

The Business Case for

Workers Age 50+



Planning for Tomorrow's Talent Needs in Today's Competitive Environment

A Report for AARP Prepared by Towers Perrin | December 2005

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"In light of the declining proportion of younger workers and projected shortages, many employers will need to turn to mature, experienced workers in order to gain and maintain a competitive advantage."

Foreword

Three important trends are converging that are having a dramatic impact on the American workforce:

- 1 The workforce, and the population as a whole, are aging,
- 2 Labor shortages are projected in a growing number of sectors of the economy,
- 3 Many workers intend to continue to work beyond the traditional retirement age.

AARP has for many years educated employers and policymakers about practices that address the needs of a changing and maturing workforce.



Foreword

Now, this study breaks new ground on why employers should view 50+ workers as valuable contributors to their workforce needs. It provides documentation to the business community that attracting and retaining mature, experienced workers will become increasingly critical to maintaining a competitive advantage in the new labor market. In other words—it's a business imperative.

The demographic projections are clear. By 2012, nearly 20% of the total U.S. workforce will be age 55 or older, up from just under 13% in 2000.¹ This growth in the number of older workers reflects the fact that the population as a whole is getting older due to several factors, including the aging of the large Baby Boom Generation, lower birth rates and longer life expectancies.

With the pending retirement of the baby boomers—the first of whom will be eligible for early Social Security benefits in 2008—many analysts are predicting



growing labor shortages in tomorrow's workforce. In fact, some employers are facing that problem now. In addition to the widely publicized shortages of nurses and other health care professionals, organizations that rely on such specially trained individuals as teachers, engineers, and many other skilled people are feeling the pressure of labor shortages.

As a testament to the challenges on the horizon, 58% of HR managers responding to a 2005 AARP survey said that it is more difficult today than it was five years ago to find qualified job applicants. More than half of the HR



In light of the declining proportion of younger workers and projected shortages, many employers will need to turn to mature, experienced workers in order to gain and maintain a competitive advantage.

managers believe that their companies are likely to face a shortage of qualified workers within the next five years.²

Fortunately, many of today's workers want to work and want viable work options later in life. AARP research found that 69% of individuals between the ages of 45 and 74 who are either working or are looking for work plan to work in some capacity during so-called retirement.³ In another study, 68% of workers between the ages of 50 and 70 who have not yet retired reported that they plan to work in some capacity into their retirement years or never retire.⁴

In light of the declining proportion of younger workers and projected shortages, many employers will need to turn to mature, experienced workers in order to gain and maintain a competitive

advantage. HR managers who may have once thought that older workers could be replaced by those fresh out of school will find themselves creating flexible work schedules, telecommuting options, training and education, phased retirement and "bridge jobs," expressly designed to encourage workers ages 50+ to remain on the job beyond the age at which they might otherwise retire.

Many companies, some of which are mentioned in this report, have already started to implement innovative practices to attract and retain mature workers. However, evidence shows that other employers are slow to accommodate and adapt to the changing workforce, no doubt because of negative stereotypes and outdated notions about the value of older workers.

Foreword

However, this study presents the case that traits exhibited by midlife and older workers take on renewed value in today's economy—traits such as experience, loyalty, attention to task, perseverance, work habits and emotional maturity. The negative stereotypes about age are eroding as today's 50+ population redefines aging and demonstrates that they expect to continue being productive, engaged and active well into their 70s and beyond.

As the 76-million Baby Boom Generation nears traditional retirement age, many U.S. companies are facing a potentially significant loss of talent and institutional knowledge across key areas, including leadership, sales, and technical disciplines. While the impact of this undeniable trend will vary from industry to industry and among different job categories—many companies will be able to avoid the drain by encouraging today's 50+ workers to stay in the workforce longer.



In today's business environment, the most important value capital a company possesses is its human capital. Employers who recognize that fact and are prepared to meet the workplace needs of their people stay ahead of the curve. Studies have shown that companies that invest in their human capital realize a return on investment through an increase in their market value.

What has been missing until now is a thorough examination of the recruitment and retention of workers ages 50+ within a business case framework. Can a business case be made for attracting



and retaining these workers? This study affirms that, in fact, a case **can** be made.

The Business Case for Workers Age 50+: Planning for Tomorrow's Talent Needs in Today's Competitive Environment debunks many of the widely held misperceptions about the costs of older workers and demonstrates that companies should view 50+ workers as an essential part of the plan to meet their workforce needs. This study, prepared for AARP

by Towers Perrin, highlights the need for employers to consider costs with a broader lens and demonstrates that hiring 50+ workers is a solid and sound investment proposition.

It also shows, through documented best practices and case studies, 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 changing global marketplace.

Sincerely,

William D. Novelli
Chief Executive Officer, AARP

Although the maturing of the workforce has been extensively studied and documented over the years, U.S. employers as a group have only recently begun to take a hard look at today's changing workforce realities.

For many companies in the United States, the changing demographics of the labor force and looming exodus of retirement-eligible employees pose significant challenges and opportunities in terms of talent retention, acquisition and management. While many 50+ workers may exit the workforce, others will be looking to stay, some in new occupations and roles. This presents an

opportunity for companies that take advantage of this evolving talent pool, and a challenge for those same companies to manage generational diversity effectively.

Some organizations are already struggling with talent shortages in certain positions (e.g., nursing, engineering, sales, leadership). Others are just beginning to wrestle with a host of talent issues that are frequently complex and may be critical to their ability to grow and innovate, serve an increasingly demanding customer base and, ultimately, achieve their strategic business and financial goals. Their leaders are beginning to ask difficult questions about an uncertain future, including:

1
What will happen within our employee population—and our business—as the demographics of the labor force change?

2
What are the economics of retaining and hiring 50+ workers?

3
What are the best approaches for retaining critical knowledge and making the most of the available talent?

4
What are the leading companies doing to address these issues?

Clearly, these questions have both economic and human resource policy implications for U.S. employers. It is one thing for an organization to recognize that programs to retain and hire workers 50+ may be needed to respond to evolving workforce demographics. It is quite another challenge for an employer to take effective action to retain, hire and manage today's changing workforce. Implementing human resource policies and practices that successfully address workforce demographics by explicitly encouraging and supporting the retention and hiring of 50+ workers remains an elusive goal for many organizations.



To promote a better understanding of mature workforce issues among major companies and to guide businesses in responding to those issues, AARP engaged Towers Perrin to study the financial and programmatic implications of responding to the changing demographics of the U.S. workforce. Specifically, AARP wanted to assemble evidence, derived from the best available data, to assess the strength of the business case for investing an employer's resources to attract and retain workers 50+. The analysis required Towers Perrin to distill evidence of the benefits of employing older workers, assess the costs associated with employing 50+ workers and challenge conventional assumptions about the financial and productivity implications of workers age 50 and older.

The study also focused on current views of work and retirement within the 50+ workforce and the kinds of employer investments in rewards and other workplace programs that may be needed to retain and attract 50+ talent. Finally, the study explored how employers have responded thus far to issues related to changing labor force demographics and the emerging practices taking shape in the areas of workforce planning and talent management. To understand how employers are responding, Towers Perrin conducted an extensive review of the available research and previously published studies on this issue. And to gain up-to-date insights, in-depth telephone interviews were conducted with senior human resource executives in 10 major organizations across the United States.

An overview of the study findings follows. For details of how the study was conducted, see page 89.



Key Findings At-a-Glance

As the big Baby Boom Generation approaches traditional retirement age, many U.S. companies face a potentially significant loss of experienced talent in key roles ranging from leadership to sales to certain technical and professional disciplines and many skilled trades. And virtually all companies are likely to face a more competitive U.S. market for talent in the coming years.

1

The impact of changing labor force demographics and the impending boomer retirement wave will vary widely from industry to industry and company to company—and even among different job categories and positions within the same company. Some companies may be able to escape the talent crunch entirely if today's 50+ workers do, in fact, stay in the workforce longer than previous generations. Other companies are already feeling the talent pinch in some positions.

2



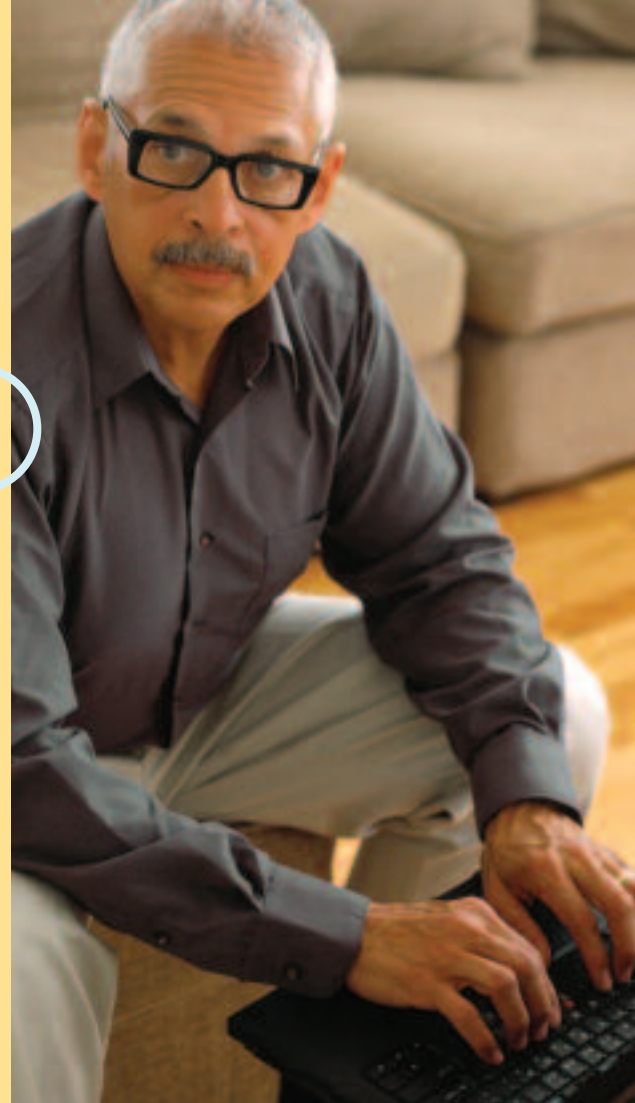
3



Many U.S. workers today expect and want to continue working past traditional retirement age, for both financial and personal reasons. For many employers (and for some positions in almost every organization), workers 50+ represent a potentially attractive solution to near- and long-term staffing challenges—if companies are successful in retaining and attracting this growing pool of talent.

In considering the case for retaining and hiring 50+ workers, employers should look hard at the potential performance advantages of the 50+ workforce. Mounting evidence—both anecdotal and statistical—demonstrates that 50+ workers bring experience, dedication, focus, stability and enhanced knowledge to their work. About half the respondents to a recent survey by the Society for Human Resource Management (SHRM) said they are seeing many new workers who lack overall professionalism, written communication skills, analytical skills or business knowledge. Said SHRM President and CEO Susan Meisinger, “We know there will be millions of baby boomers retiring and that some workers now entering the workforce lack core competencies. There are serious HR and workforce issues that could undermine the nation’s global competitiveness. And HR must determine how to meet these challenges.”⁵ Moreover, while some studies suggest that skills like manual dexterity may decline with age, others show that interpersonal skills (e.g., verbal communication) and tacit knowledge continue to improve or remain stable until very late in life.⁶ Also, workers 50+ may have an advantage in positions involving direct customer contact with an older customer base.

4



5

Beyond the potential performance advantages of 50+ workers is the issue of high personal motivation. According to Towers Perrin data, **older workers are more motivated to exceed expectations on the job than their younger counterparts are.**

Motivation is strongly correlated with employees’ overall levels of “engagement” (i.e., willingness to invest discretionary effort in their work), and companies with more highly engaged employees outperform their industry peers on a range of key business and financial measures.

6

Towers Perrin’s analysis indicates that replacing an experienced worker of any age can cost 50% or more of the individual’s annual salary in turnover-related costs, and the cost is even higher in jobs requiring specialized skills, advanced training, extensive experience and knowledge—often possessed by 50+ employees. **The benefits of a stable workforce and avoiding turnover cost can exceed the incremental compensation and benefit cost for a 50+ worker.** Towers Perrin found the added compensation and benefits cost to be only marginally higher in many cases. Thus, the cost of employing workers should be evaluated with actual data and in the context of total labor cost, including the costs of hiring and getting new employees up to speed.





7

To retain, attract and engage workers 50+, organizations will need to offer the right mix of rewards, including health care benefits, innovative growth and development opportunities, competitive retirement benefits and, perhaps most important, flexible work and part-time employment opportunities. Companies will also need to pay closer attention to the work environment and cultural factors that contribute to a positive working experience for a multigenerational workforce.

A small—but growing—number of companies have begun to focus on the preferences of the 50+ workforce and to develop innovative talent strategies and programs to help them retain, recruit and manage 50+ workers more effectively. However, relatively few companies thus far have fully positioned themselves for the coming workforce demographic shifts.

8



The prospect of a rapidly growing retiree population has significant implications for employers, not to mention public programs like Social Security and Medicare, and the U.S. economy overall.

What will happen within your employee population—and your business—as the demographics of the labor force change?



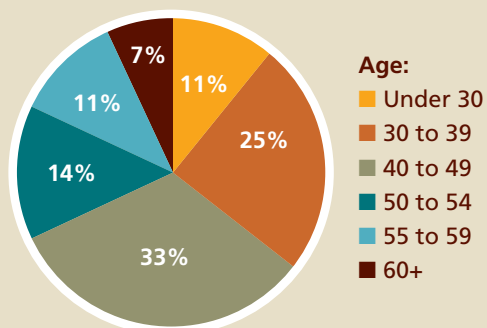
This is a good question—and one that is attracting more and more attention from economists, academics, the news media and employers themselves. One thing is clear: a significant demographic bubble known as the baby boom, which consists of about 76 million Americans born between 1946 and 1964, represents a large part of today's workforce. The leading edge of the baby boom is now approaching the age at which Americans have typically been retiring over the past few decades. The prospect of a rapidly growing retiree population has significant implications for employers, not to mention public programs like Social Security and Medicare, and the U.S. economy overall.

What is unknown, of course, is how the boomers themselves will behave. Experts predict that the boomers will stay in the workforce longer than the generations that

immediately preceded them. If so, the pressures on government programs and potential talent gaps facing employers will be reduced, allowing for a smoother transition for the labor market and the economy as demographics shift. Others believe that defined benefit pension plans offering attractive retirement benefits and company-subsidized retiree medical coverage will create an incentive for employees to retire early, and perhaps seek employment with a different organization. Although the prevalence of defined benefit plans has gradually declined in recent years, they continue to be offered by about two-thirds of the large U.S. employers in Towers Perrin's Employee Benefit Information Center database (which contains information on more than 700 U.S. *Fortune* 1000 companies and organizations of similar size not included in the *Fortune* listing, such as privately held companies, nonprofit organizations and large U.S. subsidiaries of companies headquartered overseas). Towers Perrin's workforce demographic data for large employers sponsoring U.S. pension plans show that almost one in five workers in these companies is retirement-eligible today—and another third of these workers will become retirement-eligible over the next five to 10 years. (See Figure 1.)

Figure 1

Current Workforce Profile for Large U.S. Employers with Pension Plans



Source: Towers Perrin 2003 workforce data for 335 large U.S. employers (i.e., *Fortune* 1000 companies and equivalents), covering more than three million employees. ©2005 Towers Perrin.

Virtually all companies will face a more competitive U.S. market for talent in coming years, along with the challenge of managing an increasingly cross-generational workforce, especially if significant numbers of boomers do, in fact, prolong their careers. Continuing productivity gains, immigration, off-shoring and new labor-saving technologies may help mitigate the staffing crunch for some

employees—and therein lies the opportunity, as demographics evolve, for companies to gain a competitive advantage by effectively deploying the skills and talents of all age groups.

When the predicted labor crunch comes, the nation's largest corporations are likely to feel the impact most profoundly, partly because of their hiring patterns over the past 30 to 40 years. Although each company's situation is

When the predicted labor crunch comes, the nation's largest corporations are likely to feel the impact most profoundly, partly because of their hiring patterns over the past 30 to 40 years.

companies. Current data and projections suggest that the U.S. workforce will grow at a considerably slower rate during the first half of this century than it did during the last 50 years.⁷ This slowdown in labor force growth will occur at a time when many major companies are shifting their focus from business strategies geared to cost-reduction toward growth models that emphasize innovation and excellence in customer service. Such strategies depend on having the right number of engaged, service-focused

different, those in mature industries are clearly most at risk. The energy industry is a prime example, with its history of rapid growth in the 1960s and 1970s, followed by periods of downsizing in which relatively few new entry-level employees were hired. The result in some job categories is a workforce made up of large numbers of long-service workers, a smaller group of more recent hires and relatively few mid-career employees ready to step into the shoes of retirement-eligible boomers.



Current data and projections suggest that the U.S. workforce will grow at a considerably slower rate during the first half of this century than it did during the last 50 years.⁷

What are the economics of retaining and hiring 50+ talent?

While it is impossible to generalize about all the cost-value tradeoffs associated with 50+ talent, a compelling business case can be made for retaining or hiring 50+ workers for a wide range of jobs in corporate America today. In a nutshell, the added total labor cost of 50+ talent is only marginally higher in many cases, while the cost of replacing experienced workers is often significant. Talented experienced workers have distinct performance advantages in roles that require advanced skills, training, experience and knowledge of a company's business processes, people or customers. Without exception, the select group of 10 major U.S. employers interviewed for this study said that the experience, maturity and positive attitudes of their 50+ workers provide enormous value to their businesses.

These observations are consistent with the findings of two AARP surveys of human resource managers. In these studies, older employees were rated highly by the survey respondents on almost all qualities that employers consider most desirable.⁸

This does not mean, however, that firms should not take a close look at the cost of labor across all segments of the employee population. Some employers still believe that 50+ workers are more costly to employ than their younger counterparts. Few, however, have analyzed the drivers of total labor costs. Delving into these issues reveals a picture that is often very different from the one assumed.

Towers Perrin's data show that four components—cash compensation, health care benefits, retirement benefits and paid time off—make up 97% of average total compensation costs in large U.S. companies. The relative level and mix of the components vary by industry. Depending on how the programs are structured, the cost of the components will increase with a combination of factors:



Towers Perrin's data show that four components—cash compensation, health care benefits, retirement benefits and paid time off—make up 97% of average total compensation costs in large U.S. companies.

1



1 Cash compensation costs. Since companies typically calibrate pay levels to approximate the market median for each position, these costs depend more on individual ability, experience and performance than on age. Employees performing the same jobs at roughly the same productivity level would expect to receive about the same **cash compensation**. Increases over time depend on employees demonstrating increased productivity, developing new competencies and capabilities, or taking on added responsibility. There should be no significant age-related differences in pay levels for employees doing the same jobs at the same level of performance.

2



2 Retirement benefit costs. 401(k) plans, which are provided by virtually all large employers, are age-neutral, as the sponsoring employers contribute a set percentage of covered compensation for all eligible employees, either automatically or on a matching basis. Traditional **defined benefit pension plans**, on the other hand, are structured to reward long-service, career employees. For employers that sponsor defined benefit pension plans, costs are higher for older workers because of the time value of money and for long-service workers because of the fundamental decision to reward career employees. As some firms move away from classic defined benefit pensions, however, the cost focus will shift to defined contribution savings plans and become directly related to pay.



- 3 Paid time-off costs.** **Time-off costs** are not directly related to age. The cost of vacation and other paid time off increases with years of service because employers typically offer more vacation time to employees with longer tenure. As a result, the cost of paid time off for the average employee with 20 years of service is typically double the cost for newly hired workers in large U.S. companies. However, a newly hired 50+ worker's vacation cost is equivalent to that of new hires at any age.



- 4 Health care costs.** A number of factors drive differences in employer-paid **health care costs**. The incidence of specific health risks (e.g., high blood pressure, obesity, smoking) has a major impact in driving up health care costs. These factors, which vary from person to person regardless of age, can have a more profound effect than age alone on total health care cost. Towers Perrin's analysis of company-paid medical claim costs shows that employees age 50 to 65 use on average from 1.4 to 2.2 times as much health care as workers in their 30s and 40s. Note, however, that these comparisons are based on average costs. Some workers will have costs that are below the average and some will have costs that are higher. Another offsetting factor to consider is that Towers Perrin's research establishes that older workers may be more effective partners in employer efforts to promote better consumer behaviors in health care purchasing.⁹

To sum it all up, the largest component of total compensation (cash compensation) is driven chiefly by the employee's skills, responsibilities and individual contribution, rather than by age. Paid time off is a service-based reward and retirement costs are influenced by a combination of tenure and age. Health care costs are driven by a wide range of factors, including individual health risks, age, dependent coverage and health care utilization.

Because the economic considerations identified are driven by a combination of plan design, tenure, age, health risks and one-time costs, it is useful to assess two hypothetical business case scenarios:

- 1 **Retaining 50+ workers.** This first scenario assumes a large, mature organization with a relatively modest and predictable growth strategy. The organization has a group of incumbent employees age 55 with 20 years of service; these employees could potentially retire, leaving jobs that would need to be filled with replacement employees. This analysis focuses on the economics of two alternative approaches for filling the vacant jobs:

1. Allow natural retirement trends to evolve with limited efforts to keep incumbents, so that the employer succeeds in **retaining 20%** of the experienced incumbent staff and fills the resulting vacancies from the broad labor pool; or alternatively,
2. Mount a focused effort to **double retention to 40% of the experienced workers**, reducing the need to hire from outside labor sources and increasing such benefits as knowledge retention and mentoring, and avoiding some turnover costs.

Average per-employee costs for the mix of all employees filling the jobs in question—retained incumbent employees and new hires—were analyzed. The results show



how average per-employee costs can change as a result of this effort to **retain** more 50+ workers.

② **Attracting new 50+ workers.** The second scenario focuses on a fast-growing company that finds itself needing to fill a number of newly created jobs. Retirement trends typical for the industry also contribute to the number of open job slots. The analysis again focuses on the economics of two ways of responding to the staffing need:

1. From the current applicant pool, hire a set of workers consistent with the applicant demographics, **80% of whom are age 40 and 20% of whom are age 55**; or alternatively,

2. Via increased outreach to the 50+ talent pool (e.g., through implementation of extended work hour and location flexibility), fill the open slots by **doubling the percentage of age-55 hires to 40%, with the age-40 group at 60%.**

Average per-employee costs for the mix of all new hires who fill the jobs were analyzed. In this scenario, the results show how average per-employee costs can change as a result of the effort to **hire** more 50+ workers. (*Figure 2 summarizes the results of these analyses.*)



Whether in the context of retaining a larger segment of the 50+ workforce or targeting additional hiring of 50+ workers, the comparative cost differences are balanced—if not outweighed—by other factors.

In the hypothetical analyses in the exhibit below, all new hires for the jobs in question were assumed to either be age 40 or age 55, and all retained incumbent workers used to fill those jobs were assumed to be age 55. In reality, of course, the age mix of employees in a particular position within any organization will be more diverse as it is unlikely that either all new hires will be the same age or all incumbent workers will be the same age.

As described below and summarized in the estimates in Figure 2, by increasing retention significantly, the employer would avoid a portion of the one-time costs of turnover. The annual difference in average per-employee cost associated with enhanced retention ranges from 1% to 3% and is modest if the experienced worker is well

suited for the position. If the new hire departs soon after being hired, the effective turnover costs would be greater than those estimated and would enhance the retention case.

The last row of Figure 2 demonstrates that, if the mix of new hires shifts using focused outreach and doubles the percentage of new 55-year-old workers from 20% to 40%, the organization would experience only a minimal cost impact—roughly 1% of the average cost per new employee. Given this negligible difference, the hiring decision is likely to be overshadowed by differences in other worker characteristics, such as experience, training and job performance.

