

Demographics, Work, and Public Policy: Risks and Opportunities

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Introduction and Overview

I thank the HRPAO for my proverbial 15 minutes of fame in this panel.

I'll use that 15 minutes of fame to touch on three things.

First, I'll review the demographic situation we're likely to face in the coming decades.

Then I want to focus on the challenges and opportunities this situation presents to human resource managers.

And finally, I'll look at some of the changes we all need to urge on governments if we're going to deal with this situation as effectively as we'd like.

Demographic outlook

On the demographic front, as many of us notice every morning when we look in the bathroom mirror, we're getting older.

And whether our bathroom mirrors have anything to tell us about fertility or not, we are declining on that front.

For decades, the growth of Canada's younger population has been decelerating. And that change is feeding through into the growth and make-up of the population we've traditionally seen as being of prime working-age — people age 20 to 64. That group will grow ever more slowly through the rest of this decade, essentially flat-line after 2010, and shrink after 2020.

With rising life expectancy ensuring we have many years of enlightening gazing into bathroom mirrors ahead, the seniors population will keep growing robustly.

So the pyramid-shape population profile we're familiar with — largest in the younger age-groups and tapering to a point at the oldest — no longer applies to Canada. As time goes by, it's increasingly resembling what many baby-boomers with full-length bathroom mirrors see each morning — a bit heavy around the middle.

The change in the make-up of the 20-64 age-group itself is also striking. Between 2001 and 2011, the increase in the oldest part of it — the population age 55-64 — will, in raw numbers, be equal to about two-third of the total increase in the working-age population. And during the following decade, the increase in the 55-64 group will exceed the total increase in the working-age population. So in a numerical sense, the 55-64 group is where we're going to find the “new” workers of the next two decades.

Now since pension problems are big news these days, let me highlight one point.

Challenges for Employers

That's a natural point from which to segue into part 2 of my 15 minutes of fame: challenges for employers.

In the book I wrote for the British North-American Committee, *Aging Populations and the Workforce*, I canvass a lot of what employers can do to find and hire older workers.

Willie Sutton the bank robber famously said he robbed banks because that's where the money was. Many employers could learn from him in modifying their recruiting practices.

But some employers look to me like Willie Sutton wondering where to pull his next heist when he's already sitting on a huge pile of cash. After all, the older workers you are likeliest to find are the ones already working for you. Yet this is the age-group many employers seem least focused on retaining. Although workforce participation rates of older workers have stopped declining over the past 5 years, we're still looking at a median age of retirement in the private sector that's 2½ years lower than it was in the mid-1970s and in the public sector, it's fallen by more than 5 years.

It's clear early-retirement schemes — frequently undertaken by employers whose pension plans turn out to be in trouble — are part of the reason. Does shooing large amounts of human capital out the door like that make sense?

There's room for doubt. We all know of early retirement packages whose designers were among the first to hit the golf course. That is what we could politely call an agency problem.

But we also know that the median age of retirement for the self-employed is still the same — 65 — as it was in the mid-70s. And many of the people whose continued work has kept that self-employed retirement age stable are the same people who took early retirement, and went back to work — sometimes for that same employer, sometimes for a competitor. They weren't giving up on work. But the old employment contract wasn't the ticket.

Why not? Both Barry and Jon will have more to say about this, so as a lead-in to that, I'll just say that a look at typical work and compensation arrangements highlights some gaps in our knowledge about compensation and motivation.

Here's one conundrum. Ask one labour economist what paying a worker more will do for retention, and the answer will be: "It will help." Why? The more people get while working, the less they can afford to take it easy. Ask another what more pay will do for retention and the answer will be: "It will hurt." Why? Because the more people get while working, the more they can afford to take it easy. The worst of it is, both these labour economists are right for some workers, and both are right for some types of compensation. What that means is we have to move beyond dollar amounts and learn how to put together compensation packages with the right bits to motivate the younger worker, and also the right bits to motivate the older worker.

