

Productivity for the Ages: Maximizing the Contribution of Older Workers

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Earlier this decade, demographers, labor economists, and more than a few human resource consultants predicted that the United States would experience a significant labor shortage due to Baby Boomer retirements. The U.S. Bureau of Labor Statistics, as late as 2006, estimated that the shortfall would reach 10 million by 2025.

With the global economy in recession, unemployment up, and retirement savings substantially depleted, employers face a much different challenge today — large numbers of older workers staying in the workforce. Instead of fighting a prolonged and intense war for talent as was previously expected, employers will need to be more focused on maximizing the contributions of older workers, while containing labor costs. This *InsightOut* will:

- Explore the characteristics and implications of an aging workforce
- Offer strategies for maximizing the contributions of older workers (and indirectly, workers of all ages)
- Pose situation-specific questions employers can use to assess the potential impact on their organizations and formulate a relevant response
- Advances in technology, the globalization of the economy, and much higher childbirth rates in other parts of the world (e.g., India, Pakistan, Mexico, Philippines) have opened the door to more outsourcing and off-shoring.
- Skilled labor gaps in the U.S. economy can be filled to some extent with foreign-born workers from countries having higher birth rates, as noted earlier. (Note: Nurses, engineers, scientists, primary care doctors, and others will continue to be in short supply; this will be especially challenging in industries like health care, energy, defense, etc.)
- U.S. citizens are living longer and want to remain vital and productive by continuing to work.
- In the past 15 years or so, traditional pension plans and company-subsidized retiree medical coverage have become increasingly rare. As a result, older workers' retirement planning is more fluid and vulnerable to changing economic conditions.

THE DISAPPEARING LABOR SHORTAGE

Let us begin with a look at the shifting influences that have brought us to this place. In 2009, Baby Boomers, currently the largest cohort of the U.S. workforce, will range in age from 43 through 65 years. With the oldest of them eligible to retire this year, and the succeeding generations, so-called "X" and "Y" (or "Nexters"), having fewer members (X has 35 million less and Y, 10 million less), predictions of a labor shortage were not surprising. These statistics, however, do not tell the whole story. Several other factors have contributed in shaping this country's workforce. They include:

- Shifting social norms and declines in marriage and childbirth rates have put more women in the labor force for longer periods.

The last two factors coupled with the current economic crisis suggest that a substantial number of older workers will be neither willing nor able to retire.

Employers will face a broad range of complex human resource and employee benefits challenges which the following questions help articulate.

- Has your organization done a workforce planning and/or demographic analysis that indicates your workforce is aging?
- Is your industry experiencing shortages of certain skills? If so, has retaining older workers become a higher priority?
- Is your industry attracting fewer younger workers than it once did?

TAKING THE MEASURE OF AN OLDER WORKFORCE

Most people (particularly those over age 45) would object to the notion that productivity diminishes significantly with age, and rightfully so. Although older workers are at a disadvantage in roles with intense physical demands, they can be a major asset in service-based and/or knowledge-based industries. While there is evidence linking age with a minor reduction in cognitive acuity, any loss is typically offset by experience, accumulated knowledge, and “institutional wisdom.”

Nevertheless, older workers do pose certain challenges to employers including:

- Higher rates of illness and disability
- Skills that may be of diminishing relevance and a decreasing capacity to acquire new ones
- Potential for cross-generational conflict (See Gap Analysis at right for further discussion.)
- Eldercare and other personal responsibilities that can distract from one’s work

The following positive attributes counterbalance these negatives:

- Valuable knowledge and skills, including technical skills that may be in limited supply
- Loyalty to the organization
- The ability to offer “real world” experience in mentoring younger workers
- Lower turnover and fewer unscheduled absences

Recognizing this, employers must seek to optimize the advantages of retaining their older workers, while diminishing the disadvantages. If this can be accomplished in a way that promotes collaboration and understanding across all generations, employers can significantly improve their talent ROI (i.e., the ratio of productivity to labor cost).

By asking themselves the following questions, employers can maximize these advantages while minimizing the disadvantages.

- Have you evaluated absence, disability, and medical claims data by age group to assess relative labor costs by age?
- Does your performance evaluation system help to ensure comparable levels of productivity across all age groups?
- Do your organization’s senior and operating managers acknowledge that employees of different ages may have different attitudes toward their work and careers? If so, does it affect how they manage people?

GAP ANALYSIS

Employers are increasingly faced with the conflicting challenges associated with engaging, influencing, and motivating very age-diverse workforces. In meeting these challenges, they must contemplate both the natural influence of aging on employee values, priorities, expectations, etc., and the generation-defining perspectives of different age cohorts. As illustrated below, these perspectives can significantly impact the way employees of different ages see the world.

To maximize talent ROI, employers must craft an “employment deal” with elements that appeal to each age group.

