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Aging Populations and the Workforce: Challenges for Employers

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Preface

An author of a British-North American Committee study benefits from the extraordinary range of experience and wisdom of its members, which presents a challenge when it comes time to acknowledge individual contributions.

At the risk of too brief a summary, I thank the participants in the BNAC's working group on Business and the Challenge of Aging in the Western World, and especially its chairman Claude Lamoureux, for comments and discussion on earlier drafts. The respondents to the survey of organizations with which BNAC members associated were not only generous with their time, but also included additional comments that provided valuable additional depth to the results. Thanks are also due to Malcolm Hamilton of William M. Mercer Limited for several useful comments, to Ted Wannell of Statistics Canada for guidance in preparing the survey of BNAC members, and to Shay Aba for assistance in compiling the survey results. Responsibility for errors and for the opinions expressed here is mine.

William B.P. Robson
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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, these projections show that growth in the population traditionally considered to be of working age will to 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 in which preoccupation with high unemployment, particularly among young people, has been the norm, such a transition will be unsettling. Public policy has begun to respond, albeit slowly, 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 employers. Job growth in the second half of the 1990s was 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 that cyclical boom is a mild foretaste of the recruiting and retention challenges to come.

The current period, with the late-1990s experience still fresh in memory, seems an apt time for businesses and other organizations to reflect on their human resource policies, preparing for the more chronic shortages that loom ahead. Hiring and contracting strategies, work scheduling, human capital development, compensation and job assignment practices, business structures, workplace technologies — a smaller, older, and more female workforce will require adaptations in all these areas. Many relevant public polices are out of step with the imperatives of the future, and the long lead times for reform mean that employers need to keep policymakers abreast of the challenges and urge them to timely action.

Many employers 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, starting with less experience, will be in a position to learn from the successes and failures of their fellows. This paper describes the key challenges, outlines some promising approaches, and discusses the public policy changes that will affect employers' ability to make the needed changes. Innovation and flexibility in responding to the labor-force challenge of the 21st century will be a key source of future competitive advantage, both for individual employers and for countries.

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 Slower-Growing 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 is projected to essentially cease growing in North America; in the United Kingdom, it seems likely to shrink slightly (Table 1). And by the third decade of the century, the population aged 15-64 is likely to be shrinking in all three countries.

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.

Not only will the population of traditional working-age grow slowly, but its composition will shift. Groups whose work-force participation rates have tended to be relatively low will make up a larger share of the total. Without changes in the participation rates of various demographic groups, overall growth in the pool of potential employees would be even more subdued than the total numbers age 15-64 suggest.[1]

Aging Workers

The most prominent feature of the looming shift in the composition of the working-age population is, of course, its increasing age. Projections from the U.S. Bureau of the Census, for example, show almost 90 percent of the next decade's net increase in the working-age population occurring in the 55-

[1] In Canada, for instance, projection of current workforce participation rates by age and sex suggest that the overall participation rate of the labor-force-age population will fall from 65 percent in 2000 to 63 percent by 2010 and 60 percent by 2020 (Statistics Canada 2001, 5).

64 age category.[2] In Canada, C.D. Howe Institute projections show growth in the 55-64 age-group accounting for about 70 percent of the net increase in the working-age population by 2010, and all of it by 2020. In addition, 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 potential employees will increase.

There are already signs that tighter labor markets and changing habits are keeping more older workers in the workforce. In the United States, a strong economy in the 1990s was associated with a leveling off and then a rebound in the previously declining participation rates of older men. The share of people already receiving pensions who are in the workforce has been rising since the early 1980s: among male pension recipients aged 55-64, nearly two in five are now employed.[3] In Canada, a weaker economy delayed the turnaround, but by the second half of the 1990s, the long-term decline in labor-force participation of men aged 55-64 had reversed. In the United Kingdom also, the employment rates of older men had risen by the late 1990s from the troughs encountered earlier in the decade. And employment rates of older women in all three countries have trended upward for decades (Table 2).

Table 2. Employment-to-Population Ratios of Older Population

		Males				Females			
	Age	1983	1988	1993	1998	1983	1988	1993	1998
		%				%			
United States	55-59	76	77	74	76	46	52	55	60
	60-64	54	52	51	54	32	33	36	38
	65-69	25	25	24	27	14	15	16	17
United Kingdom	55-59	76	73	66	69	47	49	51	53
	60-64	53	49	45	46	20	18	24	23
	65-69	13	11	12	15	7	5	8	8
Canada	55-59	75	74	66	66	37	41	43	46
	60-64	56	50	43	42	24	24	23	23
	65-69	21	18	15	18	7	7	7	7

Source: OECD 2000, 89-90.

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

2 Purcell (2000), 20.

3 Purcell (2000, 24); see also Herz (1995).

respondents said they would stay in the workforce after age 65.[4] 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. Certainly the experience of older people in a number of Scandinavian and Asian countries show the potential for considerably higher participation rates than those currently evident in the United States, the United Kingdom and Canada.[5]

More Female 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, present a prospect of a transformation of the workplace that is 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 bottomed out. As for women, the news is that previous increases have steepened. 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.

Twenty-five years ago, fewer than one in three Canadian 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 make up 45 percent of the workforce aged 55-64.

Female labor-force participation after the traditional retirement age of 65 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.[6]

Early Signs

Other straws in the wind hint 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,

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4 Roper Starch (1999, 6).

5 OECD statistics for 1998 showed the United States seventh among 29 OECD countries for labor-force participation rates of people 55-64, behind Iceland, Switzerland, Norway, Sweden, Japan and Korea (Iceland's rate is in the high 80s, almost 30 percentage points above the US level). The United Kingdom and Canada were in the middle of the pack, in 13th and 14th place respectively (Visco 2001, 20).

6 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.

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.[7]

Organizations that typically recruit younger workers, such as fast-food outlets and the military, are feeling the pinch of a reduced population base.[8] Stories of businesses making special accommodations to retain older workers are becoming familiar — General Electric, Chevron, Prudential Insurance, and Monsanto are 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.[9] The Royal Bank has responded to the aging of both the workforce and its customers by employing its own retirees to sell retirement products.

Public Policy Responses

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. Reforms to US social security are raising the normal eligibility age and have eliminated the clawback of benefits for those who work past that age. 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 is raising the national-insurance pension eligibility age for women to equal that of men, has announced its intention to relax current mandated retirement dates,[10] and has also released a non-statutory code of practice for employers, covering such topics as recruitment, promotion, training, redundancy and retirement.[11]

As the BNAC has noted in a previous publication, these and further reforms to adapt policy to the challenge of an aging workforce are badly needed.[12] The environment governments create will affect employers' ability to respond effectively to the demands of an older and more female workforce. But the continued importance of government action takes nothing away from the urgency with which

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7 Bachmann (2000). Out of ten labor-force-related concerns in the BNAC's survey of its members, retention and recruitment ranked as the top two concerns.

8 The US armed forces have recently begun to pay cash bonuses to retirees who come back for one more tour of duty.

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

10 Whitehead (1999).

11 United Kingdom (1999).

12 Robson (1997).

businesses ought to anticipate the effects of these changes on their own practices. Advance planning will improve businesses' ability to discern the policy changes that are needed and present governments with informed suggestions about how to bring them about. And early action in anticipation of the 21st century's workforce challenge could be a source of competitive advantage for the businesses that undertake it.

Finding People

Difficulties in getting good help are, of course, nothing new for many employers. But the demographic change under way will alter the population base from which businesses draw so profoundly that many human resource policies in the areas of recruitment practices and the contractual basis of work will likely need to change in response.

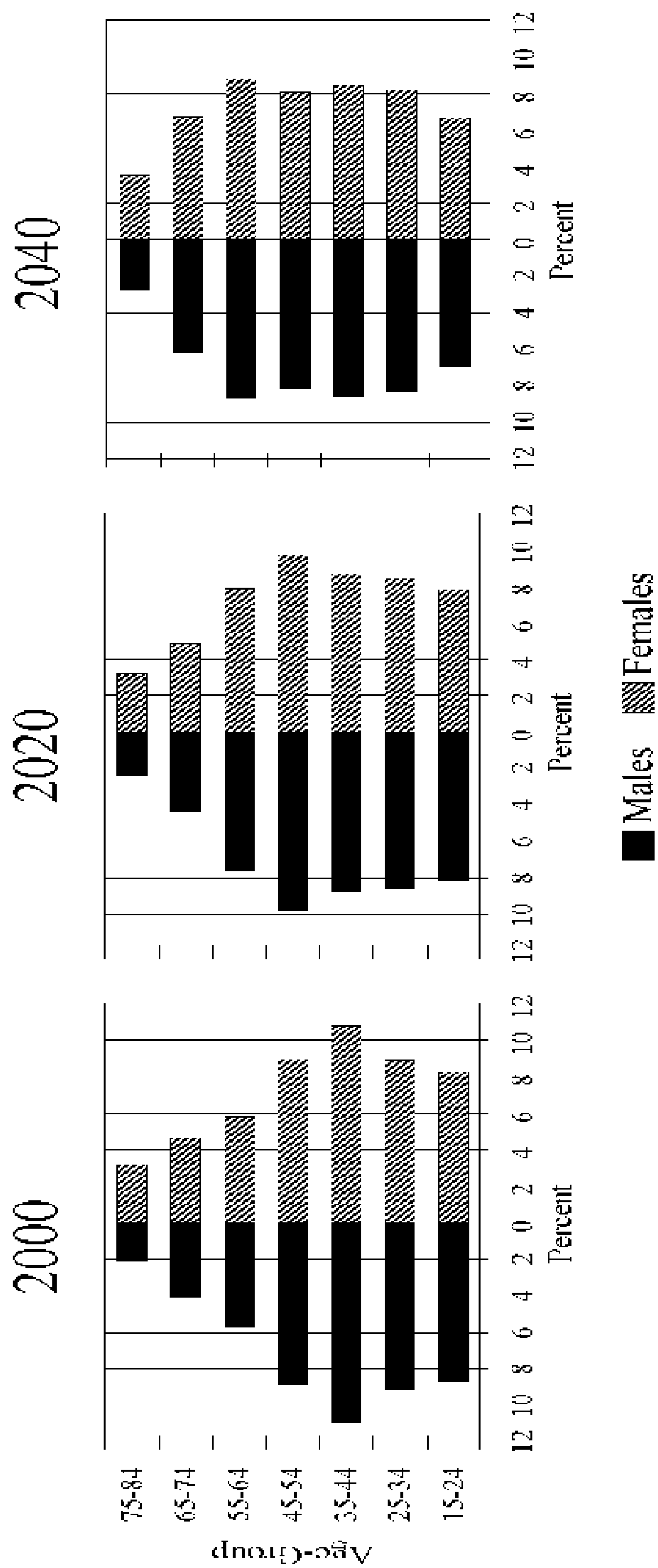
Age-Profiling the Workforce

Starting with the information base from which employers operate, it is likely that employers, aided by new human-resource management software, will become more conscious monitors of the demographic profile of their workforce. Just over half of respondents to the BNAC's member survey said their companies do such monitoring. Marketing has long been a function that pays attention to the intensity with which various population sub-groups interact with a company as customers; human resource departments will increasingly do the same. A simple idea of the principle involved is available simply from scanning the evolution of a population pyramid that breaks the potential workforce down into 10-year cohorts by sex (Figure 1).[13]