The actual numbers will differ from the estimated averages shown here depending on the actual characteristics of the compensation

Figure 2

Value and Cost Comparisons: Summary of Analysis of Focused Retention and Attraction

Position: (Industry)	Engineer (Energy)	Sales Manager (Financial Services)	Nurse (Health Care)	Store Manager (Retail)
Key value differentiators	<ul style="list-style-type: none"> • Higher motivation • Skilled talent shortages • Experience and knowledge premium • Knowledge transfer 	<ul style="list-style-type: none"> • Higher motivation • Lower turnover • Experience and knowledge premium • Alignment with customer base 	<ul style="list-style-type: none"> • Higher motivation • Skilled talent shortages • Experience and knowledge premium • Alignment with customer base 	<ul style="list-style-type: none"> • Lower turnover • Alignment with customer base • Scheduling flexibility
One-time turnover cost as a percent of total annual compensation cost	38%	33%	29%	39%
Estimated difference in average per-employee total compensation costs associated with doubling the retention of workers age 55 with 20 years of service from 20% to 40%	3%	1%	2%	2%
Estimated difference in average per-employee total compensation costs associated with doubling the percentage of new hires age 55 from 20% to 40%	1%	<1%	1%	1%

Source: Towers Perrin data for large U.S. employers (i.e., *Fortune* 1000 companies and equivalents) and analysis of data from the Saratoga Institute and other sources; for more data, methodology and assumptions, see Section III. ©2005 Towers Perrin.

and benefit programs the company sponsors, health risks, as well as on the actual data for the mix of the long-service older workers and the new hires in question.

In short, whether in the context of retaining a larger segment of the 50+ workforce or targeting additional hiring of 50+ workers, the comparative cost differences are balanced—if not outweighed—by other factors. In the case of retention, the offsetting factors are the turnover-related costs of replacing veteran employees with deep institutional knowledge and job-related know-how and the time it takes to select and train new workers to be fully productive. In the case of hiring, the age-based compensation cost differences are negligible relative to total labor cost and, thus, make a strong business case for

recruiting at all ages to maximize business performance and the organization's return on the available talent.

And what about the productivity side of the equation? The impact of aging on worker productivity is highly dependent on the specific job and work performed. In most cases, employers can expect that a 50+ worker

The myth that older workers are inflexible and uncreative is not grounded in fact.

will be more productive than someone younger and with less on-the-job experience. Academic studies of physical attributes like strength and manual dexterity have found that workers' abilities tend to decline with age. But, increasingly, due to the growth of the knowledge economy, the proportion of jobs requiring relatively little physical effort has increased considerably over the past few decades. Moreover, research on cognitive functioning and skills that are learned over time (e.g., verbal communication) shows that abilities in these areas improve with age.¹⁰

The myth that older workers are inflexible and uncreative is not grounded in fact. Economist David Galenson of the University of Chicago suggested that creativity comes in two forms: conceptual innovation (bolt-from-the-blue, mold-breaking new ideas) and experimental innovation (new ideas that are extensions of current practice). The former comes from perspectives unfettered by conventional ways of doing things, while the latter comes from a lifetime of observation and learning. Older workers are better at experimental innovation, and organizations clearly need both kinds.¹¹





The age 50+ worker also has a strong sense of personal motivation to succeed on the job. According to a major study Towers Perrin conducted in 2003 among roughly 35,000 employees working for midsize and large U.S.

The age 50+ worker also has a strong sense of personal motivation to succeed on the job.

companies, employees over age 50 were more motivated to exceed expectations on the job than were younger workers. This finding refutes the myth that the 50+ worker is inclined to “check out” after decades in the workforce.

The same 2003 study explored the related concept of “employee engagement,” which Towers Perrin defines as employees’ willingness and ability to contribute to company success, or put discretionary effort into their work, in the form of extra time, dedication and energy.

Through the study, Towers Perrin investigated the link between employee engagement and business performance. By analyzing reported financial data on the more than 1,000 U.S. companies for which many of the 35,000 survey respondents work, the study concluded that companies with higher levels of employee engagement outperform those with lower engagement on a number of key financial benchmarks, including revenue growth and cost management. In short, employee engagement and superior business performance are strongly intertwined.

The study also found a strong inverse relationship between employee engagement and turnover. Not surprisingly, employees who are more engaged are less inclined to leave their employers. Given the high cost of turnover, this is an important consideration for companies thinking about how to maximize the business value of their workforce investments.

What are the best approaches for retaining critical knowledge and making the most of the available talent?

This is likely to be the billion-dollar question for many companies. Surveys by AARP, Towers Perrin and other organizations show that most of today's 50+ workers plan to continue working in some capacity in retirement, many of them well beyond traditional retirement age.¹² With the decline in both prevalence and typical benefit level of defined benefit pensions and retiree medical coverage over the past several decades and the losses in 401(k) accounts and other savings that many employees suffered when the stock market sank early in this decade, many working Americans are concluding that they can't afford to retire as early as previous generations. And, with today's longer life expectancies, many others want to continue working, at least part time, for the personal fulfillment and involvement that working brings.

What is also clear is that employers seeking to tap this pool of talent are certain to have a lot of competition for these workers and will need to offer the rewards and other workplace programs that 50+ workers want and expect. At the top of this list, according to a recent Towers Perrin survey of 1,500 workers 50+ employed by large U.S. companies, are key financial rewards—specifically, health care coverage and competitive retirement benefits.

Close behind are important intangibles, including work-life balance, respect for their skills and recognition for individual contributions. Given the widespread desire among 50+ workers for flexible working arrangements and part-time employment, companies that offer such opportunities will have a leg up in attracting and retaining this growing talent pool. AARP research yielded similar findings. In a survey of 2,001 workers ages 50 to 70, respect from employers, flexible

Employers seeking to tap this pool of talent are certain to have a lot of competition for these workers and will need to offer the rewards and other workplace programs that 50+ workers want and expect.

work options, opportunities for training and new experiences, competitive health care benefits and competitive retirement benefits were issues identified as important to most 50+ workers.¹³

These considerations have obvious implications for companies' talent strategies. From our interviews with leading employers in various industries, it is clear that some are making the most of their scheduling flexibility to aggressively recruit 50+ workers and retirees. For other organizations, meeting tomorrow's workforce needs will depend more on their ability to rebuild the talent pipeline from the ground up.

What are the leading companies doing to address these issues?



Surprisingly, relatively few major employers thus far have taken a close look at how current demographic trends are likely to affect their future talent needs. In a 2002 Conference Board survey of 150 senior human resource executives, for example, roughly two-thirds of the companies surveyed had not yet developed an age profile of their workforces.¹⁴

However, this appears to be changing. Interviews conducted for this study with leading employers (and Towers Perrin's consulting experience) show that a growing number of companies today are starting to analyze their workforce demographics and implement targeted strategies and programs to recruit and retain 50+ talent and capture the knowledge of workers nearing retirement. There is also growing employer interest in phased retirement programs designed to enable employees to withdraw from the workforce gradually. At present, pension rules and other legal concerns pose a barrier to formal programs of this sort in companies offering defined benefit pension plans.¹⁵

Although successful approaches are as varied as the organizations that use them, here are some of the key steps that are critical to any company's efforts:

1 Inventory your current talent and define your future needs, based on an analysis of your organization's near- and long-term business plans.

2 Model your cost trends to understand the business case for investments needed to attract or retain 50+ workers, focusing on total compensation costs for the various talent pools and taking into account one-time turnover costs.

3 Pay equal attention to revenue and performance considerations, including the impact of employee engagement on company performance and turnover risk.

4 Study the available labor pool and define your talent strategies, keeping in mind the specific requirements (physical, mental and scheduling flexibility) of each job.

5 Align reward programs to support your business and talent objectives.

6 Align workplace policies and culture, as all of the available research points to the work environment as a key consideration for 50+ workers in deciding whether to join or stay with an organization.

As in all areas of business, careful planning and execution are paramount. In a changing world, it is critical to set aside assumptions and preconceptions that are not supported by fact. Companies that take well thought-

out action today to address tomorrow's workforce realities will be in a better position to compete for talent and stay ahead of the curve as workforce demographics shift.



I. Business Implications of Changing Workforce Demographics

The changing demographics of the workforce have been well chronicled over the past few decades. It is hardly news that population changes will have significant social, economic and political implications. In particular, these demographic trends present both a formidable challenge and a major opportunity for large U.S. companies. Many organizations are just beginning to recognize that their longer-term growth strategies could be compromised by a shortage of available talent—a shortfall that could be felt both in specific critical skill areas and in sheer numbers of people to do the work.

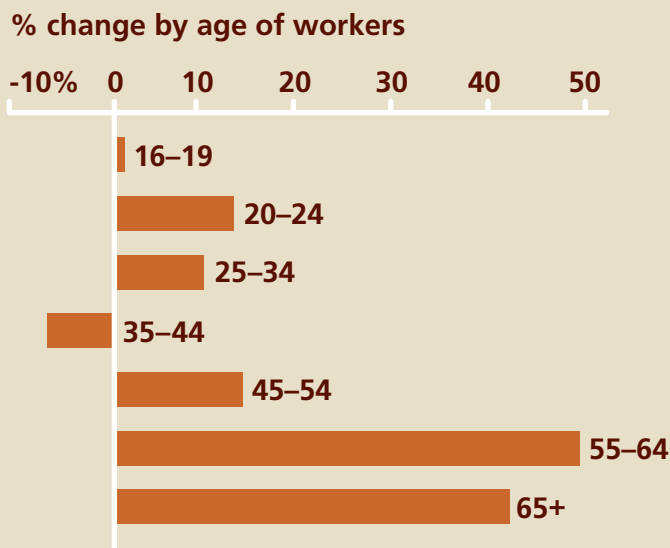
The issue in a nutshell is this: *Within the next few years, there will likely not be enough new workforce entrants to replace the people who are (and will be) able, by virtue of their age, to exit the workforce via retirement.* Exhibit I-1 highlights the dilemma clearly, showing the projected changes in the various age segments of the U.S. labor pool between 2002 and 2012. While the U.S. labor force overall is projected to grow by 12% during this period, according to the U.S. Bureau of Labor Statistics, that growth will not be evenly distributed across the population. Growth in the workers age 16 to 54 is expected to be

modest or declining for ages 35 to 44, while the number of workers age 55 and older is projected to increase by almost 50%.

The business implication of these demographic trends is clear: **Companies cannot afford to see the 50+ segment of the workforce retire en masse without facing potentially significant labor force or**

Exhibit I-1

Projected Change in Civilian Labor Force by Age Group, 2002 to 2012



Source: Mitra Toosi, *Monthly Labor Review*, February 2004.

Within the next few years, there will likely not be enough new workforce entrants to replace the people who are (and will be) able, by virtue of their age, to exit the workforce via retirement.

knowledge gaps. Fortunately, as we will discover later, many older workers hope to remain employed in some capacity. The real opportunity for major organizations, therefore, becomes ensuring that they match their needs for talent with the available skills and capabilities of a changing workforce. This, in turn, means an increasingly intense focus on the potential contribution of workers in the 50+ segment.

The growing importance of organizational strategies focused on growth and innovation makes the potential skill shortage particularly acute. In the coming years, we can expect many companies to increase recruiting to meet growth needs, rather than cutting back on staff as they have done in the recent past.

Responses from a 2003 Towers Perrin

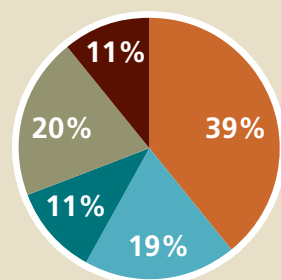
survey of almost 1,300 midsize and large employers in the United States and other parts of the world indicate that companies already see and are preparing for a shift in strategic focus—from operational excellence (characterized chiefly by cost cutting to increase efficiency) to leadership in innovation and customer service. (See Exhibit I-2.) Most companies have been through belt-tightening processes and have streamlined their organizations. They now have the resources and opportunity to expand—into new markets, new service or product areas, or both. This strategic shift is likely to produce added tension for many organizations in the very near future as the need to grow and innovate intensifies at a time when the supply of labor available (and qualified) to support that growth is in question.

Estimates of future growth in per capita GDP and the U.S. labor supply bear this out. For example, research by Janemarie Mulvey and Steven Nyce for the Pension Research Council concluded that U.S. employers may face a shortfall of more than four million full-time employees by 2010, assuming the need to support 2% annual productivity growth.¹⁶ This research suggests that older segments of the workforce will need to play a growing role if the gap is to be closed. Specifically, the research suggests that the labor force participation rate of men and women ages 55+ will need to grow considerably to help contribute to sustained GDP growth. For example, the labor force participation rate of men ages 55 to 59 may need to

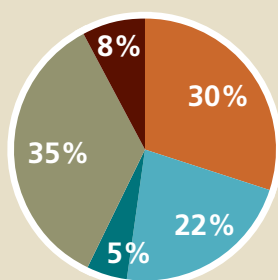
Exhibit I-2

Dominant Business Strategy

Recent Years



Near-Term Future



- Operational Excellence
- Customer Service
- Innovation Leadership
- Other/Don't Know
- Cost Leadership

Source: *Reward and Performance Management Challenges: Linking People and Results*, a 2003 Towers Perrin survey of human resource executives in 1,300 midsize and large organizations in Asia, Europe, North America and Latin America. ©2005 Towers Perrin.

grow from 78% in 2003 to 90% by 2010. (See *Exhibit I-3*.)

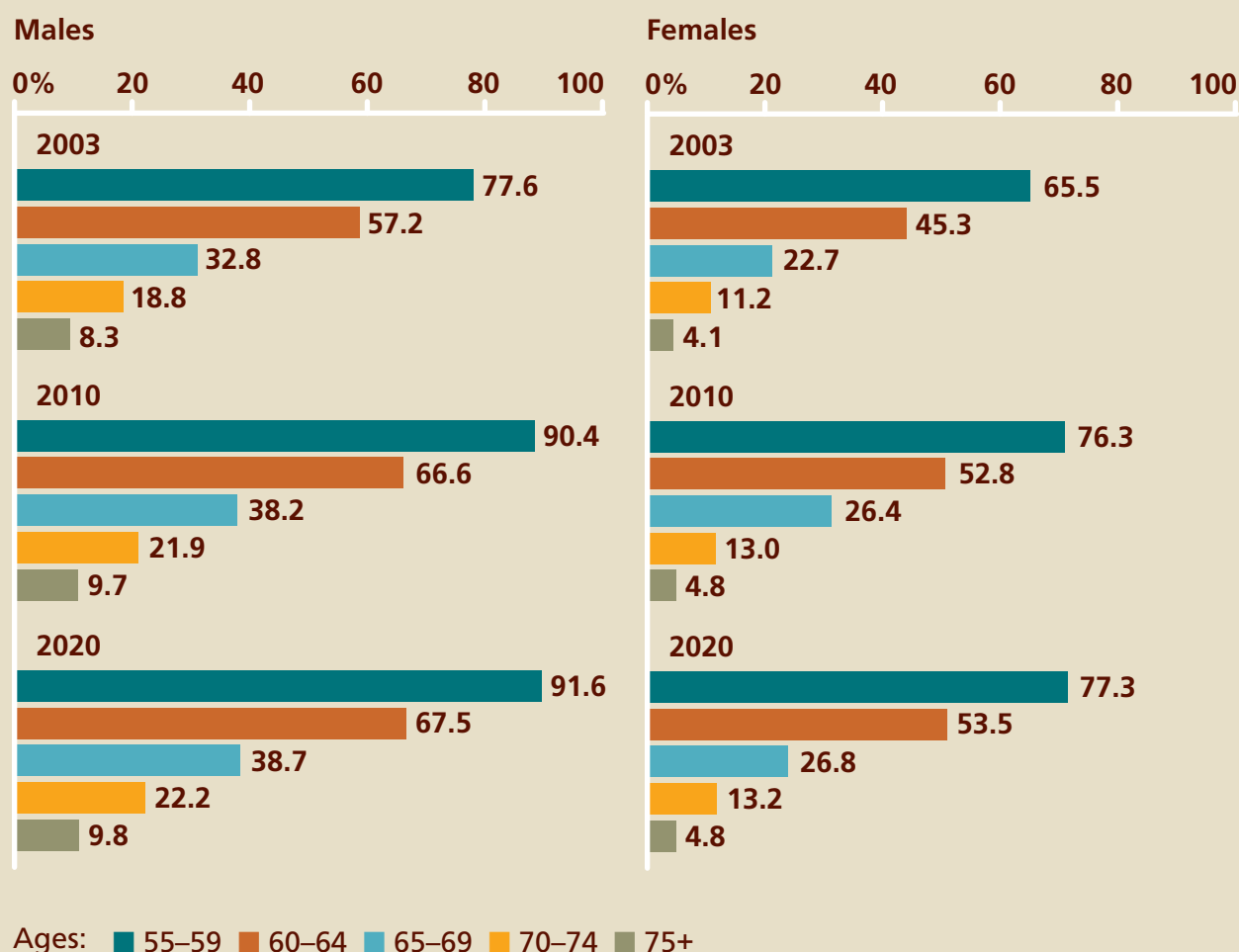
The demographic picture is likely to look even more challenging for many of the largest U.S. companies—at least those that offer traditional pension benefits that include attractive early-retirement subsidies (see “*Why Focus on Larger Companies?*” on page 28). A review of Towers Perrin’s workforce demographic data for 335 large employers sponsoring U.S. pension plans shows that almost one in five workers in these companies is retirement-eligible today—and another one in three will become retirement-eligible in the

next five to 10 years. (The Towers Perrin database covers more than three million U.S. employees, a representative cross-section of the workforce in large U.S. companies in a wide range of industries.)

Of course, the picture varies greatly from industry to industry and company to company, and even among different jobs and locations within each industry or organization. For example, the Nuclear Energy Institute projects that the nuclear power industry may need to replace almost half its current workforce in the next five years, primarily because of retirements.¹⁷

Exhibit I-3

Labor Force Participation Rates of Workers 55+ Needed to Support 2% Annual Productivity Growth



Source: *Strategies to Retain Older Workers*, Janemarie Mulvey and Steven Nyce, Pension Research Council Working Paper, The Wharton School, 2004.

Why Focus on Larger Companies?

Except where otherwise noted, the data presented in this report are drawn from Towers Perrin databases and surveys that focus primarily on large employers and employees who work for these organizations. In general, these are primarily *Fortune* 1000 companies headquartered in the United States and similarly sized organizations not included in the *Fortune* listing, such as large privately owned companies, nonprofit organizations (e.g., health care organizations) and large U.S. subsidiaries of companies headquartered outside the United States.

Although the universe of these organizations is fairly small in sheer numbers, their importance to the overall economy far outweighs their numerical proportion. For example, the total employment of the *Fortune* 1000 companies (29 million workers worldwide) is equal to about 20% of the U.S. civilian labor force of 141 million in 2005, according to Bureau of Labor Statistics data. What's more, the *Fortune* 1000 companies tend to define the leading edge of human resource practices and, thus, have policies and programs that many smaller organizations try to emulate in order to compete for talent.



The growing shortage of nurses in some markets has also been well documented, as half of all nurses working today in the United States will be retirement-eligible by 2015. (See “Industry Focus” on page 30 for a closer look at the range of challenges facing four major industries.)

Entering a New Era: Building a Business Case for Change

Are employers prepared to meet this changing environment? The available research suggests a mixed answer at best.

In a 2002 online survey that elicited responses from 150 senior human resource executives across a wide range of industries, the Conference Board found relatively few

employers actively planning for the coming changes in workforce demographic patterns.¹⁸ The survey respondents were primarily larger U.S. companies, about evenly divided between the manufacturing and service sectors. Specifically, the Conference Board study found that:

- Roughly two-thirds (66%) of the companies surveyed had not developed an age profile of their workforces;
- Almost two-thirds (63%) had not assembled inventories of their available skills;
- Almost half (49%) had not assessed their staff training and development needs.

These findings illustrate that many—if not most—U.S. companies have yet to wake up to the coming realities of demographic changes in the labor market broadly and in their employee populations specifically.

Similarly, a 2003 survey of more than 400 human resource professionals conducted by the Society for Human Resource Management (SHRM) found that only about one-third of U.S. companies were pursuing or expected to pursue strategies to retain workers interested in working past traditional retirement age.¹⁹ The strategies SHRM looked at include targeted training, phased

retirement programs, job transfers and alternative career tracks, among others.

In other words, despite the prospect of major demographic shifts, many companies have not seriously delved into this issue—either to fully understand the implications for their businesses or to begin identifying appropriate solutions for the near and longer terms.

Responding to workforce change calls for a well thought-out business case approach—to gauge the magnitude of the changes, understand the implications for strategic focus, cost and operations, and begin identifying

Responding to workforce change calls for a well thought-out business case approach—to gauge the magnitude of the changes, understand the implications for strategic focus, cost and operations, and begin identifying strategies to address critical talent needs over the coming years.

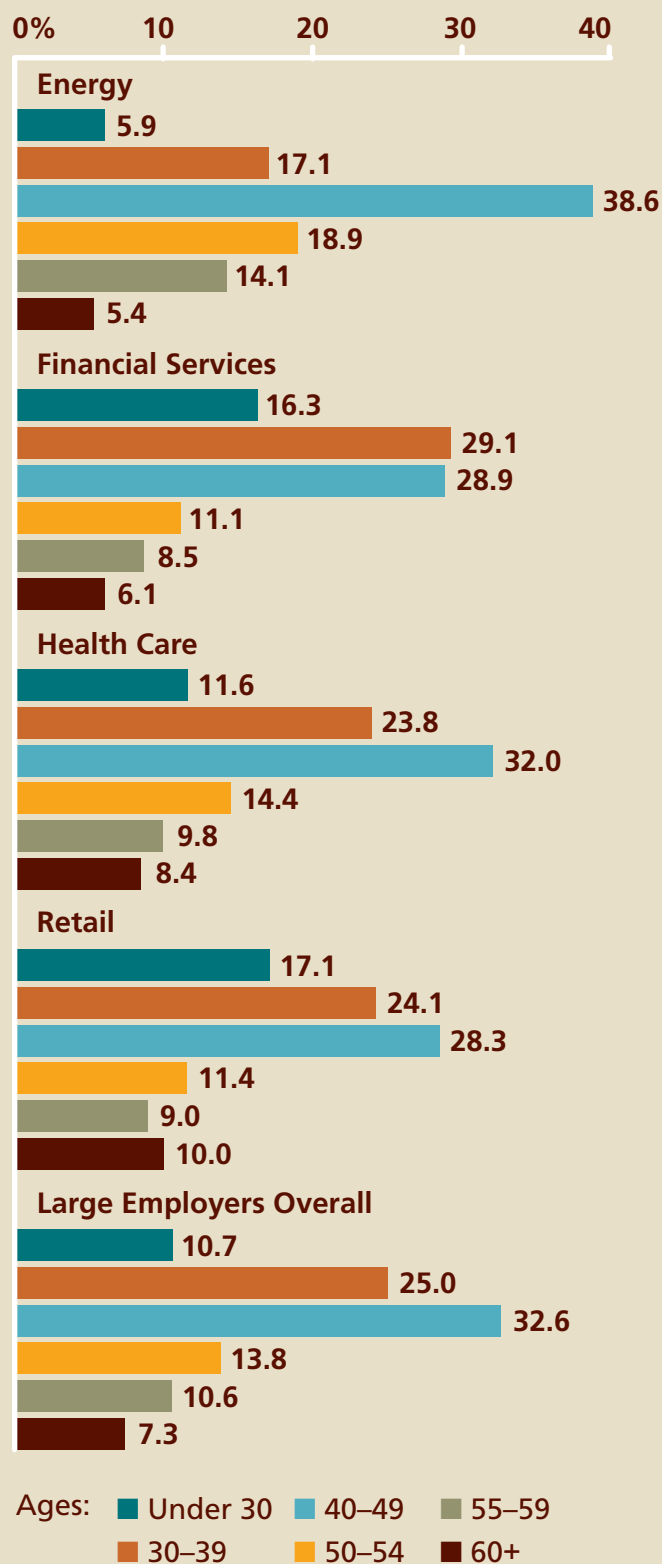


strategies to address critical talent needs over the coming years. Companies typically use a business case framework to evaluate specific investments and opportunities; this discipline is particularly appropriate for coming to terms with decisions about talent needs. To date, however, few companies have used that kind of analysis for any staffing decisions and human resource investments, especially those focusing on the 50+ segment of the workforce.

