

COPING WITH THE GRAYING WORKFORCE

The post-World War II generation has profoundly shaped modern America on many political, social and economic fronts. As the so-called Baby Boom generation enters its golden years, it will continue to wield tremendous impact, this time because of potentially costly workplace issues that need to be addressed by America's employers.

In 1996, the Baby Boom generation (persons between the ages of 32 and 50) totaled 80 million. As this generation leaves the workforce through retirement, its numbers will not be replaced by middle-aged workers moving into their positions or by younger workers entering the workforce. This is due to the fact that 11 percent fewer Americans were born in the two decades between 1966 and 1985 than were born in the 20 years following World War II.

The effects of Baby Boomer retirements on the overall economy and on certain occupations and industries could be substantial: namely, a workforce short on workers and long on retirees. According to consultant Watson Wyatt Worldwide, the aging workforce promises to restructure the economy, reshape

the family, redefine politics and even rearrange the geopolitical order of the next century. Just some of the challenges businesses face include:

- Higher taxes, rising capital costs, shrinking consumer markets and perhaps falling tangible asset and equity valuations.

- Tight labor markets and difficulty retaining top-quality personnel.

- Overcapacity in real estate, construction, retailing and other key sectors.

- Intensified competition over shrinking sales that will reduce returns on investment and new pressures for capital controls, non-tariff barriers and outright protectionism.

Unlike many predictions, global aging is no mere hypothesis: its approximate timing and magnitude are already locked in. It is a revolution sure to happen — and when it has run its course, nothing will be the same.

Older Workers:

Norm of the Future

If there is any silver lining to this scenario, it's that Boomers may actually choose or be forced to work longer

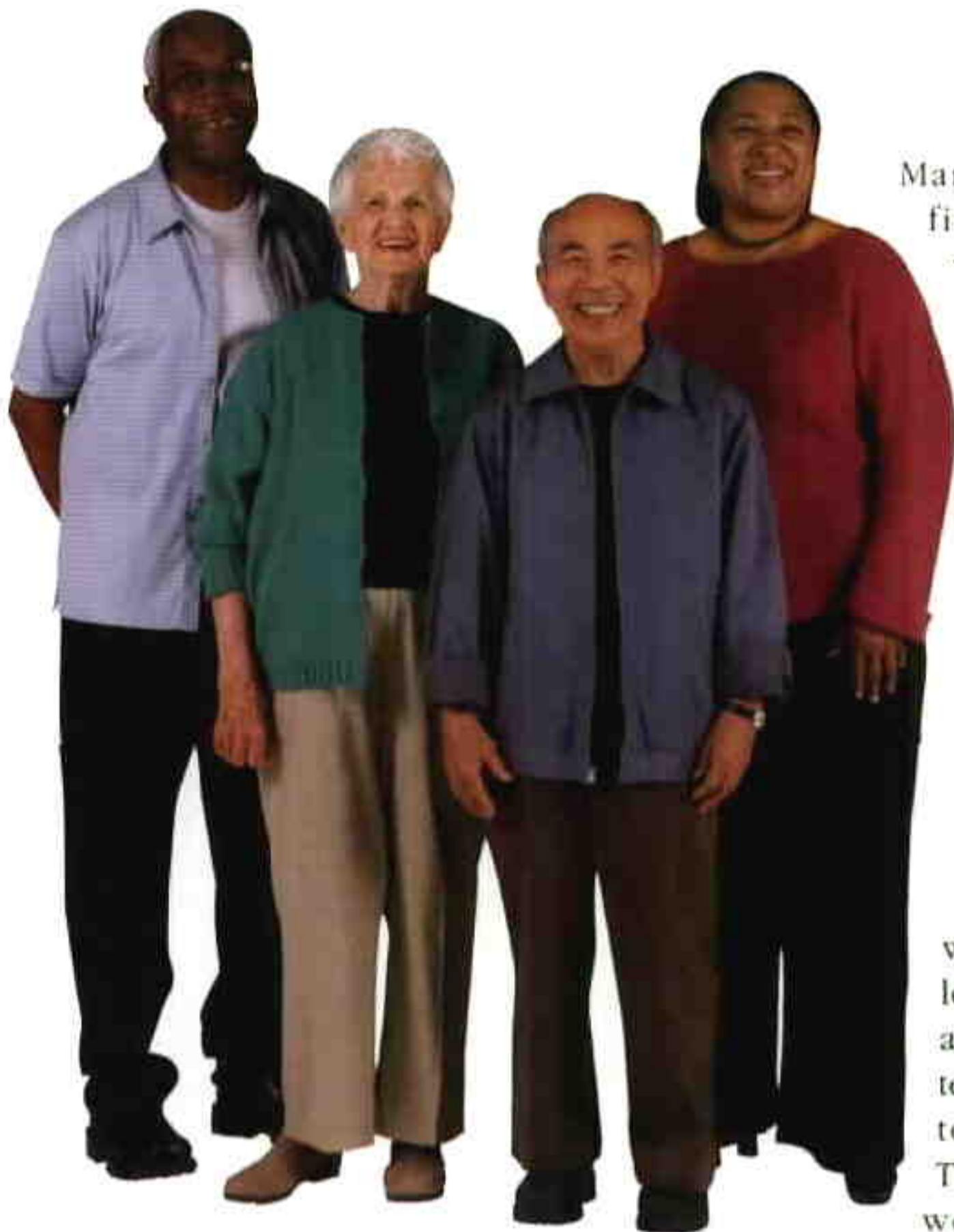
than their parents' generation. A 1998 study by the American Association of Retired Persons (AARP) concluded that fully 80 percent of Baby Boomers believe they will continue to work during retirement, and only 16 percent expect not to work at all.

