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Aging Populations and the Workforce: Challenges for Business

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Preface

The British-North American Committee’s working group on Business and the Challenge of Aging in the Western World met for the first time in London on 12 May 2000. At that meeting, it reviewed the broad outlines of coming demographic changes with the aid of a presentation by Andrew Dilnot of the Institute of Fiscal Studies, and established guidelines for a productive discussion of the challenges an older and less rapidly growing workforce will pose for businesses.

In preparation for the working group’s second meeting, this note builds on the guidelines established in the first meeting. It surveys the major types of challenges business will face, and outlines some of the approaches that may help deal with them.

Should the working group’s second meeting prove productive enough to warrant continuing this project, one option for further development would be a survey of BNAC members’ practices in the areas outlined. A publication and BNAC statement arising from the working group’s efforts could draw on members’ own experience for specific examples and lessons learned, and encourage all employers to build on these practices in preparing for the challenge of a less abundant and older workforce.

Introduction and Overview

For several decades, it has been clear that the demographic structures of the United States, the United Kingdom, and Canada are undergoing profound changes. Different forecasts vary in their details, but the long lead times in demography permits projections that are broadly reliable.

Thanks to declining birth-rates, growth in the traditional working-age population will slow and then cease. The average age of the workforce will rise, as will its average level of education. The share of female workers will grow. And people past traditional retirement age will make up a larger share of the pool from which employers draw.

For societies that until recently were preoccupied with high unemployment, particularly among young people, this transition will be unsettling. Public policy has begun, albeit slowly, to respond, with reforms to shore up social security programs, and refinements to laws governing private pensions. Less discussed, however, has been the challenge this change presents to businesses. Job growth in the second half of the 1990s has been robust enough to bring unemployment rates down to levels not seen since the early 1970s in the United Kingdom, the United States and Canada, complicating the task of hiring and retaining. But this cyclical boom is a mild foretaste of the recruiting and retention challenges to come.

The current period of cyclical tightness in labor markets seems an apt time for businesses to reflect on their human resource policies, preparing for the more chronic shortages that loom ahead. Hiring and contracting strategies, work schedules, human capital development, compensation practices and job assignments, business structures, workplace technologies — a smaller, older, and more female workforce will require adaptations in all these areas.

Many business will find useful precedents and lessons from changes they have already made to accommodate workers who wish nontraditional hours, who must balance their work obligations with demanding family situations, or who have particular physical needs. Others may start with less experience, but will be in a position to learn from the successes and failures of their fellows. This paper describes the key challenges, and outlines some promising approaches. A common theme is that innovative responses to the labor-force challenge of the 21st century is likely to be a key source of future competitive advantage.

Table 1. Annual Growth of Population

	Aged 15-64				Aged 65 and Over			
	1960-1990	1990-2000	2000-2010	2010-2020	1960-1990	1990-2000	2000-2010	2010-2020
	%				%			
United States	1.4	0.9	0.9	0.1	2.2	0.9	1.6	3.2
United Kingdom	0.3	0.2	0.2	(0.3)	1.3	0.4	0.8	1.6
Canada	1.9	1.1	0.9	0.1	2.8	2.1	2.0	3.3

Sources: Canada, C.D. Howe Institute; US and UK, OECD.

The Challenge

The demographically driven changes in the workforces of the United Kingdom, the United States and Canada are numerous. Three of their most striking results will be labor that is more scarce, labor that is, on average, older, and a workforce that is more female than in the past.

A Static Labor Force

Although the situation varies slightly among the three countries, birth rates in each of the United Kingdom, the United States, and Canada have declined since the 1960s. As a result, growth in the population conventionally considered to be of labor-force age — roughly those aged 15-64 — is slowing. By the second decade of the 21st century, it will essentially cease growing; in the United Kingdom, it seems likely to shrink slightly. And by the third decade of the century, the population aged 15-64 is likely to be shrinking in all three countries (Table 1).

Older Workers

By contrast, growth in the population aged 65 and over — already relatively rapid thanks to rising life expectancy — is on the verge of picking up. So not only is the average age of workers within the 15-64 group rising, the importance of people 65 and up as a potential source of workers will increase.

There are already signs that tighter labor markets and changing habits are keeping more older workers in the workforce. In Canada, the past four years have seen a turnaround in the decades-long decline in labor-force participation of men aged 55-64, while the long-standing rise in participation rates of similarly aged women continues. Even among men 65 and over, labor-force participation has stabilized, albeit at only 10 percent of the population. In the US, nearly one in four 62-64-year-old male pension recipients worked full-time in 1993, up from fewer than one in five in 1984.[1]

There are grounds for thinking that the aging of the post-war generation will amplify these trends toward greater labor-force participation by older people. A much-cited 1998 survey of baby-boomers sponsored by the American Association of Retired People (AARP) found that 80 percent of respondents said they would stay in the workforce after age 65.[2] Talk and action are not the same thing, of course, but growing awareness of the positive associations between continued labor-force activity and both good health and longer life expectancy would reinforce this predisposition.

