GENERATIONAL DIVERSITY:
WHY COMPANIES ARE FOCUSING ON IT, AND HOW IT STANDS TO CHANGE THE WORKFORCE

Talent Intelligence
Leadership Risk Management

EXECUTIVE SUMMARY

Abstract: In the next decade, a significant number of U.S., European and other workers may not leave the workforce at what is often considered the traditional retirement age.

Workers in their late fifties and early sixties are, in increasing numbers, choosing to work well into — and in some cases, past — their sixties, for a variety of reasons. Companies with pre-retirement-age workers need to assess and prepare for the possibility that older workers may not vacate positions, as anticipated, which can greatly affect hiring needs and succession plans.

This white paper will outline the factors that have prompted a growing number of workers to delay retirement; how organizations can assess their current succession strategy, in regard to workers' retirement plans; and how companies can prepare to enact the necessary modifications to accommodate a delayed retirement trend — and the resulting changes a generational workforce may present.

POPULATION GROWTH AND THE WORKFORCE

In a number of countries, workers who are approaching the typical retirement age are poised to radically change the workforce — depending on whether they decide to remain in it or leave it.

Currently, the amount of pre-retirement workers, on a global scale, comprises a large group. The generation, commonly referred to in the U.S. as the baby boom generation, was the result of a marked increase in birthrates across Europe and North America after the second World War, which occurred as servicemen returned from battle and settled into domestic life.

In the U.S., post-WWII population growth was significant. Americans born between WWII's end and 1964 comprise the largest generation in U.S. history, according to CNN, totaling nearly 77 million.

Populations also rose in many European nations during the second half of the 20th Century, according to Eurostat, the Luxembourg-based statistical office of the European Union. In the U.K., for example, the Office for National Statistics' England and Wales population pyramid clearly illustrates post-1961 growth. A significant portion of the generation born during that period are now in their mid- to late-fifties.

Although some Nordic and Western European countries may have already experienced an increase in the amount of aging workers, other countries, including those in Southern and Eastern Europe, are expected to soon see a rapid increase in the proportion of older citizens, according to Eurostat projections.

In fact, the majority of European countries are expected to see the biggest increase in the proportion of persons aged 65 and older within the next two decades, with some notable exceptions, according to Eurostat. The amount of citizens age 65 and older in Greece, Spain, Italy and Portugal, for example, has been rising, but is forecast to slow down after the 2030s.

Similarly, Canada experienced a baby boom, which took place around the same time as the U.S. expansion, and is also facing a growing amount of retirement-age workers. Canada's population growth was actually larger than in many other G8 countries, according to the Globe and Mail; and most Canadian baby boomers haven't reached 65 yet. Statistics Canada predicts that Canada's senior citizens could comprise 23 percent of the population by 2031 — with more and more workers approaching retirement age in the next 16 years.

In several countries, large amounts of workers are approaching their late fifties and sixties. Typically, they'd be preparing for retirement. However, due to several key factors, a significant amount of employees in the U.S., Europe and other nations may not actually stop working when they reach the traditional retirement age — which raises a number of questions.

If companies can't assume most workers will leave the workforce in their sixties, or a comparable age, is the organization's succession plan null and void? If older workers leave at varying ages, without the advanced notice traditional retirement age often provides, how can an organization prepare to prevent knowledge gaps from occurring if new workers need to be trained quickly? And, if retirement-age workers stay, what should companies be doing to ensure they're as engaged and productive as possible?

The delayed retirement trend has already become apparent in some areas of the world — particularly in Europe. Between 2000 and 2010, the percentage of over-55 workers rose in all 27 EU countries, except Portugal and Romania, according to Eurostat.

America, too, seems primed to experience a changing workforce. Recent research from the nonprofit Transamerica Center for Retirement Studies found that roughly 65 percent of baby boomers also plan to work past age 65 in the U.S.

