

A Business Case for Workers Age 50+:
A Look at the Value of Experience

Executive Summary

2015

AARP® Real Possibilities

A report prepared for AARP by Aon Hewitt

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Foreword

In 2005, AARP and Towers Perrin released a landmark report on *The Business Case for Workers Age 50+: Planning for Tomorrow's Talent Needs in Today's Competitive Environment.* That study documented for the first time why attracting and retaining experienced workers 50+ is critical for businesses seeking an advantage in the labor market.

This current study, *A Business Case for Workers Age 50+: A Look at the Value of Experience 2015*, commissioned by AARP and conducted by Aon Hewitt, demonstrates that 10 years later, the business case for workers age 50+ has grown stronger and that recruiting and retaining workers age 50+ is critical to the success of high performing businesses.

It's no secret that as our population ages, the workforce is aging right along with it. U.S. employees 65+ now outnumber teenagers in the workforce for the first time since 1948. In 2002, workers 50+ made up 24.6 percent of the workforce. By 2012, they were 32.3 percent. And by 2022, they are projected to be 35.4 percent of the total workforce. During the past decade alone, the number of workers ages 40 to 49 decreased by 6 percent, while the number of workers ages 50 to 59 and 60 to 69 grew by 28 percent and 72 percent, respectively. This trend isn't likely to change anytime soon. As the data in this report indicate, in 2014, over one in three workers age 45+ expects to retire at age 66 or older, compared to just over one in five 10 years ago. Moreover, 72 percent of workers ages 45 to 74 envision working in retirement either out of choice or necessity.

This is good news for employers. While the 50+ workforce is growing, many employers report having trouble recruiting and retaining qualified workers. Even though this was not the case during the recession years, the Manpower Group 2014 Talent Shortage Survey found that 40 percent of U.S. employers reported difficulty in filling jobs.

Fortunately, many of today's workers want to work and want viable work options later in life. So, in light of the declining proportion of younger workers and the projected shortages of talent in many areas, many employers are turning to experienced, 50+ workers in order to gain and maintain a competitive edge.

HR managers who once may have assumed that older workers could be replaced by those fresh out of school are having to rethink those assumptions. Instead, they are looking for innovative ways to encourage workers 50+ to remain on the job beyond their traditional retirement age. They are learning that although 50+ workers are motivated by current and future financial needs (e.g., pay and benefits), psychological and social fulfillment also play a significant role in decisions to keep working. As such, 50+ workers highly value non-financial offerings by employers, such as flexible work schedules, telecommuting options, training and education opportunities, phased retirement programs, and bridge jobs that allow them to transition into some other kind of work.

Many employers have already begun implementing innovative practices to attract and retain workers 50+. Others, however, are slow to adapt to the changing workforce, largely because of negative stereotypes and outdated notions about the value of older workers. For example, one misconception is that workers 50+ cost significantly more than younger workers because of older workers' experience and additional benefit costs. While costs still tend to increase with age (particularly health care costs), the impact on the employer is minimal. In fact, recent trends in compensation and benefits have diminished the relationship between age and labor costs to the point that age is no longer a significant factor in the costs of hiring and retaining workers.

Leading employers across all industries value the expertise and experience of workers 50+ and believe that recruiting, retaining and engaging them will improve their business results. Just as today's 50+ population is redefining aging and eroding negative stereotypes, today's 50+ workforce is adding value by exhibiting traits that are highly sought after in today's economy, including experience, maturity and professionalism, a strong work ethic, loyalty, reliability, knowledge and understanding, and the ability to serve as mentors. Moreover, because workers 50+ are less likely than younger workers to leave their jobs unexpectedly, they create value by allowing dollars and time that might otherwise be spent on workforce churn to be more effectively invested in productive measures that impact the bottom line.

In today's business environment, the most important capital a company possesses is its human capital. Employers who are prepared to meet the workplace needs of their people can stay ahead of the curve. Companies that invest in their human capital realize a return on investment through an increase in their market value. At AARP, we are committed to helping organizations realize that age adds value. We believe that anyone 50+ who wants or needs to work should be able to work. It's not only essential to achieving financial security but also benefits our economy and our society.