More Female Older Workers

Less noted but equally striking is that the older workforce is increasingly female. Since women tend to live longer than men, the older population is more female to begin with. Differing trends in the labor-force participation rates of the sexes, moreover, mean that the transformation of the workplace seems likely to be more pronounced than the transformation of the general population.

The news in labor-force participation by older men is that previous declines appear to have flattened out. Among women, the news is that previous increases have steepened. As a consequence, the sex-composition of the older workforce has already changed markedly: women were a relatively small share — one-quarter to one-third — a generation ago; now, they are approaching half the total.

In Canada twenty-five years ago, fewer than one in three workers aged 55-64 were women; now, two in five are. And Canada is the laggard in this respect. In the UK, 44 percent of workers over the age of 50 are female. In the United States, women now make up 45 percent of the workforce aged 55-64. As for people working past the traditional retirement age of 65, female labor-force participation at that age is much lower than that of men, but the sex-disparity in the size of the over-65 population largely offsets it. The share of workers over 65 that are female has risen in Canada from one-quarter to almost one-third; some 42 percent of US workers over 65 are now women.[3]

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1 Herz (1995).

2 Roper Starch (1999, 6).

3 It is worth stressing that the relative size of the underlying population of each sex drives this phenomenon. Labor-force participation rates of older women drop faster than do those of men, so fields where older women are a larger share of the workforce, such as nursing and education, will experience a larger, exodus of older workers.

Public Policy

Public policy has begun responding to the prospect of an aging population on several fronts. All three countries have experienced a number of reforms to tax and other regulations affecting private pensions. Recent reforms to US social security will begin to raise the normal retirement age and eliminate the clawback of benefits for those still working. The Canada and Quebec Pension plans have trimmed the generosity of their retirement benefits, and raised contribution rates to improve their funding levels. The UK government has announced its intention to relax current mandated retirement dates.[4]

These and further reforms to adapt policy to the challenge of an aging workforce are badly needed.[5] The environment governments create will affect business's ability to respond effectively to the demands of an older and more female workforce. But the importance of government action takes nothing away from the urgency with which businesses ought to anticipate the effects of these changes on their own practices. Not only will advance planning improve the businesses' ability to urge the necessary policy changes on governments, but early action in anticipation of the 21st century's workforce challenge could be a source of competitive advantage for the businesses that undertake it.

Early Signs

As the figures above indicate, there are already many straws in the wind hinting at the more profound changes ahead. A recent survey of major employers by the Conference Board of Canada indicated an important shift in concerns relative to the last cyclical peak in the economy a decade ago. The number of respondents citing productivity and employee performance as problems had dropped from more than two-fifths to one-third. Meanwhile, the number citing recruitment as a concern had risen from one-half to two-third, while those citing retention as a problem rose from about two-fifths to more than one-half.[6]

Organizations that typically recruit younger workers, such as fast-food outlets and the military, are feeling the pinch of a reduced population base. Stories of businesses making special accommodations

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4 Whitehead (1999).

5 The BNAC has previously examined the public pension challenge in *The Future of Pension Policy: Individual Responsibility and State Support*, British-North American Committee, 1997.

6 Bachmann (2000).

to retain older workers are becoming familiar — General Electric, Chevron, Prudential Insurance, and Monsanto just some of the companies whose efforts in this regard have recently attracted attention. Many large employers have joined Walmart and Macdonald's in explicitly targeting retirees for hiring: Days Inn, Disney, Home Shopping Network, and temporary-help firms such as Express Services and Kelly Services are making increasing use of senior workers. And Travelers Group, Cigna, Boeing, and Whirlpool, along with major hospitals such as the Cleveland Clinic, are among the organizations that have launched efforts to bring back their own retirees.[7] The Royal Bank has responded to the aging of both the workforce and its customers by employing its own retirees to sell retirement products.

New Approaches to Hiring and Contracting

If difficulties in getting good help are already a complaint, what will the future bring? Changes in recruitment practices and the contractual basis of work are both likely.

Recruiting More Aggressively

As the labor market has tightened, wages have begun to rise, and anecdotes about employment offers with rich signing bonuses and accelerated salary review have become common. But money is often the easiest thing for rivals to match, and human-resource professionals report that recruiting is getting more imaginative and aggressive. Traditional media for bringing employers and employees together, such as job fairs and trade shows, are getting flashier. Newer matching methods, such as internet job boards, have sprung up, and more "active" internet-based recruitment is developing. Geographic pockets of extreme labor-market tightness have prompted even employers not normally noted for innovative practices, such as boards of education, to use third-party video-conferencing facilities to interview out-of-district candidates.[8]

Some companies are involving their own employees more directly in their recruiting.[9] In Canada, Nortel pays referral bonuses to its employees, and C.P. Hotels is introducing a "talent scout" program

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[7] Reingold (1999, 113); Coleman (1998, 21); Hickins (1999); Raphael (2000); Goldberg (2000, 6-7, 155).

[8] Chicago Tribune (1999).