Chart One: The Way They See the World

	Veterans	Boomers	Xers	Nexters
Born	1922-1943	1943-1960	1960-1980	1980-2000
Outlook	Practical	Optimistic	Skeptical	Hopeful
Work Ethic	Dedicated	Driven	Balanced	Determined
View of Authority	Respectful	Love/hate	Unimpressed	Polite
Leadership by:	Hierarchy	Consensus	Competence	Pulling together
Relationships	Personal sacrifice	Personal gratification	Reluctance to commit	Inclusive

SOURCE: Adapted from Generations at Work, R. Zemke, C. Raines & B. Filipczak: AMACOM 2000.

THE CASE FOR PHYSICAL AND FISCAL FITNESS AND PERSONAL FULFILLMENT

Once employers accept the premise that they have a significant stake in maximizing the productivity of their older workers, it becomes valuable for them to explore the various ways in which this can be accomplished.

Several means to this end come from the work and writings of Henry S. Lodge, M.D., a New York-based internist and Columbia University professor. In the bestselling book, *Younger Next Year: A Guide to Living Like 50 Until You're 80 and Beyond*, Dr. Lodge teams with Chris Crowley, his 70-something "star" patient, to prescribe rules for healthy aging. Part science, part common sense, the rules offer a compelling guide to anyone interested in lifelong health, or with an interest in keeping others healthy, productive, and engaged. They are:

1. Exercise six days a week for the rest of your life: aerobic exercise four days a week and strength training two days a week
2. Spend less than you make
3. Quit eating crap
4. Care, connect, and commit

Several of these "rules" can be adapted to employer-based initiatives. In fact, some require more focus and attention than financial investment. The first and third rules are relevant, albeit ambitious, goals for any employer-sponsored health management program. Employers can promote the second rule through financial education, retirement planning assistance, and maximizing opportunities for personal savings. Lastly, the fourth rule speaks to emotional and social health and the need for personal meaning, all of which can be supported in and through the workplace.

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Aging and Health: Redrawing the Line

Many employers assume that aging and deteriorating health go hand-in-hand. In fact, data analytics clearly show that health care consumption increases steadily with age (absent the impact of maternity expense for women in their 20s and 30s) and accelerates most sharply after age 40, when chronic illness becomes much more prevalent.

As might be expected, disability rates also increase sharply with age. To a large extent, age-related increases in health care and disability costs are driven by the prevalence of chronic medical conditions among aging employees. The following chart illustrates the growing incidence of certain medical conditions with age:

Chart Two: Chronic Disease Demographics Among Americans Age 18 And Older, 2007

Chronic disease	Entire population	Age (years)		
		45–64	65–74	75+
Diabetes	8%	11%	19%	18%
Hypertension	24%	33%	53%	54%
Asthma	7%	8%	8%	6%
CPD	6%	8%	11%	13%
Arthritis	21%	29%	48%	51%
CHD	6%	7%	18%	26%
Obesity	26%	31%	28%	18%

SOURCE: Summary of Health Statistics for US Adults: National Health Interview Survey 2007.

Yet, the most common chronic illnesses are only indirectly related to aging. The more direct correlation is with lifestyle factors — poor diet, lack of exercise (precursors to obesity), and smoking — the effects of which accumulate over time and culminate in chronic illness during middle age. According to the Centers for Disease Control and Prevention (CDC), more than 40 percent of adults from ages 40 to 59, the largest cohort of

the U.S. labor force, are considered medically obese. The CDC has identified a clear link between obesity and roughly 30 medical conditions. Among these are hypertension, osteoarthritis, high cholesterol, type 2 diabetes, and coronary heart disease.

Connecting the dots, one can see several compelling reasons why health care consumption and disability rates increase so sharply during middle age. It also strongly suggests that as the labor force ages, employer-sponsored health management programs take on heightened importance with an even greater potential ROI. For these programs to be truly valuable, they must engage a broad cross-section of employees, not just those already committed to staying healthy and fit.

Employer-sponsored health management activities could include:

- Sponsoring fitness events and challenges with teams composed of a cross-section of employees representing varying fitness levels
- Organizing hiking and running clubs and company sports teams
- Offering a comprehensive health risk appraisal and incentive for completing it
- Banning smoking on company property
- Discounting the employee share of health insurance premiums for non-smokers (in compliance with HIPAA)
- Increasing healthful choices in snack machines
- Providing onsite and/or online health and fitness education
- Offering onsite yoga and tai-chi classes

When these types of employer-sponsored activities — and the communication campaigns supporting them — appeal to employees of all ages, they promote an organizational culture of health and fitness through which the employer says to its workforce, “staying healthy and fit is part of who we are.”

The following questions can help you gauge the potential value of such activities in your organization:

- What types of data can you access that illustrate the extent to which lifestyle factors like smoking and obesity are impacting the health of your employees?
- Have you surveyed your employees to determine the extent to which they would value and enjoy participating in employer-sponsored health and fitness activities?
- Have you determined the potential ROI of organizing, sponsoring, and promoting workplace health and fitness activities? If so, how long would it take to achieve a return?

Financial Security: Make It Less of a Worry for Employees

With real estate values on a seemingly relentless rise and the cost of credit at historic lows, U.S. personal savings rates declined steadily in the last 10 years, crossing into negative territory in 2005. During this period, many mistakenly saw the increasing equity in their homes as equivalent to personal savings, and used inflated home values as collateral against loans to buy things they could not otherwise afford. The media has chronicled the widespread impact of these and other miscalculations.