This report is designed to guide employers in identifying future workforce needs, to help them understand how 50+ workers can help meet those needs, and to provide a starting point for thinking about the value and costs of 50+ workers. This document defines the key elements involved in building a business case

Exhibit I-4

Varying Workforce Age Profiles by Industry in 2003



Source: Towers Perrin 2003 workforce data for 335 large U.S. employers (i.e., *Fortune* 1000 companies and equivalents), including 26 companies in the energy industry, 42 companies in financial services, 38 companies in health care and 16 companies in the retail industry. ©2005 Towers Perrin.

Industry Focus

While virtually all sectors of the economy stand to be affected by the coming wave of baby boomers approaching the traditional retirement zone (ages 55 to 65), different industries face somewhat different challenges as today's labor force demographics evolve. To highlight some of the differences between industries and to aid in quantifying the business case for workers 50+ with respect to specific jobs, we will focus throughout this report on four major industries: energy, financial services, health care and retail. These industries were chosen for a number of reasons, including their size and importance to the economy, number of current and anticipated jobs and the current demographic profile of the workforce, including the percentage of workers who will be retirement eligible within the next few years.



Among these industries, energy and health care tend to have the largest percentages of employees at or near the age of traditional retirement eligibility today. (See *Exhibit I-4*.) Financial services and retail have somewhat younger workforce profiles.

However, the overall demographic profile for a given industry (or company) may not fully reflect the workforce issues with regard to specific jobs or skills. For example, the number of sales positions in the U.S. economy is expected to grow by one quarter over the coming decade, according to Bureau of Labor Statistics data—while almost one-third of today's sales professionals in all industries nationwide are age 55 or older. Tighter competition for experienced sales talent could have a notable impact on an industry like financial services, which counts on its sales force to cross-sell a growing range of complex financial products to generate a significant portion of its future growth.

Ultimately, the business case for investments to help retain and attract workers 50+ will vary from company to company and even position to position, depending on such key factors as the current and available workforce demographic profile, projected business growth, rewards considerations (e.g., current and future programs employers sponsor and the impact on associated labor costs) and geographic differences.

and offers a disciplined approach for analyzing possible workforce investments in the context of specific jobs in major U.S. industries.

The analysis starts by examining the value side of the equation, focusing on attitudes and characteristics that make 50+ workers a productive (and therefore attractive) segment of the workforce. Next, the report examines the drivers of labor costs, looking at how (and whether) these drivers vary by age, tenure or other factors, and examining some of the myths about workers 50+. The report also reviews the key drivers of attraction, retention, and engagement among 50+ workers to provide additional insights into the kinds of policy changes and workplace investments companies may

need to make to realize optimal value from the 50+ workforce.

This report should help companies formulate their thinking about the very real workforce changes ahead and provide new tools and frameworks to foster more rigorous workforce planning and decision-making processes.



50+ workers bring experience, dedication, focus, stability, and enhanced knowledge to their work, in many cases to a greater degree than younger workers.



II. The Value Side of the Equation: Advantages of Experience

Understanding the business case for workers 50+ requires a careful examination of both the value and cost sides of the equation. Employers look for a return on their investment in people, as they do from any major allocation of enterprise resources. In some instances, the return is easy to track, as in the case of front-line sales people who contribute directly to revenue generation. In other cases, the return on investments in employees is more difficult to calculate. Creating a link from employee behavior to organizational performance to business results is, at heart, what every company tries to do, with greater or lesser success, through its human resource strategies and related workplace practices and programs. As with any investment, the organization must understand both the value derived and the cost incurred. Our analysis begins by focusing on the value side of the equation for the 50+ employee.

Mounting evidence—both anecdotal and statistical—demonstrates that 50+ workers bring experience, dedication, focus, stability and enhanced knowledge to their work, in many cases to a greater degree

than younger workers. One widely held myth is that the performance of 50+ workers begins to suffer over time. In fact, the overwhelming economic trend is toward work that requires extensive knowledge and exceptional service delivery. The era in which productivity demands strong backs has largely passed, replaced by a world in which (for most organizations) employee commitment and the knowledge that comes with experience are far more important drivers of workplace contribution.

The Creativity Factor

To people who study the relationship between age and creativity, the list of historic figures who achieved creative prominence in their late working years is familiar:

- Giuseppe Verdi composed his *Ave Maria* at age 85;
- Martha Graham performed until she was 75 and choreographed for another 20 years;
- Benjamin Franklin invented bifocal glasses at 78 (to help correct his own poor vision);

- Frank Lloyd Wright was working on his design for the Guggenheim Museum when he died at 91.

throughout our 50s, 60s and 70s. Particularly in the case of what Dean Keith Simonton (a psychology professor at the University of

Within the next few years, there will likely not be enough new workforce entrants to replace the people who are (and will be) able, by virtue of their age, to exit the workforce via retirement.

Are the accomplishments of these prominent figures truly indicative of the creativity that can continue—or even emerge—later in life? Research shows that they are.

Economist David Galenson of the University of Chicago identified two types of creativity. One he calls conceptual innovation—a new idea that breaks the mold established by current practice. The other is experimental innovation (new ideas that build and extend current ways of doing things). Although the first form of creativity can occur at any time, it is most common early in an individual's working life.²⁰ Creative accomplishments in lyric poetry, pure mathematics and theoretical physics, for example, have often been accomplished by people in their 20s and 30s.

In contrast, endeavors that require the individual to build on current practice in innovative ways tend to produce fruit later in life, in a person's 40s, 50s and beyond. Social scientists put accomplishments in philosophy, medicine and general scholarship into this category.²¹

The human brain continues to develop even as people age. "Over time, and especially with challenge, brain cells sprout new projections called dendrites," says Dr. Gene Cohen, director of the Center on Aging, Health and Humanities at George Washington University. Dendrites flourish in the brain's critical information-processing areas

California, Davis) calls "practical creativity"—the solving of everyday problems—the capacity for developing creative solutions peaks late in life. In other words, late-life creativity focuses less on pure novelty and more on synthesis, reflection, wisdom and restructuring of existing patterns.²²

Organizations clearly benefit from pure novelty. But just as clearly, they need people who can reconfigure existing patterns, transfer experience from one realm to another and use current practice as a springboard to new ways of doing things. This latter form of creativity is the province of workers who can draw on decades of experience.

The Engagement Factor

"Employee engagement" is a phrase that has moved rapidly into the corporate lexicon as more and more companies have come to understand its significance. Towers Perrin has used the term since 2000 when it launched the first of a series of studies on the nature of engagement, what it takes to build it and how it links to company performance. In those studies, engagement was defined as employees' willingness and ability to contribute to company success. Put another way, engagement is the extent to which employees put *discretionary effort* into their work, in the form of extra time, dedication and energy.

To quantify engagement, Towers Perrin surveys employees using a set of questions designed to measure emotional aspects of work, including employees' sense of personal pride and accomplishment and their willingness to "go the distance" on the job (dedication and energy). Other questions focus on understanding how one's work team or unit contributes to company performance, how one's role relates to company goals—linking individual work to the bigger picture—and how "inspiring" the company itself is in its dealings with employees (through its culture, leadership, communication and the like).

Engagement is important to the analysis of the 50+ workforce because it helps define the value side of the equation. As Towers Perrin's research has consistently confirmed, companies with more highly engaged employees tend to outperform those with less highly engaged employees relative to defined business and industry metrics. In addition,

higher levels of engagement also correlate with lower turnover. Thus, when evaluating workforce staffing and value for cost, engagement is a key element in the analysis.

Linking Engagement to Results

A key part of Towers Perrin's 2003 engagement study aimed to assess the hypothesis that engagement matters. The analysis incorporated financial data on the major U.S. companies for which many of the 35,000 U.S. employees surveyed work. The survey used a random sample of employees, although respondents were screened to ensure that the vast majority worked for large organizations (i.e., *Fortune* 1000 companies and equivalents).

The 2003 study first examined how engagement affects the way a company's employees treat its customers. Not surprisingly, Towers Perrin's survey data showed a strong link here. Put simply, employees with higher engagement are more likely than their less-engaged counterparts to put customers' interests at the heart of what they do and how they think about their jobs. In addition, more engaged employees are more likely to manage company resources carefully and less likely to be thinking about leaving the company, as noted above.

The 2003 study then dug more deeply, using statistical techniques to correlate the relationship between employees' level of engagement and two reported financial measures for their companies: annual revenue growth and cost of goods sold (COGS). In both cases, performance was evaluated in the context of the difference between a company's results and the average results for its industry.



Exhibits II-1 and II-2 show the findings. In the case of revenue growth, the study found a strong relationship between employee engagement and the company's one-year revenue growth. Employees who express more engagement are more likely to work hard to produce high-quality products and services and meet customers' needs. Consequently, the companies that employ them are more likely to exceed the average one-year revenue growth for their industries.

Exhibit II-2 illustrates the *inverse* relationship between employee engagement and the cost of goods sold. What the study found, in short, was that highly engaged employees tend to work for companies with below-average COGS for the industry, while the least engaged employees tend to work for companies with higher-than-average COGS. The likely explanation: engaged employees husband their firms' resources, acting conscientiously with

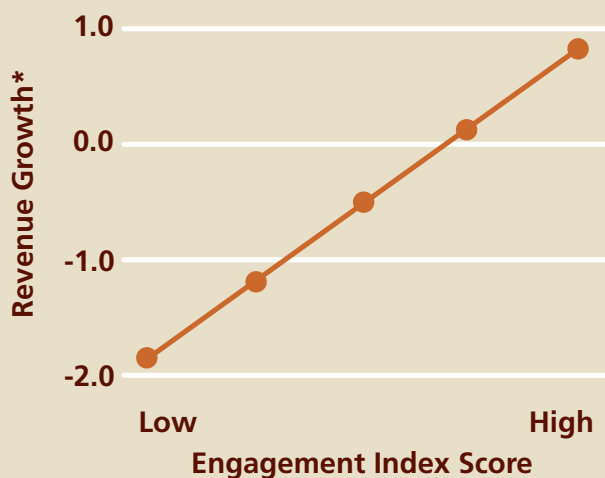
company assets and avoiding costly waste.

These analyses paint a clear picture: companies with higher employee engagement outperform those with lower employee engagement on a number of key financial benchmarks. No doubt there's a virtuous circle at work here—superior performance enables companies to attract more highly engaged people, and an engaged workforce delivers better performance. What is important is that employee engagement and superior business performance are strongly intertwined. Thus, from an employer's perspective, finding and keeping highly engaged employees (and adopting programs to sustain that engagement) have a clear and measurable value that can yield benefits far beyond the costs involved.

For this analysis, then, the next question becomes: what is the relationship between age and employee engagement?

Exhibit II-1

Engagement and Revenue Growth²³

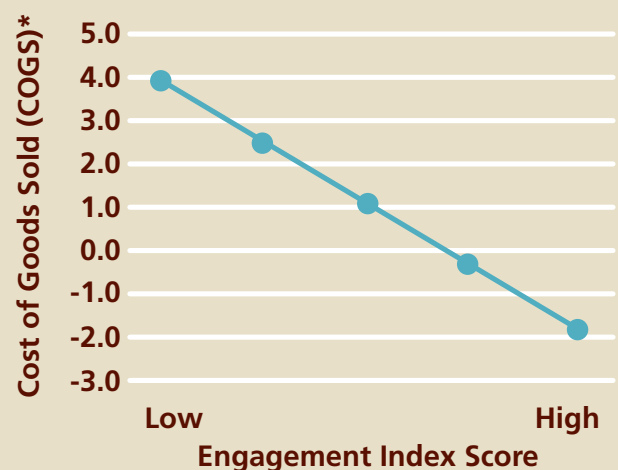


*Incremental percentage point difference between one-year company revenue growth and market sector average.

Source: 2003 Towers Perrin Talent Report, based on a random survey of more than 35,000 employees working for large U.S. companies (i.e., Fortune 1000 companies and equivalents). ©2005 Towers Perrin.

Exhibit II-2

Engagement and Cost of Goods Sold²⁴



*Incremental percentage point difference between company COGS as a percent of revenue and market sector average.

Source: 2003 Towers Perrin Talent Report, based on a random survey of more than 35,000 employees working for large U.S. companies (i.e., Fortune 1000 companies and equivalents). ©2005 Towers Perrin.

Engagement and Age: Debunking the Myth

So how do age 50+ workers do when it comes to engagement? Do they really, as one myth suggests, tend to “check out” as they near the end of their careers? This analysis found just the opposite.

Respondents to Towers Perrin’s 2003 talent survey were asked to indicate, on a 100-point scale, how motivated they feel in their work. These responses were then evaluated through comparison with Towers Perrin’s broader engagement questions and, as noted, a high correlation was found across the board.

The analysis made it clear that motivation and engagement not only do not decline with age, but, in fact, increase. According to data from the Towers Perrin 2003 study, workers age 55 and older are the most motivated, while the youngest workers are the least motivated. (*See Exhibit II-3.*)

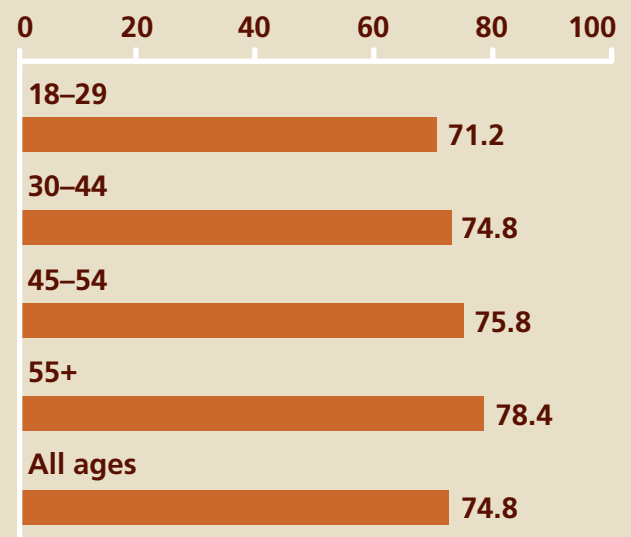
When Towers Perrin’s motivation data were further analyzed by the respondents’ length of service with their employers, an interesting picture emerged. Looking across all industries, motivation is highest among new employees—those who have been with their employers less than six months. This is understandable—new employees typically bring high levels of optimism and enthusiasm to their jobs at the outset. After the honeymoon period ends, however, motivation waxes and wanes over time. However, it also appears that employees who make it past 20 years with an organization tend to end on a high note. Aside from the initial six-month honeymoon period when motivation and engagement peak, motivation on average tends to be at or approaching the career high at 10 to 15 years of service and remains at



Exhibit II-3

Employee Motivation in All Industries, by Age

Average Motivation Score*



*Motivation score is based on a 100-point scale.

Source: 2003 Towers Perrin Talent Report, based on a random survey of more than 35,000 employees working for large U.S. companies (i.e., Fortune 1000 companies and equivalents). ©2005 Towers Perrin.

that level through 20 or more years of service. (See *Exhibit II-4*.)

The general correlation between motivation and age holds true for each of our four industry sectors except retail. (See *Exhibit II-5*.) Among retail employees, motivation appears to peak between ages 45 and 54, and then declines. This pattern of declining motivation

at later ages may merit closer attention from retail employers targeting the 50+ workforce to help meet their staffing needs.

It is not possible to quantify the impact of motivation and engagement in dollar terms for specific jobs or age groups, given the broad-based focus of Towers Perrin's 2003 engagement research. Nonetheless, the overall relationship between engagement and business performance should hold across the board. **In other words, all other things being equal, an employer may well be able to improve motivation and**

Within the next few years, there will likely not be enough new workforce entrants to replace the people who are (and will be) able, by virtue of their age, to exit the workforce via retirement.

engagement levels—and, ultimately, company financial performance—merely by focusing on 50+ workers. This may mean hiring new workers with substantial professional experience, or working to retain those who might otherwise retire. For this reason, it's an important factor for companies to consider in evaluating workforce strategies and investments—especially for companies that are sharpening their focus on customers, while reducing their emphasis on costs.

The customer angle is, in fact, another key factor here. As the general population ages, more and more companies' customer populations are aging as well. Although the characteristics of target customer segments differ widely by industry and nature of the

Exhibit II-4

Employee Motivation in All Industries, by Service Level



*Motivation score is based on a 100-point scale.

Source: 2003 Towers Perrin Talent Report, based on a random survey of more than 35,000 employees working for large U.S. companies (i.e., Fortune 1000 companies and equivalents). ©2005 Towers Perrin.

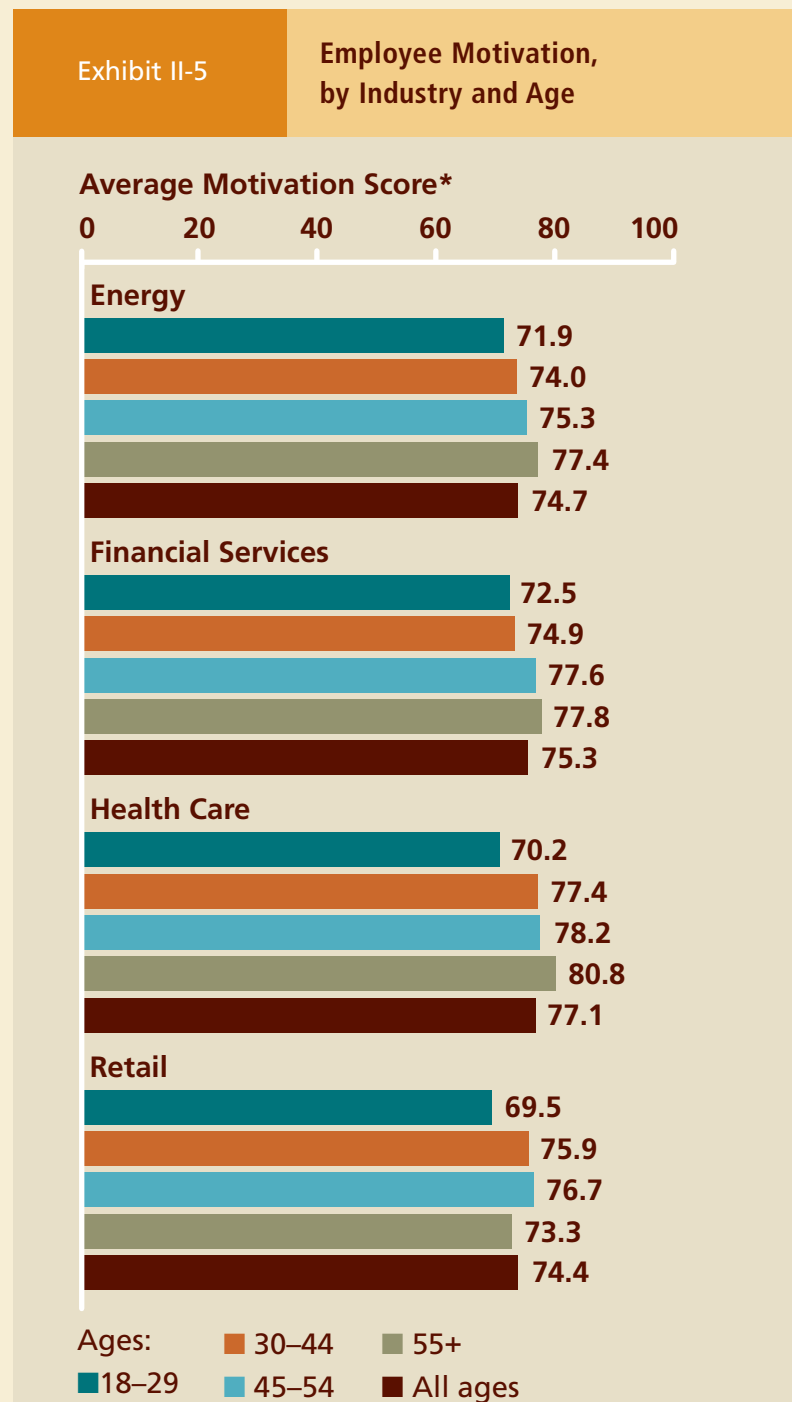
business, companies with older customer populations might find advantages in having a greater number of employees who share the perspectives, needs and views of their customers. Companies specifically targeting the 50+ market are likely to have an even stronger case for attracting and retaining workers who reflect the age profile of their customers.

Reducing Turnover Risk

The risk of employee turnover is another consideration for employers thinking about how to maximize the business value of their workforce investments. Employees become more proficient in their jobs over time and, in general, create more economic value the longer they are employed by a company because they have a better understanding of the organization's processes, customers and competitive environment. Given this increasing value, high rates of employee turnover can be destructive from a business standpoint, reducing overall productivity and diverting corporate resources to recruit, hire and train the new employees.

Every employee, of course, represents an implicit turnover risk. From the day of hire through the last day of a career, any individual may leave his or her employer at any time. Data show that the highest probability of turnover occurs in the first years of employment, with the first year bringing the greatest risk, and remains high until after three years of service. According to Bureau of Labor Statistics data on tenure patterns by age group, the average tenure among all U.S. workers is 3.7 years. However, median job tenure for workers in the 55 to 64 age range is about 3.3 times that of workers 25 to 34 years old.²⁵ In large companies, average employee tenure is much longer than the

average for all U.S. workers. According to data from the Saratoga Institute, median



*Motivation score is based on a 100-point scale

Source: 2003 Towers Perrin Talent Report, based on a random survey of more than 35,000 employees working for large U.S. companies (i.e., Fortune 1000 companies and equivalents), including approximately 1,400 respondents in the energy industry, 3,500 respondents in financial services, 4,600 respondents in health care, and 3,200 respondents in the retail industry. ©2005 Towers Perrin.

tenure in companies with more than 1,000 employees ranges from eight to 10 years. For large companies with defined benefit plans, average service is 12 years.

Exhibit II-6 shows annual turnover rates by age for the four industries examined and for all industries included in the Towers Perrin database of more than 3 million employees working for large U.S. employers that sponsor

and then increases sharply because of retirements. This pattern holds true in each of the four industries studied, although there are significant industry differences in turnover levels. Turnover tends to be highest in retail and financial services, and below average in the health care and energy sectors.

Employers concerned about the risk of turnover should keep in mind the correlation

Mid-career employees, having navigated job changes and career redirections, can be more likely to stay with a job than their younger colleagues, who are often still experimenting with job, company and career choices.