For any given employer, the prospective evolution of the relevant population base will be distinct from the stylized national totals in the figure. But once an employer has identified the relevant population base, tracking the age profile of its workforce against that base can be a useful tool. For example, it may assist in recruiting from population sub-groups that are relatively under-explored — fishing where the most fish are. It may alert them to looming shortages, as when disproportionate numbers of employees are approaching ages at which exit rates rise. Or it may bring to light discrepancies between the profile of the workforce and, say, the customer base, often an issue for personal-services-oriented organizations.

[13] These are based on Canadian data from the C.D. Howe Institute, but the changes in the age-profiles of the US and UK populations are very similar.

Figure 1. Age Shares of Working-Age Population, 2000, 2020 and 2040



Recruiting More Aggressively

Finding fish and landing them are, of course, two different things. The tighter labor market of the late 1990s ignited wage pressure, and anecdotes about employment offers with rich signing bonuses and accelerated salary review became common. But money is a straightforward thing for rival employers to match, and other anecdotes from human-resource professionals show that a tight labor market induces recruiters to become 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. The need to tap under-exploited segments of the potential workforce has forced fresh attention to outreach and compensation practices. 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.[14]

Some companies are involving their own employees more directly in their recruiting.[15] In Canada, Nortel pays referral bonuses to its employees, and C.P. Hotels is introducing a "talent scout" program 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.

Looking for Youth

These last examples are an appropriate segue in to the observation that, while the primary focus of this monograph is on the challenges and opportunities of an older workforce, the intensifying struggle for young blood will be one of the most prominent features of the coming decades for many organizations. An alternative perspective on the traditional view that young and old workers are substitutes, and that creating room for the young in an organization (or in an economy) involves pushing the old out, is that young and older workers are complements. While some implications of this perspective are encouraging — keeping older workers active need not reduce opportunities for the young — there is a flip-side: in organizations (and economies) where the skills of the young and the old complement each other, larger numbers of older workers will make younger workers all the more valuable.

Employers will compete more vigorously for youth, especially in fields such as science where its correlation with major advances is very strong. Thirty percent of respondents to the BNAC's survey indicated that adding young blood was already priority for their organizations. For those concerned about declining relative incomes among generation X and their successors, the prospect of a tighter labor market for young people has its positive side, but for employers, it will create challenges of

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[14] Chicago Tribune (1999).

[15] Howes and Cattaneo (2000).

recruitment, retention and motivation. In addition, it will force attention to the common practice of using age as a short-cut marker of such attributes as original thinking, rather than taking the time and trouble to look more closely at the individual characteristics of prospective and current employees, and perhaps finding youthful characteristics in an older package.

Finding Help Abroad

Another strategy that will become increasingly important in the United Kingdom, the United States and Canada — as indeed in all developed democracies — is finding talent abroad. Both immigration and out-sourcing across borders will be important in this environment.[16]

To begin with, the United States, the United Kingdom and Canada will likely compete more fiercely with each other for the services of their own citizens. And although these three countries are in relatively advantageous positions relative to the rest of the G7 and Europe more generally,[17] this good news has its more problematic side: all three will be disproportionately subject to competitive pressure from other countries. As parts of the less developed world become wealthier, moreover, and begin to experience demographic pressures of their own, countries such as China and India may be less ready sources of bodies and brains than they are now. For this reason, it will be important for employers to continue to remind policymakers how important it is that the package of taxes and public services on offer makes their jurisdiction stand out as attractive places to live and work.

Measures affecting immigration directly are naturally an important priority for changes in public policy. In 1998, following representations from the software industry, Canadian immigration rules were eased to allow faster approval for temporary workers. The US Congress has recently voted to raise the limits on H-1Bs, the temporary visas for skilled foreigners, and exempt certain categories from the limits altogether.[18] 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 that make permanent immigration easier.

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. Indeed, where immigration is difficult or

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[16] Discussion of immigration sometimes treats it as a tool that could largely or even completely offset the impact of population aging on, say, the old-age dependency ratio. But numerical simulations reveal the required volumes of net immigration to be large multiples of current levels, with implications for overall population growth and social policy that make them appear unrealistic (Visco 2000, 15; UN 2000).While increased sourcing of labor from abroad may make sense for individual employers, then, even widespread practices along those lines will not significantly alleviate the conditions that inspire them.

[17] Visco (2001, 7); see also Tuljapurkar et al. (2000).

[18] Alvarez (2000).

economically unattractive, declining transportation and communication costs will often mean that "bringing people to work" makes less sense than "bringing work to people." Software engineering and data processing are already well known examples of industries with global subcontracting, and technological advances are widening the range of activities that can benefit from such arrangements.

Seeking Older Workers

More aggressive recruiting generally and outside national borders specifically 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.

Most companies do not 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, and 81 percent reported that they do not offer any provisions or benefits that are designed specifically with the older worker in mind.[19] Among BNAC members, the same is true: just over one-third of respondents reported targeting specific demographic groups for hiring, and only 13 percent said they targeted older workers.

In part, becoming a more successful recruiter of older workers may be a matter of avoiding practices that inappropriately or inadvertently screen older workers out. It is understandable that managers use age as an indicator of aptitude in circumstances where rapid sorting of a large pool of applicants is necessary. As was noted earlier, however, when labor is scarcer, such information short-cuts will be less defensible. Recruitment practices may also turn potential older applicants away with implicit or even explicit references to age limits.[20] Managers may be uncomfortable hiring subordinates who are older than they are. In some cases, mixed-age recruiting or job interview panels may increase comfort with unusual age differences among potential work teams.[21]

Moving further toward the active end of the recruiting spectrum, 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.[22] Professional societies can be good places to look for retired people who are reconsidering their decision to leave the workforce. Advertising in media with a regional or senior-lifestyle focus is another way to uncover older people who are looking for temporary or seasonal opportunities.

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[19] Fandray (2000, 28).

[20] Worsley (1996, 71) discusses evidence from the United Kingdom on this point.

[21] United Kingdom (1999, 8).

[22] Goldberg (2000, 132-33).

Some companies have found that developing a reputation as an active recruiter and a good employer of older workers can improve passive recruiting efforts as well — a virtuous circle as able older potential workers seek them out. Poorman-Douglas, a US print/mail firm that has turned to older workers to help meet seasonal demand for its invoicing and claims-processing work, has received awards for its efforts in this area — awards the company says have reinforced its successes by bring more older workers in.[23]

When it comes to governments, a lesson from other labor-market policies is pertinent here. Employers are inevitably more willing to hire when they have confidence that doing so will not expose them to fixed costs in the event of a decline in demand. There is a danger that public policy directed at improving the lot of older workers — such as obstacles to employers letting them go — will end up making older workers less attractive to employers and less likely to be hired. Employers need to remind policymakers that the positive association between a fluid labor market and low unemployment will be as strong among the older workforce as it is everywhere else. Employers who cannot fire will not hire.

Keeping Older Workers

Although employee retention is a preoccupation for the vast majority of employers, measures aimed specifically at retaining older workers do not, at least among BNAC members, appear to be common. Even in the absence of positive measures, however, ensuring that recruiting practices do not unintentionally or inappropriately screen out older workers has an obvious counterpart: ensuring that layoff practices do not unintentionally or inappropriately target older workers.[24]

It is reasonable for firms faced with downsizing to weigh in their decision the potentially affected employees' expected tenure with the firm. But expected time in the workforce and expected time with a given firm are not necessarily correlated. Data from the early 1990s in Canada and the United States showed five-year retention rates (the proportion of workers of a given age at the start of the period who were with the same employer five years later) that were higher for workers 45 years of age and over than for the workforce generally[25] — a contrast that is starker than the raw figures suggest, since the numbers for those 45 and over include workers who reached normal retirement age during the five-year period: if normal retirement age were higher, the contrasts would be stronger.

If younger workers are, on average, likely to remain with a firm for a shorter time, a redundancy plan that targets older workers will not only flush out disproportionate amounts of firm-specific human capital, but also expose the firm to higher future turnover. Several human-resource issues that shape

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[23] Poorman-Douglas is a recipient of awards from Green Thumb, Inc., a nonprofit provider of employment and training services for older and disadvantaged people, and from Oregon Business magazine (Albrecht 2001b).

[24] Of course, in individual cases, other considerations — such as avoiding layoff workers with young families — will inevitably affect such decisions.

[25] In Canada, the figures were 51.9 versus 47.9 percent for all ages; in the United States, they were 56.2 versus 48.6 percent (OECD 1998b, 139).

redundancy policies are discussed further below. Here, however, it is appropriate to highlight simply that formal or informal age limits and standard assumptions about age-differences in reporting relationships may also play a role in layoff decisions. Retention of able employees was the top concern cited in the BNAC's survey. Employers that have responded to cyclical downturns by disproportionately thinning the ranks of their older employees have often had occasion to second-guess that decision afterwards.