Another factor has exacerbated the impact of the economic downturn. In the past 25 years or so, employers have steadily shifted from “traditional” defined benefit (DB) pension plans to defined contribution (DC) plans. DB plans guarantee a pre-defined stream of retirement income based on one’s age, years of service, and compensation, whereas DC plans shift responsibility for savings, investment decisions, and, ultimately, retirement income to employees. Today, about 10 percent of private-sector employees are covered by DB plans, 63 percent by DC plans, and 27 percent by both. In 1979, these percentages were nearly opposite.

Few employees covered by DC plans have the financial knowledge, insight, or inclination to manage their retirement investment portfolios effectively. That, combined with the worst U.S. economy since the Great Depression, means many are now unable to retire for financial reasons. This is likely to increase labor costs for reasons cited earlier and may disrupt

workforce planning strategies as older workers remain in the workforce in positions sought by younger workers. Financial turmoil is also likely to cause distraction and distress, diminishing production capacity in the workplace.

Employers can assist employees in achieving financial security by:

- Providing employees with access to a carefully screened financial planning service
- Providing a stipend toward financial planning
- Implementing automatic enrollment in their 401(k) plan
- Offering an Internal Revenue Code Section 529 college savings plan
- Expanding payroll savings through direct deposit to multiple accounts
- Offering post-tax retirement savings opportunities
- Offering voluntary long-term care coverage

In addition, employers should ask themselves the following questions:

- Do you know whether some older workers are postponing retirement to build up or restore the value of their retirement savings or to retain medical coverage?
- Have you surveyed your workforce to determine how well-equipped employees are to make good financial and investment decisions? If so, does capability tend to vary by age group?
- Are financial planning and investment education resources readily available to employees? If so, to what extent are they being used?
- Has your organization maximized personal and retirement savings opportunities?
- Does your organization believe that a traditional defined benefit plan and/or hybrid cash balance plan would be more effective in promoting an orderly transition to a secure retirement for older workers? If so, are the potential workforce planning and productivity advantages of that compelling enough to get management's attention?

Personal Fulfillment: The Road Less Traveled by Employers

Do employers have a role in employees' personal fulfillment? Does performing valuable work lend purpose and meaning to employees' lives and help define who they are as individuals? (See specific questions on page 6.)

Some employers might find these questions unusual, yet workforce engagement studies typically show that the most loyal, committed, and productive employees, while not indifferent to financial rewards, are not driven by them. Instead, they tend to be motivated by the "soft stuff" including an understanding of and support for the organization's vision, meaningful and challenging work, a connection with managers and co-workers, and pride in the organization and its reputation.

One might reasonably assume that this "soft stuff" has even greater relevance for many older workers. As financial security grows, the mortgages on their homes are paid-off, and family responsibilities diminish, older workers need more than a paycheck to keep them at work and fully productive. While strong leadership, management, and professional development are key factors, organizations should also cultivate a workplace that promotes employee connection, supports families, and encourages social consciousness. Interestingly, programs that do so often appeal to all age groups and support the inter-generational partnering that many organizations seek. Such programs could include:

- Actively promoting volunteerism including company-sponsored events in which employees come together in support of social causes
- Expanding time off for volunteer activities
- Increasing and/or more actively promoting charitable donation matching programs
- Offering on-site or online classes in successful parenting, improving personal relationships, and stress management
- Sponsoring company outings to sports and cultural events
- Offering an annual stipend toward recreational pursuits
- Celebrating longevity and career milestones

An employer's commitment to such programs should be shaped by its answers to the following questions:

- Do employers have a workplace-based role in promoting personal fulfillment?
- Does your organization sponsor events through which employees can regularly come together in support of favored charitable and social causes? If so, does doing so perpetuate a sense of shared purpose, pride in the organization, and, ultimately, greater teamwork and productivity?
- Are there community, EAP, and other low-cost resources available which have the potential to improve employees' lives and can be more actively promoted through the workplace?
- Does your organization have a clearly articulated vision, operate with the utmost integrity, and support causes important to employees?
- Do employees take genuine pride in being part of your organization?

All things considered, the initiatives described earlier are modest in cost relative to employers' ROI opportunity. The largest investments are likely to be coordination and communication. An effective communication campaign will consistently, cohesively, and compellingly deliver key messages and encourage participation.

CONCLUSION

We have seen how labor shortages predicted earlier this decade were likely overstated, and how the United States instead could experience an abundance of older workers in the labor force. Unless managed effectively, employers with aging workforces may find that talent ROI — the ratio of productivity to labor cost — declines to levels that drive up prices and/or diminish profitability. Considering the vast financial pressures on organizations today, few would be able to tolerate such an outcome.

HR professionals can help their organizations address these challenges through thoughtfully and fully conceived, well-executed programs that promote personal well-being in its various dimensions. The good news, particularly in the current economic environment, is that many of these programs require far greater focus and attention than they do financial investment.

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