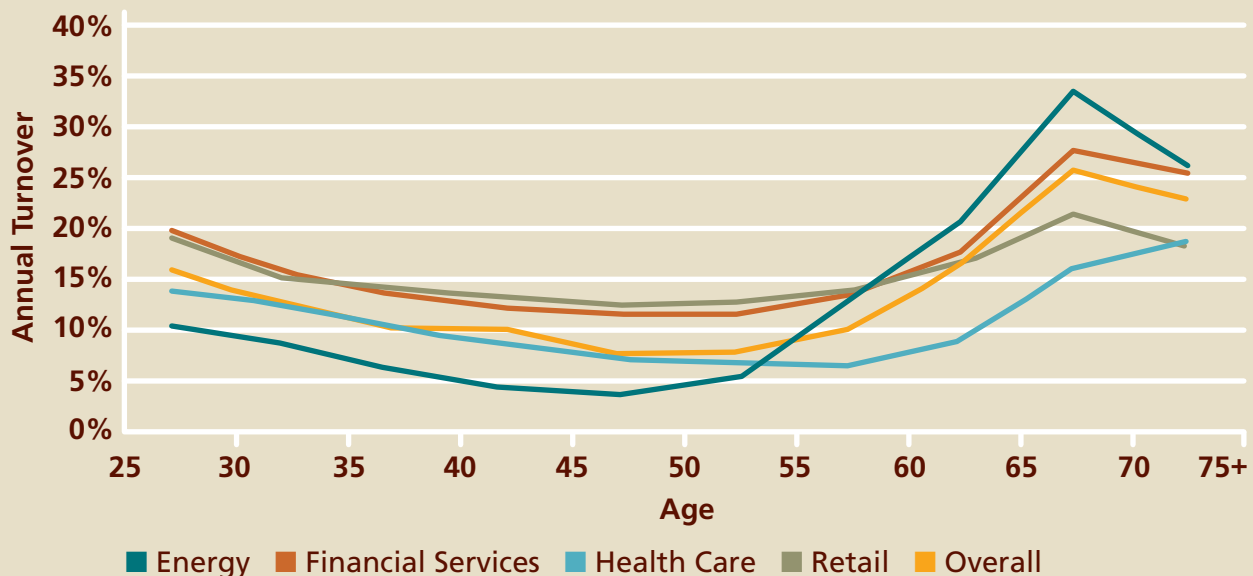
defined benefit pension plans. These data confirm that turnover decreases with age until employees reach their mid- to late-50s

between turnover and age. Mid-career employees, having navigated job changes and career redirections, can be more likely to

Exhibit II-6

Turnover Patterns, by Age and Industry*

Turnover Patterns, by Age and Industry



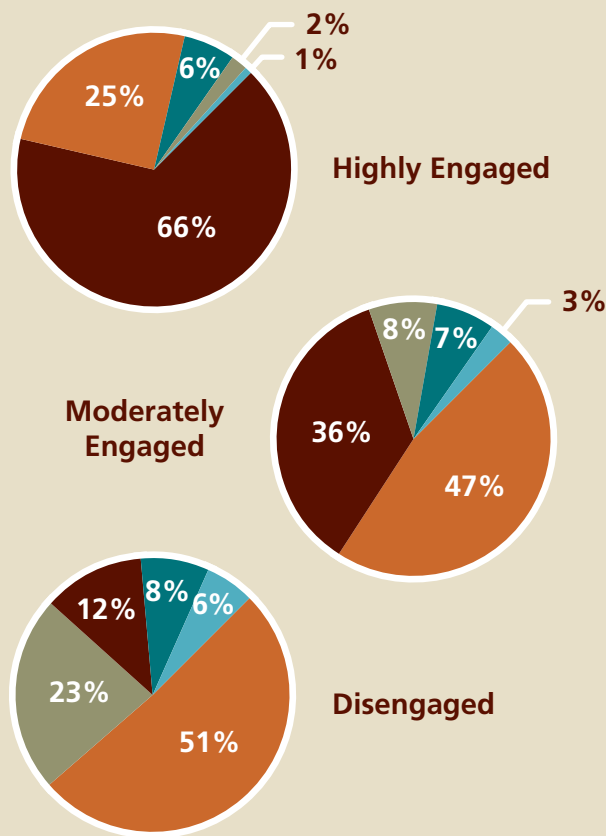
*Percentage of employees by age who terminated employment during the year.

Source: Towers Perrin 2002 workforce data for 335 large U.S. employers with defined pension benefit plans (i.e., *Fortune* 1000 companies and equivalents), encompassing approximately 130,000 employees in the energy industry, 470,000 employees in financial services, 280,000 employees in health care and 140,000 employees in the retail industry. ©2005 Towers Perrin.

stay with a job than their younger colleagues, who are often still experimenting with job, company and career choices.

Exhibit II-7

Engagement and Turnover: Likelihood of Leaving Current Employer by Engagement Level



Percents may not add to 100 due to rounding.

- I have no plans to leave.
- I am not looking for a new job, but would consider the right opportunity.
- I am actively looking for another job.
- I have made plans to leave my current job.
- I plan to retire in the next few years.

Source: 2003 Towers Perrin Talent Report, based on a random survey of more than 35,000 employees working for large U.S. companies (i.e., Fortune 1000 companies and equivalents); of these respondents, approximately 6,000 were highly engaged, 22,000 were moderately engaged, and 7,000 were disengaged. ©2005 Towers Perrin.

The downward turnover trend that begins in the 20s and continues to the 50s may link as well to the slightly higher motivation scores for 50+ workers in Towers Perrin's 2003 engagement research. Assuming that an employee does not want to retire, the combination of age and engagement should produce a double benefit—a cadre of workers both engaged in their work and committed to their organizations.

Towers Perrin's research supports this explanation, which shows a strong negative correlation between engagement and turnover risk. Among the employees surveyed as part of Towers Perrin's 2003 talent study, fully two thirds of those highly engaged had no plans to leave their employer, compared with just 12% of disengaged employees and a little over one third of moderately engaged employees. (See Exhibit II-7.)

For employers, the implications of the risk and cost elements of turnover are fairly straightforward: hold onto highly motivated and high-performing 50+ workers. These workers represent a relatively reduced turnover risk until they approach retirement. Moreover, many 50+ workers expect to work in retirement, as will be discussed in Section IV of this report. Later in the report, examples of practices for retaining 50+ workers in today's labor market will be examined.

While the cost items may be clear, the value side of the equation for individual employees is far more complex. In building the business case, companies should try to quantify the financial value of engagement, experience, stability, and enhanced knowledge.

Productivity and Performance

As defined by the U.S. Bureau of Labor Statistics, productivity is the ratio of the output of goods and services to the hours of work required to produce that output. One of the challenges in assessing productivity by age is the lack of data that captures productivity by both job and age. While the government and individual companies track output broadly (e.g., gross domestic product, revenue per employee, sales per employee), allocating that output to specific employees or groups can be difficult at best. Even in organizations that track productivity by specific business segments, work units or locations, the data are generally not broken down by job family or any demographic segment of the population, except in the sales function.

There is a rich academic archive on the relationship between productivity and aging. Some studies—primarily those focusing on manual dexterity and work-and-motion observations—concluded that worker productivity begins to decline between the ages of 30 and 40. Others found no significant relationship between productivity and age, as measured by work output and supervisory ratings.²⁶ Researcher Neil Charness, for example, studied whether acquired knowledge can compensate for the age-related effects of declines in mental efficiency. Using the example of chess players, he notes that experienced players are able to remember more detail about familiar, structured chess positions than are players with less experience and skill.

Extending his conclusions to the kinds of information processing tasks employees commonly face in a knowledge-intensive workplace, Charness says that “Knowledge can compensate, at least partially, for age-related declines in cognitive efficiency. It does so more successfully when the task is one for which fact retrieval can substitute for computation of answers. A knowledgeable older adult will outperform a computationally swift but less knowledgeable young adult.”²⁷

Indeed, researchers studying the productivity implications of aging have discovered that, in a wide range of fields, experience in a domain can offset the cognitive declines that may occur with age. In one study of attitudes toward older workers, employers provided a likely rationale for this phenomenon by reporting that workers age 45 to 59 show higher levels of a variety of experience-related characteristics than workers in any other age bracket. The characteristics more strongly associated with the 45 to 59 age group included communication skills, business knowledge, credibility and judgment.²⁸

Older workers also are often viewed as ill-suited to fast-paced jobs that require speed of execution. Here, too, there are two sides to the story. Communication skills and decision-making skills, which continue to sharpen with age, can more than make up for any declines in manual dexterity that may occur with age. For instance, a study of hotel reservation clerks concluded that older clerks more than made up for handling calls more slowly by achieving a higher success rate (i.e., more bookings).²⁹ Furthermore, any physical limitations that workers 50+ may face represent less of an impediment today than in the past due to the growth of the knowledge economy.





Researchers studying the productivity implications of aging have discovered that, in a wide range of fields, experience in a domain can offset the cognitive declines that may occur with age.



III. The Cost Side of the Equation: Understanding the Key Drivers

The prior section of this report documented the potentially significant economic contribution attributable to the 50+ segment of the workforce. In order to analyze the business case, organizations also need to understand the total reward costs associated with attracting and retaining 50+ workers. Some employers may discount the value of engagement and experience, focusing instead on the belief that 50+ workers cost more than younger employees. Towers Perrin evaluated the key drivers of labor cost in large U.S. companies to test this belief. The analysis indicates that, while there are cost differentials across various groups of workers, the labor cost equation is not as clear-cut as many employers may assume. Following is an analysis of the key drivers of labor cost in large organizations, with particular focus on key positions in the four industries identified previously.

The Range of Cost Drivers

To develop meaningful analyses of the business case for 50+ workers in specific industries and positions, data on average compensation, benefits and other labor

costs for large U.S. employers were compiled from Towers Perrin's proprietary databases and other sources. (Note that this analysis did not include the cost of company-provided equipment, facilities, utilities and other expenses typically included in "overhead." Although these costs clearly make a difference in evaluating how employees can be most cost-effectively deployed across multiple business locations, these costs are generally fixed and do not vary by the age of the employee.) Costs examined included both annual and one-time costs:

Annual (Recurring) Reward Costs

The analysis focused primarily on four components that make up approximately 97% of total compensation cost in large U.S. companies (*see Exhibit III-1 on page 46*):

- 1 **Cash compensation**, including bonuses where typical for the position (but not including pay-related costs such as FICA, unemployment insurance or workers compensation that generally do not vary with age or service);

- 2 **Employer-paid health benefit costs** (primarily medical coverage, which represents the vast bulk of these costs);
- 3 **Employer-paid retirement benefit costs** (defined benefit pension and company contributions to defined contribution savings plans);
- 4 **Employer-paid work/life benefit costs** (specifically, paid time off).

The cost of certain other benefits, such as short- and long-term disability and company-provided life insurance, tend to vary with age. However, because these costs represent such a small part of most companies' total compensation spending, they were excluded from Towers Perrin's analysis.

One-Time Costs

Employers need to keep in mind the significant costs and risks associated with replacing workers. For example, new employees have higher rates of turnover than longer-service employees and their future performance is difficult to assess before they join an organization. On average, turnover for employees with less than one year of service represents

about a quarter of all voluntary turnover, according to 2003 Saratoga Institute data based on an analysis of turnover patterns at 166 companies.³⁰ The data show that more

Employers need to keep in mind the significant costs and risks associated with replacing workers.

than two-thirds (68%) of all voluntary turnover occurs among employees with five or fewer years of service.

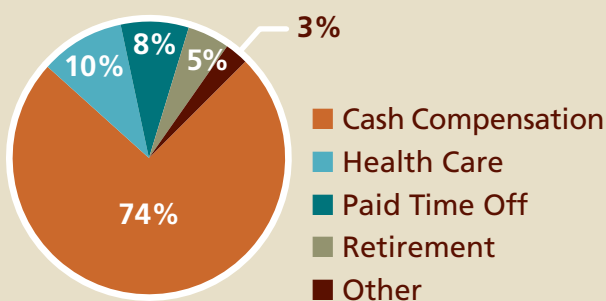
Therefore, to ensure that employers have a complete picture of the cost of 50+ workers, the business case analysis also looked at key one-time, turnover-related costs that are typically incurred when employees leave or join an organization:

- The cost of departure, including exit cost (time associated with exit interviewing and expense of processing terminations), departing employee inefficiency (reduced productivity of departing employees in their final months of service with an organization), out-of-pocket costs for finding replacements (search fees, for instance) and vacancy cost (lost productivity during the average time required to fill the position);
- New employee costs, including the cost of hiring (i.e., recruiting, advertising, travel for job interviews and relocation costs), orientation cost (initial training and onboarding) and incoming employee inefficiency (i.e., reduced productivity until a new employee gains proficiency in the job).

Here's a closer look at the costs of rewards and the drivers of cost variation.

Exhibit III-1

Breakdown of Typical Reward Costs in Large U.S. Companies



Source: Towers Perrin 2005 Benval data for 225 Fortune 500 companies in a range of industries. ©2005 Towers Perrin.

Cash Compensation

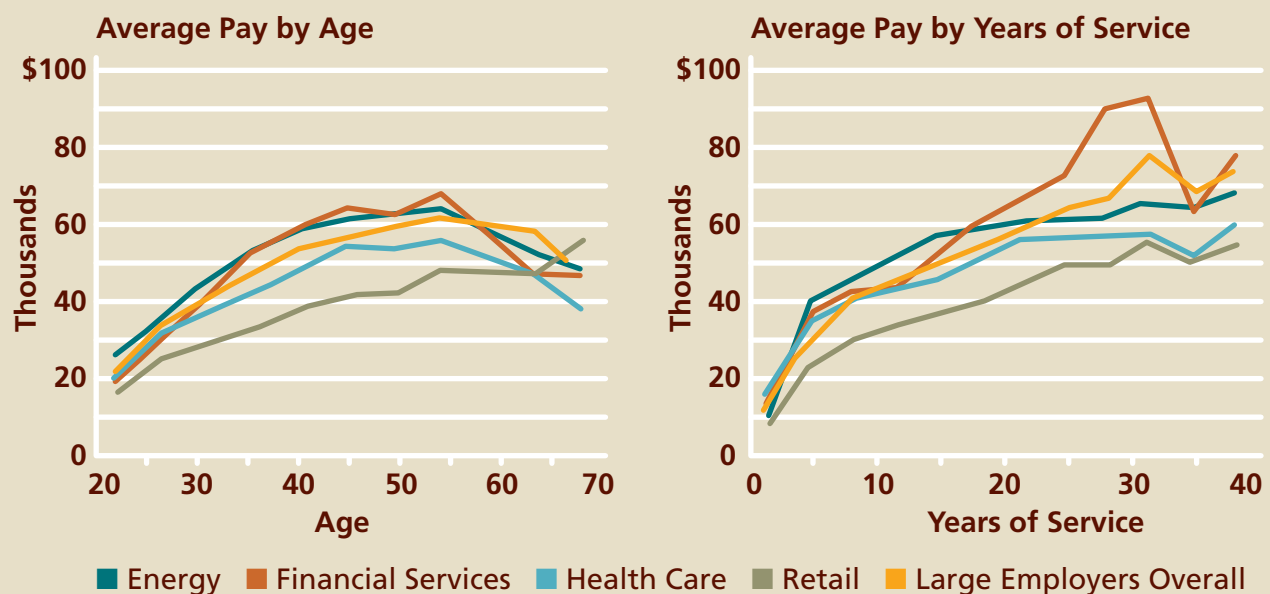
In the compensation arena, most major companies try to calibrate pay with reference to the 50th percentile for the market. They may target pay ranges above or below the market median depending on their specific pay philosophies and competitive positions in attracting and retaining needed talent. For collectively bargained groups, of course, annual wage increases are established by contract. Although average pay tends to increase initially with both service and age as suggested by Exhibit III-2, this increase in pay can be attributed to gains in employee competence or movement up the career ladder in an organization. In short, pay differences are driven by service, position and performance, rather than age per se. A new employee in any given job would typically be paid according to the company's market rate positioning regardless of age.



Thus, a 55-year-old worker who has been with a company for 25 years would be expected to earn more than either a 30-year-old worker or a 55-year-old worker who has been in a comparable job with the same company for only five years. The veteran worker would also assume greater responsibilities or achieve higher levels of performance over time, justifying the higher compensation. However, no significant difference in pay would be expected for, say, a 55-year-old and 45-year-old performing the same job at an equal level of performance.

Exhibit III-2

Average Compensation Levels by Age and Service for Selected Industries



Source: Towers Perrin 2003 workforce data for 335 large U.S. employers (i.e. *Fortune* 1000 companies and equivalents), including 26 companies in the energy industry, 42 companies in financial services, 38 companies in health care and 16 in the retail industry. ©2005 Towers Perrin.

Interestingly, an analysis of compensation trends in Towers Perrin's workforce data found some notable differences in age- and service-based growth patterns among industries—along with a flattening and even reversal of the overall growth trend for the oldest age groups. As Exhibit III-2 shows, average pay tends to peak for many workers in their mid-to-late 50s and then declines gradually thereafter, presumably the result of reduced work schedules.

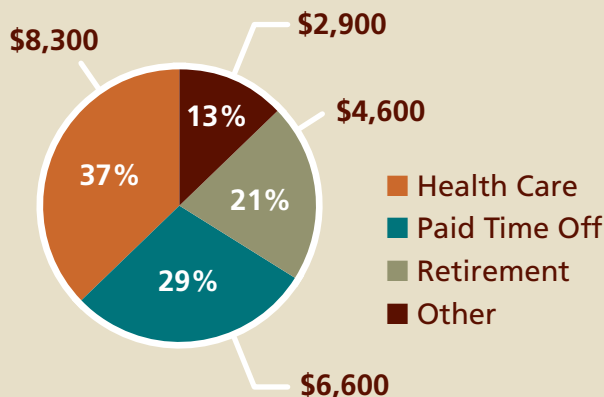
Aggregate Benefit Costs

Company-provided benefits make up a significant and growing share of total compensation costs in the nation's largest organizations. Although benefit costs have increased sharply in recent years, coverage patterns in the aggregate (e.g., percentage and categories of workers covered) have remained relatively constant for most types of benefits. Today, major companies deliver 26% of the average employee's total compensation and benefit cost via the benefit package—about \$22,400 per employee on



Exhibit III-3

Major Components of Employee Benefit Costs



Source: Towers Perrin Employee Benefit Information Center 2005 data on more than 700 large U.S. employers (i.e., *Fortune* 1000 companies and equivalents). ©2005 Towers Perrin.

average. (See *Exhibit III-3*.) This includes the employer's cost for medical benefits (active and retiree coverage), dental, vision, life insurance, short- and long-term disability, pension, 401(k) and paid time off. The level and mix of these programs will affect the economics of retaining and attracting 50+ workers.

The data for our four industry sectors show significant variation in aggregate benefit costs and in the cost of the various components from industry to industry. In the industries examined, the total employer-provided benefit cost for the average company ranges from a low of less than \$18,000 annually in retail to a high of almost \$24,000 in the energy sector. (See *Exhibit III-4*.)

Health Care Costs

Health care costs are a critical component of both the employer cost and the employee value associated with the rewards package. Rising health care costs therefore represent a concern for both employers and workers. Research by AARP shows that more than eight in 10 workers ages 45 to 74 identify health benefits as an essential part of their ideal job;³¹ and research by Towers Perrin shows that a competitive health benefits package is a top consideration for workers when selecting an employer.

As employees age, they are likely to use more medical services. As Exhibit III-5 illustrates, company-paid claims for employees age 50 to 64 and their covered dependents are 1.4 to 2.2 times as much as claims for workers in their 30s and 40s,

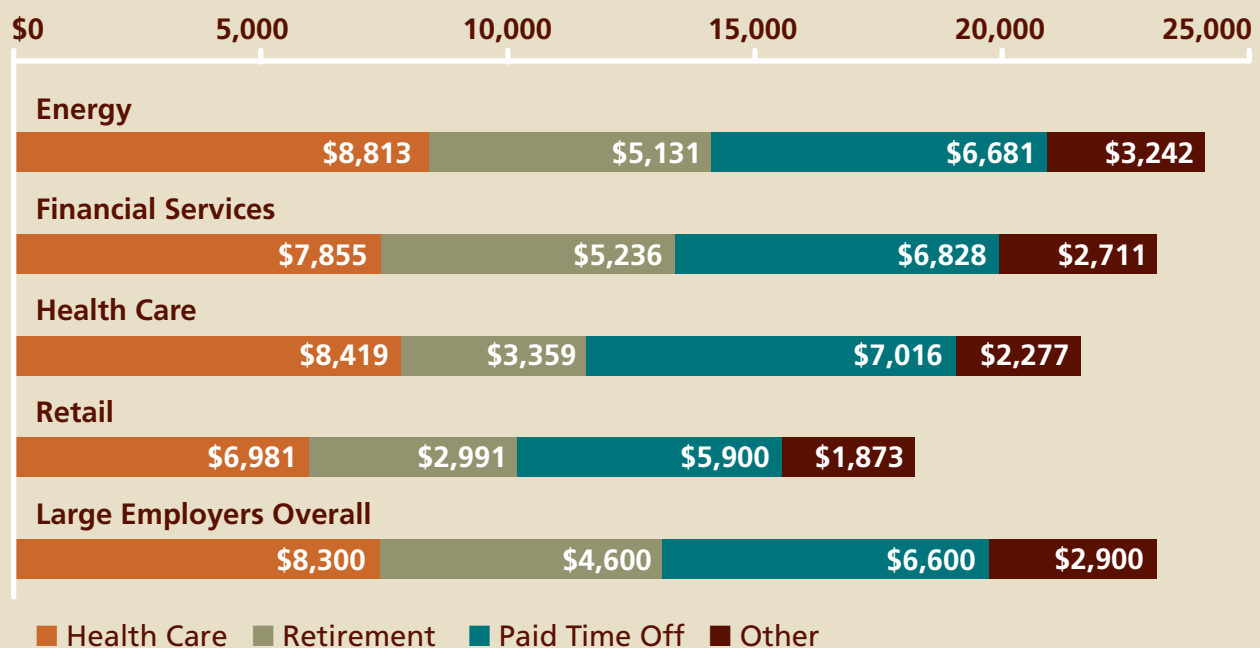
measured by average annual medical claim costs compiled by Medstat.³² Note that these represent average costs and that individual workers will have costs that are lower or higher than the average.

The Medstat data include the company-paid cost for hospital, outpatient and drug charges after plan copays, deductibles and out-of-pocket costs for both employees and dependents.

A key consideration with regard to health care costs, however, is that actual costs vary widely among individuals—even people within the same age group—because of factors such as health risks and health care utilization. In fact, studies by the University of Michigan Health Management Research Center found that age alone may be less important than the incidence of specific

Exhibit III-4

Average Employer-Provided Benefit Values, by Industry



Source: Towers Perrin Employee Benefit Information Center 2005 data on more than 700 large U.S. employers (i.e., *Fortune* 1000 companies and equivalents), including 75 companies in the energy industry, 45 companies in financial services, 25 companies in health care and 27 companies in the retail industry.
©2005 Towers Perrin.

health risks in driving up health care costs. Common risk factors examined in one study included high blood pressure, obesity, high cholesterol, smoking and alcohol use, among others. The study found that annual medical claim costs for individuals with five or more risk factors were typically at least double the costs incurred by healthier individuals with two or fewer risk factors at virtually all age levels examined. (See *Exhibit III-6*.)

Many employers, including many of the companies recognized as AARP Best Employers for Workers Over 50, have implemented wellness programs to mitigate health risk factors among their employees—such as stress, smoking, obesity and high blood pressure. Such efforts have the potential to

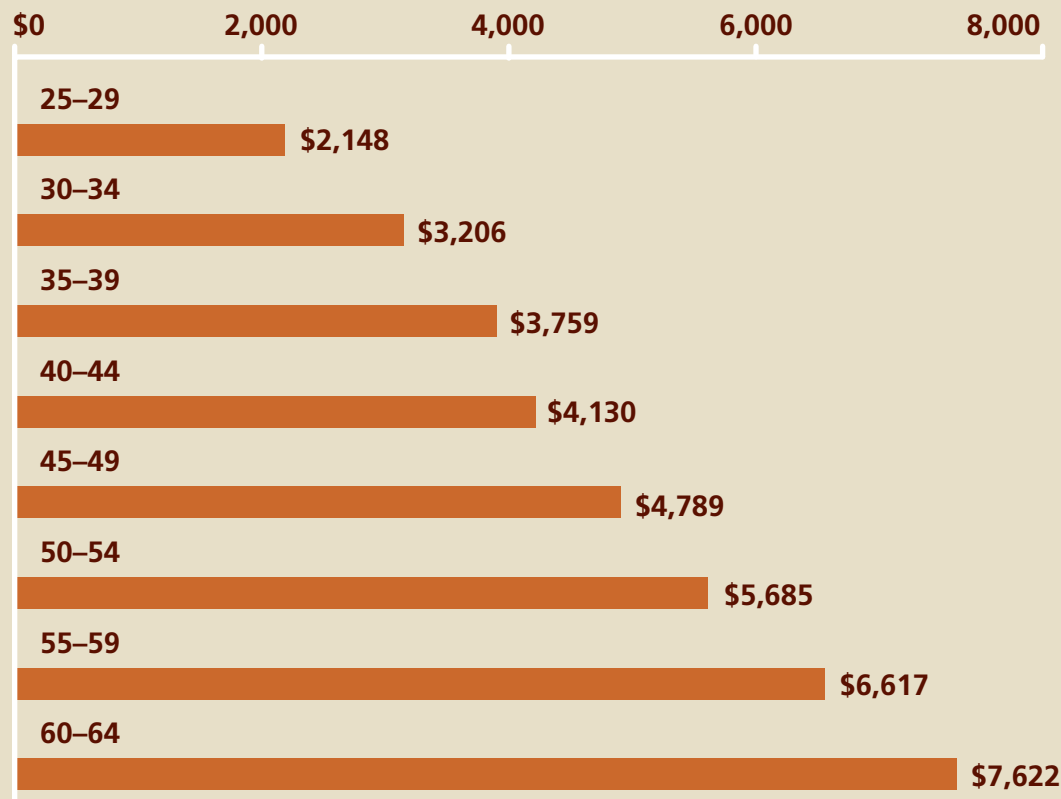
produce significant health care cost savings for both the employer and employee.³³

Other recent research also suggests that older workers may be more effective partners in employer efforts to promote better consumer behaviors in health care purchasing. Their efforts to manage their own health and related health care costs may in turn help mitigate age-related cost differences in some organizations. For example, Towers Perrin's 2004 health care consumerism survey of more than 1,000 employees in large companies nationwide³⁴ found that workers 50+ are:

- More likely than younger workers to view themselves as effective health care consumers (81% vs. 73%);

Exhibit III-5

Annual Aggregate Medical Claim Costs for Employees and Dependents, by Age of Employee



Source: Towers Perrin analysis of 2003 Medstat claims data covering over 7.5 million medical plan participants (employees and dependents); costs shown include total company-paid medical claim costs per employee for the employee plus all covered dependents. ©2005 Towers Perrin.