[9] Howes and Cattaneo (2000).

to do the same. Other companies are forging links with educational institutions, with the high tech sector being noted for reaching, not just into the post-secondary sector, but into high schools as well: Cisco, for example, provides curriculum material to high schools, seeking to encourage more students to pursue careers in the field, and to think of Cisco as an employer when they graduate.

Recruiting from Abroad

Another strategy that will become increasingly important in the United Kingdom, the United States and Canada — as indeed in all developed democracies — is attracting talent from abroad. Relatively scarce labor will command higher wages, making all three countries more attractive destinations for skilled workers from the less developed world. And the three will likely compete more fiercely with each other for the services of their own citizens.[10]

Immigration is by its nature closely linked with public policy. In 1998, following representations from the software industry, Canadian immigration rules were eased to allow faster approval for temporary workers. At the time of writing, the US Congress had just voted a bill to raise the limits on H-1Bs, the temporary visas for skilled foreigners, and exempt certain categories from the limits altogether.[11] In the future, increased competition for such workers, many of whom would prefer permanent status, will likely mean that repeated upward adjustments and extensions to provisions for temporary workers will be supplemented by measures increasing permanent immigration.

It is one thing, however, for governments to open doors, and something else for employers to entice employees through them and into their organizations. As the outside world becomes relatively more important as a source for labor, skilled labor included, companies that extend their recruitment efforts beyond national borders can be expected to benefit.

Recruiting Older Workers

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[10] Some commentators discuss immigration's potential to counteract the aging of the population. But these hopes are exaggerated. Net immigration sufficient to sustain current ratios of old to working-age people would be large multiples of current levels (UN 2000) — questionable economically and unthinkable politically.

[11] Alvarez (2000).

More aggressive recruiting generally and outside national borders specifically, however, is only a small part of the story of a scarcer and older workforce. Much of the important action will be in efforts to emulate — indeed to out-do — those companies that already target older potential workers.

There is some evidence that most companies do not yet have such strategies. A recent survey of US employers by the AARP and the Society for Human Resource Management (SHRM) found that 65 percent do not actively recruit older workers to fill open positions; 81 percent reported that they do not offer any provisions or benefits that are designed specifically with the older worker in mind.[12] Companies that intend to be even-handed as regards the age of their new hires may unintentionally turn many away: managers, for example, are often uncomfortable hiring subordinates who are older than they are. Ensuring that promising older candidates are not turned away may require examining human resource policies for provisions that, probably unintentionally, favor younger workers.

More positively, there is scope for businesses to increase their efforts to alert older potential workers, especially women, about the jobs they offer, and about benefit packages that may appeal to them. Recruiting older workers requires operating through nontraditional channels — such as posting notices in senior-citizens centers — as Days Inn discovered when it launched its efforts in the mid-1980s. But in an environment where workers are becoming scarce, Days Inn found these strategies rewarding: hiring older reservation agents tripled its retention rate.[13]

Increased Contracting

Many employers already have programs to bring their own retirees back as temporary help or as consultants.[14] This approach often appeals when legal provisions prevent tailoring pension and benefit plans to reduced work-hours or compensation arrangements — a topic taken up below. But such contracting offers flexibility that businesses and older employees may find attractive.

An interesting variation on this theme exists among employers whose ex-employees have particular skills for which demand is not constant. J.P. Morgan’s intermittent need for help in maintaining legacy

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12 Fandray (2000, 28).

13 Goldberg (2000, 132-33).

14 Watson Wyatt (1999, 10); Sixty-two percent of respondents to the US AARP/SHRM survey reported that they were currently hiring retired employees as consultants or temporary workers (Fandray 2000, 30).

computer systems provides an example: it collaborated with several information technology companies to establish Pinnacle Alliance, which now manages Morgan's global IT operations. Collaboration with non-competitors is easiest to envision when sharing a pool of talent. But cooperation with competitors is also a possibility: the Talent Alliance, which began at AT&T and has grown to include about 30 large companies, provides an example of a common labor pool.[15]

Contracting may not be as attractive to the parties as regular employment would have been — for the same reasons that the ex-employee was not hired on contract in the first place. Because the habits of prior practice are hard to change, it is important to ensure the relationship changes sufficiently to make it safe from challenge by tax authorities.

Adapting Work Schedules

The benefits of contracting force attention to a question that human-resource departments will face more often in the future: what work-schedule adjustments will keep older workers happy and productive? Fewer hours and flexible scheduling are widespread desires among older workers, but the majority perceive employers to be unwilling to accommodate these wishes.[16] Modifying retirement systems so that work need not cease completely at a given date will also be part of the answer.

Flexible Hours

If flexible schedules are more important to older workers, many employers already appear to be adopting practices that should suit an older workforce well. In the Conference Board of Canada surveys mentioned earlier, the share of respondents offering flextime arrangements to nonunionized employees had risen from 49 percent in 1989 to 88 percent a decade later. Part-time work with pro-rated benefits, available in only 30 percent of respondents to the 1989 survey, was available in 53 percent in 1989.[17]

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[15] Capelli (2000, 109-11).

[16] Rowe and Kahn (1998, 35).

[17] Bachmann (2000, 4, 7).

