Will There Really be a Labor Shortage?

Peter Cappelli

A number of recent studies warn that the U.S. economy will experience widespread job vacancies that cannot be filled because of a shortfall of workers. It is true that employers will face new and more difficult challenges in recruiting and hiring than previous generations faced, but the challenges have to do with changes in the employment relationship, not a shortfall of workers caused by demographic changes. These developments have important and positive implications for older workers. More generally, the solutions to these recruiting and hiring challenges focus back on employers and their own human resource strategies.

Recent Demographic Developments:
The dominant demographic event of the last century, the baby boom’s entry into the labor market, preceded what became a long period of economic stagnation and slow growth in the economy. It was hard for many workers, especially young workers, to find jobs in this period and unemployment rates remained relatively high. Chronic and long-term unemployment of young workers in particular was common as was widespread over-qualification of workers for jobs. Evidence suggests that the rapid expansion of the workforce associated with the entry of the baby boom workers depressed their wages and lifetime earning opportunities.

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It’s Time to Retire Retirement

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The Concours Group in partnership with Age Wave recently conducted a yearlong research project “Demography Is Destiny,” in which we looked at the implications for businesses of an aging workforce. The study was sponsored by 30 major public and private organizations in North America and Europe (For a summary of our research findings, see http://www.concoursgroup.com/Demography/DD_MgmtSumm.pdf). Broadly speaking, our findings suggest an urgent need to find ways to attract and retain employees of all ages. But of most concern is the potentially debilitating mass retirement that threatens to starve many businesses of key talent in the next ten to 15 years. On the basis of our research, we’ve concluded that the concept of retirement is outdated and should be put out to pasture in favor of a more flexible approach to ongoing work, one that serves both employer and employee.

In the past few years, companies have been so focused on downsizing to contain costs that they’ve largely neglected a looming threat to their competitiveness, the likes of which they have never before experienced: a severe shortage of talented workers. The general population is aging and, with it, the labor pool. People are living longer, healthier lives, and the
birthrate is at a historic low. While the ranks of the youngest workers (ages 16 to 24, according to Bureau of Labor Statistics groupings) are growing 15% this decade as boomers’ children enter the workforce, the 25- to 34-year-old segment is growing at just half that rate, and the workforce population between the ages of 35 and 44—the prime executive-development years—is actually declining.

In the United States, the overall rate of workforce growth faces a sharp drop. After peaking at nearly 30% in the 1970s (as the boomers as well as unprecedented numbers of women entered the workforce), and holding relatively steady at 12% during the 1990s and again in the present decade, the rate is projected to drop and level off at 2% to 3% per decade thereafter. Assuming constant immigration rates, that translates into an annual growth rate of an anemic 0.2% by 2020.

During the next 15 years, 80% of the native-born workforce growth in North America is going to be in the over-50 cohort. In the next decade or so, when boomers—the 76 million people born between 1946 and 1964, more than one-quarter of all Americans—start hitting their sixties and contemplating retirement, there won’t be nearly enough young people entering the workforce to compensate for the exodus. The Bureau of Labor Statistics projects a shortfall of 10 million workers in the United States in 2010, and in countries where the birthrate is well below the population replacement level (particularly in Western Europe), the shortage will hit sooner, be more severe, and remain chronic.

The problem won’t just be a lack of bodies. Skills, knowledge, experience, and relationships walk out the door every time somebody retires—and they take time and money to replace. Given the inevitable time lag between the demand for skills and the ability of the educational system to provide them, we’ll see a particularly pronounced skill shortage in fast-growing technical fields such as health care.

The problem is pretty clear. Workers will be harder to come by. Tacit knowledge will melt steadily away from your organization. And the most dramatic shortage of workers will hit the age group associated with leadership and key customer-facing positions. The good news is that a solution is at hand: Just as companies are learning to market to an aging population, they can also learn to attract and employ older workers.

Despite irrefutable evidence of workforce aging, many managers may be marching their companies straight off a demographic cliff. Currently, most recruiting, training, and leadership development dollars, as well as promotion opportunities, are directed at younger employees, with little thought to the skills and experience that the over-55 crowd can bring to bear on almost any business problem. According to a recent survey from the Society for Human Resource Management, two-thirds of U.S. employers don’t actively recruit older workers; more than half do not actively attempt to retain key ones; 80% do not offer any special provisions (such as flexible work arrangements) to appeal to the concerns of mature workers; and 60% of CEOs say their companies don’t account for workforce aging in their long-term business plans.