- More likely than younger workers to say they get regular health screenings (76% vs. 65%) and use generic drugs when available (82% vs. 76%);
- More likely than younger workers to agree that they should pay a larger share of the cost when they use more expensive health care services (50% vs. 43%).

The bottom line is that, while health benefit costs on average tend to be higher for 50+ employees, a variety of factors affect actual cost levels for any given employee or group of employees. Health plan initiatives that emphasize appropriate investments in wellness, preventive care and effective care

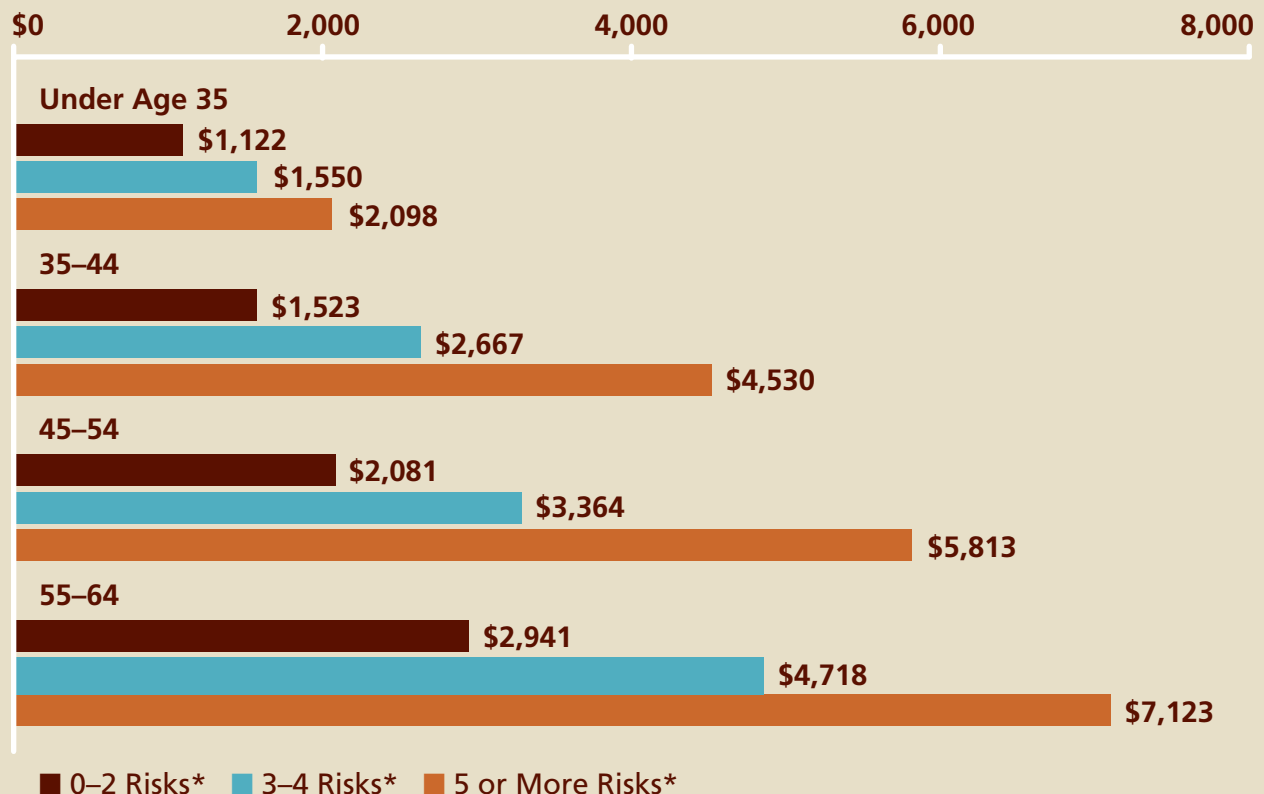
and management of disease will help employers better manage these costs over time. In addition, cost-management

Other recent research also suggests that older workers may be more effective partners in employer efforts to promote better consumer behaviors in health care purchasing.

approaches, such as making employees of all ages more conscious of costs when seeking care, may also help reduce the growth in health benefit costs.

Exhibit III-6

Annual Medical Costs, by Health Risk Levels and Age



*Risks examined in the study included high blood pressure, obesity, high cholesterol, smoking, alcohol use and others.

Source: Dee W. Edington, University of Michigan Health Management Research Center, *American Journal of Health Promotion*, 2001.

Retirement Benefit Costs

Retirement benefits represent another significant component of total compensation cost in major U.S. companies. Variation in retirement costs is heavily driven by plan design, which can be structured in various ways to achieve human resource goals such as rewarding long service or career employees. The prevalence of pensions and retiree medical coverage has been steadily declining in recent years while defined contribution plans have been growing. In the U.S. workforce, according to the Bureau of Labor Statistics (2005 National Compensation Survey), only 21% of private industry employees participate in defined benefit retirement plans today, while 42% participate in a company-sponsored defined contribution plan. Many employers have also limited their retiree medical benefits by freezing eligibility

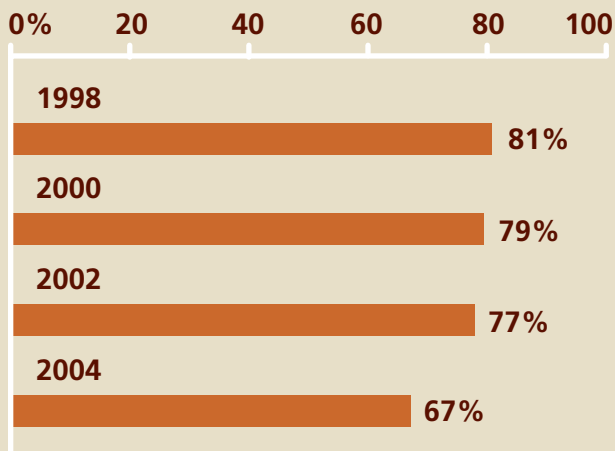
or scaling back these benefits by capping the maximum annual cost the company will cover or reducing the company-paid percentage.

However, many large U.S. organizations continue to offer a combination of retirement plans, typically including a defined benefit pension plan (either a traditional or “hybrid” plan, such as a cash balance or pension equity plan), a defined contribution savings plan (most commonly a 401(k) or 403(b) plan) and retiree medical coverage. Today, about two-thirds of the more than 700 companies in Towers Perrin’s Employee Benefit Information Center (EBIC) database (primarily *Fortune* 1000 companies) offer defined benefit pensions and/or retiree medical benefits to new hires. (See *Exhibit III-7* and *Exhibit III-8*.)

The mix of defined benefit pensions offered has shifted in recent years toward “hybrid plans” (e.g., cash balance and pension equity

Exhibit III-7

Percent of Large Companies Offering Defined Benefit Pension Plans*



*Includes only those employers that offer defined benefit plans (traditional pensions and/or hybrid plans, such as a cash balance plan) to new hires. Employers that provide defined benefit pensions only to grandfathered groups are excluded.

Source: Towers Perrin Employee Benefit Information Center data on more than 700 large U.S. employers (i.e., *Fortune* 1000 companies and equivalents). ©2005 Towers Perrin.



plans). From the employee perspective, these plans resemble defined contribution plans. Hybrid plans typically are structured to look

plan accruals. (Legal questions associated with certain hybrid plan designs are outside the scope of this study.)

The cost of providing defined benefit pension plans is strongly correlated with the service levels and age of the plan participants because plan sponsors structure benefits to reward longer service.

like individual accounts that increase each year with credits based on compensation and interest. Some companies offering hybrid plans offer traditional pensions for “grandfathered” employee groups and hybrid plans for new and recent hires.

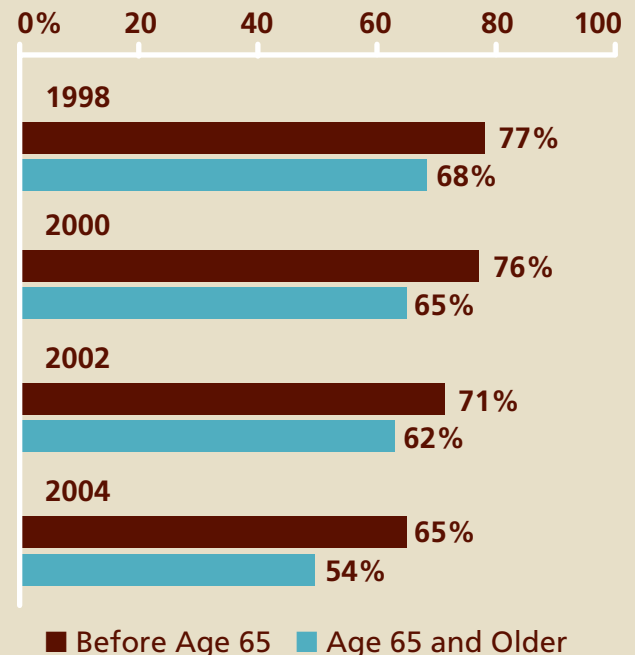
The cost of providing defined benefit pension plans is strongly correlated with the service levels and age of the plan participants because plan sponsors structure benefits to reward longer service. Such plans often include the following features:

- Benefits are usually forfeited if employees fail to work long enough to vest under the plan’s provisions (typically five years);
- Benefits typically are not payable until age 55 or later, with the normal retirement benefit payable at age 65;
- Many pension benefit formulas provide early retirement incentives or increased levels of benefits based on age and service. These elements may appear both in traditional plan designs (e.g., final-average-pay plans) and in many hybrid plans that offer larger annual benefit credits based on age (i.e., age-weighted plan designs); the goal is to reward career employees and sometimes to address legal requirements such as nondiscrimination or rules about

Savings plan costs are generally influenced more directly by pay than by age because sponsoring employers typically contribute a set percentage of covered compensation for all eligible employees, either automatically or on a matching basis.

Exhibit III-8

Percent of Large Companies Offering Retiree Medical Coverage*



*Includes only those employers that offer retiree medical coverage to new hires. Employers that provide retiree medical benefits only to grandfathered groups are excluded.

Source: Towers Perrin Employee Benefit Information Center data on more than 700 large U.S. employers (i.e., Fortune 1000 companies and equivalents). ©2005 Towers Perrin.

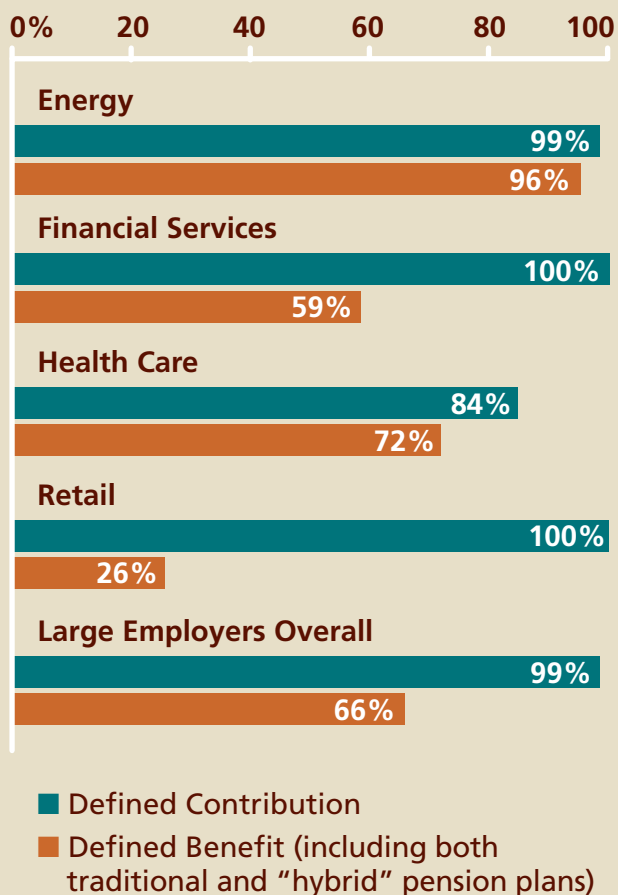
Industry Focus: Retirement Benefits

Among the four industries studied, energy companies are the most likely to offer defined benefit pension plans (which tend to have liberal early retirement provisions), while retail companies are least likely. (See *Exhibit III-9*.) Similarly, energy companies on average require smaller retiree contributions for retiree medical coverage than companies in retail and other industries. (See *Exhibit III-10*.) The prevalence of these benefits is likely to play an important role with respect to retirement patterns by industry over the coming years.



Exhibit III-9

Retirement Income Plans Offered, by Industry



The specific components of the total retirement program (e.g., types of plans offered and level of benefits provided) have an important impact both on costs and on the organization's ability to retain employees once they meet the service and age requirements for full benefits. For example, traditional pension plans provide strong incentives for employees to stay with the company until key age and service requirements are met. Defined contribution plans tend to be more cost-neutral with regard to age and are more portable. These considerations take on varying importance for employers in different industries because of the wide variations in retirement plans and plan features from industry to industry and company to company. (See "*Industry Focus: Retirement Benefits*" above.)

Source: Towers Perrin Employee Benefit Information Center 2005 data on more than 700 large U.S. employers (i.e., *Fortune* 1000 companies and equivalents), including 75 in the energy industry, 45 in financial services, 25 in health care and 27 in the retail industry. ©2005 Towers Perrin.

Paid Time Off

Representing about 8% of total compensation cost, paid time off (e.g., vacation, holidays, personal days) depends on length of service in major companies. Typical vacation policies in large U.S. companies provide two to three weeks of paid vacation for new and short-service employees and an additional two to three weeks for longer-service employees.

Because long-service employees receive more paid time off, the cost of this benefit for the average employee with 20 years of service is typically double the cost for newly hired workers. Exhibit III-11 on page 56 provides examples of the typical vacation policies offered by companies in the four industries studied.

One-Time Costs

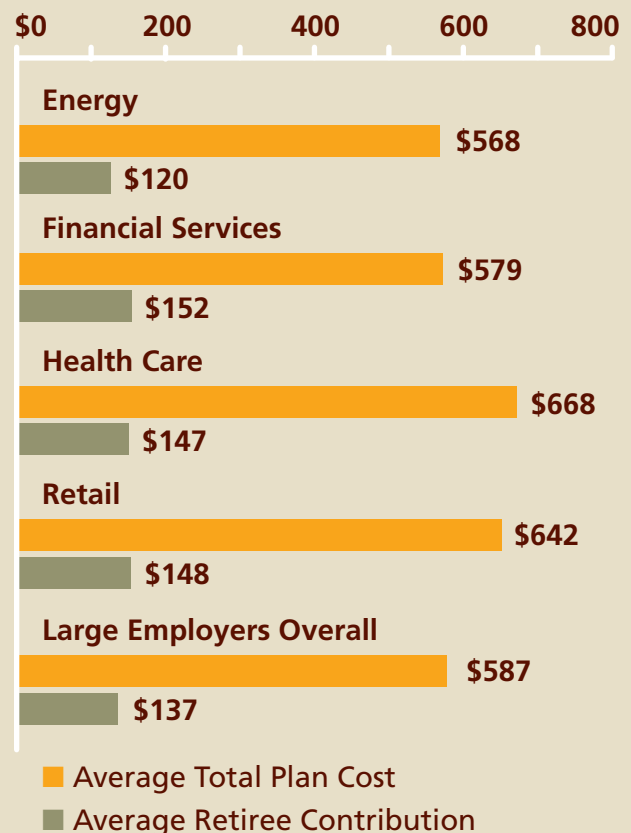
In thinking about the cost of recruiting or retaining workers, a cost that is often not fully and explicitly calculated is turnover. Turnover costs can be substantial in many cases. Accurately quantifying these costs is difficult for many companies, in part because the cost of turnover varies widely, not only by position, but also according to the performance level of the incumbent employee. Some companies have concluded that the cost of turnover for high-performing managers can be as high as a multiple of annual salary. Of course, the ultimate cost of turnover also depends on how long an employee stays with the organization. As the length of an employee's service increases, the cost of hiring that employee becomes less significant. As mentioned earlier, younger employees and employees with short tenure typically account for most of a company's voluntary turnover. More than two-thirds (68%) of all voluntary turnover occurs among employees with five or fewer years of service.

In thinking about the cost of recruiting or retaining workers, a cost that is often not fully and explicitly calculated is turnover. Turnover costs can be substantial in many cases.

For the analysis that follows, the one-time turnover costs associated with departures and new hires were estimated using Towers Perrin's proprietary turnover cost model and Saratoga

Exhibit III-10

Average Monthly Retiree Medical Costs and Retiree Contributions, by Industry



Source: 2005 Towers Perrin Health Care Cost Survey of 385 large U.S. employers (i.e., Fortune 1000 and equivalents), including 28 companies in the energy industry, 63 companies in financial services, 28 companies in health care and 23 companies in the retail industry. ©2005 Towers Perrin.

Institute data on hiring costs and time required to fill vacant positions, along with some assumptions about the productivity impact. Exhibit III-12 summarizes what is included in the estimates and the specific assumptions used in estimating one-time turnover costs for positions in the four industries studied.

The analysis also assumes that ongoing training costs would be the same for workers across all age groups. As a result, no attempt was made to estimate training costs, other than the inclusion of new hire orientation expenses and costs associated with processing the new-hire transaction.

Although Bureau of Labor Statistics research³⁵ suggests that workers age 55 and older receive fewer hours of training than younger workers, AARP's research suggests that older workers are by no means finished learning. In fact, in one AARP survey, 73% of workers ages 45 to 74 said that on-the-job

training would be an essential part of their ideal job, and 88% said that “the opportunity to learn something new” would be an essential part.³⁶ According to Saratoga Institute data, average annual training costs represent almost \$700 per employee in major U.S. companies.

Evaluating Cost Differences for Specific Jobs

To evaluate the business case for workers 50+ in the context of specific jobs, one position was selected in each of our four industry sectors for a detailed cost analysis. These positions were chosen because of their relative importance in their industries and the significant numbers of people working in these positions. The same analysis could be applied to every position in an organization, although companies will probably want to focus their attention primarily on business-critical positions or jobs in which retention or attraction of talent raises particular concerns (e.g., high turnover, customer relationships, difficulty of recruiting or significant training requirements).

Because the economic considerations identified above are driven by a combination of plan design, tenure, age, health risks and one-time costs, it is useful to assess two hypothetical business case scenarios:

- 1 **Retaining 50+ workers.** This first scenario assumes a large, mature organization with a relatively modest and predictable growth strategy. The organization has a group of incumbent employees age 55 with 20 years of service; these employees could potentially retire, leaving jobs that would need to be filled with replacement employees. This analysis focuses on the economics of two alternative approaches for filling the vacant jobs:

Exhibit III-11

Typical Vacation Policies in Large U.S. Companies, by Industry

Type of Cost	Energy	Financial Services	Health Care	Retail
Vacation days per year for new hire	10	10	17	10
Maximum days per year	30	20	32	20
Years of service required for maximum vacation eligibility	30	5	20	10

Source: Towers Perrin Employee Benefit Information Center 2005 data on more than 700 large U.S. employers (i.e., *Fortune* 1000 companies and equivalents), including 75 companies in the energy industry, 45 companies in financial services, 25 companies in health care and 27 companies in the retail industry. ©2005 Towers Perrin.

- Allow natural retirement trends to evolve with limited efforts to keep incumbents, so that the employer succeeds in **retaining 20%** of the experienced incumbent staff and fills the resulting vacancies from the broad labor pool; or alternatively;
- Mount a focused effort to **double retention to 40%** of the experienced workers, reducing the need to hire from

outside labor sources and increasing such benefits as knowledge retention and mentoring.

Average per-employee costs for the mix of all employees filling the jobs in question—retained incumbent employees and new hires—were analyzed. The results show how average per-employee costs can change as a result of this effort to **retain** more 50+ workers.

Exhibit III-12

One-Time Costs of Hiring and Replacing Workers

Type of Cost	What Is Included	Source of Data or Assumptions
Cost of termination	Lost productivity of the departing employee and vacancy cost for the average length of time it takes to fill the position	<ul style="list-style-type: none"> • To estimate the cost of the departing employee's inefficiency, it was assumed departing employees would be 15% inefficient during the period of time they are actively looking for other jobs. The length of job search in each industry was estimated using various sources, including 2003 data from Drake Beam and Morrisson, 2004 data from Challenger, Gray and Christmas, 2004 data from the Academy Health Annual Research Meeting in San Diego and 2000 data from Retail Industry Executive Search. For each industry, the departing employee inefficiency equals 15% times the number of months of job search times the average compensation and benefit cost for each position (using Towers Perrin data shown in Exhibits III-13 through III-16). • To estimate the cost of lost productivity while the position is vacant, it was assumed that each position would be 75% inefficient. This cost was calculated using 2003 Saratoga Institute data on average days required to fill each position times 75% times the average daily compensation and benefit cost (using Towers Perrin data shown in Exhibits III-13 through III-16).
Cost of hire	Cost of advertising, employment agency, referral bonus, candidate travel and relocation, recruiter costs and orientation costs for the new employee	<ul style="list-style-type: none"> • Hiring costs (advertising, agency, recruiter, travel, relocation, bonus, etc.) are based on 2003 Saratoga Institute data for each industry. • To estimate the cost of orientation, it was assumed that the new employee spends two days in orientation times the average daily compensation and benefit cost for each position (using Towers Perrin data shown in Exhibits III-13 through III-16).
Cost of new employee	New hire's reduced productivity over the length of time it takes to become proficient in the job	<ul style="list-style-type: none"> • To estimate cost of the new employee's inefficiency, it was assumed that professional employees require 12 weeks on average to become fully proficient and are 40% less productive during that period. This cost was calculated as 40% times 12 weeks times the average weekly compensation and benefit cost for each position (using Towers Perrin data shown in Exhibits III-13 through III-16).