To date, many work-schedule innovations have addressed the needs of younger workers. The same survey, for example, found that programs and benefits oriented around children had become the rule rather than the exception among employers, while provisions oriented around older dependents were still comparatively rare. Adapting these practices to suit the wishes and needs of older workers may involve small additional costs relative to the benefits. The increasing weight of women in the older labor force reinforces this consideration: since women tend to shoulder more of the burden of caring for relatives than men do, the need to accommodate personal schedules will likely become more acute.

In companies where flexible work schedules are not now the rule, innovative thinking about the "packaging" of work may yield insights. One intriguing proposal for simplifying the tasks imposed by flexible scheduling involves redefining work in terms of four-hour "work modules."[18] Giving employees or junior managers flexibility to set schedules in units along these lines — long enough for completion of serious tasks, but short enough to permit a variety of workdays and workweeks — might provide a good balance: assurance that tasks will be completed on time at the top; flexibility in accommodating the needs of older and younger workers alike lower down.

Certain types of production and service businesses will find such proposals naive. In others, introducing such practices into existing collective-bargaining agreements may be difficult. Past surveys have found that a significant minority of employers contemplating such plans found opposition from managers and the workers themselves to be a major obstacle.[19] And there are professional fields where output is difficult to evaluate day-by-day, and long hours are a signal managers use to judge worker dedication.[20] But in cases where these rigidities or practices have counterproductive effects, the need to accommodate an older workforce could prove a helpful spur to change.

Indeed, the absence of more flexible practices from many workplaces does not necessarily mean they would be unsuitable. A number of commentators have observed that the vital first step — listening to employees (or, more challengingly, prospective employees) to find out what they want — is often missing. Among respondents to the Conference Board of Canada survey that said they conducted opinion surveys of their employees, only in the financial-services sector had more than half included questions on work-life issues. Not surprisingly, the most common response of employers when asked

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[18] As proposed by Rowe and Kahn (1998).

[19] Swank (1982, 24-25).

[20] Landers, Rebitzer and Taylor (1996).

why they did not offer dependent-care provisions to their employees was that they had never considered it.[21]

Phased Retirement

Flexible schedules for older workers often take the form of phased-retirement plans. These plans are already a feature of many workplaces. A typical one might allow employees approaching normal retirement age to reduce their work hours — shorter work days or fewer days per year — up to some specified maximum, say 40 percent. Current pay falls commensurately, but employer and employee contributions to pension and benefit plans, and entitlements earned under those plans, may continue at pre-reduction levels. Some allow early access to reduced pension benefits.

In Canada and the United States, recent surveys of employers have found that one-sixth to one-fifth had some form of retirement transition leave or phased retirement program.[22] This figure suggests a lot of unmet demand: a sizeable majority of older workers say they would rather reduce hours gradually than stop working at a stroke.[23] Especially in cases where employees would like to scale back work and supplement their lower earned incomes with early pension benefits, this demand is likely to become more pressing. When plan benefits can only be tapped before termination on limited bases such as plan loans or hardship payments, for example, employees may conclude that they are better off leaving, and perhaps working for a competitor down the road.

A key element of many existing phased retirement plans is a commitment to retire by a specific date: following opt-in, there is no turning back. Increasingly, however, such plans focus on retaining talent.[24] It seems safe to predict that the primary future focus of such programs will be keeping employees until normal retirement age or past it, allowing those for whom full-time work is no longer attractive or possible to stay in the workforce on a less demanding basis. In this regard, they might come to

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21 Bachmann (2000, 9).

22 Bachmann (2000, 4); Fandray (2000, 30).

23 The US Health and Retirement Survey found that three of four workers aged 51-61 would do so (Herz 1995).

24 Forty-nine percent of respondents to a 1999 survey of US employers by Watson Wyatt named retaining key talent as their primary motivation (Watson Wyatt 1999, 3).

resemble schemes for leave with income averaging that some organizations have adopted, which provide similar flexibility work hours, but with no date when employment must cease.[25]

A company's existing pension provisions will naturally affect its capacity to offer phased retirement. Defined-contribution plans are generally easier to adapt. For such plans are to be attractive to employees in a defined-benefit environment, they need to protect pension entitlements that might otherwise be eroded by the impact of part-time work. One approach is to change final-average formulas, making some other period such as the three-to-five years of highest earnings, the reference period for pension benefits. Lowering the normal retirement age is also an option.[26] An alternative involves commencing pension payments for workers who opt for part-time status, while terminating the accrual of new benefits.[27] Although such "double-dipping" is, on its face, an expensive option for employers, it may compare favorably to the cost of hiring and training new employees if the alternative is early retirement.