The Contracting Option

Many employers already have programs to bring their own retirees back as temporary help or as consultants.[26] This approach may be a response to legal provisions that 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 computer systems provides an example: it collaborated with several information technology companies to establish Pinnacle Alliance, which now manages Morgan's global IT operations. Travelers' experience with bringing its own retirees back on a large-scale basis has become widely cited partly because its success outran the supply of Travelers retirees, and it expanded to include retirees of other companies. The company found that replacing agency temporaries with its own pool not only saved money by reducing agency fees, but improved reliability by reducing absenteeism.[27]

Collaboration with non-competitors in sharing a pool of skilled people is easiest to envision. 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.[28] Another example of an experiment in contracting that took on a life of its own is UK-based Skillbase, which was founded in conjunction with IBM in 1990 to assist with early retirement and voluntary redundancy programs, and has since become a well established supplier of management services to companies such as BT.[29]

Contracting may not be as attractive to the parties as regular employment would have been — after all, the option to hire on contract nearly always exists, but a "make" rather than "buy" relationship is,

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[26] See 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). A recent survey of 232 private and public-sector employers for William M. Mercer found that 36 percent were hiring back retirees as consultants and independent contractors without benefits, and 37 percent were hiring them back for part- time and temporary assignments (Walsh 2001b).

[27] Worsley 1996, 125-28, provides a detailed account of the growth of the Travelers program..

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

[29] Worsley 1996, 122-125.

as a rule, more attractive to both employers and employees. This point raises three issues related to public policy in this area.

From the point of view of the contractor and contractee, it is important to ensure that a prior employer-employee relationship changes sufficiently to make the new arrangement safe from challenge by tax authorities or regulators.

In general, policymakers should be careful about tilting the playing field in favour of one or the other type of arrangement. Favoring employer-employee relationships over arm's-length relationships — through, for example, different tax treatment of social-insurance contributions in the two cases[30] — will simply impede the striking of mutually satisfactory arrangements.

The potential spread of this type of arrangement as the workforce ages may give rise to pressures on policymakers to "do something" about the perceived plight of a contingent workforce that is older and therefore appears vulnerable. As has been noted above, and will be noted again below, policy that attempts to reproduce in these arrangements the same mix of compensation and fixed versus variable costs as exists in the employer-employee relationship will tend to suppress contracting, reducing the opportunities for older workers to enter into these arrangements. If there is concern that contracting is being used as an escape hatch from the policy-related obligations of regular employment, it would be better to make employment more attractive by reducing those obligations than to make contracting less attractive by increasing them.

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[30] In Canada, recent legislation leveled the playing field by allowed the self-employed full deduction of the notional employer-paid portion of their Canada or Quebec Pension Plan premiums in the personal income tax, eliminating a previous bias in favour of an employer-employee relationship.

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. 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.[31] Three-quarters of respondents to the BNAC survey reported that their firms had flexible hours provisions.

To date, many work-schedule innovations have addressed the needs of younger workers. The Conference Board surveys, for example, found that while programs and benefits oriented around children had become the rule rather than the exception among employers, provisions oriented around older dependents were still comparatively rare. The results of the BNAC survey were consistent with this finding: although a large majority of respondents reported flexible-hours provisions in their firms, only one said these provisions were specifically designed to accommodate older workers.

The absence of more flexible practices in many workplaces does not necessarily mean they are unnecessary or 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 why they did not offer dependent-care provisions to their employees was that they had never considered it.[32]

Establishing such practices to respond to wishes and needs of older workers may involve small additional costs relative to the benefits. The rising share of the older labor force that is female 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.

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

[32] Bachmann (2000, 9).

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."[33] 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.

The case for flexible hours is often made on straightforward productivity grounds. A study for the UK Institute of Personnel Management, for example, found that flexible employees may be more productive, suffering less end-of-day fatigue, and showing lower absenteeism rates.[34] But firms that have pioneered "family-friendly" practices have sometimes found that childless workers expect accommodations similar to those provided to workers with children. Flexibility designed to accommodate employees' non-work needs and wants can foster resentment and put managers in the position of deciding whose off-the-job needs are most important.[35]

One obvious way around this problem is to make certain kinds of flexible arrangements available to all employees. Another approach is to allow employees, singly or in groups, to design their own arrangements, but provide guidelines for such arrangements that keep the playing field level, and help ensure that it is seen to be level. In general, setting up a formal process for evaluating and approving such arrangements is likely to be attractive, especially in large organizations where the individualized approach places an intolerable burden on managers who are forced to make complicated decisions about the relative merits of different employee's life-work tradeoffs.[36]

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.[37] 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.[38] Government regulations — a topic discussed at greater length at the end of this section — are also a pervasive constraint.[39] But in cases where these rigidities or practices have

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33 Rowe and Kahn (1998, 203-06).

34 Worsley (1996, 42).

35 Hayashi (2001).

36 Shellenbarger (2001).

37 Swank (1982, 24-25). One of the respondents to the BNAC survey cited this problem.

38 Landers, Rebitzer and Taylor (1996).

39 In the United States, the Employment Retirement Income Security Act requires full-time-equivalent fringe benefits for all employees working more than 1,000 hours per year.

counterproductive effects, the need to accommodate an older workforce could prove a helpful spur to change. And forward-looking labor leaders will see the prospect of retaining older workers in firms — rather than losing them to competitors with different representation or abroad — as an opportunity.

Phased Retirement

Retirement plans are, naturally, a key focus of the employer-employee relationship affecting older workers. Until recently, flexibility around retirement plans was mainly concerned with moving older workers out. Watson Wyatt estimates that, in the 1980s, two-thirds of retirements in the United States involved early retirement plans. Changing demographic and business conditions, however, have shifted this focus. By the late 1990s, only 1 in 10 US retirees was leaving as part of an early retirement program.[40] Whereas a central feature of what became the standard phased retirement plan was a commitment to retire by a specific date — no turning back once an employee had opted in — these plans are evolving in directions that emphasize retaining talent.[41]

Among respondents to the BNAC survey, 35 percent indicated that they had flexible retirement plans. In Canada and the United States, other surveys have found lower numbers, however: one-sixth to one-fifth of employers reported having had some form of retirement transition leave or phased retirement program.[42] These figures suggest a lot of unmet demand: a sizeable majority of older workers say they would rather reduce hours gradually than stop working at a stroke.[43] One key difficulty with the gradual approach, however, is that pension plan benefits can often only be tapped before termination on limited bases such as plan loans or hardship payments. Under those circumstances, employees who are eligible for early retirement may find continued work with their current employer unattractive. If they want reduced hours and early access to benefits to supplement their incomes, they may conclude that they are better off leaving, and perhaps working for a competitor down the road. As older workers grow in number, the pressure for flexible arrangements that avoid this outcome will grow.

A typical plan designed to reduce the number of employees who cease work outright at the earliest possible age 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. In some respects, the issues such plans must confront — such as the relationship between changes in hours and changes in current pay and benefits — are similar to those involved in flexible hours arrangements more generally. In addition, however, phased retirement plans raise questions connected with the continuation and level of contributions to, and entitlements earned under, employer-sponsored

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40 Walsh (2001a).

41 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).

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

43 The US Health and Retirement Survey found that three of four workers aged 51-61 would do so (Herz 1995). Among respondents to the BNAC who said they had no such plans, however, half cited lack of demand from workers as a reason.

pension plans, and with "in-service" distributions — the employee's ability to access previously earned pension benefits while still working.

The options available to an employer looking at such a scheme are intimately bound up with other decisions affecting pension plans. Defined-contribution plans are generally easier to adapt, because of the straightforward link at any point in time between money in and entitlement.[44] In defined-benefit plans, benefit formulas that, for example, make reference to earnings in the last few years of service present an obstacle to anyone who contemplates reduced hours of service during those years. But this problem is fixable. Formulas could use some other reference period — such as the three-to-five years of highest earnings, say, or the best three of the last ten years — or they could link the pension to the individual's last full-time year, or convert the part-time service into full-time equivalent for the purpose of computing benefits and contributions.[45]

In-service pension distributions that allow workers opting for part-time status to supplement their earnings with early pension-plan payouts will likely be an important type of employee compensation in the future. Such "double-dipping" is, on its face, an expensive option for employers, and prominent examples suggest it may be common in sectors that have passed from a heavily regulated environment where pension benefits tended to be rich and job security strong to a less regulated environment.[46] But it may compare favorably to the cost of hiring and training new employees if the alternative is early retirement.

Making these plans available is a delicate business. Regulations affecting defined-benefit plans typically do not allow employers to target provisions such as in-service distributions before the normal age of retirement on selected groups of workers. Employers who would like to use in-service distributions to retain certain employees thus face the unpalatable option of making earlier retirement available to the entire workforce and possibly losing more in earlier retirements than they gain. Yet ways of controlling access to this type of program will be necessary if employers are to avoid adverse selection problems,[47] as well as the burden and risk of perceived unfairness that results from too much discretion for managers to make complicated judgements about employees' individual circumstances. These conundrums are, on balance, one more factor that will tilt employers toward offering defined-

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[44] As is noted below, however, the regulatory environment may work against what seems a natural advantage. In the United States, distributions from defined-contribution plans prior to age 59½ are subject to punitive taxation, whereas defined-benefit plans can distribute as early as 55 (Purcell 2000, 28).

[45] Worsley (1996, 52).

[46] For post-deregulation arrangements among employers and unions in airlines and telecommunications companies, see Smolkin (2000, 22) and Walsh (2001b).

[47] Adverse selection can be a problem when potential sellers of insurance cannot easily observe characteristics of potential buyers that affect the risk of a claim. A price based on the average expected payout over the entire potential pool will fail to attract business from lower-risk customers. An employer who offers employees a wide range of retirement benefit options in one plan is likely to find that, as employees select the options that best suit each, the cost of the program rises above what it would have been if everyone had been in the same pool.

contribution rather than defined-benefit pension plans in the future — an issue taken up further in connection with the age-profile of compensation below.