2 Attracting new 50+ workers. The second scenario focuses on a fast-growing company that finds itself needing to fill a number of newly created jobs. Retirement trends typical for the industry also contribute to the number of open job slots. The analysis again focuses on the economics of two ways of responding to the staffing need:

- From the current applicant pool, hire a set of workers consistent with the applicant demographics, **80% of whom are age 40 and 20% of whom are age 55;** or alternatively;
- Via increased outreach to the 50+ talent pool (e.g., through implementation of extended work hour and location flexibility), fill the open slots by **doubling the percentage of hires age 55 to 40%, with the age 40 hires making up 60%.**

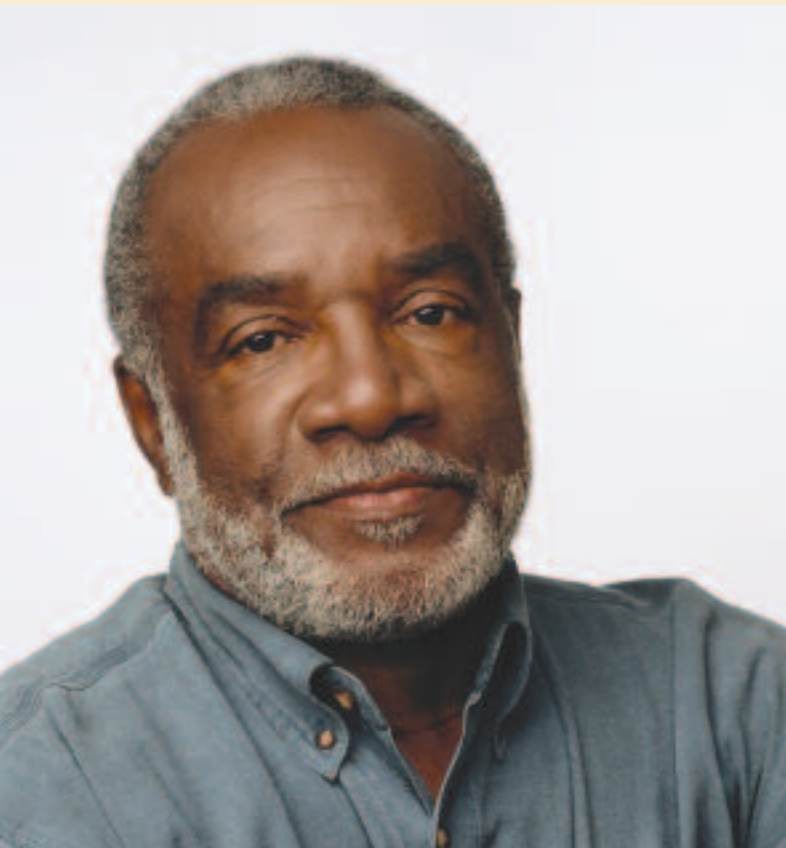
Average per-employee costs for the mix of all new hires who fill the jobs were analyzed. In this scenario, the results show how average per-employee costs can change as a result of the effort to hire more 50+ workers.

In developing these reward comparisons, 2005 data from Towers Perrin's compensation benchmarking database and the firm's EBIC data on more than 700 large U.S. employers were used to determine average cash compensation for the positions studied and the average benefit cost in each industry. The analysis encompassed the three benefit programs that together make up almost 90% of total benefit costs in the typical company:

- Retirement programs, including defined benefit pension (if typically offered in the industry) and defined contribution savings plan (e.g., 401(k) or 403(b) plan);
- Medical plan for active employees;
- Paid time off (vacation, holidays, and personal days).

One-time turnover costs are estimated as explained in Exhibit III-12 using the available benchmark data for each of the four industries examined.

Exhibits III-13 through III-16 summarize the key value drivers identified in Section II as well as the cost drivers. For each of the four positions identified, these exhibits show average annual cash compensation and the typical benefits offered to employees in those positions, based on information in Towers Perrin's EBIC database. For each position, these exhibits also show how the average cost



Value and Average Cost: Comparisons for an Engineer (Energy Industry)

Position and Description

Engineer

Schedules and coordinates complex projects; reviews design and documentation to ensure compliance with design criteria

Average Salary and Benefit Programs Typically Offered

- Median annual salary: \$82,300
- Pension: 1.5% of final average earnings times years of service
- Savings: 50% company match on first 6% of pay employee contributes
- Active medical plan: company pays 85% of cost
- Paid time off: 10 days initially to 30 days at 30 years of service

Value Considerations (see Section II)

- 55+ group most highly engaged
- Clear decline in turnover from age 30 to age 50
- Continuing shortage of new engineering talent requires emphasis on hiring and retaining talent
- Complex job tasks place premium on experience, knowledge and practical creativity
- Industry staffing patterns over last two decades place premium on capturing and transferring knowledge of experienced engineers

Scenarios

Scenario 1: Increase retention of 50+ workers

Mix A: 80% new hires age 40, 20% retention of employees age 55 with 20 years of service

Mix B: 60% new hires age 40, 40% retention of employees age 55 with 20 years of service

Scenario 2: Increase hiring of 50+ workers

Mix C: 80% new hires age 40, 20% new hires age 55

Mix D: 60% new hires age 40, 40% new hires age 55

Average Per-Employee Costs* for Alternative Staffing Scenarios

	Scenario 1		Scenario 2	
	Mix A	Mix B	Mix C	Mix D
Cash	\$ 82,300	\$ 82,300	\$ 82,300	\$ 82,300
Average company-paid health care claims (assumes the employer is self insured; actual costs will be higher or lower)	6,600	7,200	6,600	7,200
Paid time off	6,900	7,600	6,300	6,300
Retirement	7,600	8,900	6,900	7,400
Total average annual cost per employee	103,400	106,000	102,100	103,200
Dollar difference per average employee		2,600		1,100
Percent difference per average employee		3%		1%
One-time cost of replacement: \$38,700				

*Data shown in each scenario is based on assumed average annual cash compensation of \$82,300 regardless of age and service; average annual company-paid health care claim costs of \$6,000 at age 40 and \$8,900 at age 55; average annual paid time off costs of \$6,300 for new hires and \$9,500 for employees with 20 years of service; and average annual retirement plan costs of \$6,400 for new hires at age 40, \$8,800 for new hires at age 55 and \$12,600 for employees at age 55 with 20 years of service.

Source: 2005 Towers Perrin benchmarking data for 102 companies in the energy industry and Towers Perrin Employee Benefit Information Center 2005 data on 75 large U.S. energy companies (i.e., *Fortune* 1000 companies and equivalents); one-time costs based on Towers Perrin estimates and analysis of Saratoga Institute data on average costs by industry. ©2005 Towers Perrin.

Value and Average Cost: Comparisons for Sales Manager (Financial Services)

Position and Description

Sales manager

Sells financial products and services; implements local marketing plans and strategies; oversees sales reps and provides technical training

Average Salary and Benefit Programs Typically Offered

- Median annual salary: \$112,700
- Pension: none
- Savings: company contributes 3% of pay automatically and matches 50% of first 6% of pay employee contributes; company also may make annual profit-sharing contribution up to 3% of pay
- Active medical plan: company pays 80% of cost
- Paid time off: 10 days initially to 20 days at five years of service

Value Considerations (see Section II)

- 55+ group most highly engaged
- Clear decline in turnover from age 30 to age 50+
- Complex job tasks place premium on experience and knowledge
- Effectiveness of 50+ workers in serving the critical baby boomer customer base

Scenarios

Scenario 1: Increase retention of 50+ workers

Mix A: 80% new hires age 40, 20% retention of employees age 55 with 20 years of service

Mix B: 60% new hires age 40, 40% retention of employees age 55 with 20 years of service

Scenario 2: Increase hiring of 50+ workers

Mix C: 80% new hires age 40, 20% new hires age 55

Mix D: 60% new hires age 40, 40% new hires age 55

Average Per-Employee Costs* for Alternative Staffing Scenarios

	Scenario 1		Scenario 2	
	Mix A	Mix B	Mix C	Mix D
Cash	\$112,700	\$112,700	\$112,700	\$112,700
Average company-paid health care claims (assumes the employer is self insured; actual costs will be higher or lower)	6,200	6,800	6,200	6,800
Paid time off	9,600	10,400	8,700	8,700
Retirement	8,500	8,500	8,500	8,500
Total average annual cost per employee	137,000	138,400	136,100	136,700
Dollar difference per average employee		1,400		600
Percent difference per average employee		1%		<1%
One-time cost of replacement: \$44,300				

*Data shown in each scenario is based on assumed average annual cash compensation of \$112,700 regardless of age and service; average annual company-paid health care claim costs of \$5,600 at age 40 and \$8,500 at age 55; average annual paid time off costs of \$8,700 for new hires and \$13,000 for employees with 20 years of service; and average annual retirement plan costs of \$8,500 regardless of age and service (assumed defined contribution plan only, representing a typical level of retirement benefits in the financial services industry).

Source: 2005 Towers Perrin benchmarking data for 118 companies in financial services and Towers Perrin Employee Benefit Information Center 2005 data on 45 large U.S. financial services companies (i.e., *Fortune* 1000 companies and equivalents); one-time costs based on Towers Perrin estimates and analysis of Saratoga Institute data on average costs by industry. ©2005 Towers Perrin.

per employee changes as a result of retaining more experienced 50+ workers (scenario 1) and attracting new 50+ workers (scenario 2). The same cash compensation levels were used for employees regardless of age, assuming that all employees would be equally qualified and, thus, would be paid the median market rate for their positions.

In the hypothetical analyses in the exhibits, all new hires for the jobs in question were assumed to either be age 40 or age 55 and all retained incumbent workers used to fill those jobs were assumed to be age 55. In

years. (Note that, if the new hire departs soon after being hired, the effective turnover costs of losing the age-55 worker would be greater than those estimated.)

The actual numbers will also differ from the estimated averages shown here depending on the actual characteristics of the compensation and benefit programs the company sponsors, health care risks, as well as on the actual data for the mix of the long-service older workers and the new hires in question.³⁷

The cost involved in increasing retention of experienced workers is larger than in the

One other advantage that should not be overlooked is the “known quantity” premium. Given the imperfect nature of selection processes in many organizations, a worker whose skills and performance are known commodities within the company may be worth far more than a slightly lower-cost replacement with no track record and therefore a higher risk of poor performance or early departure.

reality, of course, the age mix of employees in a particular position within any organization will be more diverse as it is unlikely that either all new hires will be the same age or all incumbent workers will be the same age. Results would vary depending on the actual ages selected and the specifics of the program design.

Costs of Retaining Workers 50+

As shown in the last row of each of the tables above, there are significant one-time costs associated with replacing workers. Depending on the specifics, an employer would not necessarily need to focus on retaining employees if new hires were equally skilled and certain to stay for a significant number of

context of attraction because of the higher cost of retirement benefits and paid time off associated with increased length of service. However, the difference in average per-employee cost associated with enhanced retention—ranging from 1% to 3% of initial total annual compensation cost for the four positions studied—is still relatively modest.

Considering cost alone, many companies should find themselves with a solid business case for increasing retention of 50+ workers in many positions. This conclusion depends on the specific positions and experience required, the company’s particular reward programs and costs as well as on the cost and availability



of suitable replacement workers (and how long they ultimately remain with the company).

Even where the cost differential might nominally favor hiring new employees, companies need to keep in mind the business advantages that experienced, long-service employees often offer (e.g., enhanced engagement, higher productivity, affinity with older or long-term customers).

One other advantage that should not be overlooked is the “known quantity” premium. Given the imperfect nature of selection processes in many organizations, a worker whose skills and performance are known commodities within the company may be worth far more than a slightly lower-cost replacement with no track record and therefore a higher risk of poor performance or early departure.

Costs of Attracting Workers 50+

When one looks at total compensation costs, using the sample ages and programs shown, if the mix of new hires shifts and doubles the percentage of new 50+ workers, the organization would experience only a minimal impact—roughly 1% of the average

cost per new employee. This conclusion holds even given that the average health care claims cost may be higher for the older group and that the cost of retirement benefits can be greater if the organization offers a traditional pension plan. The overall cost differential could be greater in companies that offer final average pay or age-weighted cash balance pension plans and subsidize more of the cost of employees’ health care—or smaller in companies that provide less of a subsidy for health care and no defined benefit pension. The age-based cost differential also may be greater for lower-paid positions where the cost of benefits as a percent of total compensation is more significant.

Exhibit III-15

Value and Average Cost: Comparisons for Registered Nurse (Health Care)

Position and Description

Registered nurse

Provides direct patient care in hospital setting, including monitoring patient's condition, administering medications and assisting with treatments

Average Salary and Benefit Programs Typically Offered

- Median annual salary: \$48,000
- Pension: age-weighted cash balance plan providing annual credits of 5% of pay at age 40 and 8.5% of pay at age 55
- Savings: company matches 100% of first 2% of pay employee contributes
- Active medical plan: company pays 85% of cost
- Paid time off: 17 days initially to 32 days at 20 years of service

Value Considerations (see Section II)

- 55+ group most highly engaged
- Clear decline in turnover from age 30 to age 50+
- Acute shortage of nursing professionals requires emphasis on hiring and retaining talent
- Complex and diverse job tasks place premium on experience with patient care
- Effectiveness of 50+ nurses in servicing baby boomer population

Scenarios

Scenario 1: Increase retention of 50+ workers

Mix A: 80% new hires age 40, 20% retention of employees age 55 with 20 years of service

Mix B: 60% new hires age 40, 40% retention of employees age 55 with 20 years of service

Scenario 2: Increase hiring of 50+ workers

Mix C: 80% new hires age 40, 20% new hires age 55

Mix D: 60% new hires age 40, 40% new hires age 55

Average Per-Employee Costs* for Alternative Staffing Scenarios

	Scenario 1		Scenario 2	
	Mix A	Mix B	Mix C	Mix D
Cash	\$48,000	\$48,000	\$48,000	\$48,000
Average company-paid health care claims (assumes the employer is self insured; actual costs will be higher or lower)	6,600	7,200	6,600	7,200
Paid time off	5,900	6,500	5,400	5,400
Retirement	2,900	3,200	2,700	2,900
Total average annual cost per employee	63,400	64,900	62,700	63,500
Dollar difference per average employee		1,500		800
Percent difference per average employee		2%		1%
One-time cost of replacement: \$18,100				

*Data shown in each scenario is based on assumed average annual cash compensation of \$48,000 regardless of age and service; average annual company-paid health care claim costs of \$6,000 at age 40 and \$8,900 at age 55; average annual paid time off costs of \$5,400 for new hires and \$8,100 for employees with 20 years of service; and average annual retirement plan costs of \$2,600 for new hires at age 40, \$3,300 for new hires at age 55 and \$4,000 for employees age 55 with 20 years of service

Source: 2005 Towers Perrin benchmarking data for 10 companies in health care and Towers Perrin Employee Benefit Information Center 2005 data on 25 large U.S. health care companies (i.e., *Fortune* 1000 companies and equivalents); one-time costs based on Towers Perrin estimates and analysis of Saratoga Institute data on average costs by industry. ©2005 Towers Perrin.

Exhibit III-16

Value and Average Cost: Comparisons for Store Manager (Retail Industry)

Position and Description

Store Manager

Manages day-to-day operations, including sales, expense control, inventory, customer service, hiring, training and scheduling

Average Salary and Benefit Programs Typically Offered

- Median annual salary: \$39,700
- Pension: none
- Savings: 50% company match on first 6% of pay employee contributes
- Active medical plan: company pays 75% of cost
- Paid time off: 10 days initially to 20 days at 20 years of service

Value Considerations (see Section II)

- 55+ group relatively highly engaged
- Clear decline in turnover from age 30 to age 50+
- Effectiveness of 50+ workers in serving the critical baby boomer customer base
- Scheduling flexibility of 50+ workers makes them an attractive staffing solution (see Section IV)

Scenarios

Scenario 1: Increase retention of 50+ workers

Mix A: 80% new hires age 40, 20% retention of employees age 55 with 20 years of service

Mix B: 60% new hires age 40, 40% retention of employees age 55 with 20 years of service

Scenario 2: Increase hiring of 50+ workers

Mix C: 80% new hires age 40, 20% new hires age 55

Mix D: 60% new hires age 40, 40% new hires age 55

Average Per-Employee Costs* for Alternative Staffing Scenarios

	Scenario 1		Scenario 2	
	Mix A	Mix B	Mix C	Mix D
Cash	\$ 39,700	\$ 39,700	\$ 39,700	\$ 39,700
Average company-paid health care claims (assumes the employer is self insured; actual costs will be higher or lower)	5,800	6,300	5,800	6,300
Paid time off	3,400	3,700	3,100	3,100
Retirement	1,200	1,200	1,200	1,200
Total average annual cost per employee	50,100	50,900	49,800	50,300
Dollar difference per average employee		800		500
Percent difference per average employee		2%		1%
One-time cost of replacement: \$19,000				

*Data shown in each scenario is based on assumed average annual cash compensation of \$39,700 regardless of age and service; average annual company-paid health care claim costs of \$5,200 at age 40 and \$8,000 at age 55; average annual paid time off costs of \$3,100 for new hires and \$4,600 for employees with 20 years of service; and average annual retirement plan costs of \$1,200 regardless of age and service (assumed defined contribution plan only, representing a typical level of retirement benefits in the retail industry).

Source: 2005 Towers Perrin benchmarking data for 38 companies in the retail industry and Towers Perrin Employee Benefit Information Center 2005 data on 27 large U.S. retail companies (i.e., *Fortune* 1000 companies and equivalents); one-time costs based on Towers Perrin estimates and analysis of Saratoga Institute data on average costs by industry. ©2005 Towers Perrin.



At the end of the day, the cost differential for leveraging 50+ talent can be overcome by the advantages of added experience, knowledge, skills and engagement (which were discussed in the prior section). Workers 50+ may also contribute to higher productivity among other workers by transferring the knowledge gained over their careers and by mentoring new employees. The modest differences in annual compensation costs could easily be dwarfed by considerations such as these in many organizations.

To help inform their staffing and recruiting strategies, companies need to have a command of productivity, total labor costs and talent supply consistent with the foregoing

analysis. This information is critical in the design of strategies to retain and attract the talent required to execute business strategy. Although the cost aspect of the equation is complex, the ultimate conclusion often will be that investment in 50+ workers is an attractive opportunity.



Many of today's 50+ employees do, indeed, expect to work beyond traditional retirement age.



IV. The Employee Perspective: What 50+ Workers Are Looking For

If the analyses of productivity and costs demonstrate that workers 50+ offer solid value as part of an organization's workforce, the key questions for companies in the years ahead become:

- Will today's 50+ workers be interested in staying in the workforce longer than their predecessors?
- If so, in what roles and capacity—their current jobs, part-time employment or perhaps totally new careers?
- What will it take to attract or retain those interested in continuing employment?

Research by AARP, Towers Perrin and other organizations offers some preliminary answers to these important questions. Taken as a whole, the recent studies show that many of today's 50+ employees do, indeed, expect to work beyond traditional retirement age. How well-positioned companies are to effectively tap this pool of experienced talent remains to be seen, however.

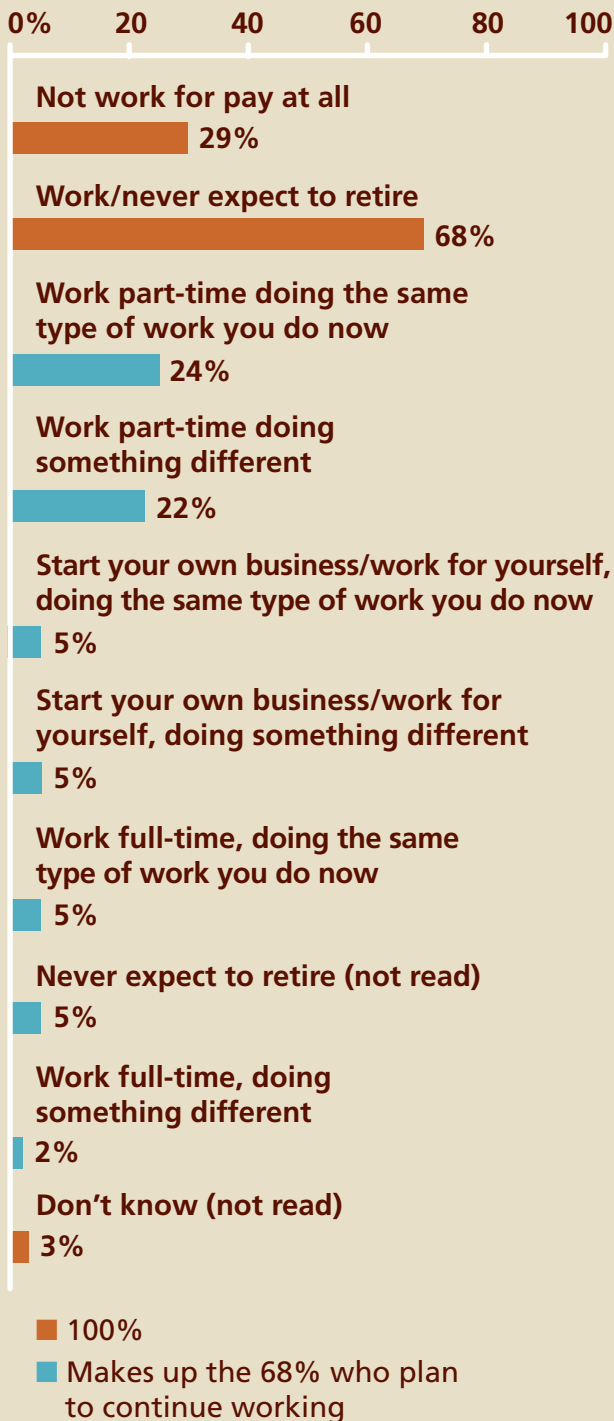
Changing Views of "Retirement"

It has been well documented that the average age of retirement has been gradually declining in the United States over the past 50 years. For example, research by Georgetown University professor Murray Gendell found that the median U.S. retirement age in the late-1990s had dropped by about five years since the 1950s, to age 62 for men and slightly younger (61.4 years) for women.³⁸

However, recent research suggests that the trend toward ever earlier retirement may be reversing itself, and that the average retirement age may actually rise as the baby boomers approach retirement. Among the factors contributing to this shift are longer life expectancies and Americans' desire to stay involved and active in their later years. Moreover, economic issues such as the declining prevalence of traditional pension plans and rising health care costs also contribute to the likely trend toward delayed retirements.

Working Americans' growing reliance on 401(k) plans and other savings to provide for

Exhibit IV-1

Plans for Retirement Among
Workers Ages 50 to 70

Source: *Staying Ahead of the Curve 2003: The AARP Working in Retirement Study*, a nationally representative telephone survey of 2,001 workers ages 50-70 (data shown here is based on how the 1,637 respondents who have never retired from a job responded to the question, "Which of the following, if any, best represents what you plan to do during your retirement?"; "not read" indicates that the response was volunteered by the respondent and was not part of the survey script), AARP, 2003.

retirement may increase the financial need to extend working life. The sharp stock market drop has fueled projections that many baby boomers will need to stay on the job longer than they had previously planned to make up their lost savings. In fact, in a December 2002 AARP survey of investors 50 to 70 years old, one in five investors (21%) who lost money in stocks between 2001 and 2002 and had not yet retired reported that they had already postponed their retirement as a result of their losses.³⁹

Working in "Retirement"

Other AARP research offers further insights into views of retirement among 50+ workers

Clearly, the "three-legged stool" (Social Security benefits, private pensions and personal savings) underlying common retirement planning notions in the late 20th century is rapidly giving way to a different model.

and baby boomers. In a 2003 survey of 2,001 U.S. workers between the ages of 50 and 70, more than two-thirds (68%) of the respondents said that they plan to work in retirement or never retire.⁴⁰ (See *Exhibit IV-1*.) In another 2003 AARP survey of 1,200 baby boomers (adults between the ages of 38 and 57 at the time of the survey), almost four out of five (79%) indicated that they expect to work in some capacity during their retirement years.⁴¹

When asked why they expect to work in retirement, workers ages 50 to 70 are initially more likely to identify nonfinancial reasons than financial considerations. (See *Exhibit IV-2*.)

For example, more than three in four identified nonfinancial reasons, such as the desire to stay mentally active (87%), the desire to stay physically active (85%) and the desire to be productive or useful (77%). Fewer—but still a majority—identified financial reasons for wanting to continue working, such as the need for health care benefits (66%) or money to live on (54%).