As in other areas, adjustments in public policies would be a precondition for many arrangements to address this issue. An interesting option, parallel to the arrangements between employers and employees discussed earlier, would be to allow social-security contributions to continue at a rate consistent with unreduced earnings, thus protecting the employee's benefit from a reduced work schedule.[28] As it stands, early distribution or payment arrangements may require special approval from tax authorities, and legal restrictions often prevent the pro-rating of fringe benefits for part-time employees.[29] Regulations may prevent the receipt and accrual of pension benefits at the same time, or require equal periodic pension-plan payments. Given the lags in policy changes, it is not unreasonable

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25 Such leave-with-income-averaging schemes are currently more typically used by employees with school-age children who wish unpaid leave in addition to regular summer vacations. One in six respondents to the Conference Board of Canada's 1999 survey of employers had such policies (Bachmann 2000, 4).

26 "Cash balance" rather than final-average-pay defined-benefit plans lend themselves more easily to this sort of adjustment (Coleman 1998, 24-26).

27 Air Canada and the Canadian Auto Workers negotiated such an arrangement in 1996 (Smolkin 2000, 22). In Canada, the province of Quebec allows employees under 69 and less than 10 years from normal retirement age to agree with employers to reduce hours and take early pension benefits.

28 The province of Quebec allows such arrangements. Provisions like these are problematic, however, viewed in light of the adverse selection problems that typically justify the establishment of social security.

29 In the United States, there are age limits on in-service distributions from defined-contribution plans (Graig and Pagenelli 2000) and the Employment Retirement Income Security Act requires full-time-equivalent fringe benefits for all employees working more than 1,000 hours per year.

to suggest that companies thinking they might want to implement programs with unusual provisions in five years' time should start discussions with policymakers immediately.

Training and Retraining

The pace of technological change and its impact on the workforce make training a natural preoccupation for a company contemplating an older workforce. Changes in average education levels may make this challenge easier to deal with than is often assumed, however, while older workers themselves represent a training resource that is often insufficiently tapped.

Training of Older Workers

The fast pace of change and the rate at which technology has rendered many jobs obsolete have made the need for life-long learning a familiar cliché. Businesses already make sizeable investments in training older workers. Surveys of US human-resource executives find skill training to be one of the top five approaches to more fully utilizing older employees; 47 percent of the respondents in the AARP/SHRM survey indicated that their companies provide training to upgrade the skills of older workers and 38 percent said they plan to offer such programs in the next five years.[30]

Exhortations to provide yet more training for older workers sometimes get a skeptical hearing. Older workers may not look like the best place to invest training budgets. Their remaining time in the workforce over which to realize the benefits of training is obviously less than that of younger workers. Experience may appear to support the adage that you can't teach an old dog new tricks. And media reports of laid-off older workers unable to find new positions were common in the 1990s, reinforcing a view that after age 40, it is too late for many people to try something new.

Like all generalizations, these observations can hide important contrary details. To begin with, just because older workers have a shorter expected total working life does not necessarily mean that their expected tenure with a given company will be shorter.[31] Among companies that target them as recruits, older workers are often praised for superior reliability and loyalty. Interestingly, and again contrary to conventional wisdom, the aging of the workforce over the past two decades has, at least in Canada,

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[30] Fandray (2000, 32).

[31] As pointed out by, among others, Foot and Gibson (1993).

been accompanied by an increase in average job tenure.[32] A given older worker may provide fewer years over which an employer can amortize the cost of training; another may not.

Unlike old dogs, moreover, older workers are not necessarily slow learners.[33] With the passage of time, the workforce is not only becoming older and more female, it is also becoming better educated. The gradual universalization of elementary and secondary education and the spread of post-secondary education over the past three generations mean that previous inverse correlations between average age and education are getting weaker. Better educated people stay in the workforce longer than their less educated counterparts, while changes in earnings after lay-off and re-employment show that better educated workers typically suffer less of a set-back, suggesting greater adaptability to new environments and responsibilities.[34]

Turning to the displaced older worker story, it is true that lay-off rates for US workers in their 40s and 50s have risen since the mid-1980s. The bulk of this shift, however, reflects not a greater likelihood that a given older worker will be displaced, but simply the fact that there are more older workers. After allowing for education levels, US displacement rates *decline* with age. It remains true that laid-off older workers tend to remain unemployed for longer and suffer larger wage losses than younger workers. But re-employment rates for older displaced workers have improved by more than those for younger workers over the past two decades, suggesting that the characteristics of the older workforce that gave it an unpromising image in the past may be less important in the future.

Training by Older Workers

With older workers becoming more plentiful and better educated, their skills could be a further source of competitive advantage to many firms. Even in a field where technological change is pervasive, telephone company US West has begun using retirees to help staff its training center, teaching new workers how to repair cables, wire phone boxes, and upgrade their skills from copper wire to digital

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32 Luciani (2000).

33 Anticipating special needs, Macdonald's established a "McMasters" program to train older recruits in the 1980s. The program has been discontinued, however: the company found older workers did just as well in its regular program (Goldberg 2000, 127).

34 Rodriguez and Zavodny (2000) discuss the older-displaced worker issue at length. Much of the following paragraph draws on their work. See also Boisjoly, Duncan and Smeeding (1998).

technology.[35] Monsanto is another company that has recently made the news, establishing a “Retiree Resource Corps” with the training of younger workers as an explicit goal.[36]

Moving older employees into a mentoring and training role puts them in a position where their longer experience is self-evidently an asset. When older workers are key recipients of training, older providers of training may mesh well with them.[37] Such moves may help keep people in place when the prospect of further work along the lines they were already doing would have moved them out.