Since both private and public pensions appear to have helped to lower the average age of retirement in the past, there is ample reason to think that modifications to existing practices could help raise it again in the future.[48] The core task will be to keep more 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. To the extent that public policy allows, flexible retirement plans might come increasingly to resemble schemes for leave with income averaging that some organizations have adopted, which provide similar flexibility in work hours, but with no date when employment must cease.[49]

The Regulatory Environment

The extensive involvement of governments in labor markets and retirement-income systems means that successful strategies in work scheduling will depend critically on the policy environment. Some issues connected with, say, eligibility of part-time workers for benefits are logically separate from the retirement-income issues. The primacy of these latter concerns for older workers, however, makes it convenient to discuss these topics in a framework organized around the key objectives of the retirement-income system.

The first tier of the public system, the basic or safety-net payments to seniors, help shape the environment in two ways. First, the more generous the income they provide, the greater opportunity they give seniors in less remunerative jobs to leave the workforce without a serious blow to their living standards. Particularly in Canada, where this pillar is more generous than in the other two countries, future trends in the level and age eligibility for these benefits will affect the labor force participation of much of the population. Second, the more first-tier payments are clawed back as other income rises, the more they will discourage continued work after the age of eligibility. Higher effective marginal tax rates on seniors are less of a problem in the United States now than they were, thanks to the abolition in 2000 of the earnings test for social security recipients 65 and over.[50] In Canada, however, the overlap of the first tier with a number of geared-to-income transfers and in-kind benefits makes continued work utterly unattractive for seniors at modest income levels. The same is true of the minimum income guarantee in the United Kingdom, although its low level means that it probably affects relatively few potential workers.

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[48] Anderson, Gustman and Steinmeier (1999) estimate that changes in pensions might account for one-quarter of the movement toward earlier retirement in the United States during the 1970s and 1980s.

[49] 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).

[50] For those under 65, however, earnings above a modest level are still subject to a 50-percent claw-back. The US Social Security system is designed like a second-pillar (mandatory income-replacement) program, but fulfils much of the function of a first-pillar system thanks to its extensive redistribution.

In the long run, absent discretionary increases, the fact that first-tier benefits are indexed to consumer price inflation rather than wages will reduce these effects. Better would be gradual increases in the age of eligibility, as in the United States, where the age of eligibility for social security benefits will increase to 67 by 2022, and in the United Kingdom, where the eligibility age for women is scheduled to rise to equal that of men between 2010 and 2020. Because these changes need phasing in over substantial periods of time, however, they inevitably take time to make a difference.

As for the second-tier system, much of the above discussion of eligibility ages, accrual rates, payout rules, and adverse selection applies to public employment-related pensions. There are a variety of options for moving these pensions in directions that would make phased retirement, rather than once-for-all departure from the workforce at an early age, more attractive. Liberalizing access to reduced benefits before normal retirement age, for example, could complement changes to private plans to allow more in-service distributions. And it is possible, as in the Canadian province of Quebec, which runs its own second-tier plan, to allow social-security contributions to continue at a rate consistent with unreduced earnings, thus protecting employee entitlements from the impact of a reduced work schedule.

In approaching governments to discuss these options, however, employers will need to bear important caveats in mind. If earlier access to benefits encourages earlier exit from the labor force in general, it will work against the growing imperative to keep people active longer. Even for companies that benefit from such changes, the resulting higher costs of the retirement-income system as a whole will reduce their net gain. Adding more discretion to social security plans, moreover, undermines the compulsory pooling that motivates them in the first place. The more workers who pay the same premium rates are free to select the options that suit them best, the higher the overall costs of second-tier plans will rise, and the more onerous the overall payroll tax burden will grow.

The third tier — the tax and regulatory provisions affecting private pensions — offers considerable scope for innovation. Finding arrangements that are mutually satisfactory to employers and employees would be easier if these regimes were more permissive with regard to the pro-rating of benefits, contributions and accruals for part-time employees, and with regard to in-service distributions and other arrangements for time-varying pension payments. 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. In the US, there have been recent attempts to liberalize the rules governing in-service distributions.[51] Also important when it comes to easing the way for employees to work longer would be liberalization of the rules that force individuals to convert assets in defined-contribution plans into income at specified ages. A desire for more flexible arrangements in this area was a common theme in the responses to the BNAC survey.

Discussions with policymakers will be more fruitful the better able employers are to address concerns about undermining the objectives of the income-replacement system and about fairness. Critics of in-service distributions, for example, may see them as transforming an income-replacement system into a tax-subsidized wage supplement. They will have heard about employers inducing employees to

[51] Walsh (2001b). See also Purcell (2000, 28) and Graig and Pagenelli (2000).

forego the sizeable benefits that typically accrue in defined-benefit plans when employees are in their fifties, leaving them poorly off in old age. Or they may worry — as did the designers of US regulations forbidding special deals for specific groups of employees — that plans designed to hold on to employees with specific skills redistribute wealth inside pension plans in ways that favor relatively high-earning employees.[52] These are legitimate concerns, and employer groups that confront them squarely — and preferably not shortly after such a plan has provided a company with a headline-making bottom-line gain — can expect a better hearing.

This is an apt point at which to remark again that regulations often have perverse effects and unintended consequences. It is striking, for example, that provisions in public pensions in Canada and in private pension regulation in the United States require cessation of employment before benefits can begin, even though employment can resume — even with the same employer — once they are in pay. Heavy handed interventions intended to benefit employees may, in fact, work to their disadvantage if they prevent contracts that well informed employers and employees would wish to conclude.

Policymakers concerned that employers will take advantage of more accommodating regulation to impose disadvantageous terms on their employees should be reminded that the world for which they should be preparing is one in which labor's relative scarcity will give employees a stronger position from which to bargain. "Best practice" models are also an effective way to demonstrate to policymakers the virtues of appropriate enabling legislation. And given the long gestation periods that are typical in such matters, it is not unreasonable to suggest that companies thinking they might want to implement programs with unusual provisions in five years' time should start discussions with policymakers immediately.

[52] Purcell (2000, 25-28); Walsh (2001b).

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, while older workers themselves represent a training resource that is often insufficiently tapped.

A Note on Schools

For the sake of completeness, a discussion of education and training should make at least passing mention of the elementary, secondary and tertiary institutions that play a central role in educating those young workers whose scarcity value will be greater in the years ahead.

The United States, the United Kingdom and Canada all have grounds for concern about their elementary and secondary schools. While the performance of the three countries in international comparisons such as the International Adult Literacy Survey (IALS) and the Third International Math and Science Study (TIMSS) has some bright spots, the three are often no better than middle-of-the-pack performers, and some evidence from the latter study suggests that their relative performance deteriorates with more years of schooling.[53] Disappointing achievement scores have prompted new efforts to improve school performance, especially in the United States and the United Kingdom, but translating effort and material resources into better knowledge and skills in students continues to be a daunting challenge, and continued pressure from employers for measurable gains will be a key ingredient in success.

Tertiary education is not, in general, a similar source of concern. Indeed the attraction of post-secondary institutions in all three countries to students from abroad testifies to their high international standing. As enrolment rates in higher education have increased and resources invested in the sector have risen, however, the need to ensure that the quality of the output is commensurate with the investment has become more acute. Representatives of colleges and universities are justified in arguing that employment-related skills are not their only objective. Employers, however, are equally justified in reminding them that provision of those skills will inevitably be a key criterion by which the population at large judges their success.

Older Workers as Trainees

Turning to those who are already employed, 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. From a business point of view, the recent tendency toward longer job tenure means that the economics of in-

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53 Among the 27 national jurisdictions yielding comparable data for grades 7 and 8 in the TIMSS, the average increase in correct answers between the two grades was 7 percentage points in math and 6 in science. In math, England and Canada matched the average, Scotland improved by 6, and the United States by only 5 (the best performers had improvements of 10). In science, Scotland outpaced the average, with an increase of seven, England matched it, Canada trailed at 5, and the United States managed only a 4 (the best performer had an improvement of 11) (Robitaille et al., 1997).

house training have improved. Employees have become, on average, less likely to take human capital formed on the job to competitors or out of the workforce entirely than they were.[54]

But whether older workers in particular are an apt place to invest incremental training resources is a legitimate question. The total time over which to amortize older workers' training costs 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. Unwillingness to offer training to older workers is reported to be a common cause of age-discrimination complaints to the US Equal Employment Opportunity Commission.[55]

Taking these points in order, it has already been pointed out that older workers' shorter expected times in the workforce do not translate into shorter expected tenure with a given employer. Lower job turnover among older than younger workers has been documented in all three countries,[56] and data from Canada suggest that the gap may be growing: the increase in expected tenure at a new job from the late 1980s to the late 1990s was greater for workers aged 55-64 than for any other 10-year age-group.[57] This phenomenon is familiar to managers: a 2000 Harris poll of 774 corporate human resource directors showed 80 percent agreeing that workers aged 55 and up had less turnover than younger employees.[58] Days Inn found that hiring older reservation agents tripled its retention rate.[59] 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. Anticipating special needs, Macdonald's established a "McMasters" program to train older recruits in the 1980s, but then discontinued it when older workers did just as well in its regular program.[60] Similarly, when B&Q, a UK retailer of home-improvement products, was preparing to open a store staffed exclusively by people over the age of 50, it planned an extra two-week pre-store-opening period to provide more

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[54] Recent Canadian estimates show an increase in expected duration of a new job from the 35-40 month range in the 1980s to more than 50 months by the end of the 1990s (Picot et al., 2001, 9)

[55] William K. Zinke, president of Human Resource Services, quoted in Martin (2001).

[56] See OECD (1998b, 139) and Worsley (1996, 80-81). As was pointed out earlier, absent various provisions, such as eligibility ages for public transfers, that encourage retirement at or before age 65, the job tenure figures for older workers would be higher.

[57] Picot et al. (2001, 10).

[58] Martin (2001).

[59] Goldberg (2000, 132-33).