Future success depends on the ability of employers to attract and retain the best and brightest from the many different groups. This necessitates a radical reconsideration of prevailing early retirement policies dictating that employees between 60 to 65 years old should leave the workforce. Bonne Bell Co., for example, created a separate packing facility at its Lakewood, Ohio, headquarters for older workers. By offering its "senior" employees half shifts and a collegial work environment, the company has built a highly productive and stable operation — with an average age of 72.

Experts predict that a more porous model of retirement will emerge in the coming years, with workers moving among full-time work, new forms of part-time work and outside activities as the needs of both employees and employers change from month to month and year to year.

The Aerospace Corp. offers a

By Steven Van Yoder



Many companies are finding that older workers are loyal workers. CVS Corp. recruits older

companies that employ them.

Periodic workforce evaluations will be essential to address age composition and its potential cost implications. "From a health care and man-

As the American workplace ages, companies need to understand the full set of issues involved and challenge some old assumptions.

range of phased retirement options as a way to maintain its long-term experience in the space program. Older workers continue as employees or consultants at reduced schedules, contributing their skills and experience directly to projects, and transferring knowledge to younger workers.

"Older workers are skilled — it's like hiring a better worker for a lower cost because their benefits are self-funded," says consultant Stephen Roulac, CEO of The Roulac Group Inc. "This is appealing when compared to younger workers that include taxes, vacation, pension, entertainment costs, ancillary costs, can amount to 50 percent of payroll."

Companies that provide phased retirement plans also save the costs of hiring and training new employees while maintaining the worker's institutional memory and technical knowledge. Oracle Corp. now offers older recruits training in computer and software skills and has discovered a pool of information technology workers ignored by competitors.

company almost three times longer than other workers. "Older workers are very responsible. They care about the customers. They're good examples to our younger employees," said Stephen Wing, a director for the rapidly growing Woonsocket, R.I.-based drugstore chain. "A decade ago, employees 50 and older made up about 7 percent of the CVS workforce; they now they make up 14 percent."

There's another good reason to tread carefully when downsizing older workers: they may be more litigious, especially as jobs get scarcer. According to the Equal Employment Opportunity Commission, age-related lawsuits rose 12.5 percent in the first nine months of 2001.

Meeting the Challenge

Over the next 15 to 20 years, employers will have to deal with a workforce in which one out of five — then one out of four — employees will be over 55 years old. The rise of older workers will pose a variety of new cost concerns for the

agement side, employers need to prepare for what's coming," says Connie Vaughn-Miller, National Director of Prevention Services for Intracorp, a health care and disability management company. "From an age standpoint, these employers must understand and adapt to the demographic particularities of their workforce."

Periodic loss-run analysis based on workers' compensation records can identify trends that contribute to injuries and claims. Moreover, employers need to consider workplace design and ergonomic improvements to accommodate older workers. Although there are some additional costs, they are usually offset by improved performance and lower claims and medical costs, as illustrated by Lockheed Martin Tactical Aircraft Systems.

A few years ago, Lockheed's Fort Worth, Texas, facility brought in an ergonomic engineer with an eye to reducing workers' compensation costs. Within six months of implementing ergonomic improvements, the plant's lost workday rate dropped 25 percent. Additionally, Lockheed saved more than \$3 million on injury claims and another \$11 million that had been reserved for projected claims.

Employers must also examine the jobs older employees perform and

consider whether they match their physical capabilities. Injury risk factors must be taken into consideration, as well as the impact of aging on those risks. Employers will have to compile information about their workforce correlated by age and job title. That information can then be reviewed in conjunction with the company's business plan.