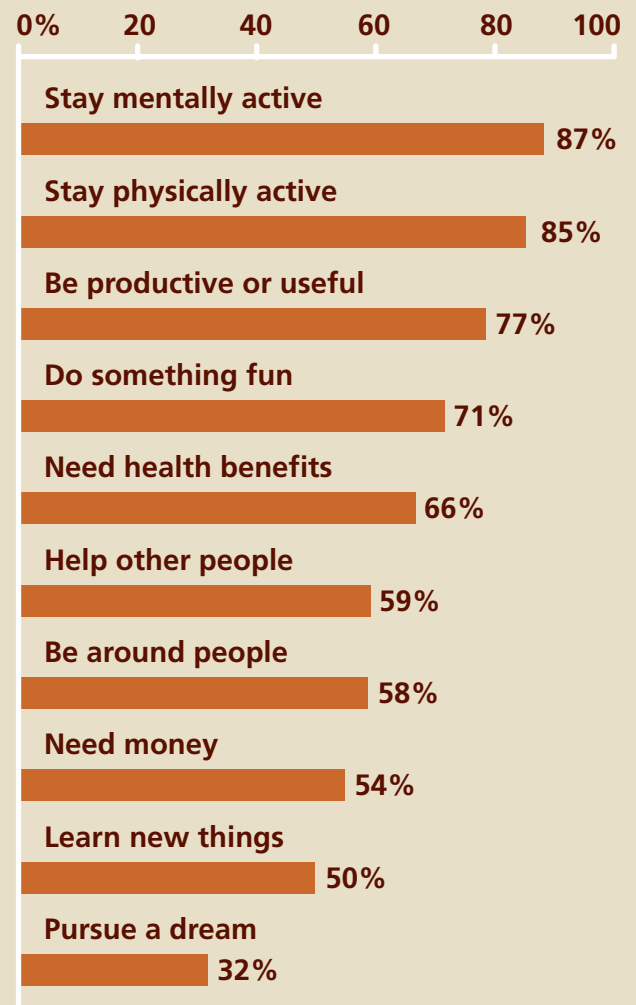
However, when workers between the ages of 50 and 70 are forced to select only one major reason for planning to work in retirement, it becomes clear that financial considerations are the primary motivators. (See Exhibit IV-3 on page 70.) Specifically, when asked to choose only one major influence in their decision to continue working in retirement, these workers are most likely to cite the need for money (22%). Second in importance to the need for money is the need for health benefits (17%), followed closely by nonfinancial considerations such as the desire to stay mentally active (15%) and the desire to be productive and useful (14%).

These findings confirm that a dramatic shift is taking place in worker attitudes about retirement today. Clearly, the “three-legged stool” (Social Security benefits, private

pensions and personal savings) underlying common retirement planning notions in the late 20th century is rapidly giving way to a different model. It may be more accurate to think of retirement security today as a structure

Exhibit IV-2

Major Factors in the Decision to Work in Retirement



Source: *Staying Ahead of the Curve 2003: The AARP Working in Retirement Study*, a nationally representative telephone survey of 2,001 workers ages 50 to 70; chart is based on how 1,020 workers ages 50 to 70 who reported that they planned to work in retirement but had not yet retired responded to the following question: “Now, I’m going to read you several reasons why some people continue to work in retirement. For each one, I’d like you to tell me whether it is a major factor, a minor factor, or no factor at all in your decision to work in retirement.” For each item, chart shows % of respondents who identified the item as a “major factor.”



supported by four pillars, encompassing Social Security, pensions and savings, health insurance and, for many, continuing earnings from employment.

While the median age at which workers in the U.S. stopped working in the 1990s was

approximately 62, three in four (75%) of the workers ages 50 to 70 that AARP surveyed expect to continue working until the age of 65 or older, with many expecting to work into their 70s, 80s, or as long as they are able. (See *Exhibit IV-4*.)

Offering Attractive Employment Opportunities

While financial rewards will play an important role in 50+ workers' decisions about where they work in coming years, intangibles like work experience and organizational culture will also loom large for many people. To compete successfully for talent as the coming demographic

Exhibit IV-3

One Major Factor in the Decision to Work in Retirement



Source: *Staying Ahead of the Curve 2003: The AARP Working in Retirement Study*, a nationally representative telephone survey of 2,001 workers ages 50 to 70; chart is based on how 1,020 workers ages 50 to 70 who reported that they planned to work in retirement but had not yet retired responded to the following question: "Which of the things we just talked about is the ONE major factor in your decision to work in retirement?"

Exhibit IV-4

When Today's Workers Ages 50 to 70 Will Stop Working Completely

Between the ages of...	Percentage
50-54	*
55-59	5%
60-64	18%
50-64	23%
65-69	30%
70-74	19%
75-79	8%
80 or older	11%
Never expect to stop working/ retire (not read)	4%
As long as I am able to (not read)	3%
65+/never/as long as able	75%
Don't know (not read)	2%
Total	100%

Source: AARP, *Staying Ahead of the Curve 2003: The AARP Working in Retirement Study*, a nationwide survey of 2,001 workers between the ages of 50 and 70; table is based on 1,954 respondents and excludes workers who did not know whether they would work in retirement.

Views of 50+ Workers at Large Companies

Fully half of the 50+ workers at large companies (Fortune 1000 companies and equivalents) that Towers Perrin surveyed in 2005 expect to continue some level of employment after leaving their primary careers. On average, these 50+ workers at large companies do not expect to stop working altogether until age 67½.

Almost one in five (18%) expects to work at least part-time after age 75. (See *Exhibit IV-5*).

Moreover, consistent with other research, Towers Perrin's surveys show that many of today's 50+ workers at large companies will be seeking a change of pace or new challenges in their work after reaching retirement age. Many who say they plan to keep working also say they want to work less than a conventional schedule or move to a different occupation. Only 17% of today's 50+ workers at large companies want to work full-time in retirement, and less than a third (31%) want to remain in their current occupations. (See *Exhibit IV-6 on page 72*.) The obvious implication is that employers who seek to attract or retain these employees will need to rethink their working arrangements and career structures if they hope to tap into this pool of talent.

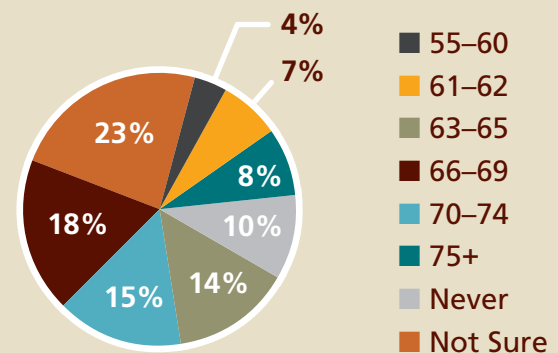


shift unfolds, employers will need to create a work environment that is both welcoming and stimulating for employees of all ages. And they will need to offer the kinds of flexible job opportunities that respond to a broad range of employee preferences and needs.

AARP's 2003 survey of more than 2,000 workers age 50 to 70 sheds light on some of the specific attributes workers 50+ are looking for in the workplace.⁴² (See *Exhibit IV-9 on page 74*.) Among those interested in working in retirement, the most important aspects include:

Exhibit IV-5

When Today's 50+ Employees in Large Companies Expect to Stop Working Completely



Source: 2005 Towers Perrin online survey of approximately 1,500 randomly selected employees age 50+ working for large U.S. companies (i.e., *Fortune* 1000 companies and equivalents). ©2005 Towers Perrin.

Competing for 50+ Talent: Defining the Right Mix of Rewards

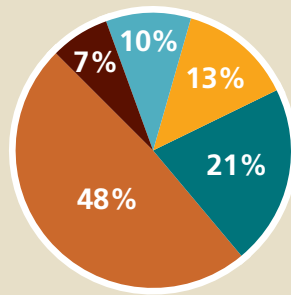
Given the prospect of intensifying competition for talent in coming years as the baby boomers begin to retire, employers will need a thorough understanding of the rewards most important to workers 50+ if they hope to develop effective recruiting and retention strategies. Exhibit IV-7 examines the rewards most important to workers ages 50+ at large companies (*Fortune* 1000 and equivalents).

As Exhibit IV-7 shows, employees ages 50+ at large companies indicate that competitive health care benefits are the most important factor in their decision to join a company. Competitive retirement benefits, however, are a close second in importance. Work/life balance is also important—and likely to take on added importance for the 50+ population as those workers reach the end of their primary careers and look for continuing work opportunities that allow them to scale back their hours, work more flexible schedules and tackle new challenges.

Health care and retirement benefits also top the list of what 50+ workers at large companies look for in deciding whether to stay with an organization, although intangibles like work/life balance, the opportunity to work with high-caliber colleagues and on-the-job recognition also play significant roles. (See *Exhibit IV-8*).

Exhibit IV-6

Expectations About Working in Retirement Among 50+ Employees in Large Companies



- Work full-time in my current occupation
- Work full-time, but not in my current occupation
- Work part-time in my current occupation
- Work part-time, but not in my current occupation
- Not work after reaching retirement age

- An environment in which their opinions are valued and in which they can gain new skills and experiences;
- The ability to choose their own hours, take time off to care for relatives and work from home;
- An organization that allows people 50+ to remain employed for as long as they want to continue working;
- The opportunity to have new experiences and learn new skills;
- Access to good health benefits;
- The opportunity to work a reduced schedule prior to full retirement.

Source: 2005 Towers Perrin online survey of approximately 1,500 randomly selected employees ages 50+ working for large U.S. companies (i.e., *Fortune* 1000 companies and equivalents). Data shown is based on how the respondents answered the question, "If you expect to work after reaching retirement age, which of the following situations is most likely?"
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The 2003 AARP survey also underscores that the need for personal fulfillment and the desire to stay mentally and physically active are key motivators for many workers 50+. More than 70% of both the pre-retirees and working retirees surveyed cited keeping mentally active as very important to them. And more than half said it is very important for their work to make them feel useful, keep them physically active and provide opportunities to help and interact with other people. Also important, the survey found, workers 50+ are looking for work that they view as fun and enjoyable.

Organizations that offer the right mix of rewards and can structure or redesign jobs to closely match what 50+ workers are looking for will likely have a large—and growing—pool of talent available to them for the foreseeable future.

Exhibit IV-7

Top Five Factors Employees 50+ in Large Companies Consider in Deciding to Join a Company

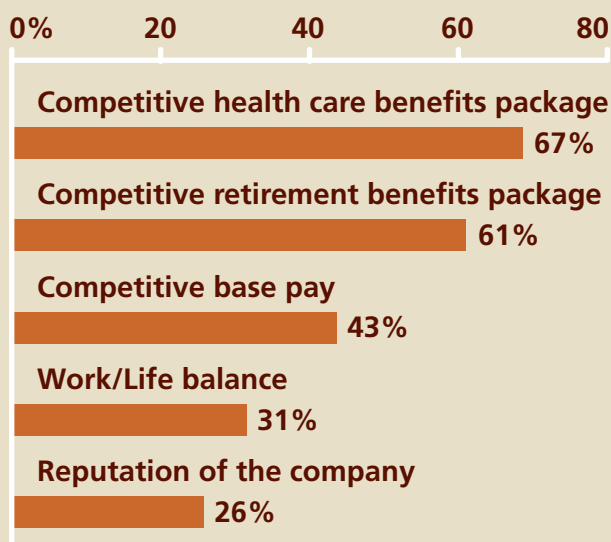
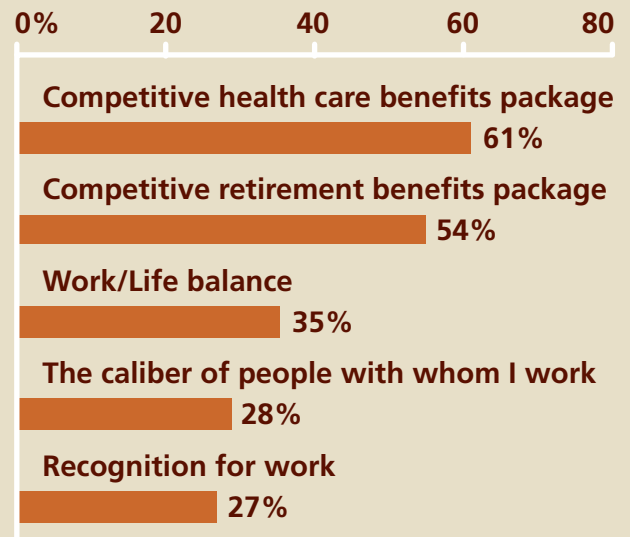


Exhibit IV-8

Top Five Factors Employees 50+ in Large Companies Consider in Deciding to Stay With a Company

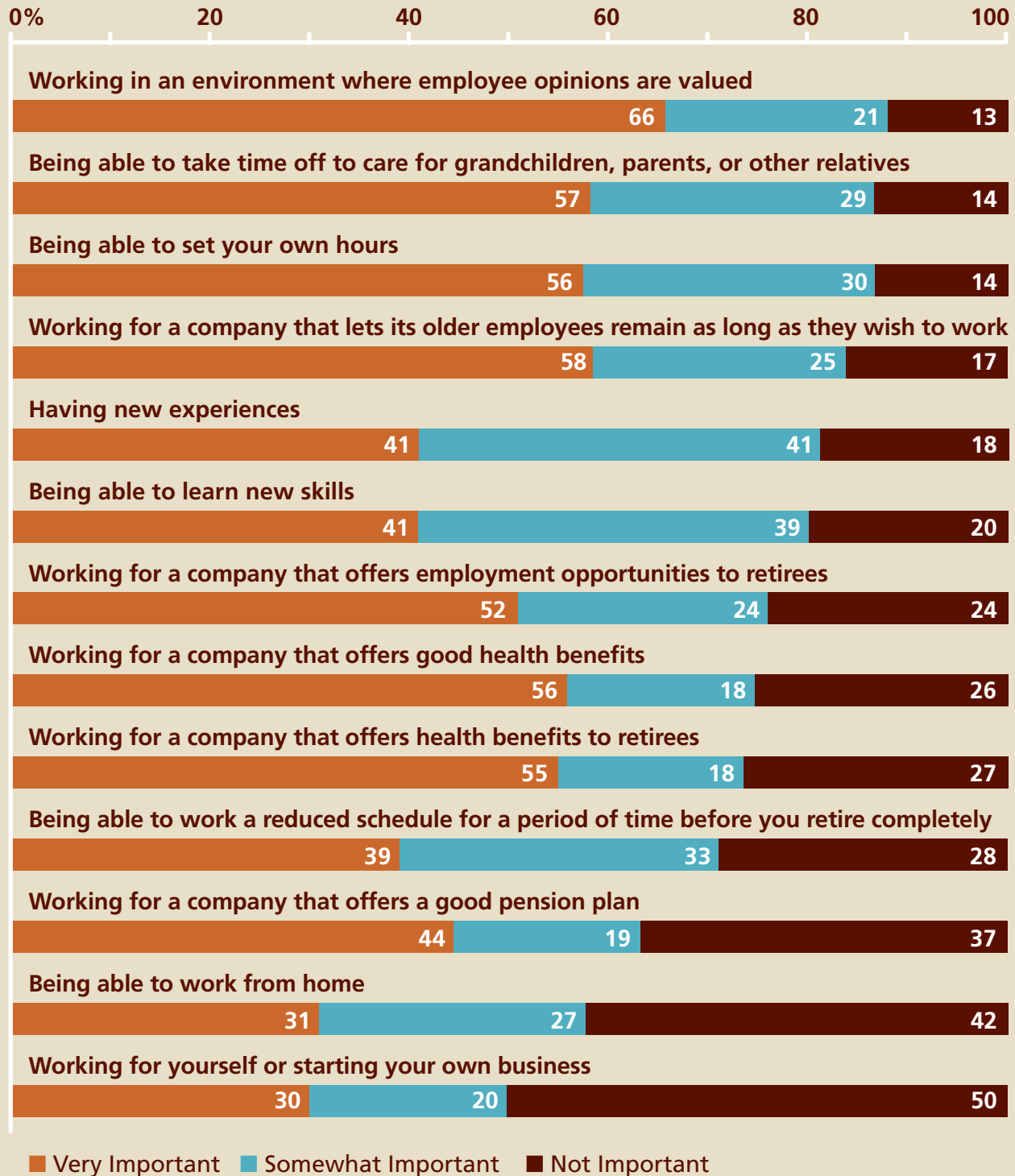


Source: 2005 Towers Perrin online survey of approximately 1,500 randomly selected employees age 50+ working for large U.S. companies (i.e., *Fortune* 1000 companies and equivalents). ©2005 Towers Perrin.

Source: 2005 Towers Perrin online survey of approximately 1,500 randomly selected employees age 50+ working for large U.S. companies (i.e., *Fortune* 1000 companies and equivalents). ©2005 Towers Perrin.

Exhibit IV-9

Importance of Selected Benefits and Employer Characteristics in Retirement Work



Source: *Staying Ahead of the Curve 2003: The AARP Working in Retirement Study*, an AARP telephone survey of 2,001 workers ages 50 to 70; table is based on the 1,020 workers who expected to work in retirement and had not yet retired.



V. Managing Opportunities and Challenges: Strategies for the 50+ Workforce

"Policies promoting longer working life could ameliorate some of the potential demographic stresses." –Alan Greenspan, Federal Reserve Chairman, speaking at a 2004 economics conference in Jackson Hole, Wyoming

"Education, innovation and flexibility are the keys to increasing the labor market participation of older workers." –Elaine L. Chao, Secretary of Labor, addressing the 2005 G8 Conference in London

So, how are major employers responding to the emerging talent challenges and opportunities posed by shifting demographics? Exhibit V-1 shows the most common approaches in use among U.S. employers, based on a 2003 survey of more than 400 human resource executives conducted by the Society for Human Resource Management. Although the majority are taking some action, almost a third of these employers are not yet addressing the issue.

Exhibit V-1

How Organizations Are Preparing for the Possibility of a Shortage of Workers Due to the Retiring Baby Boom Generation



Source: *Olders Workers Survey* of more than 400 human resource executives in U.S. companies, Society for Human Resource Management, 2003.

Everything we've considered so far in this report suggests that these firms are in for surprises—and a potentially serious loss of key talent and knowledge—if they continue to do nothing. Among the organizations that are taking action, the response has focused largely on one or both of two key fronts:

Everything we've considered so far in this report suggests that these firms are in for surprises—and a potentially serious loss of key talent and knowledge—if they continue to do nothing.

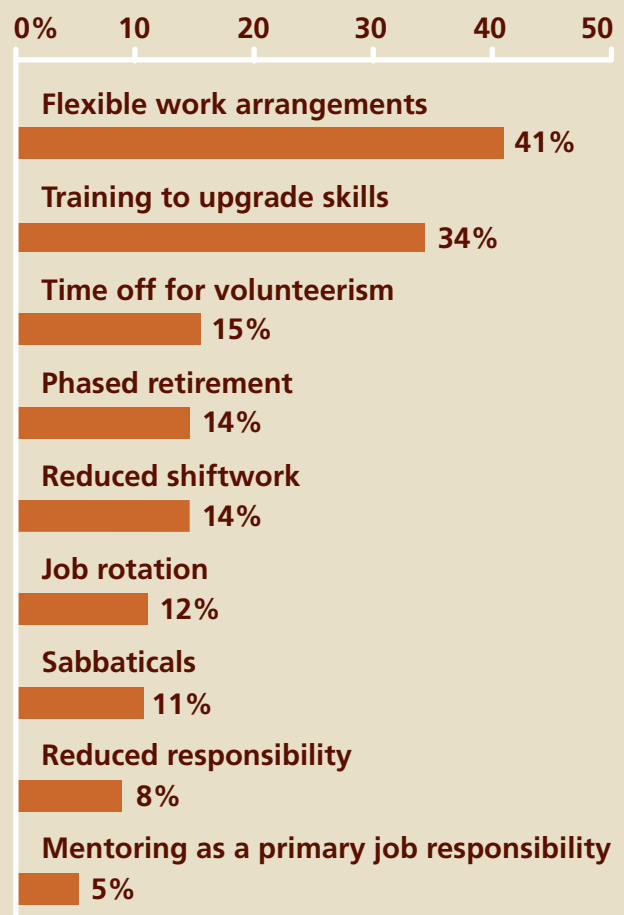
- 1 **Expanding the 50+ workforce.** Smart organizations are making a concerted effort to recruit and retain 50+ workers. Exhibit V-2 shows the prevalence of programs or incentives commonly offered to retain workers 50+, according to a 2002 Conference Board survey of human resource executives in the United States and abroad. From these data, it appears that many employers are moving in the direction suggested by Labor Secretary Chao's comment at the beginning of this section—emphasizing flexible work arrangements, training and creative HR programs as primary components of their efforts.
- 2 **Rebuilding the talent pool and capturing key knowledge.** For job categories that seem likely to lose significant numbers of incumbents to retirement in the relatively near term, companies are focusing on rebuilding the talent pipeline by aggressively recruiting new employees and investing in succession planning,

leadership development and initiatives designed to capture departing workers' knowledge. Based on the interviews with 10 major employers that were conducted for this study, these approaches are especially common in cases where the organization has difficulty convincing today's 50+ workers to extend their careers. The rebuilding strategy seems most appropriate for positions where the nature of the work (e.g., highly stressful or

Exhibit V-2

Incentives Offered by Employers to Help Retain Workers 50+

% of respondents



Source: *Valuing Experience: How to Motivate and Retain Mature Workers*, based on a 2002 survey of 150 senior human resource executives, The Conference Board, 2003.

physically demanding) and the incumbent employees' access to pension benefits and/or subsidized retiree medical coverage tend to encourage early retirement.

Following is a closer look at some programs and innovative approaches employers may be considering to help them make the most of the 50+ workforce, along with an overview of emerging best practices in this area and selected case studies profiling the efforts of specific companies in a range of industries.



Phased Retirement Arrangements

Phased retirement programs have been mentioned often as a possible approach for companies seeking to retain retirement-eligible employees who might otherwise leave the organization. Conceptually, these arrangements are designed to allow employees to move into retirement gradually by reducing their work schedules while continuing to receive a portion of their salaries as well as employer-provided benefits, typically including health care and retirement benefits.

Although a few companies have already implemented such programs on a formal basis, their prevalence remains relatively low today among large U.S. corporations—in part because of impediments posed by federal pension rules. In effect, those rules require employees to separate from service before they can begin receiving benefits

Only about one in 10 employers surveyed by the Society for Human Resource Management in 2003 reported offering formal phased retirement programs.

from qualified employer pension plans (defined benefit and money purchase plans). In late 2004, the Treasury Department proposed regulations designed to facilitate the use of phased retirement programs by permitting qualified pension plans to begin paying benefits to plan participants who continue to be employed part time by the sponsoring company. (See “Making Phased Retirement Workable” on page 78.)

Employer interest in these programs has remained relatively modest until recently.

For example, only about one in ten employers surveyed by the Society for Human Resource Management in 2003 reported offering formal phased retirement programs.⁴³ And less than one in five (16%) of the more than 340 major U.S. companies surveyed for Towers Perrin's 2003 Retirement Study identified supporting phased retirement as a priority for their organizations at that time. However, another 40% recognized the issue as a future concern, which suggests that the

coming demographic shifts and potential boomer retirements may increase employer interest in phased retirement programs.

Far more common are informal phased retirement arrangements, especially among smaller organizations (probably because many do not offer qualified pension plans). In 2003, Cornell University professor Robert Hutchens conducted a survey of almost 1,000 workplaces and found that almost three-quarters (73%) permit at least some older employees to cut



Making Phased Retirement Workable

Private pension policy was originally designed to provide income once a worker has left the labor force. For this reason, employees had to either retire from a company or reach the plan's normal retirement age to receive benefits from a traditional defined benefit pension plan. The proposed Treasury Department regulations issued late in 2004 mark a welcome first step in the government's effort to remove a significant regulatory barrier to formal phased retirement programs for companies offering defined benefit and money purchase pension plans.

Under the proposed regulations:

- Employees would be eligible for phased retirement beginning at age 59½, the same age at which penalty-free withdrawals generally may be taken from 401(k) plans;
- Employees would need to reduce their working hours by at least 20% to be eligible for phased retirement benefits;
- Phased retirement benefits would be payable in the optional benefit forms available at full retirement, except for lump sums;
- Employers would be required to monitor the hours worked by "phased retirees" and make adjustments in benefits, if necessary.

back their hours of work prior to retirement.⁴⁴ Such arrangements are more common in smaller companies and in service industries, the study found.