[60] Goldberg (2000, 127).

training time in areas such as information technology, but then found the extra time was unnecessary, and opened on a regular schedule.[61]

It is interesting that 71 percent of the human resource directors polled by Harris reported that workers 55 and up had as much ability as younger ones to acquire new skills.[62] And, particularly in the United Kingdom and Canada, where educational opportunity became widespread more recently than it did in the United States, this number may grow in the future for the straightforward reason that, with the passage of time, the number of years of formal education of the typical worker is rising (Table 3).[63]

The universalization of elementary and secondary education and the spread of post-secondary education over the past three generations mean that the typical inverse correlations between average age and formal education are getting weaker. More 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.[64] One U.S. study has found that education is the single strongest predictor of high cognitive function in old age.[65]

Table 3. Educational Attainment of Labor Force Aged 45-64, 1995 and 2015

	1995				2015			
	Less than upper secondary	Upper secondary	Non-university tertiary	University	Less than upper secondary	Upper secondary	Non-university tertiary	University
	percent							
Canada	27.7	24.8	29.3	18.2	14.1	30.1	33.8	21.9
United Kingdom	27.6	51.3	9.9	11.2	13.0	61.3	9.4	16.4
United States	12.4	51.0	7.6	29.0	9.2	51.7	9.5	29.6

Source: OECD (1998, 87).

61 See Worsley (1996, 29-30), and Baker (1999).

62 Martin (2001).

63 The less advantageous position of the United States in this regard is noteworthy, because it means that to a greater extent than in the other two countries, expanding labor-force participation will involve drawing in less skilled workers (Ellwood 2001), presenting employers there with a sharper challenge, and raising the stakes in improving the school system.

64 Rodriguez and Zavodny (2000); see also Boisjoly, Duncan and Smeeding (1998).

65 Rowe and Kahn (1998, 133).

To the extent that both supply and demand produce rising workforce participation rates among older people in the future, employers may benefit from a virtuous circle. Data from the IALS show that while literacy and age are negatively correlated in all countries, the shape of the relationship varies strikingly from one country to the next.[66] The tendency for skill levels to tail off around the age of retirement suggests that current employment conditions also affect skill levels.[67]

Turning to the displaced older worker story, it is misleading to look only at the age-distribution of laid-off workers — though workers in their 40s and 50s constituted a larger share of the total in the late 1990s than they did in the mid-1980s, the bulk of this shift 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.[68]

Indeed, the extent to which businesses already make sizeable investments in training older workers is striking. 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.[69] All three BNAC countries appear to be relatively active in their training of older workers already. Of 10 OECD countries for which the IALS yielded comparable data for the mid-1990s, the proportions of the labor-force aged 55-64 engaged in employer-paid training was higher in the United Kingdom (27.2 percent), the United States (25.8 percent) and Canada (23.7 percent) than in the other seven.[70]

What more might employers do? Training that is targeted specifically at older workers does not, in general, appear necessary or attractive. The BNAC's survey of its own members uncovered no examples of companies that designed their training programs that way, with two-thirds of respondents saying they felt that generally available training was suitable for older workers. The experience of companies that instituted and then discontinued such programs has already been noted, and targeted

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66 OECD (1998, 86).

67 OECD (1998, 86). Rowe and Kahn (1998, 136-37) discuss experiments on the effectiveness of mental exercise in raising the cognitive performance of older people.

68 Rodriguez and Zavodny (2000).

69 Fandray (2000, 32).

70 The average for all the countries surveyed was 17.4 percent. When the focus is on all job-related continuing education and training, the three countries retain their preeminence: 36.8 of older US workers and 32.1 and 30.2 percent of their counterparts in the UK and Canada were engaged in such training. The average among the 10 countries was 23.3 percent. Small sample size means that the figures for Canada have unusually high standard errors. OECD 1998b, 140.

training risks alienating workers, with older ones feeling condescended to, and younger ones feeling excluded.[71] More subtle steps, such as ensuring that generally available training is not only available to all, but seen to be so, may be more useful.

More challenging is to try to respond to workforce aging with training that is pro-active, enhancing worker skills in step with their advancement into later stages of work, rather than attempting remedial action once gaps have become evident. Again, public-sector and private-sector initiatives will interact. The more public policy encourages earlier retirement, shapes income support for senior citizens in ways that discourage work, or mandate the receipt of pension benefits by certain ages, the less sense it will make for employers to provide the training opportunities to older workers that would keep them happy and productive. Reforms to pension regulations and the taxes and transfers that encourage earlier exit from the workforce will make investments in training older workers more attractive.

Older Workers as Trainers

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 technology.[72] 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.[73]

Moving older employees into a mentoring and training role puts them in a position where their longer experience is self-evidently an asset. Among the 30 percent of respondents to the BNAC survey who indicated that older workers were encouraged to take on special duties, mentoring and ensuring the transfer of skills in the organization were far and away the most frequently mentioned examples of such duties. When older workers are key recipients of training, matching them with older providers of training may provide a good fit.[74] 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.

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[71] One UK respondent to the BNAC survey noted that anti-discrimination legislation might make targeting training on older workers illegal.

[72] Smith (1999).

[73] Reingold (1999, 124).

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

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.

Pay and Benefits

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 recent tight labor market gave 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.

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 unintended effects, allowing employees to “buy more leisure” by retiring early, or shifting — formally or informally — to shorter-hours jobs.[75] Some final-average-pay pension plans provide more in lifetime benefits to early retirees — effectively subsidizing a corporate “brain drain”[76] — or, less extremely, accrue no additional benefits past a certain stage, in which case the drop in effective compensation may tip workers into retirement.

It is bad enough when an employer loses talent that simply disappears from the economy. As workforce participation rates of older people have risen, however, a worse phenomenon has increasingly been remarked: the older worker who collects his pension and other post-work benefits, and takes his or her now less expensive labor to a competitor. The need for employers to design packages that will keep that advantage for themselves — in part through the pension-plan modifications discussed above — rather than handing it to competitors is becoming more pressing.

Of course, to a potential employer, lower effective wage costs of older workers can be enticing. Public and private pensions are not the only factors that can lower the effective cost of employing an older worker. Life insurance benefits, for example, will be less interesting to older workers who no longer have young dependents to protect. Coverage by government of core medical care and drug

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[75] Capelli (2000, 106).

[76] Coleman (1998, 19).

expenses for older people, especially in the United States, will make these elements of benefit packages less important to older workers, allowing a more economical hire.

Alternatively, employers might use this flexibility to top up other forms of compensation that are attractive to older workers. Extended health benefits are one possibility. 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. An aging workforce may become more sophisticated about benefit plans, with issues such as management expenses in defined-contribution pension plans becoming more important for employers seeking to design attractive compensation packages.

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, therefore, appear to be scope for companies that move ahead in this area to reap a competitive advantage.

Reshaping the Compensation Curve

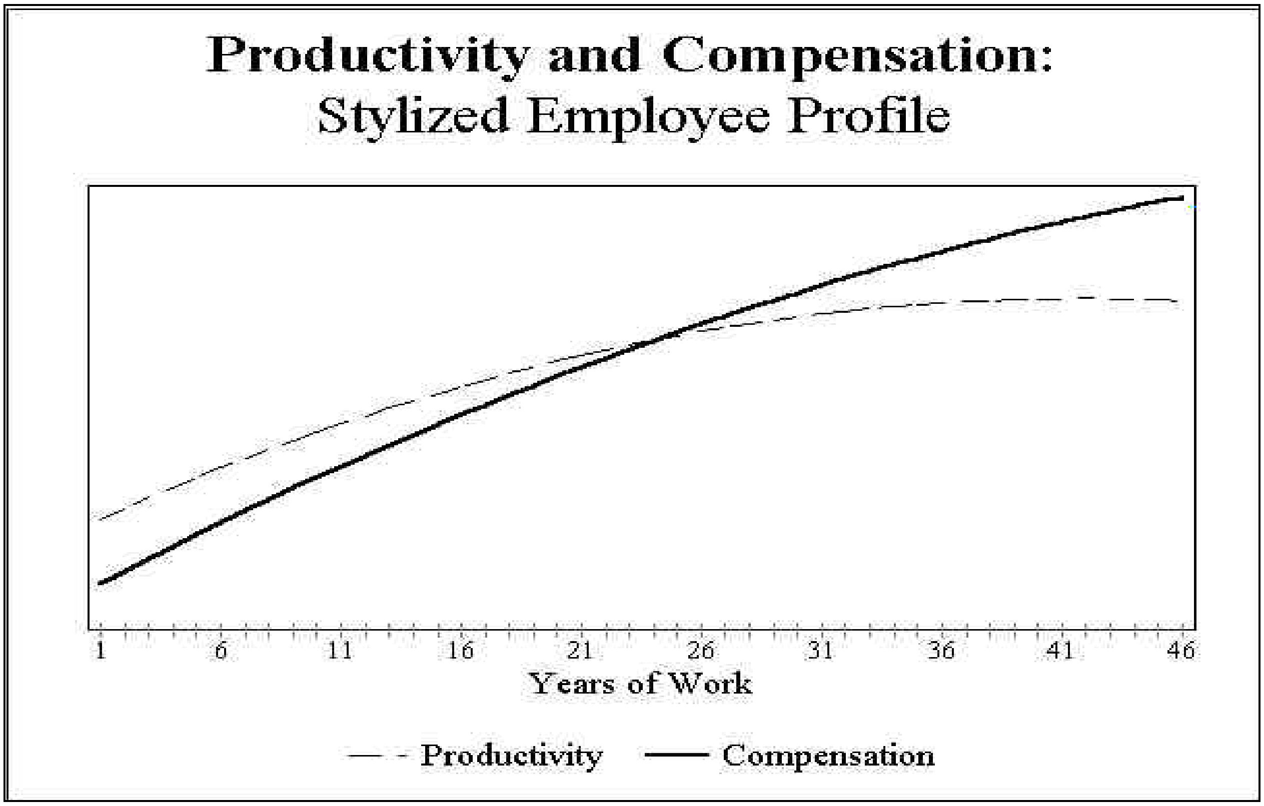
A trickier issue, intertwined with the questions of work content and even business structure, is the "peak and out" syndrome — the tendency for compensation to rise throughout a career, with the richest rewards coming at the end.