"The human body as we know it is not a perpetual motion machine," says Joyce Gioia, author of *How To Become An Employer of Choice* (2000, Oakhill Press). "Employers will need to encourage fitness and wellness programs to keep their workforce healthy. It's about creating an employee-centered environment."

A New Social Contract

It used to be that a steady paycheck and health care insurance were the hallmarks of companies that cared

for their employees. That's not so today. More and more, employers will be expected to offer "quality of life" benefits, such as flexible work hours, if they are to keep older workers happy and motivated.

"People look forward to retirement because they are tired of stressful or unpleasant jobs — not because they are tired of working," says Beverly Goldberg, author of *Age Works*. "Companies must now address the causes of workplace stress and anxiety and communicate effectively with employees to develop reputations as being ethical, trustworthy and generally good places to work."

It is this reality, says Goldberg, that will prompt employers to implement more quality of life benefits to keep older employees happy. And though it may have seemed like an unnecessary expense to invest in what were once considered "soft"

benefits, today's "employee assets" are overburdened in their personal lives, in ways that affect company bottom lines.

Employers must also begin to deal with many outside considerations that affect their lives on and off the job. Elder care, for example, is an increasing concern for American workers. A 1997 survey by the National Alliance for Caregiving reported that nearly one-fourth of American households — 22.4 million families — were providing care for an older relative or friend.

Companies that don't prepare could face serious workday disruptions and retention woes, say specialists. About half of the respondents reported occasions when caregiving responsibilities caused them to come to work late, leave early, extend lunch breaks, make or receive phone calls at work or miss

Contrarian Thoughts About Older Workers

By Beverly Goldberg

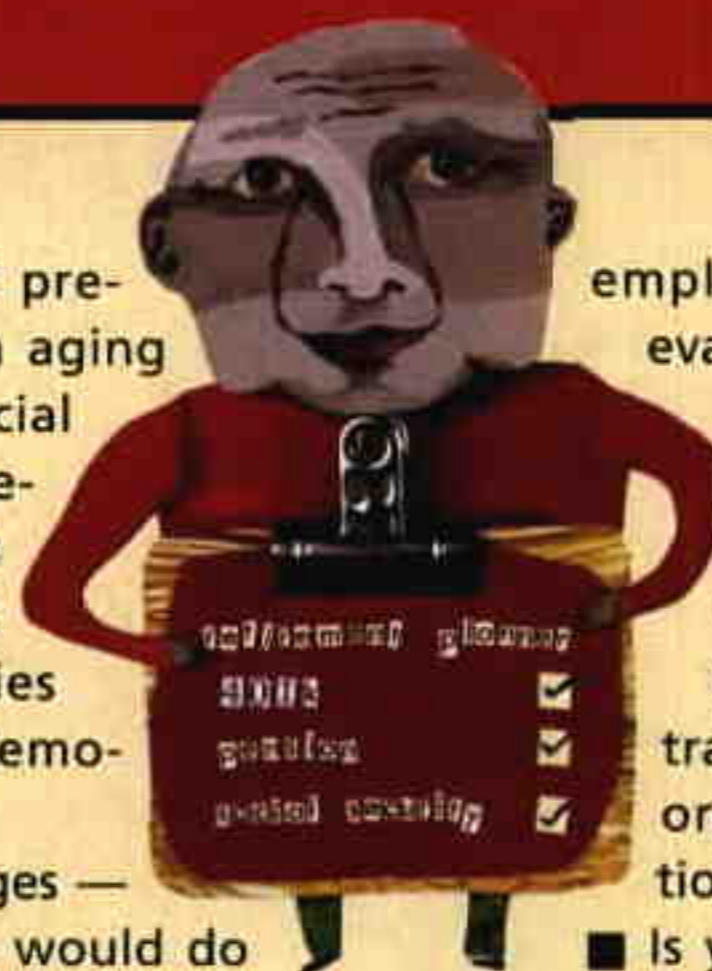
While American employers must prepare for the inevitability of an aging workforce, there is little financial data available to help management adapt to this new reality. This means that CFOs must begin to examine and track the potential costs to their own companies from this inevitable shift in workforce demographics.

Aging Baby Boomers will present challenges — but also many hidden opportunities. CFOs would do well to challenge the many cultural stereotypes and assumptions about older workers and devise measurement protocols that uncover the myths and misunderstandings. The answer is careful examination and analysis of several key areas.

