



Preparing for Baby Boomer Retirement

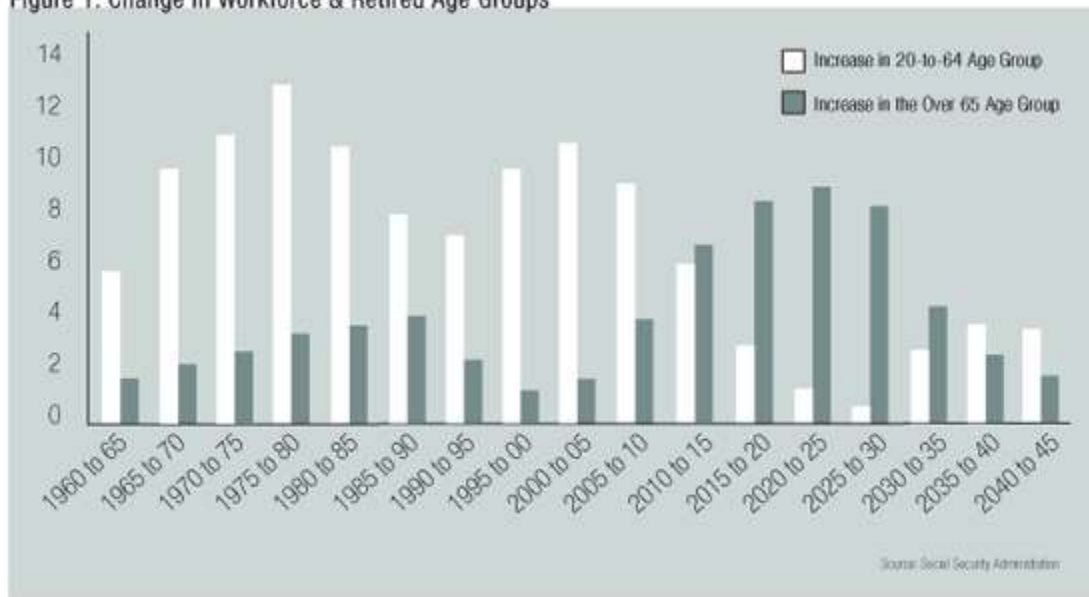
James J. L'Allier, Ph.D. & Kenneth Kolosh

While the stakes are high and the issues complex, those companies that think through the data, come up with the right questions and craft a long-term comprehensive strategy now not only will survive this historic wave, but also will have the potential ride its crest. Useful demographic information, insights into associated data and a set of comprehensive questions will help you lay the foundation of a strategic plan to position your company for opportunity and growth as the retirement wave approaches.

The baby boom generation is a demographic term for the population born between 1946 and 1964. Data from the 2000 U.S. Census estimates that the group that holds the “boomer” moniker is made up of at least 82,826,479 individuals. The members of this group range from 41 to 59 years old, which means this demographic behemoth will start leaving the workforce in approximately six years. What will this exit mean to your organization? To answer this question, you need to look at major age shifts that alter the demographic landscape of the U.S. labor force.

As far back as 1960, the American economy has benefited from strong growth of the 20-to-64 age group, historically considered the primary source of the labor force. However, starting around 2010, a demographic shift will begin, resulting in a large increase in the 65-and-over age group and a decline of the 20-to-64 age group. The Social Security Administration (SSA) reports annually on how projected demographic trends are likely to impact the Social Security trust fund income. Unlike the 2000 U.S. Census data, the SSA data is particularly useful because the projections are updated annually and take into account factors such as anticipated fertility, mortality and immigration rates. Figure 1 illustrates the scenario that the SSA considers most likely to occur. Starting in 2010, the demographic growth-rate balance starts to shift, and by 2015, the 65-and-over age group starts to grow at a faster rate than the 20-to-64 age group.