And while we're learning, here's a second conundrum. The typical profiles of individual worker productivity and compensation seem not to match. Young workers seem to earn less than they're worth, and then after some crossover point after 20-30 years of experience, older workers seem to earn more than they're worth. Maybe this pattern is a mistake, a holdover from a past age when we were dumber, and we've wised up and started to flush those overpaid old guys out. But maybe what we can easily see isn't the whole picture. Suppose part of the compensation young workers get is investments in informal training we can't easily see, and part of the output old workers give is informal instruction. If so, employers are right to shape current and deferred compensation to ensure that workers don't get trained and then leave to apply their skills with a competitor. So again, we need to think about crafting compensation so it gives both sides what they want without producing a tip-over point where the person the employer's been investing in suddenly looks too expensive to keep.

Now all this learning may be a tough sell for HR people dealing with colleagues who are sweating over sales, product development, pension underfunding and so on. So when your colleagues tell you to stop reminding them why what they're seeing in the bathroom mirror every morning has implications for business practices, here are my top three points to include in your answer:

1. Older workers tend to stick around. It might seem common sense that, with retirement, a given older worker will be with the company less time than a younger one. But what's true for the workforce as a whole isn't necessarily true for individual companies. Older workers don't job-hop. Actual data on job retention — the likelihood that a person in a given position will still be there in a year's time — show that older workers are likelier to stick around than younger workers.

2. Each cohort of older workers is healthier and better educated than its predecessors. If current patterns hold, that means continued increases in workforce participation by people 55 and up.

3. Most striking, older workers are here! Add sheer numbers — that potbellied age-profile I mentioned — to the stabilization of participation rates by older Canadians and the stabilization of retirement ages, and you get explosive growth in the number of Canadians over 55 on the job. Just over the past 3 years — since the beginning of 2001 — total jobs in Canada rose at an annual rate of less than 2 percent. Meanwhile, jobs held by workers age 55 and up rocketed up at a annual rate of more than 9 percent. At the beginning of 2001, of every 10 working Canadians, 1 was age 55+, yet since then, for every 10 net new jobs, 5 are held by people age 55+. That shift in the demographics of the workforce I talked about is happening right now, and organizations that tap into this growing resource are gaining an edge. So if they're not in your organization, you might want to check the competition.

Policy Challenges

I'll close, as advertised, with a comment about policy. At C.D. Howe, of course, policy-wonkery is our thing, so in this forum, I'll just highlight just two quick points — one substantive and one about advocacy.

On the substantive side, the core of the challenge we face as employers and as a country is to ensure that workers don't suddenly find, as they get into their later 50s and 60s, that staying on the job makes no financial sense.

Some people love work for its own sake. For most though, the difference between the after-tax pay and benefit entitlements earned when working, and the public and private pensions and benefits available when not working matters big-time.

The tax and transfer system doesn't just hamper employers' ability to make work and pension arrangements more attractive to older workers. For many older workers, public policy effectively shouts "You'd be better off if you quit!" so loudly that anything an employer does gets drowned out. There's a lot to do, from income-tax rules affecting pensions, to tax rates and clawbacks on OAS and GIS, to the actuarial adjustment on the CPP to means-tested provincial benefits, to help employers meet this challenge.

Because there is so much to do, my final point on advocacy is a simple one: get on the case early and stay on it.

The federal government promised us a white paper on aging in the early 1990s, and we've gotten 10 years older waiting for it. Bringing these changes about will take time, and employers will be more effective in advocating for them if they approach policymakers early — preferably before they've got an emergency on their hands and go to the government asking for help — with constructive advice about changes that would improve the environment for hiring and holding on to older workers. You in this room have enormous credibility on this subject, and I urge you to deploy it to help us get where we need to go.

Summary

So that's my 15 minutes, and I will now prepare to relinquish my fame to Jon and Barry.

In a nutshell:

- People toward the top end of what we've typically considered the working-age population, and people beyond it, will be a valuable resource in the years ahead.

- Employers need to become more effective in using that resource — and recent jobs data show that many are already doing so.
- But to really do it right, we need to get smarter as a society, and make our public policies more effective at the same time. So all of us this room need to stay on the case.

Thank-you.