Training Costs: Tenure vs. Age

Training has traditionally been directed at younger employees. The assumption has been that training costs would be amortized over time among employees in their 20s, 30s and early 40s who would not only stay with the company but would use newly acquired skills for some 15 years afterward.

But, the world has changed. As concepts of lifetime



employment and corporate loyalty have evaporated, job tenure is far shorter and skills have a much shorter shelf life. Each technological advance requires retraining, and those advances now take place quickly.

CFOs need to reevaluate the costs of training, taking into consideration their organization's "character." Considerations include:

■ Is your company in a geographical area where competitors utilize similar skills, making it easy for employees to switch jobs?

■ Does the nature of the work require learning new skills frequently?

■ Does it require a lot of physical stamina, which may affect how long employees can continue to work?

If CFOs track tenure for employees at different age levels and the frequency that retraining is offered, they may find that older workers provide some relief to the challenge of wisely investing training dollars. For example, older workers tend to remain with the company until retirement, and CFOs may determine that they actually maximize training investments when they target older employees.

workdays to deal with crises. The average cost per employee per year in absenteeism, turnover and lost productivity is estimated at \$1,141.

Ford Motor Co. has taken an active approach to help older employees with caregiving responsibilities. Ford currently offers its employees free house calls by geriatric case managers who provide an in-person assessment of an elder's health and care needs, develop a care management plan to address those needs and identify available community support services.

A William M. Mercer Inc. survey of large and mid-size companies offering long-term care found that 70 percent rate it positively. American Express Co. says its long-term care program was easy to establish, cost very little in administrative expenses and created "an enormous amount of goodwill." Most long-term care insurance programs offered at the

workplace are voluntary, with employees paying the full cost of their plan.

A variety of benefit approaches can go a long way to improving employee productivity, loyalty and retention. Meaningful support to older employees can take a variety of forms, including:

- Supplemental dependent care coverage to reimburse costs for in-home care or day care. Larger businesses can organize in-house care.

- Long-term care insurance.

- Access to a discounted network of senior-specific providers and geriatric case management specialists.

- Counseling to help employees cope with stress.

- Flexible work hours. In a Gallup study, 64 percent of respondents who used flexible work arrangements said they were highly satisfied with their jobs.

- Family leave. Companies with 50 or more employees must comply with the Family and Medical Leave Act (FMLA), which allows for up to 12 weeks of unpaid leave to care for a seriously ill parent, spouse or child, while protecting job security.

In the end, companies that successfully navigate the labor market of the future will move beyond traditional thinking and will commit to flexibility that responds to employee needs. A benefits plan that offers flexibility and meets daily life issues acts as a means to an end. The payoff is the increased ability to hire and retain happier, higher-performing employees who stay with their companies longer, thus providing long-term value — a scenario where everybody wins.

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Health, Worker's Compensation and Insurance

CFOs should begin tracking absenteeism and worker's compensation claims for their workforce by age bracket. It would also be useful to measure the true costs of different health care coverage plans to determine how costs shift as the workforce ages. Companies need to put aside untested assumptions and collect data to determine what an increase in older workers will really mean in the areas of absenteeism and worker's compensation costs.

For example, management has tended to assume that older workers are frailer and will take more days off for illness. Research shows however, that older workers are actually absent far less for short-term illnesses than younger workers. And while older workers do have more chronic conditions, such as high blood pressure, they are usually treatable and do not lead to absenteeism.

On worker's compensation, the numbers show that workers over 50 file fewer claims — they tend to be more careful than younger workers. In fact, workers over 55 comprise 13.6 percent of the workforce today but account for only 9.7 percent of workplace injuries.

Replacement Costs: Measure Everything

Not long ago, companies were challenged to find enough workers to keep company growth on track. Now, companies have returned to downsizing just as they did in the late '80s and early '90s. Unfortunately, these companies have forgotten that those downsizings

were often extremely costly in the long run.

Again, the assumption here is that older workers cost more because they receive higher wages. Therefore, it appears that a 50-year-old employee who earns \$40,000 can be replaced with a younger worker who does the same job for \$30,000. Following this logic, it appears that, over five years, a company could save \$50,000 by replacing the older worker.

This assumption needs to be examined. For example, what are the costs of severance pay for the older worker? What are the costs of finding a younger replacement, including both agency fees and interview time? Also, the costs to train a younger employee to fit the corporate culture and adapt his or her skills to the company need to be measured. Studies show that these factors can total 93 percent of the first year's salary of a replacement.

Revisiting the "younger is better" assumption is key. Even if the economy does not rebound quickly, the aging of the workforce will make finding new workers difficult. A second downside is not as easily quantified: the costs in terms of company reputation. When workers are in demand, would it be the company people would choose first?

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