Clearly, there's considerable interest in phased retirement in today's 50+ workforce. In a recent AARP survey of more than 2,100 Americans age 50 and older, nearly two in five 50+ workers (38%) expressed interest in the concept.⁴⁵ Furthermore, the vast majority (78%) of those workers interested in phased retirement said that the availability of such programs would encourage them to continue working beyond their anticipated retirement age.

Not surprisingly, how pension benefits are handled plays a large role in terms of the attractiveness of phased retirement programs to workers 50+. Fully 87% of the AARP survey respondents view continuing pension benefit accruals as an important ingredient in any phased retirement arrangement. Additionally, almost two-thirds (63%) said that phased retirement would be less attractive if it meant their final pension benefits would be reduced, although the proposed Treasury regulations may help address these concerns.

Reemploying Retirees

Because of the current regulatory impediments to formal phased retirement programs, a growing number of companies are implementing innovative strategies for bringing recent retirees with needed skills back into the workplace. Examples that have been profiled recently in various news reports include:

- Monsanto offers part-time reemployment opportunities—with no loss of retiree benefits—to workers who have been retired from the company at least six months;

- SSM Health Care, a large Catholic hospital system, is addressing its nursing shortage by offering retired workers the opportunity to return to work with full pension benefits as soon as one day after retirement. The program, permitted under an exemption from the IRS, allows workers to retire as early as age 60 while continuing to work in the system.

In a recent AARP survey of more than 2,100 Americans age 50 and older, nearly two in five 50+ workers (38%) expressed interest in phased retirement.

- A program called YourEncore is helping companies hire highly skilled retirees—including scientists, engineers, product developers and others—on a contract basis. Founded by Proctor & Gamble and Eli Lilly in 2003, YourEncore serves much like an employment agency for retirees with specialized skills. An independent business, YourEncore recruits retirees, contracts with employers and sends the retirees out on short-term assignments with the participating companies. Retirees are paid based on their salaries at the time of retirement.
- Charles Stark Draper Laboratories, a research organization based in Cambridge, Massachusetts, offers recent retirees highly flexible reemployment opportunities, including extended leaves (e.g., six months per year) and fully customized work schedules for employees with critical knowledge and specialties.

Enhanced Knowledge Management Efforts

In addition to focused recruiting and retention initiatives aimed at 50+ workers, more and more companies today are pursuing expanded knowledge management efforts to help capture and leverage the business acumen poised to walk out the door as the baby boomers retire. Such efforts typically focus on two types of knowledge:

- 1 **Explicit.** Technical and process information (e.g., rule-based knowledge), which can be gathered, stored and disseminated relatively easily;
- 2 **Tacit.** The knowledge gleaned from a lifetime of experience, including facts, perceptions, insights, instinct, personal relationships and the ability to devise creative solutions (which, compared with explicit knowledge, is less easily captured and communicated).



More and more companies today are pursuing expanded knowledge management efforts to help capture and leverage the business acumen poised to walk out the door as the baby boomers retire.

Some companies are using increasingly innovative mentoring and related programs to help retain a portion of this tacit knowledge. Reported examples include:

- Dow Chemical uses a formal mentoring program that's been in place for a decade. Mentors in the program are assigned a small group of protégés with whom they meet regularly to share insights and experiences and check progress. Mentors also serve as a sounding board for the younger employees;
- Northrop Grumman has established a number of “communities of practice” to facilitate knowledge sharing, both via regular in-person meetings and online. The communities often cut across disciplines and divisions to encourage breakthrough thinking.

Putting It All Together: Emerging Successful Practices

Phased retirement, retiree reemployment and other programs to support attraction and retention can make a big difference in



helping companies make the most of 50+ talent. It is worth noting, however, that none of these programs in isolation will deliver the desired results for every company. Far more effective are holistic, systemic approaches to talent management that begin with a thorough understanding of each organization's specific needs and combine an array of targeted recruitment, retention and reward programs to keep the talent pipeline full. Such programs focus broadly on optimizing the abilities, knowledge, skills and experience of all workers, regardless of age.

Although successful approaches are as varied as the organizations that use them, the following are some of the key ingredients that are critical to any company's efforts:

- 1 Define your needs and inventory your talent.** The first step is to analyze your organization's near- and longer-term business plans to gain an understanding of your critical talent needs over the next 5 to 10 years. Be as specific as possible about the kinds of skills and number of people that will be needed to execute your business plans. As part of this analysis, examine your workforce data to understand the current state of your talent pipeline and identify possible future gaps. Analyze your current population by length of service, retirement opportunities and work location for each key job category identified in your needs analysis.



2 Pay attention to revenue and performance. Remember the value side of the equation. Determine how investments needed to attract or retain 50+ workers could pay added dividends in terms of lower turnover, enhanced customer service, stronger customer loyalty and, ultimately, increased revenue and efficiency. These elements may be more difficult to quantify than the cost side of the equation, but they can outweigh the marginally higher dollar costs associated with hiring and retaining 50+ workers.

3 Model cost trends to understand the business case for investments. Since cost management plays such an important role in almost every organization's talent strategy, it is critical to understand the key cost differences—and drivers—for the

various segments of your workforce. This is especially true for support functions (e.g., call centers, back office functions) that can be located almost anywhere. Most large organizations maintain the data needed to perform the kind of cost analysis outlined in this report. This information will help you decide how strong a business case can be made for investments needed to attract/retain workers 50+.

4 Study the labor pool and define your talent strategies. Once you have a sense of your talent needs, consider where tomorrow's employees will come from. Look first at your internal talent pool, taking into account expected turnover from retirement and other causes. Then do some research on the external labor

Building a Culture of Inclusion: Some Thoughts to Consider

- **Start off right.** Make sure that the process for orienting new employees and bringing them into the organization emphasizes organizational connection, creates sustainable links among employees and provides momentum for all types of hires—entry-level, mid-career, late-career.
- **Build supporting systems.** Ensure that ongoing processes for job rotation, skills acquisition, organizational mobility and cross-functional team-building are in place.
- **Put managers at the center.** Hold leaders at all levels accountable for helping people foster organizational connections and span boundaries. Make sure your managers and supervisors have the right competencies for this role.
- **Measure and monitor.** Assess changes in your culture at both the enterprise and business unit levels. Most important, evaluate individual managers on how well they retain key players and foster employee engagement, growth and development.

markets in the areas where you operate by gathering data from government agencies, local economic development groups, relevant industry and labor organizations, and other sources. Identifying the gaps between your projected talent needs and the available supply of people with the requisite skills and experience enables you to develop targeted talent strategies—possibly including new recruiting initiatives, creative retention programs, enhanced training/knowledge management processes and reward programs—to help ensure that your organization can attract and retain the right people, in the right locations, at the right cost, to support your business goals.

- 5 **Align reward programs to support your objectives.** If workers 50+ will be an important element of your talent strategy, it is critical to review your reward strategy and underlying pay, benefits and other programs to ensure that all programs are closely aligned with company and employee needs. Remember that health care and retirement benefits rank one and two as drivers of both attraction and retention for workers 50+. And, if you do not already offer them, you may want to consider a range of programs that tend to be highly valued by this segment of the workforce. Examples include access to medical coverage for part-time workers, the option to buy long-term care coverage, elder care referral and related programs, phased retirement

opportunities, vacation buy/sell, paid time-off banks, product discounts and others. In some cases, it may be helpful to conduct research among your employees (e.g., surveys, focus groups) to gain a clearer picture of the specific programs and reward elements that would make them want to continue working for your organization. Such research also can give you insights into whether your 50+ workforce is interested in staying on in your organization, either full- or part-time, past normal retirement age.

6 **Align workplace policies and culture.**

Also keep in mind that all of the available research points to the work experience as a key consideration for 50+ workers as they decide whether to join or stay with an organization. Beginning with how you recruit and orient new employees, your organization sends a host of messages about what you value and how things are done day to day. Is yours an inclusive organization that values differences, respects individual ideas and recognizes individual contributions? Do leaders and supervisors send implicit or explicit signals about how 50+ workers are regarded? Do you offer ongoing training and development opportunities that encourage employees to grow, tackle new challenges and explore new directions, regardless of their age and tenure? Do you offer the flexible work schedules that appeal to many 50+ workers? Is the culture collegial? (See “Building a Culture of Inclusion” on page 83 for ideas on building a more inclusive culture to better support the 50+ workforce.)



Case Studies: How Some Large Employers are Maximizing the 50+ Workforce

The following case studies highlight how some large U.S. companies are using 50+ talent to enhance their business performance. Except where otherwise noted, these examples come from interviews the Towers Perrin research team conducted with senior human resource professionals in the companies profiled. (For additional examples of innovative approaches that employers are using to attract and retain 50+ talent, see *Staying Ahead of the Curve 2004: Employer Best Practices for Mature Workers*, published by AARP.)

Borders Group Aims to Mirror the Marketplace

The Borders Group, the parent company of Borders Books and Music and Waldenbooks, embarked on a strategy to optimize the mature workforce in many of its stores as part of a broader diversity effort launched in the late 1990s. Following the release of 2000 U.S. Census data, “we made a strong business case for this effort because we took a hard look at the shifting demographics and concluded that we needed to get out in front of this curve,” Suzann Trevisan, the company’s manager of specialty recruiting and retention, said in an interview.



The effort took on added importance when a market analysis found a strong correlation between workforce demographics and the financial performance of the company’s stores. Stores at which the workforce most closely mirrors the customer base are the most successful, Borders found. Although the company’s local markets vary widely, customers age 45 and older make up an important segment of its target market nationwide, generating half of all book purchases made in the United States.

“The older workforce tends to be stable, knowledgeable and knows our business,” Trevisan said, adding that “the longer you work for a company, the better educated you are about what the company offers and how you can provide the best service to customers.”

Market demographics play a large role in the company’s decisions about store location, and local store managers are provided with extensive demographic data to help inform their staffing decisions. As a result of this emphasis, the 50+ workforce now represents 16% of the company’s 34,000 employees, up from just 6% a few years ago.

Optimizing the 50+ workforce also supports the company’s market strategy of differentiating its stores by offering a broad selection of merchandise and an outstanding customer experience. “The older workforce tends to be stable, knowledgeable and knows our business,” Trevisan said, adding that “the longer you work for a company, the better educated you

are about what the company offers and how you can provide the best service to customers. All of these things add up to more sales, and if we can hold onto an experienced employee for a couple of extra years, even on a part-time basis, that's a plus."

Another benefit Borders has realized from targeting the 50+ workforce is lower turnover costs. "It's really hard to come up with an accurate measure of the total cost of turnover, but we know it's significant," Trevisan said. Borders tracks turnover at the store level on a monthly basis, and the turnover rate among 50+ workers is less than half of that for younger groups, she added.

Also notable is that the company has seen no significant increase in health care costs from the growth of its 50+ workforce, despite its decision several years ago to restore health care benefits for part-time workers after previously phasing out this coverage. "The things that really drive up health care costs are catastrophic illnesses that can happen at any age," Trevisan said.

The decision to offer health benefits to part-time employees grew out of the company's broader HR philosophy, which Borders calls Value of Employment. The company surveys employees every other year to find out what's important to them and gauge how well Borders is meeting employee needs. These surveys suggested that 50+ workers are drawn by flexible work schedules, medical coverage and the opportunity Borders offers to stay connected with the community.

To help attract and retain experienced workers, Borders offers scheduling flexibility and medical coverage at group rates without regard to the number of hours worked. Merchandise discounts are also popular with 50+ workers, as is the intellectual stimulation

that comes from staying current on the latest books, music and video releases.

Despite the physical requirements of positions that involve moving heavy cartons of merchandise and stocking shelves, Borders has seen no measurable differences in productivity or injury rates between older and younger workers. Nor has the company found 50+ workers to be less technology-savvy than younger workers. The company's applicant screening and selection processes are designed to ensure that the people Borders hires can succeed in the jobs they're expected to perform.

"What it comes down to is that you try to hire the best qualified people, regardless of age," Trevisan said. "Both older and younger employees need to come prepared for the job."



Home Depot Puts out the Welcome Mat for Snowbirds

Workers 50+ are only one talent pool in The Home Depot's sights—but they are an important one for the fast-growing home improvement retailer that has ballooned from 200,000 to 325,000 employees over the last five years. This year alone, the organization will process more than 17 million employment applications.

"In 2005, we will hire 20,000 net new associates to fill a variety of positions as we continue to grow," said Gretchen Lumsden,

workers 50+ suggests a higher level of engagement in this segment of the workforce.

The Home Depot has launched a number of initiatives to help attract and retain its growing 50+ workforce, including its much-publicized collaboration with AARP. Also receiving widespread attention is The Home Depot's so-called "snowbird special." Depending on business needs, high-performing associates who reside in different parts of the country at different times of the year may be able to transfer between different Home Depot locations near their homes. Although this

Workers 50+ are attractive to the retailer because The Home Depot's experience suggests that "mature workers often come with a great deal of past work experience and a strong sense of leadership, which are tremendous benefits for the company."

The Home Depot's staffing manager for national hiring partnerships. "We're strategically looking at innovative ways to meet our immense needs for skilled, knowledgeable, and passionate employees."

Workers 50+ are attractive to the retailer because The Home Depot's experience suggests that "mature workers often come with a great deal of past work experience and a strong sense of leadership, which are tremendous benefits for the company." In addition, they tend to have lower attrition and better attendance, according to Lumsden.

The Home Depot involves all of its associates in an annual Employer of Choice survey to measure employee perceptions of the company and monitor trends in employee engagement. Results of the survey are not broken down by age, although the lower turnover among

option is made available to employees of all ages, it tends to be most popular among retirees who divide their time between homes in northern and sunbelt states.

The ability to transfer within the company "is a win/win for The Home Depot and for our associates," Lumsden said, because it offers snowbirds continuing employment in their winter and summer homes while helping the company meet peak staffing demands. "Spring is the busiest time of year in our stores, and spring comes later in the north. Therefore, we typically will have job openings in northern markets when snowbirds are ready to return to their summer homes."

Other ways in which The Home Depot competes for 50+ workers include offering flexible part-time schedules and health care

benefits for part-time workers. “The fact that we offer medical benefits to part-time associates gives us a competitive advantage versus some other retailers,” Lumsden said. “Our older associates tell us that health care coverage, flexible scheduling and a dynamic work environment are major draws for them. Plus, we work hard to let them know we really value their experience and want them to consider employment opportunities at The Home Depot.”

A catchy recruiting campaign targeted to the 50+ population also helps. The tagline: Passion never retires.



Bon Secours Health System Sees Experienced Talent as Key Part of Its Effort to Address the Nursing Shortage

With more than 10,000 nursing staff among its 25,000 employees, Bon Secours Health System knows well the challenges caused by the nationwide nursing shortage.

“The graying of the workforce is clearly affecting us,” said David D. Jones, senior vice president of human resources for the 24-hospital health system spanning nine eastern states. “The average age of our nurses is beyond 45 and we are well aware that retirements will be affecting our staffing needs over the next five to 15 years. And, looking at the relatively low numbers of new workforce entrants in the nursing field, we see a significant gap ahead.”

In response, Bon Secours is pursuing a range of strategies to help attract more people to nursing, including targeted recruiting efforts as well as partnerships with nursing and educational organizations. “But the number one thing we want to do is keep the people we have now,” Jones said. “We’re trying to find new ways to appeal to people as they move along in their careers. Retention of our current workforce is the biggest priority.”

Reason: “There’s a huge financial, productivity and patient safety advantage to retaining our more experienced nurses,” according to Jones. “When we look at the cost of turnover, the differential in salary and benefit costs for older, long-service workers is inconsequential. The direct cost of replacing a nurse is 20% to 30% of salary and the indirect cost of lost productivity and patient revenue can be well over 150% of salary.”



Offering experienced nurses extensive scheduling flexibility is an important part of Bon Secours' retention effort. "We offer unbelievable flexibility," said Jones, "Any schedule people come up with, we'll accommodate." That includes allowing employees to take weeks or months off as well as more traditional part-time schedules. "If we can only get a person to work half time, half a nurse is better than no nurse," Jones said.

Among the biggest barriers to the organization's efforts to retain older nurses are the daunting physical demands of the work. To help nurses lift heavy patients, Bon Secours has been introducing new lifting devices and technology. The organization has also taken a close look at how other staff are deployed, with the goal of having other

personnel take on some of the more physically demanding tasks traditionally performed by nurses. "We're also doing a lot to teach lifting techniques and safety processes," Jones added.

"Part of being a 24/7 operation is you have to be creative to stay staffed," he noted. "Necessity is the mother of invention."

MITRE's Full-Court Press

A 50-year-old nonprofit that manages federally funded R&D centers for a trio of government agencies, the MITRE Corporation recognizes that its workforce of experienced systems engineers and other technical experts is the key to its success as a business. As a result, MITRE recruits seasoned talent aggressively using a wide range of initiatives. One of the most effective, according to company HR

professionals, was MITRE's decision to emphasize employee referrals—instead of traditional approaches, such as advertising and employment agencies—as a primary recruiting tool.

The company offers employees referral bonuses ranging from \$500 to \$2,000, depending on the job level. MITRE reports that referrals now make up more than half of all new hires, while also helping to streamline the selection process and reduce its recruiting costs (from an average of more than \$14,000 per hire in 2001 to \$8,700 in 2004). Rehires make up almost 10% of the company's total annual hiring—and reflect MITRE's success in creating an attractive work environment for seasoned professionals. Company recruiters are sensitive to older worker issues and look for candidates who have established strong track records over their careers.

MITRE's success appears to lie in offering a combination of programs that are closely aligned to the needs of a mature workforce, including:

- A highly attractive retirement savings program, with generous company match;
- A formal phased retirement program providing ongoing health coverage, retirement contributions and other benefits to employees who want to scale back to part time;
- A formal reemployment program (“Reserves at the Ready”) that allows retirees to work for the company as part-time experts on call—at their former pay rates;
- Company-supported retiree associations that help MITRE stay connected with former employees;
- A broad range of continuing education opportunities;
- Highly flexible work schedules, including flextime, compressed work weeks, part-time schedules, telecommuting, job sharing and more;
- Extensive wellness programs, which help MITRE keep its medical costs close to average levels—despite its high percentage of 50+ workers;
- A range of formal and informal mentoring opportunities and structures

Ultimately, company officials believe that “the ability to both retain and recruit older workers with valuable experience and critical skills that are in short supply could become a source of competitive advantage in the near future.”⁴⁶

Preparing for the Changes Ahead

Many employers have their work cut out for them over the coming years with today's changing demographics. Despite the initial success some companies have had in attracting and leveraging 50+ talent, the challenge of effectively realigning rewards, recruiting strategies, knowledge management programs and organizational cultures to support an increasingly cross-generational workforce in what is sure to be a more competitive market for talent will be an ongoing challenge.

For many companies thinking about how to keep the talent pipeline full for key positions—especially those requiring significant experience, a wealth of tacit knowledge and personal contact with customers—the business case for investing in workers 50+ will be clear and compelling. To support companies' decision-



making processes, we believe the kind of cost analysis and workforce planning approaches outlined in this report can add significant value.

Unfortunately, research suggests that many companies currently do not track some of the key information necessary to perform a sound business case analysis. There is a clear need for more analysis and employer attention to such areas as:

- Measuring productivity and performance;
- Quantifying training costs and the financial return on investments in training;
- Determining the costs and drivers of turnover;

- Measuring labor costs generally;
- Challenging unfounded assumptions about 50+ workers.

What is also clear is that some employers are already beginning to experiment with new approaches to managing today's demographic shifts and changing workplace dynamics. As the 50+ workforce grows and takes on added importance in the labor force and national economy over the next few decades, we expect to see the evolution of more well-defined best practices across a broad spectrum of human resource management issues, including:

- Recruitment, selection, development and retention practices for late-career workers;
- Full-time to part-time transitioning models;
- More cost-effective total reward programs for late-career workers;
- Management training and counseling programs to foster more older-friendly work environments;
- Lifelong learning programs for employees of all ages.

For corporate leaders who are not yet able to see the business case, it is worth remembering that those organizations that are beginning to tackle these issues today will be better positioned to compete for tomorrow's talent when the projected demographic shifts become reality. Following are some resources that may be helpful to companies in this regard.

Resources for Employers

Help with recruiting and hiring: AARP offers a number of programs to identify companies with exemplary workforce practices or to help companies publicize their employment opportunities for 50+ workers and match workers with prospective employers. Examples include:

- **AARP Best Employers for Workers Over 50.** Each year since 2001, AARP has selected a group of employers that offer leading-edge practices for recruiting and managing 50+ workers, based on a rigorous analysis of their workplace programs. These organizations are profiled on AARP's web site and featured in the news media. For details, go to www.aarp.org/employerresourcecenter.
- **Featured Employers Program.** Launched in 2005 as part of the AARP Workforce Initiative, this effort is designed to help workers 50+ connect with specific job opportunities, assessment tools and training opportunities by featuring companies that have adopted aggressive programs for recruiting, hiring and retaining the 50+ workforce on AARP's web site. Descriptions of the featured companies and links to job applications are available at www.aarp.org/featuredemployers.

About the Study

Compiled in the winter and spring of 2005 by a team of consultants and associates in Towers Perrin's HR Services business, the findings presented in this report were drawn primarily from the following sources:

AARP research. Much of the information about the attitudes of 50+ workers toward work and working in retirement comes from recent nationally representative surveys conducted by AARP. AARP's 2002 survey (*Staying Ahead of the Curve: The AARP Work and Career Study*) included more than 2,500 workers ages 45 to 74, while its 2003 survey (*Staying Ahead of the Curve 2003: The AARP Working in Retirement Study*) included 2,001 workers ages 50 to 70. Information about employer attitudes toward 50+ workers comes from AARP's 2000 survey entitled *American Business and Older Employees* and its 2005 survey *American Business and Older Employees: A Focus on Midwest Employers*. Information about employer best practices for an aging workforce comes from *Staying Ahead of the Curve 2004: Employer Best Practices for Mature Workers*, which spotlights innovative practices used by recent and former AARP Best Employers for Workers Over 50 and other companies.

Towers Perrin's proprietary data.

Information on current workforce demographics, compensation and benefit programs and costs in large U.S. companies and one-time hiring and turnover costs comes primarily from an analysis of several Towers Perrin databases, supplemented by data from Medstat, the Saratoga Institute and other sources. Much of the workforce analysis is based on Towers Perrin's 2003 data for 335

large U.S. companies (i.e., *Fortune* 1000 and equivalents) sponsoring defined benefit pension plans in the United States. This database, covering approximately three million employees, is representative of large employers and the workers employed by them in a wide range of industries. Information on benefit prevalence and costs is drawn primarily from Towers Perrin's 2005 Employee Benefit Information Center database covering more than 700 large U.S. employers (i.e., *Fortune* 1000 and equivalents) in a range of industries. The detailed cost analysis focuses largely on positions in four industries: energy, financial services, health care and retail. (*See Section III for details.*) Information on employee engagement and some of the information on employees' views on rewards, retirement and working in retirement are based on various Towers Perrin surveys of employees working in large U.S. companies. (*See Sections II and IV.*)

Other previously published research.

Information on broad U.S. workforce demographic trends, work and aging, labor productivity and prevalent employment practices among U.S. companies comes from an extensive review of the available academic and technical studies and published research by U.S. government agencies and other organizations, including the Conference Board, Society for Human Resource Management and others. (*See Sections I, II and V for much of this information.*)

Employer interviews. To gain a deeper understanding of the range of challenges and issues facing major U.S. employers in relation to the aging workforce—and how specific companies are addressing these issues today—the research team interviewed representatives of 10 leading organizations in the energy, financial services, health care, retail and other industries. (*Highlights of some of these interviews can be found in the case studies presented in Section V.*) AARP and Towers Perrin would like to express their appreciation to these individuals who gave so generously of their time and insights.

Except in cases where the employers interviewed asked that their companies not be identified in this report, all sources of information are noted in the body of the report, exhibits or footnotes.

Endnotes

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