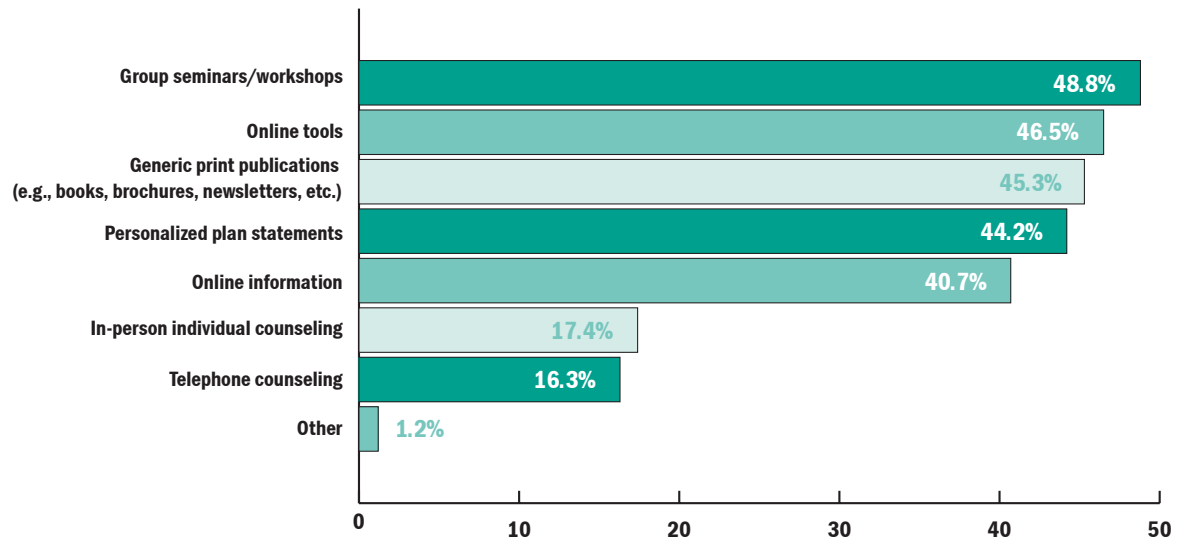
While 47.1 percent of survey respondents reported having a broad financial planning program for all employees, only 16.5 percent stated they had any type of pre-retirement planning program for older workers. Of those employers who have pre-retirement planning programs, the average length of time these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

Does your organization provide any type of pre-retirement planning:



Respondents identified as the most popular components of these programs: group seminars/workshops (48.8 percent); on-line tools, such as Web-based calculators (46.5 percent); generic print publications (45.3 percent); personalized plan statements and projections of retirement benefits at different retirement ages (44.2 percent); and on-line information (40.7 percent). Only 17.4 percent of respondents offer older workers individual counseling in person and 16.3 percent by telephone. (Respondents were able to select all that applied.)

What are the components of your pre-retirement planning program?



Just over one in four respondents reported that more than 20 percent of eligible employees used one or more of these program components during the past 12 months. Usage by 5 percent or lower was reported by 17 percent of respondents. Nearly one-third of respondents did not know what the actual usage was at their organization.

Of those respondents who have a broader program for all employees that includes pre-retirement planning, 15.2 percent reported that workers over age 55 comprised greater than 50 percent of program users over the past 12 months. Over 54 percent of respondents, however, did not know the extent to which older workers used these programs.

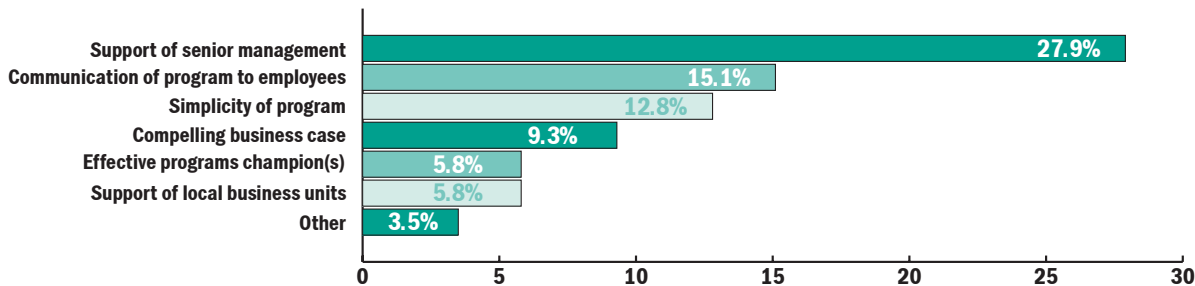
Respondents with pre-retirement planning programs reported relying most often on their 401(k) or other plan provider to deliver program components. While 38.4 percent of respondents used their plan providers for their pre-retirement planning program, 34.9 percent used their internal HR or benefits staff and 27.9 percent used an independent third-party pre-retirement or financial education/counseling firm. Only 11.6 percent reported using local individual financial planners, investment brokers, and/or insurance agents. (Respondents were able to select all that applied.)

Just over 44 percent of respondents stated that they planned to enhance or expand their pre-retirement planning program over the next one to two years.

Overall Success

Respondents who viewed any of their aging workforce activities as successful most frequently rated support of senior management (27.9 percent) and the communication of their program to employees (15.1 percent) as among the two top factors that have contributed most to their success.

What were the top factors that contributed to your aging workforce activities success?



In Conclusion

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 is, in fact, such a shortage, then workforce planning is no longer 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 will translate into unique contributions to their enterprise and that will complement, rather than compete with, what younger workers offer. Such an assessment may be particularly critical for those businesses where the prime market is also aging, as older customer-serving and market-facing workers may offer added value. 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” must be systematically applied by HR professionals as part of overall workforce planning. Starting with a definition of “business wisdom” that is specific to their industry, employers need to conduct an inventory of their workforce, with a goal of identifying those individuals whose employment and life experiences have endowed them with unique business insights, 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 “business wisdom” withdrawal due to early retirements. The consequences of such a loss of human capital are likely to harm both the employer (especially if such high-value workers deploy their capabilities and relationships on behalf of competitors) and individual workers who will not be engaged in productive work, perhaps at peak performance. Our nation will also suffer from the wasting away of those older Americans who still have so much to offer.

There is much that employers can do to manage the risk of “business 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 pre-retirement planning programs
- Initiating training and leadership development activities that explicitly focus on wisdom as a recognized and transferable quality.

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

Contact Information

Ernst & Young LLP

Ernst & Young's Human Capital practice includes an Employee Financial Services group that designs and delivers employee financial education and counseling programs, including pre-retirement planning, to large employers in a range of industries. It also includes a Performance and Reward group that assists employers with all aspects of their retirement, health, and other benefit plans.

For more information, please contact William Arnone at (212) 773-3285 or william.arnone@ey.com.

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