A DELAYED DEPARTURE

Aging workforce members are staying at jobs longer for a variety of reasons. In some cases, money is the driving factor.

In the U.S., a number of baby boomers have saved too little and have too much debt — which was true even before the Recession hit, making the situation worse, according to Gallup. A recent U.S. Government Accountability Office study, conducted because the Census Bureau has projected that the age 65-and-older population will grow over 50 percent between 2015 and 2030, found that 52 percent of households comprised of people 55 and older don't have any personal retirement savings.

Benefit-related legislation has also complicated retirement funding for some plan participants. In December 2014, President Barack Obama signed an amendment allowing multiemployer plans that are severely distressed to reduce benefits retirees receive. The amendment was intended to allow underfunded multiemployer plans avoid bankruptcy and, ultimately, termination, according to the Society for Human Resource Management. Plan trustees decide how cuts for recipients under age 75 will be allocated; in some cases, SHRM says, cuts could be more than 60 percent of a person's benefits.

In the EU, the worst economic downturn in 70 years has helped fuel the trend. Although roughly 19 percent of U.S. workers feel highly confident about having enough money to live on in retirement, the sentiment in Europe is much lower, according to the 2014 Aegon Retirement Readiness Survey. Just 6 percent of French workers and 4 percent of Polish workers feel very confident about their retirement funds.

The survey also found that most employees, on a global level, now expect to transition into retirement, with 29 percent saying they'll first move to a part-time position beforehand. Seventeen percent plan to work part-time throughout retirement — an increase from 2013.

Some workers can't afford to retire when they'd originally planned to; others may not be allowed to. Some nations have raised their retirement age, in part, possibly, to reduce state-funded pension plan costs, according to Bloomberg. Italy, for example, recently raised the workforce year requirement to be eligible for a pension; and it plans to increase the standard retirement age from 65 to 66 by 2018.

As a result, the amount of workers age 50-64 increased from 47.3 percent in 2008 to 49.6 percent in 2011. Currently, Spain and France are the only countries where workers still expect to immediately stop working when they retire, according to Aegon.

In some instances, pre-retirement age workers stay at their job because they just enjoy working. In the U.S. health care industry, for example, many workers reportedly consider the position they've worked to obtain as a defining aspect of their life, and are, as a result, reluctant to leave it, according to the American Hospital Association's H&HN magazine.

Half of employees on a global level who are currently retired and worked past their planned retirement age did so because they enjoyed their jobs, according to Aegon's research.

In other cases, workers have dual reasons for retiring later than previous norms. More than a quarter — 27 percent — of U.S. workers age 65 and older say they're still employed both because of need, and also because they want to be, according to Pew Research Center research. Forty-five percent of workers from countries around the world said they worked longer than they'd planned to help keep themselves mentally and physically active.

PREPARING FOR GENERATIONAL WORKFORCE CHANGES

Employees voluntarily remaining in the workforce past traditional retirement age can throw a company's succession planning completely off course.

Many companies are struggling to fill vacancies now, before the next wave of workers is, in theory, set to start retiring — which undoubtedly won't make the situation easier, even if a large portion remain employed.

Thirty-four percent of companies currently face difficulty filling vacant positions, according to the Manpower Group's 2012 Talent Shortage Survey. In the U.S., that figure is closer to 50 percent, with management and executive vacancies ranking among the top 10 most difficult to fill.

Because vacancies are proving so hard to fill, companies need to know if key positions will need to be vacant in the future, due to workers retiring.

However, planning to hire new employees to eventually take over for (and possibly be trained by) employees who decide not to retire until their 70s (or beyond) can cause a costly overstaffing issue.

A proactive approach can help prevent future process and productivity drop-offs. Companies that are concerned about retirement-related staffing concerns can utilize a number of techniques to assess and prepare for employees leaving — or deciding to stay.

Gauge employee sentiment: To create an effective succession plan, you need to first find out what your close-to-retirement-age employees plan to do.