Numerous recent studies have shown that most boomers want to continue working—and they may need to, for financial reasons. As the labor market tightens, they will have more choices, and the most capable and accomplished among them are likely to be the most mobile and financially independent; they’re the ones who are most likely to move on. The challenge is to find a way to reconnect with these talented men and women before they’re ready to take a retirement package and run—perhaps to a competitor.

Create a Culture That Honors Experience

Unfortunately, most human resource practices are often explicitly or implicitly biased against older workers, and these biases can seep into the culture in a manner that makes them feel unwelcome.

It starts with recruiting, in subtle ways such as the choice of words in a job advertisement. Even high-energy,
young-in-spirit older workers, for example, may interpret an ad stressing “energy,” “fast pace,” and “fresh thinking” as implicitly targeting younger workers and dismiss the opportunity out of hand. Mature workers are more likely to be attracted to ads emphasizing “experience,” “knowledge,” and “expertise.” In July, Google was sued for age discrimination by a 54-year-old terminated manager who said he was told that he didn’t fit in with Google’s culture of “youth and energy.” The company prides itself on being an enlightened employer, but the lawsuit alleges that Google purposely avoids hiring older workers. Google denied the accusations.

Traditional recruiting channels such as want ads or help wanted signs may not attract older workers either. Twelve years ago, pharmacy chain CVS looked at national demographic trends and concluded that the company needed to employ a much greater number of older workers. But managers didn’t know how to find them—older people shopped in the stores but didn’t apply for openings, perhaps believing they wouldn’t be hired. Now the company works through the National Council on Aging, city agencies, and community organizations to find and hire productive new employees.

Training and development activities also tend to favor younger employees. According to the Bureau of Labor Statistics, older workers (age 55 plus) receive on average less than half the amount of training that any of their younger cohorts receive, including workers in the 45 to 54 age range. And yet many mid-career and older employees require refresher training in areas from information technology to functional disciplines to non-hierarchical management methods. The challenge is to make them feel as though it’s not a sign of weakness to ask. At Dow Chemical, the company-wide expectation is that employees at all levels will continue to learn and grow; as a result, employees regularly seek training and development opportunities, readying themselves for their next career moves.

Most important, mature workers will be attracted to a culture that values their experience and capabilities—an environment that can take some time and effort to build.

The Aerospace Corporation is a company that has, over the years, built a reputation for valuing experience and knowledge. Nearly half of its 3,400 regular, full-time employees are over age 50—a clear signal to job candidates that experience is appreciated. The CVS pharmacy chain has made great strides in creating a company that is more welcoming to older employees, having more than doubled the percentage of employees over age 50 in the past 12 years. It has no mandatory retirement age, making it easy to join the company at an advanced age and stay indefinitely (six employees are in their nineties).

It’s Time to Retire Retirement

The concept of flexible work is not new, of course, and many companies offer it in some form—job sharing, telecommuting, compressed workweeks, and part-time schedules. But such programs are usually small in scale and, in practice, are often taken up by new mothers and others with consuming family commitments. Companies that have successful flex programs can readily make these programs easily accessible to older workers.

Look at ARO Incorporated, a business process outsourcer based in Kansas City, Missouri. Six years ago, its staff turnover was at 25%, which limited its productivity as an operator of contract call centers, back-office and forms processing, outbound customer interaction, and more. Kansas City hosts some 90 call centers, but nearly half of its workers (4,000 of 8,000) are over age 50. ARO wanted to attract more seasoned professionals with a history of proven performance but required that they work in more relaxed environments. The company thus added a flex benefit package designed to appeal to the growing number of older workers who are looking to work fewer hours and/or as flexible schedules. Today, nearly 35% of ARO’s employees are older than 50, but nearly half of them are doing a part-time schedule. ARO has also seen a significant increase in employee satisfaction and productivity. ARO’s program is a shining example of how to get the best out of older workers and keep them longer.
centers, so employees had numerous other options, and the applicant pool was shallow. Michael Amigoni, the company’s chief operating officer, soon found a way to cut costs and improve service by upgrading the company’s technology to allow some 100 teleworkers to remain off-site. He then actively recruited older boomers, who were attracted to the flexibility, to fill these jobs. By so doing, ARO gained access to a large pool of mature, experienced employees, who, on the whole, have stayed with the company longer than younger employees have. Turns out, they’re also a much better match for the company’s customer demographics. “ARO has clients in the insurance and financial services sectors, and a lot of the people we talk to are older,” says Amigoni. “It helps that the people making the calls are older, because they are in similar circumstances to customers.” Turnover is now down to 7%, and productivity is up 15%, partly because the company now has more seasoned, committed staff.