Rethinking Work Content and Compensation

As intimated already, older workers and companies that seek to attract and deploy them effectively may adopt work and compensation packages that differ from current practice. The composition of compensation may change, and the progression to ever-greater levels of pay and responsibility that is the norm today may become less usual.

Recruitment and Retention

At the outset of a discussion of compensation issues, it probably bears repeating that in a world where labor is more scarce, the price of labor will rise to reflect that scarcity.

The current tight labor market has given employers a taste of what is to come, and also some advance warnings about better and worse ways of dealing with it. It has been pointed out, for example, that locking in valuable employees with pay packages weighted heavily toward unvested options or other deferred compensation has become very popular, but has tended to promote offsetting strategies — such as signing bonuses — by talent poachers. As tactics that once conferred an advantage, steering recruiters toward companies whose employees were less effectively “protected,” became part of the business landscape, new measures, such as deferred signing bonuses, developed to slow job-hopping.

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[35] Smith (1999).

[36] Reingold (1999, 124).

[37] Goldberg (2000, 168-69) discusses GTE Corporation’s experience with a retraining program in which veteran employees were both trainers and trainees.

An aging workforce forces attention to other aspects of compensation plans. It may expose defects in common practices. Some employers have found, for example, that large profit-sharing bonuses or options can have perverse effects, allowing employees to “buy more leisure” by retiring early, or shifting — formally or informally — to shorter-hours jobs.[38] Some companies have final-average-pay pension plans that provide more in lifetime benefits to early retirees — a set-up one writer describes as “subsidizing their own corporate ‘brain drain’.”[39]

More positively, shifting the composition of compensation could help attract and retain older workers. Life insurance benefits, for example, will be less interesting to older workers who no longer have young dependents to protect. Coverage by government of medical care and drug expenses for older people, especially in the United States, will make these elements of benefit packages less important to older workers, allowing employers to top up compensation in other areas, or simply make a more economical hire. On the other side of the ledger, certain health and disability benefits will be of greater interest to older workers. As the passage of time obliges more people — especially women — to juggle employment and care-giving responsibilities, long-term care benefits are also likely to become a more important part of the compensation package.

Since the AARP/SHRM survey cited earlier found that, among US employers, fewer than one-fifth offered benefit packages specifically designed to appeal to older workers, there would appear to be scope for companies that move ahead in this area to reap a competitive advantage.

Reshaping the Compensation Curve

A trickier issue, intertwined with the questions of work content and even business structure, is the “peak and out” syndrome — the tendency for compensation to rise throughout a career, with the richest rewards coming at the end.

What makes the issue complicated is that this compensation profile is common despite something of a consensus among researchers that worker-productivity profiles do not follow a similar pattern. Careful work on labor productivity tends to show that workers over age 60 are less productive relative to their earnings than are younger workers. This might be because younger workers are

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[38] Capelli (2000, 106).

[39] Coleman (1998, 19).

financing their own acquisition of human capital by foregoing earnings early in their careers. It might be because part of the earnings of the old are effectively returns on their past investments, rather than payment for labor services rendered at the time.[40] Uncertainty about the reasons underlying current practice suggests caution in recommending change — it may be, for example, that the benefits of firm-specific skills developed by older workers are hard to capture in productivity studies.

One observation that may be helpful, however, is that workers at different stages of their careers will undoubtedly find different elements of compensation packages more or less desirable. To the extent that flexible work hours, and benefit packages tailored to older workers, can substitute for traditional remuneration, firms may be able to loosen the constraints imposed by traditional views of a "successful" salary trajectory.[41]

Redefining Responsibilities

What about the flip-side of compensation: work responsibilities? A little less than a third of respondents to the AARP/SHRM survey of US employers mentioned earlier said that they offered older workers the opportunity to transfer to jobs with reduced pay and responsibilities.[42] And it is likely that more workers would take the opportunity if it were offered.[43]

For employers, however, redesigning jobs in line with the wishes and abilities of older workers presents several challenges. In general, cognitive function does decline with age. But not all functions are affected equally. Multitasking, dealing with distraction, and working under time pressure, for example, are capabilities likelier to decline with age than is accuracy in calculation.[44] Obviously, moreover, the phenomenon varies from one individual to the next, and many older workers compare favourably to people in peak years.

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[40] See Mulligan and Sala-i-Martin (1999, 34-35) for a quick review of these issues, and references to relevant work.

[41] Many of the same issues canvassed earlier in connection with reduced work hours and phased retirement also apply to this discussion. Collective bargaining agreements are likely to be a problem. And compensation schemes that contemplate lower earnings in pre-retirement years may require adjustments to defined-benefit pension plans geared to final-salary earnings.

[42] Fandray (2000, 30).

[43] Rowe and Kahn (1998, 35) report that changes in work content are widely desired by older workers, but that the vast majority perceive employers to be unwilling to accommodate these wishes.

[44] Powell (1998).