In some countries, organizations may be able to have an open dialogue with employees about retirement. Others, particularly the U.S., need to adhere to specific age discrimination and other regulations when asking.

In the U.S., the Age Discrimination in Employment act prohibits taking any adverse action against an employee because the worker is 40 or older. As a result, asking employees about retirement has to be done in a way where it can't be misconstrued as urging them to leave. Generally, it's a good idea to confirm that your country or individual state, if applicable, doesn't have any specific laws that relate to staffing and employee age.

You may be able to approach employees during annual reviews and other goal-oriented conversations to discuss their retirement plans (or lack thereof) in the context of their objectives in their current position.

Consider also issuing an employee survey, which will let employees respond anonymously — and can tell you roughly how many workers plan to stay past retirement, and how many hope to leave.

Web-based survey solution provider SurveyMonkey suggests using employee satisfaction surveys to gauge any skill gaps, based on your company's future needs, and any interest employees have in adding those skills. A survey can help you provide training and career development programs that will offer both an employee retention and company growth benefit.

Surveys should be anonymous, feature targeted questions and potentially be distributed more than once a year to measure how programs are working. If your organization doesn't have one on file to customize, sample surveys are available from a number of organizations, including SurveyMonkey, SHRM and Monster.com.

Examine future staffing needs: Whether or not you know each retirement-age employee's plan, proactively map out the senior levels of your organization and identify roles that are critical or may be difficult to fill.

Scrutinize each role, in regard to future growth strategy; consider what skills will be necessary and how those skills may differ in a new worker, compared to an incumbent. The prep work can help you quickly locate candidates with targeted skills, should workers retire.

Carefully documenting processes will also help. If you know how each task is performed, you can examine what skill sets would be lacking if certain employees left.

Outlining process steps will also help you prepare to assist other employees in developing new skill sets to maintain operations and ensure your company's institutional knowledge level remains consistent, in case an employee retires at the traditional time or leaves suddenly for another reason.

Add incentive programs to encourage employees to stay past retirement age: Having experienced workers at your organization longer than planned may be unexpected; but they can be an invaluable asset.

When a worker retires, as noted in the Harvard Business Review's "It's Time to Retire Retirement" article, skills, knowledge and experience leave with that worker. Businesses then need to invest time and money to find someone new and get the person up to speed.

Incentives may help employees stay for 5 to 7 years, according to Entrepreneur. — which may help stave off any threat of a mass exodus, should the majority of retirement-age workers depart around the same time. Although many will likely stay at work, due to financial and other issues, a wave of retirements remains a concern. The number of workers set to potentially retire in the U.S. in the next 10 to 20 years, for example, is so high that the U.S. Department of Labor has recommended private and public research be conducted to examine the effect payroll incentives could have on encouraging delayed retirement.

Incentives don't always have to be financial. Workplace flexibility is one option that's already gained traction, thanks to organizations that have established inventive programs to urge older workers to remain employed. CVS Caremark, for example, sends several hundred pharmacists and other employees from Northern areas to warmer locations in Florida and other states each winter to encourage them to delay retirement. CVS' programs have helped it increase the percentage of employees 50 and older from 7 percent in the 1990s to more than 17 percent.

A retirement-age retention program's success may lie partly in its packaging. As the New York Times notes, to avoid alienating younger workers, many companies prefer to refer to their retirement-age efforts as intergenerational programs, instead of ones designed to target older workers.

Eliminate any early retirement programs you offer: In past decades, a number of employers have encouraged early retirement, which helped to drive down the effective retirement age in many countries. In Spain, for example, only 43 percent of 55-64 year olds were in the workforce between 2002 and 2007, according to Aegon.

Due to the potential volatility of the retirement landscape — given the workforce could be facing a large loss of workers, or a surprising decline in recruitment needs, if they stay — you may want to re-examine how any current early retirement incentives you offer align with your overall goals. To deter employees from leaving before 65, if your company offers extra benefits or other amenities, consider at least temporarily removing the option to encourage them to stay.