Other companies offer flexibility in work assignments to reignite older employees who have come to find their jobs a bit stale—an approach that can be of particular value in appealing to highly paid managerial talent. For example, four years ago, Deloitte Consulting looked at the firm’s demographics and realized that by 2003, 40% of its then 850 partners would be 50 or older and eligible to retire at 55. The firm didn’t want to lose this talented group of men and women en masse, so it created what it called a Senior Leaders program, which enabled partners in their early fifties to redesign their career paths.

Still other companies appeal to older workers’ desire for flexibility by reducing hours in the years leading up to retirement. The reduced hours are an attractive option because it gives workers opportunities to pursue outside interests. At Varian, a leading provider of radiotherapy systems, employees age 55 and over who have a minimum of five years of service and who plan to retire within three years can negotiate a reduced work schedule. The typical arrangement is four days per week the first year and three days a week thereafter. Half-time is the minimum, and two half-timers can job share. Participants retain full medical and dental benefits and can request a return to full-time work if the new schedule results in economic hardship.

Flexible Retirement

Flexible retirement is flexible work in the extreme—a logical extension of the flexible work models just described, where the work may continue indefinitely. Retirement, as it’s currently understood, is a recent phenomenon. For almost all of history, people worked until they died. It was only during the Great Depression that, desperate to make room in the workforce for young workers, governments, unions, and employers institutionalized retirement programs as we know them today, complete with social security and pension plans. When the modern notion of retirement was first articulated near the end of the nineteenth century, the designated retirement age of 65 was longer than the life expectancy at the time.

But in fact, many people don’t want a life of pure leisure; half of today’s retirees say they’re bored and restless. A recent AARP/Roper Report survey found that 80% of boomers plan to work at least part-time during their retirement; just 16% say that they won’t work at all. They’re looking for different blends—three days a week, for example, or maybe six months a year. Many want or need the income, but that’s not the only motivator. People tend to identify strongly with their work, their disciplines, and their careers. Many wish to learn, grow, try new things, and be productive indefinitely, through a combination of commercial, volunteer, and personal pursuits. They enjoy the sense of self-worth that comes with contributing to a business or other institution, and they enjoy the society of their peers.

For all these reasons, the notion of retirement as it has come to be practiced—a onetime event that permanently divides work life from leisure—no longer makes sense. From the standpoint of the employee, these flex retirement programs offer opportunities to mix work and other pursuits. They also offer personal fulfillment and growth, ongoing financial rewards, and continued...
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enjoyment of the society of colleagues. For employers, the programs provide an elastic pool of staff on demand and an on-call cadre of experienced people who can work part-time as the business needs them.

Retirees can also act as leaders on demand. Corporations periodically face waves of executive retirements, and many have done a poor job of maintaining the leadership pipeline. A group of experienced executives who can step in at a moment’s notice can both fill gaps and help bring the next generation of leaders up to speed.

Typically, these programs allow an employee to take regular retirement and then, sometimes after a specified break in service (typically six months), return to the employer as an independent contractor, usually for a maximum of 1,000 hours a year. Since the IRS imposes the hourly restriction to discourage companies from substituting full-time employees with retirees and thus avoiding expenses such as benefits and FICA, employees who work more than 1,000 hours per year usually need to be contracted through an agency and make their services available to other employers as well.

While most such programs today lack sufficient scale to make a difference in a company’s overall staffing, serving instead as a safety valve and a source of specific skills and experience, large corporations would do well to bring these programs up to scale as labor markets tighten. An example of a program at a scale proportional to the overall employee population is that of the Aerospace Corporation, which provides R&D and systems-engineering services to the Air Force. The personnel needs of this California-based company vary from year to year and contract to contract, and its Retiree Casual program helps level the staffing load.

