

## Turning boomers into boomerangs

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### **Older workers want to retire later; companies fear they will soon be short of skills. Why can't the two get together?**

LAST month the first baby-boomers turned 60. The bulky generation born between 1946 and 1964 is heading towards retirement. The looming "demographic cliff" will see vast numbers of skilled workers dispatched from the labour force. In a forthcoming book ("Workforce Crisis" by Ken Dychtwald, Tamara Erickson and Robert Morison) the authors paint a gloomy picture of a shortage of skills and a cut in the supply of labour that are "already threatening the performance of many corporations".

The workforce is ageing across the rich world. Within the EU the number of workers aged between 50 and 64 will increase by 25% over the next two decades, while those aged 20-29 will decrease by 20%. In Japan almost 20% of the population is already over 65, the highest share in the world. And in the United States the number of workers aged 55-64 will have increased by more than half in this decade, at the same time as the 35- to 44-year-olds decline by 10%.

Given that most societies are geared to retirement at around 65, companies have a looming

problem of knowledge management, of making sure that the boomers do not leave before they have handed over their expertise along with the office keys and their e-mail address. A survey of human-resources directors by IBM last year concluded: "When the baby-boomer generation retires, many companies will find out too late that a career's worth of experience has walked out the door, leaving insufficient talent to fill the void."

Some also face a shortage of expertise. In aerospace and defence, for example, as much as 40% of the workforce in some companies will be eligible to retire within the next five years. At the same time, the number of engineering graduates in developed countries is in steep decline.

A few companies are so squeezed that they are already taking exceptional measures. Earlier this year the *Los Angeles Times* interviewed an enterprising Australian who was staying in Beverly Hills while he tried to persuade locals to emigrate to Toowoomba, Queensland, to work for his engineering company there. Toowoomba today; the rest of the developed world tomorrow?

If you look hard enough, you can find companies that have begun to adapt the workplace to older workers. The AARP, an American association for the over-50s, produces an annual list of the best employers of its members. Health-care firms invariably come near the top because they are one of the industries most in need of skilled labour. Other sectors similarly affected, says the Conference Board, include oil, gas, energy and government.

Near the top of the AARP's latest list comes Deere & Company, a no-nonsense industrial-equipment manufacturer based in Moline, Illinois; about 35% of Deere's 46,000 employees are over 50 and a number of them are in their 70s. Rick McNally, the company's director of human resources, says that Deere has no overall policy in favour of older workers. It does, however, try to recruit people who will stay with the company for their whole careers, and a number of its employees have more than 40 years' service. The tools it uses to achieve that—flexible working, telecommuting, and so forth—also coincidentally help older workers to extend their working lives. The company spends "a lot of time" on the ergonomics of its factories, making jobs there less tiring, which enables older workers to stay at them for longer.



Likewise, for more than a decade, Toyota, arguably the world's most advanced manufacturer, has adapted its workstations to older workers. The shortage of skilled labour available to the automotive industry (those engineers again) has made it unusually keen to recruit older workers. BMW recently set up a factory in Leipzig that expressly set out to employ people over the age of 45. Needs must when the devil drives.

Other firms are polishing their alumni networks. IBM uses its network to recruit retired people for particular projects. Ernst & Young, a professional-services firm, has about 30,000 registered alumni, and about 25% of its "experienced" new recruits are boomerangs (former employees who return after an absence). Helen Walsh, director of the firm's alumni network (and herself a boomerang), says it is particularly helpful in attracting women back into the workforce.

But such examples are unusual. A survey in America last month by Ernst & Young found that "although corporate America foresees a significant workforce shortage as boomers retire, it is not dealing with the issue." Almost three-quarters of the 1,400 global companies questioned by Deloitte last year said they expected a shortage of salaried staff over the next three to five years.

Yet few of them are looking to older workers to fill that shortage; and even fewer are looking to them to fill another gap that has already appeared. Many firms in Europe and America complain that they struggle to find qualified directors for their boards—this when the pool of retired talent from those very same firms is growing by leaps and bounds.