A Business Case for Workers Age 50+: A Look at the Value of Experience 2015 debunks many of the widely held misperceptions about the costs of 50+ workers and demonstrates that employers should view workers 50+ as an essential part of the plan to meet their workforce needs. It also highlights the need for employers to consider costs with a broader lens and demonstrates that recruiting and retaining workers 50+ is a sound business strategy. Finally, it shows how to develop and implement an effective strategy for retaining and recruiting workers 50+. By understanding how the changing demographics of the workforce impact business and by viewing workers 50+ as a solution to meeting workforce needs, companies can compete and win in the evolving global marketplace.

Sincerely,

Jo Ann Jenkins, CEO AARP

Introduction

In an era of changing workforce demographics, economic pressures, and mounting talent needs, employers may struggle with finding and keeping the talent that they need and wonder whether the growing pool of older workers will be a positive or a negative for their organization.

In order to help employers examine these issues, AARP commissioned Aon Hewitt to develop this study as an update to a 2005 report on the business case for workers age 50+, also commissioned by AARP.[1] Using the most current data available, the study quantifies the cost and examines the value of the age 50+ workforce and evaluates the business case for the recruitment, retention, and engagement of these workers. While economic and demographic circumstances have changed since 2005, the findings reveal that the business case for workers age 50+ has strengthened and confirms that recruiting and retaining this cohort is a critical component of a high performance business.

A Framework for Employer Evaluation

As employers create and refine their talent strategies for today and into the future, it is important for their leaders to understand:

1. The business impact of changing labor force demographics
2. The value of workers age 50+ to the organization
3. The economics of retaining and hiring workers age 50+
4. What age 50+ workers seek in an employer
5. How leading employers are addressing these issues

This report focuses on this framework to allow employers to evaluate the impact of recruiting and retaining workers age 50+.

Key Findings and Implications

Workforce demographics and talent needs underscore the importance of workers age 50+

The age 50+ workforce segment is growing in size at a time when 40% of U.S. employers report difficulty filling jobs.[2] In a recent survey by the Society for Human Resource Management (SHRM), nearly four in 10 HR professionals predicted that the loss of talent resulting from retirements or departures of workers age 55+ would be either a problem or a crisis for their organization over the next 11-20 years.[3] Retaining valuable workers who are close to retirement represents one method for mitigating further shortfalls.

Key implications for employers: *A focus on the attraction and retention of workers age 50+ will play a significant role in addressing talent shortfalls in the coming years.*

50+ talent Is a key ingredient in a high-performing workforce

The 50+ segment of the workforce continues to be the most engaged age cohort across all generations. Sixty-five percent of employees age 55+ are considered engaged based on survey data, while younger employee engagement averages 58% to 60%.[4] The level of employee engagement has implications for both retention and business results. It takes only a 5% increase in engagement to achieve 3% incremental revenue growth.[5] This means a Fortune 1000 company with $5 billion in revenue could achieve a $150 million revenue increase with a 5% increase in employee engagement.

A SHRM survey of HR professionals cites many advantages of older workers, including greater professionalism, a stronger work ethic, greater reliability and lower turnover, in addition to their commitment/engagement.[6]

Studies also identify older workers as productive and essential to U.S. employers. As an example, a recent study reviewing the number and severity of production errors on an assembly line over four years found no decline in productivity as individual workers aged.[7] Instead, employee productivity increased until age 65 simply due to a minimal number of severe errors made on the assembly line. While the physical capabilities were a strong point of younger workers, older workers' strengths were their experience, knowledge, and quick decision-making skills.

Key implications for employers: *An engaged older workforce can influence and enhance organizational productivity and generate improved business outcomes.*

Experienced talent costs less than you think

Contrary to common perception, workers age 50+ do not cost significantly more than younger workers. Shifting trends in reward and benefit programs mean that adding more age 50+ talent to a workforce results in only minimal increases in hard dollar total labor costs. These trends include a broad move by large employers to performance-based vs. tenure-based compensation, the decline in traditional defined benefit pension plans, and the fact that health care costs have increased more slowly for older workers than for younger workers over the past decade.