Ensure you're offering a positive workplace: If older workers stay, to maintain productivity levels, keeping them engaged is key — particularly if they're remaining in the workforce primarily for financial reasons.

Engagement, at all levels, is unmistakably important. Gallup research that found that up to 67 percent of employees of all ages may be under-engaged. The average cost to an organization as a result: more than $2,200 a year per employee.

Different generations often benefit from different types of environments and management styles. Creating management strategies for younger and older workers can help maintain efficiency levels.

Certain communication methods, for instance, may be more effective with different generations. A global CBRE study found that the widest gap in generational preferences involved email communication. Thirty-three percent of millennials preferred email communication; just 18 percent of baby boomers, on the other hand, felt the same way.

The generations also differed on formal meeting opinions. More than half of millennials prefer more meetings; only 27 percent of mature workers did. A recent study conducted by MTV found that to be productive, 61 percent of millennials said they need specific direction from their boss. Half the amount of boomers felt that way — preferring, as the Huffington Post noted, to receive objectives and be left alone to work.

In addition to communication styles, recognition efforts should differ. The baby-boomer generation often reportedly responds well to emotional rewards, according to U.S. News & World Report — such as feeling they're needed and are contributing to overall goals — whereas younger employees may find money and promotions to be stronger motivators.

Providing frequent praise and recognition can help ensure boomers feel appreciated; and, hopefully, keep them engaged during their remaining years at your organization.

Providing different tools to perform a job can also impact younger and older generations' satisfaction levels. A recent study from people management solutions provider Ultimate Software found that technology is becoming the top tool that divides or bridges generations — emphasizing how important it is that companies address generational differences to remain productive and competitive.

For workers who aren't as comfortable using technology, offering training or other courses can help boost their sense of familiarity, and satisfaction levels. SHRM's "Creating Synergy in a Four-Generation Workplace" manual provides helpful workshop exercises that will assist you in identifying areas that need improvement to help your organization address any generational concerns.

Tailoring programs to address retirement-age workers needs will help assure them they are a valued part of the team.

You may even want to consider more off-the-beaten-path ideas to help older workers gradually phase out of the workforce. Aegon — which published "The Changing Face of Retirement," a report based on findings from its 2014 global retirement survey — suggests adding phased retirement programs and re-training opportunities for older employees.

A segmented process would allow them to reduce their workload gradually as they near full retirement; in some scenarios, workers might also be able to draw part of their retirement benefits while still working.

MOVING FORWARD

Encouraging retirement-age workers to stay employed can help your organization retain specialized knowledge and experience. However, some may choose to leave — and others who stay will eventually decide to retire.

Creating a solid succession plan can help you maximize any staffing advantages, or anticipate any vacancies, workers' retirement plans may present. Succession plans can help you prepare ahead of time to prevent costly staffing shortages; yet they're not widely embraced by all organizations. The Society for Human Resource Management recently found that the amount of organizations with a formal succession planning process had dropped from 29 percent to 23 percent.

A succession plan should include forward thinking for the next 3 to 5 years at least. Talent pipelines should be created to identify high performers who may be able to assume positions in different departments, as well as resources to locate new hires externally. Specialized training programs can help current employees get ready to eventually take over for retirees, according to Workforce magazine.

Talent needs to be continually mapped outside of the organization; an effective succession plan should also include a competitive intelligence program, which will help you identify and anticipate industry and competitor trends to ensure you retain key employees and can attract rising stars.

Instituting a solid plan with clear objectives and attainable goals can mean the difference between steady productivity — and expensive, potentially damaging operational failures. If your organization's succession plan may be at risk due to impending retirement uncertainty, or you aren't sure where to start, Talent Intelligence can help. Click here to request a complimentary Talent Intelligence recruitment and succession assessment and consultation today.

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