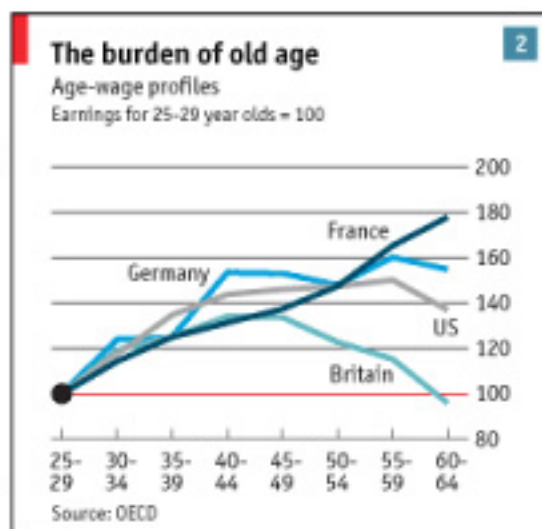
Why are firms not working harder to keep old employees? Part of the reason is that the crunch has been beyond the horizon of most managers. Nor is hanging on to older workers the only way to cope with a falling supply of labour. The participation of developing countries in the world economy has increased the overall supply—whatever the local effect of demographics in the rich countries. A vast amount of work is being sent offshore to such places as China and India and more will go in future. Some countries, such as Australia, are relaxing their immigration policies to allow much needed skills to come in from abroad. Others will avoid the need for workers by spending money on machinery and automation.

Yet older workers are an obvious source of labour, partly because they have good reason to continue working. In a widely quoted article (“Will There Really Be a Labour Shortage?”) Peter Cappelli, of the Wharton business school in Philadelphia, argues that “baby-boom workers simply will not be retiring from work in the numbers that many people expect”. One reason is that their pensions will not be as generous as they believed—a succession of big firms, such as IBM, General Motors and, in Britain, the Co-operative Society and the Nationwide building society, have announced that they are to trim retirement benefits. A recent *Harris/Wall Street Journal* survey found that 39% of Americans over 54 now doubt they will have sufficient money for old age. Mr Cappelli concluded that enough of them might stay on to shift the trajectory of the labour force. Using US Bureau of Labour statistics, he predicted that “the labour force will in fact rise from 153m in 2000 to 159m in 2010”.

Yet there are plenty of obstacles to overcome if that is to happen. In many European countries, one of the biggest is pay. Adecco, a large global recruitment agency, says that in France and Germany 50- to 65-year-olds earn 60-70% more, on average, than 25- to 30-year-olds. But in Britain they earn more or less the same. That is one reason why more older people are employed in Britain than in Germany. In 1990 the unemployment rate among 55- to 64-year-olds in the two countries was more or less the same—7.2% in Britain and 7.7% in Germany. By 2003, however, the rates were 3.3% and 9.7% respectively.

Companies in continental Europe and Japan are finding it harder to detach age from seniority (and cost) than rivals in America and Britain. At Wal-Mart, a huge American retailer, managers fresh out of college in the southern American states oversee women workers old enough to be their mothers. Ranjit de Sousa, Adecco's director of corporate development, cites one company where the average age of the managers is 35, while that of the employees who report to them is 42. If older workers want to stay in the workforce, they need to accept this topsy-turvy hierarchy.

In some businesses early retirement is institutionalised. At professional-service companies, such as law and accounting firms, partners are encouraged to move out at an early age, often as young as 55, so as to encourage juniors with the promise of becoming a partner. At Deloitte, one of the world's biggest accounting firms, the official retirement age for partners—60—is written into the partnership agreement.



Change the reward system and the age profile changes too. Although British law firms have a "lock-step" reward system, giving partners more or less equal shares of the profits, partners in American firms tend to "eat what they kill". The American system enables older partners to stay on, because they are not an unfair burden. When Jerome Shestack approached the mandatory partners' retirement age (of 68) at his law firm in Philadelphia, he joined another without that condition. He retired from Wolf, Block, Schorr and Solis-Cohen earlier this month at 82. At 74 he was president of the American Bar Association.

The government has a big part to play. Switzerland has legislation enabling people who stay at work for up to five years beyond the statutory retirement age to increase their state pension by up to SFr5,000 (\$3,825) a year when they eventually draw it. That helps explain why more than 60% of all 55- to 64-year-old Swiss are in work, compared with less than 30% in Italy and Belgium. (For Italy, which has one of the lowest fertility rates in Europe and one of the lowest average retirement ages, the demographic cliff is a precipice looming at its feet.)