A key objective of this study was to examine the incremental labor force costs associated with hiring or retaining more workers age 50+ and comparing these costs to the value considerations. To simplify the analysis, we focused on costs associated with four separate positions in the energy, financial services, health care, and retail industries.

The first step in the cost analysis involved quantifying age- and service-related costs. The second step involved quantifying the incremental costs associated with two different strategies to fill vacant jobs: (1) a focused effort to retain more workers age 50+, and (2) a focused effort to hire more workers age 50+.

For both recruitment and retention approaches, the following table shows the estimated impact on total employee compensation. The impact of doubling the percentage of older workers in an individual employer's population is shown to have only a minimal impact on the total compensation spend. Further, these minimal incremental costs may be more than offset by the value that age 50+ workers bring to the table in the form of higher engagement, more predictable turnover, and other key value differentiators.

Incremental Costs of Retaining and Recruiting More 50+ Workers

Estimated change in average total compensation costs as a result of:	**Engineer (Energy)**	**Sales Manager (Financial Services)**	**Nurse (Health Care)**	**Store Manager (Retail)**
Doubling the retention of workers age 55 with 20 years of service (from 20% to 40% of the company's workforce)	2%	1%	1%	2%
Doubling the percentage of new hires age 55 (from 20% of new hires to 40% of new hires)	1%	<1%	<1%	1%

Source: Saratoga Institute, Bureau of Labor Statistics, and Aon Hewitt analysis. See Chapters 2 and 3 for more detail.

Key implications for employers: *Reward program trends have weakened the relationship between age and labor costs in such a way that the costs of hiring and retaining workers can be virtually age neutral.*

Workers age 50+ expect to be in the workforce for some time and value both financial and non-financial offerings

One in three workers age 45+ expects to retire at age 66 or older, compared to just over one in five 10 years ago.

Although current and future financial needs are a top reason that employees stay in the workforce past age 50, psychological and social fulfillment also play a role. Workers age 50 and older specifically state that they are driven by career aspiration and career opportunities.[8] They also value such non-financial offerings as flexible work arrangements.[9]

Key implications for employers: *Employers that are able to present rewards and flexibility that meet the needs of 50+ workers increase their ability to both recruit and retain this valuable segment of the workforce.*

Leading employers focus on the recruitment, retention, and engagement of employees age 50+

Interviews conducted for this report with a select group of leading employers revealed three key strategies that these organizations use to recruit and retain age 50+ workers: creating flexible workplaces, focusing on options for transition to retirement, and fostering generational diversity and inclusion.

Key implications for employers: *Many large employers are finding that strategies aimed at retaining age 50+ employees are effective and worthwhile for their entire workforce.*

Conclusion

Each chapter of this report presents compelling findings that support the business case for attracting, engaging, and retaining age 50+ workers as a critical component of a multi-generational workforce. In summary:

- The rapid growth of the older workforce relative to younger workers will impact talent supply; workers age 50+ can help employers address current and future talent shortages.
- Workers age 50+ add value to organizations due to their high levels of engagement, stability, productivity, and experience.
- The market evolution in compensation and reward design over the past decade has created a more age-neutral distribution of labor costs, meaning that the incremental costs associated with retaining and recruiting more 50+ workers are minimal to nonexistent and may be far outweighed by their value.
- Workers age 50+ want to be in the workforce and anticipate a longer working career, making it critical for employers to understand the preferences of this group.
- Best practices to recruit, retain, and engage workers age 50+ can be replicated by employers of all sizes and across all industries.

About this Study

This report was prepared primarily for business leaders, including CEOs, human resources executives, and talent management executives of large Fortune 1000 U.S. companies, employing 500 or more employees, as well as privately owned companies of a similar size, such as large non-profit organizations and large U.S. subsidiaries of companies headquartered outside of the U.S.

Although the primary audience is large employers, many mid-sized and smaller employers—whether public or private— should also find the report relevant to their needs as they often face the same pressures, obstacles and opportunities as large employers.