Long-term employees can generally retire with full benefits at age 55 or older. As part of the Retiree Casual program, they can then work on a project-consulting basis for up to 1,000 hours per year at their old base salaries, sometimes less, depending on roles and responsibilities. Eighty percent of retirees sign up, and some start back the day after they retire. About 500 retiree casuals are available at any given time, while 200 are working. They work various patterns—most work two days per week, but some work six months on, six months off (the 1,000-hour limit is approximately the equivalent of half-time). A few are so indispensable that they have to be dropped from the program and contracted via an agency after they hit the 1,000-hour limit. Most participate into their mid-sixties, some beyond 80.

The program assures the company a degree of “corporate memory,” according to George Paulikas, who retired in 1998 at age 62 as an EVP after spending his entire post-PhD career with the company. He was off only a couple of weeks before being asked back to help on a project and has worked part-time ever since—about one-quarter time last year. “You don’t want people with enormous experience to just walk out the door. The Retiree Casual program keeps expertise around and helps transfer it to others.”

Needed: More Flexible Benefits for Older Workers

In an ideal world, flexible retirement would allow employees to move in and out of the workplace seamlessly, without ever choosing a moment to retire. Employers would offer flexible work, compensation, pension and benefits arrangements, subject to sensible and straightforward tests of fairness and merit. Employees would have the option of entering a flexible work arrangement not at some fixed age but whenever it’s desirable and feasible, putting together an appropriate combination of salary and “retirement income.” Health insurance and other benefits would be portable from employer to employer, and the government would ensure a health-care safety net for all. Employers would need reasonable flexibility in selecting employees and legal protection from discrimination claims from those workers not selected. Flex retirement would embrace a variety of trajectories—different work for a former employer, the same type of work for a new employer, a career restart, variable schedules.

But in the United States, at least, things don’t yet work that way, and truly flexible retirement is not yet possible for most employees of publicly held for-profit corporations. Indeed, according to an Employment Policy Foundation study, 65% of employers in the United States would like to offer such flexible retirement, but most feel
The costs of health benefits, which have been rising at double-digit rates annually, complicate matters further. Employers are motivated to reduce these costs by reducing coverage for employees and retirees. And because costs and premiums increase with age, employers have a disincentive to retain older workers. In response, more and more employers are taking strong, sometimes draconian, action: Almost everyone is increasing employee premiums and co-payments, some are lowering contribution levels and raising eligibility requirements, and a few are eliminating retiree health coverage. Employees are afraid to take advantage of flex retirement programs if it means their health care costs go up.

**Conclusion: Old Isn’t What it Used to Be**

In 2001, Bob Lutz, then 69, was recruited to join General Motors as vice chairman of product development, charged with rejuvenating the product line as he had done at Chrysler with the Dodge Viper, Chrysler PT Cruiser, and Dodge Ram truck line. In last fall’s World Series, the winning Florida Marlins were led by 72-year-old Jack McKeon, called out of retirement early in the season to turn around the fortunes of a youthful but underperforming club. Collecting Grammy Awards in 2000 were Tony Bennett, Tito Puente, and B.B. King—combined age around 220. Al Hirschfeld’s caricatures graced the print media for more than 75 years, and he was still drawing when he passed away last year, his 100th. And then there’s the litany of business executives called out of already active retirement to inject stability, direction, confidence, and sometimes legitimacy into major corporations in need of leadership. Examples include 67-year-old Harry Stonecipher, who recently succeeded Phil Condit as Boeing’s CEO; John Reed, named interim chairman and CEO of the New York Stock Exchange; Allan Gilmour, vice chairman of Ford, who rejoined the company after retirement; and Joseph Lelyveld, who stepped in temporarily at the New York Times last year.

But then, maybe 65 was never what we thought. Lee Iacocca once told Wired, “I’ve always been against automated chronological dates to farm people out. The union would always say, ‘Make room for the new blood; there aren’t enough jobs to go around.’ Well, that’s a hell of a policy to have. I had people at Chrysler who were 40 but acted 80, and I had 80-year-olds who could do everything a 40-year-old can. You have to take a different view of age now. People are living longer. Age just gives experience. Besides, it takes you until about 50 to know what the hell is going on in the world.”

What Iacocca understood was that people don’t suddenly lose the talent and experience gained over a lifetime at the flip of a switch. It’s not good business to push people out the door just because your policies say it’s time. Smart companies will find ways to persuade mature workers to delay retirement or even eschew it entirely as long as they remain productive and healthy.

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