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' productivity and compensation do not follow identical trajectories over time, with young workers being more productive than their earnings would suggest, and older workers being less productive (Figure 2).

This pattern might occur because younger workers are financing their own acquisition of human capital by foregoing earnings early in their careers. It might occur 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.[77] And it might also reflect advantages for both employers and employees when a labor contract contains a deferred compensation element that rewards loyalty and encourages employee investment in firm-specific skills.

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

Figure 2.



Uncertainty about the reasons underlying current practice suggests caution in recommending change. 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. The Dutch chemicals group DSM, for example, responded to an aging workforce with a predisposition to early retirement by setting aside 2.5 percent of the salary of its shift-workers — the group among which attrition was most severe — in individual saving accounts from which they could finance a move to less demanding, and less remunerative, work schedules later in their careers.[78] 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.[79] From the point of view of workers wishing to remain active, the employer's gain is not necessarily the worker's loss, since the large liabilities associated with

78 Maitland (2001).

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

workers in their 50s and up — big pension accruals, rising benefit costs, and seniority-based wages — have tended to make older workers targets for companies looking at workforce reductions.[80]

New Models for Pensions

Defined-benefit pension plans structured so that their richest accruals occur toward the end of an employees career can be major contributors to the steep slope of the overall compensation curve. The difficulty in general of constructing defined-benefit plans so that they neither subsidize early retirement nor render older employees disproportionately costly are by now widely recognized. The resulting shift toward defined contribution plans may have contributed to the bottoming out of the long-term decline in labor-force participation by older workers.[81]

The shift away from the defined-benefit model is not universally welcome. The popularity of defined-benefit pensions reflects in part quite reasonable agreements among employers and employees about who should bear different types of risks. Cash-balance and pension equity plans, which provide employees with current valuations while employers bear the risk of maintaining sufficient funding to cover their benefits are one possible type of compromise.[82] An under-explored alternative is hybrid pension plans, with a core defined-benefit retirement component — perhaps with less heavily back-loaded accruals than has been typical in the past — and defined-contribution add-ons. One can also imagine plans in which many or all features have both defined-benefit and defined-contribution elements. If handled and timed badly, any such modification to the traditional compensation profile risks being seen as a simple cost-cutting tool for the employer. Properly designed and adeptly timed, however, their potential to reduce the disproportionate exposure of older employees to future cost-cutting could be a selling point.

The pensions context is an apt one in which to emphasize the value of attending to this issue before it becomes more pressing. Employers for whom age-compensation issues do not currently loom large are in better shape to modify or provide alternatives to back-loaded compensation plans. Doing so while the workforce is relatively young and pay is less than productivity (to the left of the crossover point in Figure 2) will be considerably less painful than waiting until the reverse is true, and then approaching employees with proposals for explicit or implicit rewriting of the employment contract.

The need to inform policymakers of emerging needs in this area and encourage an accommodative legal environment was prefigured in the discussion of pensions above. It would also be helpful, however, if employers regularly reminded policymakers about the difficulties that the combination of current and deferred compensation that prevails in the public sector is creating. Some of the earliest

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80 See OECD 1998b, 130, and references cited there.

81 For instance, Purcell (2000, 22-23) cites the shift in the shares of full-time employees in medium and large establishments, as measured in the US Bureau of Labor Statistics' Employee Benefits Survey, covered by defined-benefit and defined-contribution plans respectively from 56 and 49 percent in 1993 to 50 and 57 percent in 1997 as a plausible contributor to higher older-worker participation rates in the 1990s.

82 Wiatrowski (2001, 7).

and most severe labor shortages will occur in areas dominated by the public sector, such as teaching and nursing.

Compensation provisions in the public sector and the way they are accounted for exacerbate this problem: generous early retirement provisions encourage older employees to leave, while separate accounting for current wage costs and pension liabilities can create a short-term incentive for administrators to make budgets look better by letting them go. As a result, earlier retirement and looming labor shortages are particularly important in the public sector.[83] Just as they do in the private sector, moreover, practices that encourage early departures discourage effective deployment of older workers — why train or promote those in their late 50s, for example, when you know they will shortly be gone? Reforming compensation so that its profile better matches productivity and so that its full costs and benefits are properly accounted for is just as sensible in government as outside it.

Redefined Responsibilities

What about the flip-side of compensation: work responsibilities? The prevailing model in which employees work full bore up until the day they disappear means that many employers may not contemplate trying to keep employees longer by offering them less demanding schedules. Slightly fewer than one third of respondents to the AARP/SHRM survey of US employers mentioned earlier said they offered older workers this type of option.[84] But advocates for new work-life arrangements for older workers claim that many would take the opportunity to reduce their pay and responsibilities if it were offered,[85] suggesting that there may be opportunities for employers to keep valued knowledge and skills in their organizations longer by offering older employees some of the reduced stress and leisure that would otherwise induce them to retire outright.

Redesigning jobs in line with the wishes and abilities of older workers presents several challenges. In general, physical and cognitive functions do decline with age. But changes in the health status of the population are altering the associations between age and ability, while the nature of these associations differs from function to function. Multitasking, dealing with distraction, and working under time pressure, for example, are capabilities likelier to decline with age than is accuracy in calculation and recall of learned routines.[86] On the physical side, evidence from the United States suggests that the rate

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83 Canadian data illustrate the problem. At the end of the 1970s, the median age of retirement was almost exactly the same — 65 — for the self-employed, private sector employees and public sector employees. In 1999, the median age had scarcely changed for the self-employed. For private-sector employees, it had fallen by about 3½ years, and for public-sector employees, it had fallen by seven years (Statistics Canada 2001, 13).

84 Fandray (2000, 30).

85 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.

86 Powell (1998); see also Rowe and Kahn (1998, 125-132).

of disability among the older population is declining.[87] The impact of advancing years varies greatly, moreover, from one individual to the next: many older workers compare favorably to colleagues in their forties.

Group medical practices in the United States 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 coverage of its patients. 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 may also determine when a doctor becomes a regular employee rather than a shareholder.[88]

Other professions have also set noteworthy precedents in this area. The trigger for establishing Deloitte Consulting's often-cited "Senior Leaders" program was the decision of one star partner, though barely 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.[89] Investment banking is another industry where internal consulting budgets that cover the cost of older employees and partners working with individual companies and clients are becoming common. In fields oriented around specific clients and projects, where personal contacts and institution-specific knowledge are particularly important, scaling back employee duties to focus on a limited number of objectives can be practical and rewarding.

Having such frameworks for career development in place, and known to be in place, in advance offers several advantages. One, noted already in the discussion of flexible hours, is a reduced burden on managers, for whom individual judgements of this sort will often be difficult and give rise to standard concerns about the legal consequences of treatment that is perceived to be unequal.[90] For younger workers, advance knowledge of such programs can alleviate suspicion that accommodations for their older colleagues are coming at their expense. And for older workers, a second career within the firm may be more welcome and rewarding if it is something expected — possibly aspired to — throughout their tenure.

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[87] Rowe and Kahn (1998, 16). But see Lakdawalla et al. (2001) for a discussion of the possibility that rising rates of disabilities such as asthma and diabetes among the young in the United States may herald a less healthy generation of seniors in the future.

[88] Lowes (1998).

[89] See Reingold (1999) and Sherrid (2000).

[90] United Kingdom (1999, 9).

Support for non-profit organizations is another activity that often fits well with the evolving aspirations of older employees. Morgan Stanley inventories opportunities, such as library or hospital directorships, for senior employees to wear other hats in addition to the company's own. In the United Kingdom, IBM set up an electronic database, Volbase, to match volunteers in the company with not-for-profit groups.[91] Especially when such volunteer and community activities are related to the company's line of work, widely cited benefits of such involvement include feedback about the health and effectiveness of organizations that receive financial support from the company, deeper community links, and good public relations — as well as enriched opportunities and experiences for the employees themselves.[92]

These "softer" aspects of employee responsibilities are inherently more challenging for managers, and employee motivation is a subject with a reputation for fads and enthusiastic endorsement of untested practices. But employers will not only face fiercer competition for a more limited supply of workers in the future, those workers, being older, will on average be more financially secure, and will have options that younger workers do not. Management that is imaginative and flexible in motivating and inspiring loyalty in workers is likely to provide a more decisive competitive edge in the years ahead.

Public Policies Affecting Responsibilities and Compensation

As in other areas, employers and employees seeking attractive balances of work responsibilities and compensation packages for older workers will benefit from accommodative public policies. Regulations and codes of practice that create formal equality of opportunity for various arrangements can promote environments where workers of all ages feel well served. Measures focusing on equality of result, on the other hand, may pre-empt attractive arrangements. Legislators, regulators and adjudicators need to be reminded that age is not an innate characteristic like sex or skin colour, and that different arrangements for people at different stages of life do not necessarily constitute unfair discrimination.

No discussion of work content and compensation would be complete without a note on the influence of government tax and transfer policies on compensation and employment. Current fiscal trends point to trouble ahead. Over time, pay-as-you-go funding of such programs as transfer payments to seniors, health services, disability and unemployment benefits, and long-term care will raise their costs to the taxpayers of the day. But relatively fewer workers will be generating the labour income that makes up the bulk of the tax base.

Rising tax rates narrow the margin between the take-home pay available to workers and the alternative income sources available to non-workers. The prospect, then, is that these cross-cutting forces will thicken the tax wedge between what a business pays its employees and the net benefit those employees take home.