In some countries the tax system works against older workers. Britain will not let a taxpayer receive a pension and a salary from the same employer. In America pension schemes will often withhold benefits from a retired person if he is rehired or works for more than 40 hours a month. Companies wishing to hire their pensioners have to find ways round the rules. Japanese companies such as Mazda rehire them on one-year renewable contracts.

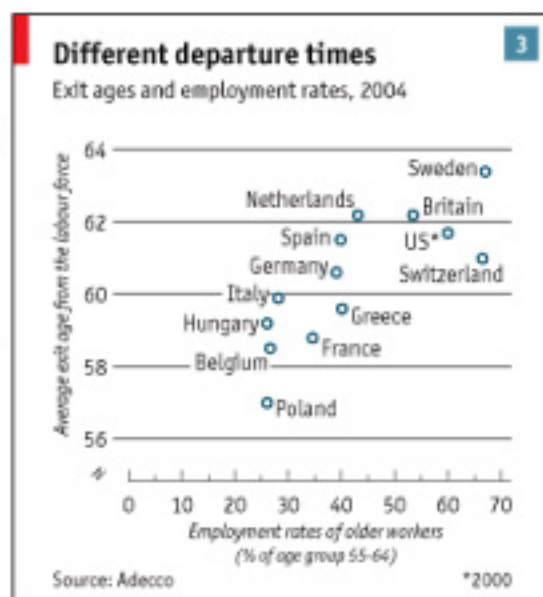
## Staying on

Legislation designed to help older workers can act against them. In some ways, America's Age Discrimination in Employment Act discourages the rehiring of retired workers, by requiring that all employees receive equal benefits, such as health-care insurance. That is invariably more expensive for older employees, so it acts as a deterrent to hiring them. Similar legislation is due to come into force in Britain in October this year, following an EU directive compelling member states to outlaw discrimination on the grounds of age.

Even if the law changes, older workers must still overcome hostile attitudes at work. Many people assume that older employees are less motivated, take more sick leave and cost more. The evidence is that many people over 65 have plenty to offer even if they are no longer at their peak (see [article](#)). Some studies show that the over-40s are less likely to be off sick, and are more highly motivated and productive (except where great physical effort is required).

The best thing managers can do is to make work flexible. Much of this accords with what women and younger workers say they want. IBM believes that one of the reasons people come to work for it "is because we take workplace flexibility seriously". Flexibility appeals to all ages.

The encouragement for older workers to stay is often a by-product of other initiatives. Many companies are cultivating a more diverse workforce, partly because legislation in some countries decrees it, partly because they believe it can help them. Although diversity means chiefly recruiting more women and ethnic minorities, it (almost by default) helps older workers, too. Measures, such as flexible work schedules, designed to encourage mothers to



return to the workforce can also encourage older workers to stay.

Oddly enough, older workers stand to gain from efforts to recruit younger workers. Sabri Challah, the head of Deloitte's human-capital practice, says that companies are making great efforts to recruit (and retain) the youngest cohort of workers, the "Generation Y". These 20-somethings (who are entering the workforce later and staying for a shorter time with each employer) have very different attitudes to work, life and careers than their parents did. In trying to design flexible working lives for them, companies may be accommodating grey hair as well.

In the longer run, though, firms need to talk seriously to employers about their plans for retirement. Many have no demographic profile of their workforce and little idea about how much of it is retiring when. Mr Challah says many are embarrassed to ask senior employees about taking less pay for less work. In America employers are also often afraid to discuss retirement plans for fear of lawsuits under age-discrimination legislation.

That is a pity. A report last year by Merrill Lynch, a large financial-services firm, argued that "baby-boomers fundamentally will reinvent retirement". They will, said the report, "cycle" between periods of work and leisure well beyond the age of 65. While many are focused on making extra money, many more say they will do it for the "mental stimulation and challenge". As the Conference Board, an American association of businessmen, put it last year: "working in retirement, once considered an oxymoron, is the new reality".