Why Focus on Larger Employers?

Large employers are leaders in the development of best practices in talent management because they tend to have more resources to devote to developing and implementing new HR policies and practices. Many smaller employers seek to emulate the HR programs established by large employers. Although the number of large organizations with more than 500 employees is fairly small, these organizations employ over half (52%) of all U.S. workers and, therefore, have a significant influence on the U.S. workforce.[10]

Data Approach and References

This report leveraged a variety of data sources to conduct analysis on the financial and programmatic implications of older workers. Except where otherwise noted, the research and analyses are concentrated on evaluating available data from large organizations of 500 or more employees. These analyses rely primarily on data from Aon Hewitt databases that include thousands of employers and millions of U.S. workers. The employers in these databases are primarily Fortune 1000 companies headquartered in the U.S. and similarly sized organizations not included in the Fortune listing, such as large privately owned companies, nonprofit organizations and large subsidiaries of companies headquartered outside the U.S.

In addition to analyzing data on large employers from Aon Hewitt databases, researchers involved in this study also conducted interviews with 18 large employers to obtain anecdotal accounts, scenarios and case studies regarding how they approach older workers.

Although many of the analyses and examples in the report focus on large employers in four industries, researchers also conducted a literature review to draw on information from a broader cross-section of U.S. workers and employers. The literature review examined findings from *AARP Staying Ahead of the Curve* reports through the years, Aon Hewitt studies and research, Current Population Survey (CPS) and Bureau of Labor Statistics data, and research and studies from various well-respected institutions and journals, including Gallup, the Center for Retirement Research at Boston College, the Society for Human Resource Management, and the *Harvard Business Review*, among many others. All of these sources provided critical data in evaluating the business case.

For more information about this study, please see the full report at www.aarp.org/research.

Endnotes

[1] Towers Perrin and AARP. *The Business Case for Workers Age 50+: Planning for Tomorrow's Talent Needs in Today's Competitive Environment.* 2005. AARP.
[2] Manpower Group 2014 Talent Shortage Survey of 1,013 U.S. employers, and over 37,000 employers globally.
[3] Society for Human Resource Management. "The Aging Workforce -- State of Older Workers in U.S. Organizations." *2014 Older Workers Survey*. January 2015. (Reflects responses of more than 1,900 randomly selected HR professionals from SHRM's membership. Survey was fielded from May through July 2014.)
[4] Aon Hewitt Engagement Database 2009- 2013, covering 2M employees in 276 organizations.
[5] Aon Hewitt 2014 Trends in Global Employee Engagement report. Analysis included 284 global companies in the Aon Hewitt database, with correlation of 2010–2012 employee perceptions with 2012 financial performance in sales growth, operating margin and total shareholder return (TSR). Aon Hewitt compared three groups of companies against companies with average engagement: bottom quartile engagement companies (those with roughly half or less of their employees engaged), top quartile engagement companies (those that have greater than 7 out of 10 employees engaged) and those considered best employer companies (all of which are top quartile engagement companies but also have top quartile levels of leadership, performance and brand).
[6] Society for Human Resource Management. "The Aging Workforce --Basic and Applied Skills." *2014 Older Workers Survey*. January 2015. (Reflects responses of more than 1,900 randomly selected HR professionals from SHRM's membership. Survey was fielded from May through July 2014.)
[7] Borsch-Supan, Axel and Matthias Weiss. *Productivity and Age: Evidence From Work Teams at the Assembly Line*. Munich Center for the Economics of Aging. 2013.
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[9] AARP and SHRM. *What Are Older Workers Seeking?: An AARP/ SHRM Survey of 50+ Workers.* June 2012. (This nationally representative survey of 1,004 adults ages 50+ who were working or looking for work was conducted in May 2012.)
[10] U.S. Census Bureau, 2011 County Business Patterns. Data file entitled "Number of Firms, Number of Establishments, Employment, and Annual Payroll by Large Enterprise Employment Sizes for the United States, NAICS Sectors":
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