Group medical practices provide an interesting case-study in navigating this minefield. Doctors provide high-stakes services. And group practices need to plan ahead, since sudden departures of disgruntled older doctors can leave serious holes in a group's ability to handle cases. Since keeping older doctors on call nights and weekends is unattractive both to the doctors and to the group as a whole, many group practices have responded by adopting thresholds based on age or age-plus-years-of-service that determine when a doctor scales back his hours of practice; the same thresholds also usually determine when a doctor becomes a regular employee rather than a shareholder.[45]

Cases like these are delicate because of the obvious danger that younger workers will feel that the accommodations received by their older colleagues are coming at their expense. In other lines of work, the adjustments may be easier.

Deloitte Consulting's widely noted "Senior Leaders" program arose in part because of one high-flying partner who decided, though only around 50, that he was ready to leave. With more than 200 of its 850 partners 50 or older, and most of them wealthy enough to leave when they chose, Deloitte decided it needed to offer "a second career" within the firm. The high-flyer went on a three-day week, and the company established more flexible arrangements in place for others who might someday be in the same position.[46] In fields oriented around specific clients and projects, the option to scale back employee duties to focus on a limited number of objectives is less complicated.

Revamping Business Structures

More generally, changes in compensation and work responsibilities raise questions about the overall structure of business operations.

Pyramid-Shaped Companies in Rectangular Populations

Population analysis has traditionally referred to population pyramids, with a wide base of young people and a progressive narrowing through to the oldest people at the peak. This type of population

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45 Lowes (1998).

46 See Reingold (1999) and Sherrid (2000).

age-profile no longer applies to the United States, the United Kingdom and Canada. In these countries, population profiles are now pagoda-shaped, and will over time become more rectangular.

As the population from which companies draw their workers changes shape, companies themselves will also change shape, becoming less pyramid (or pagoda)-like, and more uniform in the age-distributions. To the extent that age is correlated with advancement through a hierarchy, this transformation threatens problems: more jostling at the top, and young workers who, frustrated by a "gray ceiling" above them, seek opportunities elsewhere.

Some of the flexible work arrangements already discussed might alleviate these problems. Older workers who relinquish managerial responsibilities and return to line functions will reduce potential congestion at the top. The more older workers are engaged in special projects and/or working at home, the more advancement opportunities in the office will be open for promising younger workers.

Rectangular Companies

Inevitably, however, part of the task of adapting to a rectangular population will involve more imaginative efforts to keep workers — senior and junior alike — engaged when traditional advancement opportunities are more limited. Some human-resource specialists have urged managers to become more adept at matching employee responsibilities with life interests. Many firms lose talented employees who realize in mid-career that the money and prestige they have achieved provides less satisfaction than they expected: if employee performance reviews more frequently solicited personal views of career satisfaction, the argument goes, businesses would often find it possible to retain people by appealing to their interests.[47]

Other common themes in the literature on moving to a less pyramidal workplace are the need to motivate employees of all ages less through advancement up the hierarchy and more through development of competencies and acknowledgement of contributions. Without overstating the extent to which such measures can replace traditional pay/benefit packages and measures of prestige, an older, more rectangular workforce will require mangers to be more imaginative in providing one-time financial rewards and recognition of achievement by peers and senior executives.

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47 Butler and Waldroop (1999). A survey of commitment to employers among US workers by the Hay Group found that 61 percent of those who intended to stay with their current employers for at least five years were satisfied with the opportunities they had to learn new skills; only 25 percent of those planning to leave within a year said the same (Wah 1998, 9).

Another approach often advocated to get away from pyramidal structures is greater use of teams. Where job-sharing is an element of flexible work schedules, team-oriented production may complement the strategy. If older employees are taking on training or mentoring roles, moreover, team approaches can help avoid pitfalls: older employees may be less likely to see younger team members as a threat; younger workers may be less likely to feel patronized.[48] Finally, where retention is an issue, teams may help, simply because loyalty to colleagues is always more intense than loyalty to an organization. An older, more female workforce may lead companies to place renewed emphasis on programs, such as sports and arts-oriented activities, that create a social community in the workplace.[49]

Changing Workplaces

Finally, demographic changes are also likely to bring about changes in the nature and location of work — changes that offer challenges and opportunities to employers.

Technology

From an economy-wide perspective, scarce labor will do more than drive up wages: it will also increase capital investment, as firms supplement the dwindling supply of humans with a more plentiful supply of machines.

A common vision of a more capital-intensive workplace is that it is hostile to older workers. As computer use has increased, one story goes, the firm-specific human capital that shielded older, more experienced workers may have become less valuable. Another common fear is that older workers are more expensive to train in new technologies than younger workers. In some work environments, older, less acute workers may present safety concerns.

There is some truth in these appraisals, and for many employees and employers, they will be major preoccupations in the years ahead. It is not pollyannaish, however, to point out that the capital investments occurring today, and the advances in technology they embody, are similar in many ways

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[48] Fandray (2000, 32).