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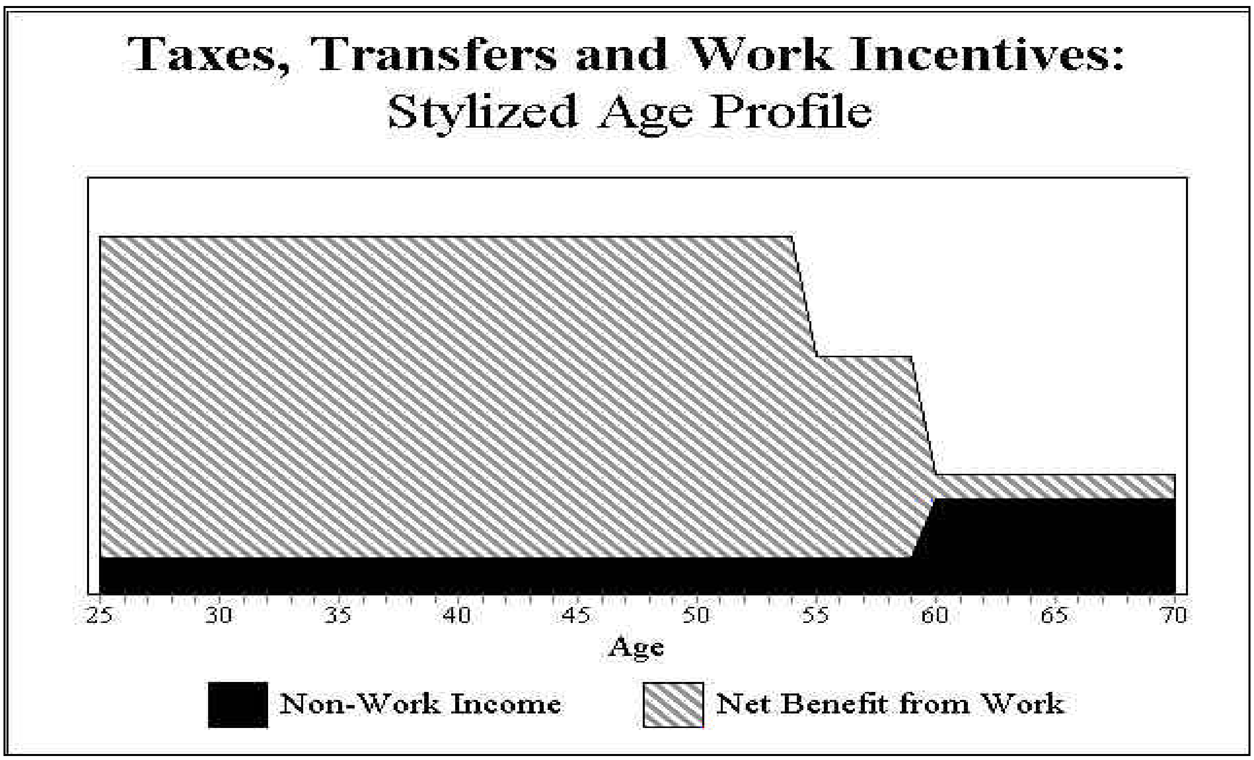
91 Worsley (1996, 120-21).

92 Paton (2000).

Although the United States, the United Kingdom and Canada are in better positions than many countries generally in this regard, modern tax-transfer systems tend to impose high effective tax rates on labour income, and these effects appear to influence the labor-supply decisions of older workers. The combined impact of declining benefit accruals on the one hand and increased transfers available from not working, as the welfare and unemployment insurance payments available to younger workers give way to old age pensions, on the other, is shown in stylized form in Figure 3, which illustrates the manner in which these changes squeeze the net benefit from another year's work as people age.[93]

Figure 3.



Calculations by OECD researchers in the mid-1990s suggested that moving to more actuarially neutral pension systems would raise participation rates of older males by 2.9 percentage points in the United States, 1.5 percentage points in Canada, and 1.2 percentage points in the United Kingdom, and that reforms to the unemployment benefits system also could boost the UK gain to 3.0 percentage points.[94]

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[93] The vertical scale in Figure 3 is arbitrary, but might usefully be thought of as an index in which total compensation of an average worker at each age is the denominator.

[94] Blondal and Scarpetta (1998, 39-41, 63, 71, 77 and 88).

The continuing increase in the actuarial adjustment for later receipts of social security pensions in the United States illustrates the sort of changes that would help in this area.[95]

More generally, businesses need to keep reminding governments of the advantages of prefunding their social insurance programs and the variety of options for doing it. Some economic models predict that the advantages of prefunding will shrink as a more slowly growing workforce reduces the demand for investment and lowers financial rates of return. Alternative predictions, in which slower growth and higher taxes reduce saving and push financial rates of return up, however, are at least as plausible.[96] Where the institutional design of social insurance programs themselves offers no scope for prefunding through dedicated accounts, it is still possible for governments to prefund indirectly, running budget surpluses that pay down public debt and reduce the impact of interest payments on future tax loads. Forecast horizons that are longer than is usual in public sector budgeting, actuarial estimation of future pension, health and long-term care liabilities, and accrual of those costs in government financial statements, are all steps that employers should be urging on policymakers.

[95] The 1983 legislation that is increasing the eligibility age for full benefits will, as of 2005, have moved the adjustment factor for each year of work beyond the standard age from 3 to 8 percent. The lowering of accrual rates in the UK Second State Pension system is helpful as well: while it means less benefit for each additional year of work for those still below the maximum replacement rate, it also means a longer period until the maximum is hit. Recent reforms to the Canada Pension Plan had no significant impact on these incentives.

[96] See, for example, Kotlikoff et al. (2001).

Revamping Business Structures

The prospect of changes in compensation and responsibilities raises further questions about the overall structure of business operations.

Succession Planning

To start with a straightforward point, no matter how successful a company is in retaining older employees, an older workforce is going to be one in which a higher proportion of exits are into retirement. Workforce aging may not have prompted significant revamping of company practices to date — only one in seven respondents to the BNAC's survey indicated that workforce aging had yet prompted such changes — but among those who said it had, new attention to succession planning was the most frequently mentioned response.[97]

Especially in organizations where a substantial cohort of early baby-boomers will be moving into retirement at once, extra attention to identifying future leaders from "generation x" — an age cohort that might previously have appeared still several steps away from the top jobs — should pay off. Enriching the jobs of potential future leaders early could prevent their seeing a "gray ceiling" above them and trying their fortunes elsewhere.

Pyramid-Shaped Companies in Rectangular Populations

As Figure 1 illustrated, the traditional pyramid of demographic analysis, with a wide base of young people and a progressive narrowing through to the oldest people at the peak, is no longer applicable to the United States, the United Kingdom and Canada. The age-profile of their populations is becoming more pagoda-shaped, and will over time become more rectangular.

As the population from which companies draw their workers changes shape, company age-profiles will also become less pyramidal and more uniform. Since age is typically correlated with advancement through a hierarchy with decreasing numbers at each level, this transformation threatens to create problems — more jostling high up, seniority rights in collective bargaining agreements that congest the system, and frustrated young employees, potential leaders or simply good line workers, who seek opportunities elsewhere.

Some of the flexible work arrangements already discussed might alleviate these problems. Older workers who take on more special projects and outside work will reduce potential congestion at the top, opening advancement opportunities for promising younger workers. In some companies, more conscious efforts to promote from within may also be apt. One executive recruiter has reported encountering forces — such as a "grass is greener" syndrome working against inside candidates, scars of past internal battles, and desire to deflect after-the-fact criticism of a bad decision onto an outside

[97] Several respondents indicated that they were investing in new human-resource software that might alter their practices in the future.

recruiter — that can bias executives in favour of hiring from outside to fill senior slots.[98] Such biases carry obvious risks: passing up good insiders, and frustrating employees hoping for advancement within the company.

Rectangular Companies

Even adept moves to keep blood flowing through an organization, however, will not avoid the challenge of keeping workers 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.[99]

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 and more through development of competencies and acknowledgment 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 managers to be more imaginative in providing one-time financial rewards and recognition of achievement by peers and senior executives.

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.[100] 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.[101]

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98 Stern 2000.

99 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).

100 Fandray (2000, 32).

101 Capelli (2000, 108).

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 and Ergonomics

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 to the investments of the nineteenth and mid-twentieth centuries. The common feature of these advances is that they de-emphasize physical capabilities in favour of 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. Several respondents to the BNAC's survey of its members commented that their efforts to make their workplaces friendlier to people with disabilities simultaneously rendered them friendlier to older workers.

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 the operations of other US automobile manufacturers more than does Georgetown, whose distinctive feature is the large share of women in its workforce.[102] Such facilities provide a glimpse of the workplace of the future, in which an older, and more female, workforce will thrive.

[102] Gordon (2000, 29).

Much of what is involved in accommodating workplaces to the needs of older workers is straightforward common sense.[103] Older workers typically have less muscle strength and flexibility, so in manual jobs, reducing the need to lift or carry over distances will help, as will measures such as rotating jobs that can reduce the strain of repetitive actions. Ergonomic work spaces can reduce standing time and give less flexible workers more room. Insulation from excessive noise will help workers whose hearing is less acute or who are more easily distracted. In office jobs, adjustable chairs and work surfaces, large video displays and volume-adjustable telephone equipment are among the items that can make older workers — and not just older workers — more comfortable and productive.

For some companies, more outreach programs related to the safety and health of older workers may make sense. Information, diagnostic and training programs may help prevent conditions such as carpal tunnel syndrome, tendinitis, and back strain. An aging population will attract more students into gerontology and related fields, expanding the opportunity for visiting experts to inform workers about specific health problems as well as more general subjects such as the benefits of exercise in forestalling age-related disabilities. And as health benefit plans begin to focus more on the needs and wishes of older workers, advice on avoiding such common problems of the elderly as drug interactions will become increasingly cost-effective parts of the package.

This area is, again, one in which employers need to alert policymakers to unintended consequences of actions intended to improve the lot of older workers. If mandated accommodations become too expensive or intrusive, they may discourage the employment of older workers, or reduce the number of available jobs altogether. Tax laws that permit expensing of investments in a safer, more ergonomic workplace are a superior way of encouraging such accommodations, and have the added virtue of putting those investments on a similar footing to wage costs, providing more flexibility in balancing the various compensation and work-environment elements of the total compensation package.