[49] Capelli (2000, 108).

to the investments of the nineteenth and mid-twentieth centuries. The common feature of these advances is that they have made physical capabilities less salient, and enhanced the importance of mental knowledge, skills and aptitudes.

One of the notable features of recent advances in electrical and electronic technologies, for example, has been the way they have lowered the barriers to work by people with various mobility-related and sensory disabilities. More accessible workplaces, monitors that accommodate less acute eyesight, communications technology that overcomes impaired hearing — these are all developments that bode well for the safety, comfort, and productivity of an older workforce.

Office jobs are not the only ones where technological advances are creating such opportunities. Observers of Toyota's plant in Georgetown Kentucky have been struck by the emphasis of its management on ergonomics as a determinant of additions to fixed capital. This focus is not the result of cultural differences: Toyota's operations in Japan, where its staff is overwhelmingly male, resemble their US counterparts more closely; the distinctive feature of its US operation is the large share of women in its workforce.[50] Such facilities provide a glimpse of the workplace of the future, in which an older, and more female, workforce will thrive.

Telecommuting and Working at Home

Reduced costs of communication are allowing workplaces themselves to relocate so as better to suit employees. In part this is a matter of reducing the time and inconvenience of commuting. The Conference Board of Canada survey found that the share of employers making use of telework and work-at-home arrangement had risen from 11 percent in 1989 to 50 percent in 1999.[51]

One of the key drawbacks of remote work arrangements — inability to monitor employees closely — is probably less acute with older employees, who are widely regarded by the companies that deliberately seek them out as more reliable. More positively, locating functions closer to communities of older people may do more. Harking back to the discussion of teams above, it may encourage employees to put down deeper roots, and insulate them from the recruitment efforts of competitors. To overcome the feelings of isolation that might make telecommuting less attractive to older workers,

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50 Gordon (2000, 29).

51 Bachmann (2000, 4).

companies could follow leads such as that of Leisure Co./America West, which holds potluck dinners to keep its teams in touch with each other.[52]

Other Arrangements

As the amount of innovation in response to the challenges of an older actual or potential workforce increases, employers will do well simply to monitor the efforts of their competitors and peers in other industries. A diverse economy and a diverse workforce will constantly throw up surprises.

Many commentators on the demographic challenge stress the benefits of combining older and younger workers in teams — some of these experiences have been mentioned in this paper. Yet when US cosmetics maker Bonne Bell began a seniors-only recruiting program in 1997, they segregated their older workers from their younger ones, even giving them their own restroom facilities and parking area. In the company's view, a separate work space allows older workers to develop camaraderie and boosts morale by lessening concern about competing with younger workers. The result: the program is profitable for the company, and popular enough to have a waiting list for job openings.[53]

A (Potential) Survey of Current Practice

[As noted in the preface, a survey of BNAC members could provide material for a summary description of planning and policies in each of the six areas discussed in the previous section.

We encourage members of the Working Group to bring to its second meeting information about how their own companies and companies with which they are familiar are adapting already.]

Concluding Comments

Although it is common knowledge that demographic forces are changing the workforces of the United Kingdom, the United States and Canada, perception of the challenges this transformation poses for

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[52] Dunkin (1998).

[53] Hickins (1999, 15).

business are still patchy, and reaction to it is uneven. A striking finding of Watson Wyatt's widely cited survey of US employers, for example, was that 70 percent of employers without phased retirement programs cited not concerns about employment costs, productivity and pension obligations as reasons for not offering them, but simply the fact that they had never considered doing so.[54] For many of those employers and their employees, phased retirement might not be attractive in any event, but it seems fair to speculate that many of them may be missing an opportunity.

The wheels of demographic change grind slowly, but even slow-moving changes can surprise with the size of their impact. The current economic boom provides a foretaste of the crunch to come, and if financial markets stay buoyant, the competition for older workers may heat up faster than expected, as rich nest-eggs finance departures from the workplace on a large scale.

More positively, many of the measures that would ease the adaptation to scarcer, older workers are the same as, or similar to, practices that far-sighted employers are undertaking anyway. Faced with the reality of more aggressive poaching of talent, some companies have adopted planning models that project requirements and make explicit allowance for different attrition rates in different functions.[55] Rather than trying to retain people across the board, such plans prioritize, distinguishing people for whom indefinite retention is both attractive and possible at one extreme, through those whose talents will be needed and may only be available for shorter periods in the middle, to those whose jobs are easy to fill or whose skills are not much in demand elsewhere at the opposite end.

For many companies, attracting and retaining the skills, knowledge and aptitudes of older workers simply make good business sense. Innovative hiring and contracting, flexible work schedules, training, imaginative compensation and business structures, new workplace technologies — these can all be tools to build and retain key talent. Companies that do not adapt to the needs of an older workforce may find their own older workers taking their pensions and going to work for competitors. Companies that make an early start in adapting to the challenge, by contrast, can build a key competitive advantage.

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[54] Watson Wyatt (1999, 11).

[55] Capelli (2000, 105). Dohm (2000) provides a useful survey of the age-profile of the US workforce by occupation, including projections of the areas most likely to be affected by baby-boomer retirements.

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