Telecommuting and Working at Home

Falling communication costs are allowing workplaces themselves to relocate so as better to suit employees. In part, relocation is simply a matter of reducing the time and inconvenience of commuting. Although such arrangements are not common among firms represented in the BNAC survey, the Conference Board of Canada survey found that the share of employers making use of telework and work-at-home arrangements had risen from 11 percent in 1989 to 50 percent in 1999.[104] 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 encourage employees to put down deeper roots, and insulate them from the recruitment efforts of competitors. To overcome

103 See Worsley (1996, 66-67) and Albrecht (2001a, 62).

104 Bachmann (2000, 4).

the feelings of isolation that might make telecommuting less attractive to older workers, 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.[105]

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[106] — one more example of the virtuous circle created by a reputation as an employer for whom older people like to work.

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[105] Dunkin (1998).

[106] Hickins (1999, 15); Laurence (2001, B3).

Concluding Comments

Although it is common knowledge that demographic forces are changing the workforces of the United Kingdom, the United States and Canada, perceptions of the challenges this transformation poses for employers are still patchy, and reaction to it is uneven. A striking finding of Watson Wyatt's widely cited US survey, 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 them.[107] Respondents to the BNAC survey also often indicated that they had not considered specific measures to accommodate older workers, and while lack of consideration may reflect lack of meaningful opportunity for some, other respondents said that filling out the survey had been a useful prod to re-examination of current practice. For some employers and employees, a fresh look at the challenges of an aging workforce is likely to reveal unsuspected opportunities.

The wheels of demographic change grind slowly, but even slow-moving changes can surprise with the size of their impact. The tighter labor market of the late 1990s provided a foretaste of the crunch to come. More recently, a cyclical slowdown has cooled demand for workers, and declining share prices have depleted the nest-eggs that were financing rapid departures of many older people from the workforce. But the need for advance planning and encouragement of good public policy is no less pressing. When the economy and financial equity markets improve, the demographic trends prefigured here will become more than lines on a page: for many employers, they will be little less than a crisis.

Some of the measures to adapt to a world of scarcer, older workers resemble 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.[108] 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.

At the end of the day, scarcer labor will simply put more of a premium on practices that already make good business sense: attracting and retaining key knowledge, skills, and aptitudes, and ensuring that valuable prospective or current employees are not screened out by the use of inappropriate markers, such as age. Innovative hiring and contracting, flexible work schedules, training, imaginative compensation and business structures, new workplace technologies — all are key tools for building and retaining talent. Employers that do not adapt to a changing workforce will lose their edge in recruiting, and find frustrated younger workers and pensioned older workers leaving for competitors. Governments whose policies frustrate these adaptations will hurt their citizens' living standards.

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[107] Watson Wyatt (1999, 11).

[108] 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.

Employers and governments that respond early and energetically to the challenge, by contrast, will garner a key competitive advantage.

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Appendix: Survey of BNAC-Affiliated Organizations

This appendix reproduces the questions of the BNAC's survey of organizations with which its members are affiliated, along with quantitative summaries of the answers for which such measures are possible.

1. Please rate the importance of the following issues with respect to the management of human resources in your organization, using a scale from 0 to 5, where 0 is "not applicable at all", 1 is "not important", 2 is "somewhat important", 3 is "important", 4 is "very important", and 5 is "crucial".

<	reducing labor costs	3.2
<	increasing employee skills	4.1
<	increasing workforce flexibility	3.2
<	redesigning work processes	3.0
<	recruiting able employees	4.3
<	retaining able employees	4.3
<	enhancing labor-management cooperation	2.6
<	decentralizing decision-making	2.5
<	increasing the diversity of the workforce	3.2
<	managing workforce aging	2.5

2. Does your organization monitor the age-profile of its workforce?

   Yes: 52%   No: 46%   No Response: 3%

   If your answer was "yes," please indicate how, if at all, this information affects recruitment and retention practices.

3. Does your organization actively recruit members of specific demographic groups?

Yes: 35% No: 65% No Response: 0%

If your answer was “yes”, does your organization actively recruit older workers?

Yes: 15% No: 85% No Response: 0%

a) If your organization does actively recruit older workers, please indicate:

< the principal age-group(s) it targets (e.g. 55-65, 65+)

< the main reasons for doing so (e.g. lack of younger workers, specific skills, better match with demographics of customers)

< the principal method(s) used and, if applicable, the method(s) that appear most effective and/or promising.

b) If it does not, please indicate with check marks which of the following reasons for not recruiting older workers applies:

<	no compelling business purpose	64%
<	more pressing need for young blood	46%
<	greater affordability of younger workers	9%
<	abundant supply of workers under current arrangements	18%
<	actual and/or anticipated opposition from workers and/or managers	0%
<	legal obstacles	0%
<	have not considered it	18%

c) What legal, regulatory, or other public policy changes, if any, would allow a better match of business and employee needs in this area?

4. Does your organization have policies the main goal of which is employee retention?

Yes: 81% No: 19% No Response: 0%

If your answer was "yes", are any of these policies specifically targeted at retaining older workers?

Yes: 17% No: 83% No Response: 0%

a) If your organization does have policies specifically targeted at retaining older workers, please:

< indicate which age-range (e.g. 45-54, 45+, 65+) is their principal target
< list the main reasons for doing so (e.g. retention of skills, maintenance of relations with customers).
< outline the principal method(s) used and, if applicable, the method(s) that appear most effective and/or promising.

b) If it does not, please indicate with check marks which of the following reasons for not targeting older workers for retention applies:

<	no compelling business purpose	52%
<	retention of all workers is of equal importance	60%
<	more pressing need for young blood	44%
<	greater affordability of younger workers	4%
<	abundant supply of workers under current arrangements	12%
<	actual and/or anticipated opposition from workers and/or managers	4%
<	legal obstacles	8%
<	have not considered it	20%

c) What legal, regulatory, or other public policy changes, if any, would allow a better match of business and employee needs in this area?

5. Does your organization have flexible hours provisions?

Yes: 76% No: 22% No Response: 3%

a) If your answer was “yes”, are any of these provisions specifically designed to accommodate older workers?

Yes: 4% No: 86% No Response: 11%

< if “yes,” at what age do the provisions become available?
< please indicate the types of workers (e.g., production, clerical, management) to which these provisions apply
< please describe the relevant provisions and, if applicable, those that appear most effective and/or most promising.

b) If none of these provisions is specifically designed to accommodate older workers, please indicate with check marks which of the following reasons for not designing such provisions applies:

< no compelling business purpose 58%
< general provisions are suitable for older workers 67%
< no demand from employees 42%
< actual and/or anticipated opposition from workers and/or managers 4%
< legal obstacles 17%
< have not considered it 21%

c) What legal, regulatory, or other public policy changes, if any, would allow a better match of business and employee needs in this area?

6. Does your organization have flexible retirement plans (e.g. part-time for a specified period before normal retirement age; part-time after normal retirement age)?

Yes: 35% No: 62% No Response: 3%

a) If your answer was "yes", please:

< indicate the categories of workers for which such plans are available
< describe the relevant provisions and, if applicable, those that appear effective and/or most promising.

b) If your answer was "no", please indicate with check marks which of the following reasons for not having such programs applies:

<	no compelling business purpose	70%
<	no demand from employees	48%
<	actual and/or anticipated opposition from workers and/or managers	4%
<	legal obstacles	9%
<	have not considered it	44%

c) What legal, regulatory, or other public policy changes, if any, would allow a better match of business and employee needs in this area?

7. Does your organization provide training specifically targeted at older workers?

Yes: 0% No: 100% No Response: 0%

a) If your answer was "yes", please
- < indicate which age-range (e.g. 45-54, 45+, 65+) is its principal focus
- < indicate the types of workers (e.g., production, clerical, management) to which such training is available
- < describe the relevant provisions and, if applicable, those that appear most effective and/or most promising.

b) If your answer was "no", please indicate with check marks which of the following reasons for not providing such specifically targeted training applies:
- < no compelling business purpose 70%
- < generally available training is suitable for older workers 68%
- < no demand from employees 27%
- < actual or anticipated opposition from workers and/or managers 0%
- < legal obstacles 5%
- < have not considered it 22%

c) What legal, regulatory, or other public policy changes, if any, would allow a better match of business and employee needs in this area?

8. Has workforce aging prompted your organization to alter its compensation and promotion practices?

Yes: 14% No: 86% No Response: 0%

a) If your answer was “yes”, please indicate what alterations were made.

b) If your answer was “no”, please indicate with check marks which of the following reasons for not having such programs applies:

<	no compelling business purpose	81%
<	no demand from employees	34%
<	actual or anticipated opposition from workers and/or managers	3%
<	legal obstacles	6%
<	have not considered it	38%

c) What legal, regulatory, or other public policy changes, if any, would allow a better match of business and employee needs in this area?

9. Does your organization encourage older workers to take on special duties (eg., consulting, mentoring, participation in not-for-profit activities)?

Yes: 30% No: 70% No Response: 0%

a) If your answer was “yes”, please provide examples of such duties.

b) If your answer was “no”, is this something you have contemplated doing?

Yes: 8% No: 73% No Response: 19%

10. Has your organization adapted its workplace to facilitate the performance of duties by older workers (eg. safety procedures, ergonomic equipment)?

    Yes: 14% No: 87% No Response: 0%

    a) If your answer was "yes", please provide examples of such adaptations.

    b) If your answer was "no", is this something you have contemplated doing?

    Yes: 6% No: 84% No Response: 9%

11. Has your organization changed the organization and/or location of work in response to the requirements of older workers (eg. telecommuting or locating operations closer to workers' residences)?

    Yes: 3% No: 97% No Response: 0%

    a) If your answer was "yes", please provide examples of such changes.

    b) If your answer was "no", is this something you have contemplated doing?

    Yes: 5% No: 86% No Response: 8%

12. With regard to your operations in the United States:

    a) What measures did the abolition of mandatory retirement require your organization to take?

    b) On a scale of 0 to 5, where 0 represents "strongly negative" and 5 represents "strongly positive," what was the combined impact of mandatory retirement's abolition and your organization's response to it on the efficiency and (if applicable) profitability of your U.S. operations? 3.0

13. Do you have any additional comments or information?