Figure 1: Change in Workforce & Retired Age Groups

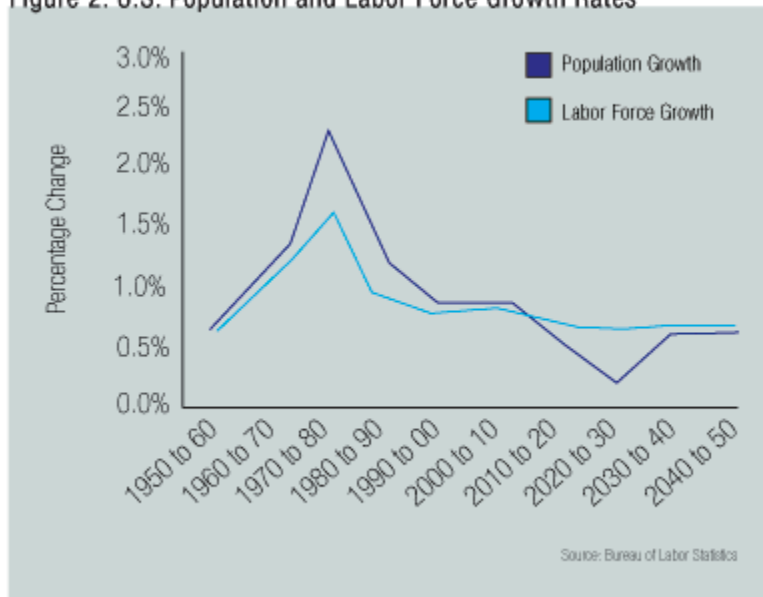


Looking at this data, it is easy to see why some sources have projected dire consequences for the U.S. economy caused by widespread labor shortages. But this is not the whole story. The U.S. Bureau of Labor Statistics (BLS) projects a labor force of 162.3 million individuals in 2012 and expects that the economy will require 165.3 million jobs to be filled. But this does not mean that there will be a shortage of 3 million workers in 2012.

Beyond the fact that these two numbers are not directly comparable, there are other variables at play that directly impact how organizations will be able to adapt to the changing demographic landscape. Some of the factors that organizations can control include retention of older workers, correcting gender imbalance in certain positions, the use of outsourcing and hiring newly arriving immigrants.

Over the past few decades, the U.S. economy has benefited from a labor force that has grown faster than the overall population. However, as shown in Figure 2, starting in 2010, the labor force starts growing at the same or a slower rate than the overall population. There are several reasons for this. The first is the impending decrease in employment participation among the aging baby boomers. Even if baby boomers are more likely to keep working past age 66, eventually their participation rates will start to negatively impact labor force growth. A second and less obvious reason that the labor force has been able to grow so rapidly over the past few decades is the increase in the participation rate of women.

Figure 2: U.S. Population and Labor Force Growth Rates

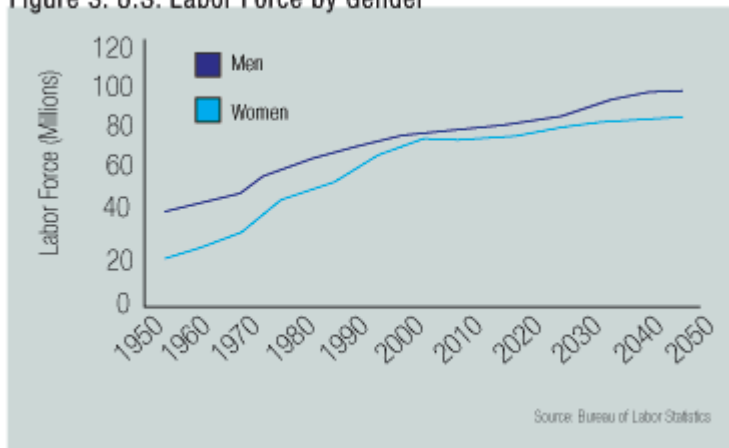


Several factors encourage older workers to stay in the workforce longer. First of all, the age requirement for receiving a full Social Security pension will eventually rise to 67 for those born in 1960 or later. Second, the trend toward offering defined contribution pension plans that will pay out more the longer you work, instead of defined benefit plans, which pay out at a specific retirement age, is encouraging workers to stay in the workforce longer. Third, and most importantly, older Americans are healthier than ever before and are less likely to want to take a traditional retirement just because they hit the golden age of 66. A 2004 survey by AARP found that 79 percent of boomers plan to work in some capacity during their retirement years.

The plan of older workers to keep working will result in a highly age-diverse workforce. Organizations will need to find innovative ways to meet the needs of their age-divergent employees. Organizations must consider how to attract and retain older workers while meeting the development and career needs of younger workers.

Another factor to consider is gender. In the 1960s, women started entering the workforce in great numbers. As a result, the U.S. labor force started growing faster than the overall population. However, women's participation rate in the labor force is starting to reach parity with men's. (See Figure 3.) The participation of both men and women in the labor force is now driven predominantly by the increase in population.

Figure 3: U.S. Labor Force by Gender



Over the past few decades, organizations have benefited from increasing numbers of women entering the workforce. At the macro level, this supply of talent is now tapped out. At the micro level, organizations may need to do more to maximize their gender pool. For example, positions that have been dominated by either gender may have to be opened to the excluded gender. Again, organizations will need to work smarter to attract and retain qualified workers, regardless of gender.

American organizations also have looked toward immigration and, more recently, outsourcing to other countries to meet their labor needs. Although this trend will undoubtedly continue to help fill the baby boomer gap, organizations may start to experience increased difficulty attracting skilled labor from these alternative sources. While the SSA estimates relatively stable levels of immigration through 2040, the same demographic changes that impact the American labor market also affect most other countries. The United Nations projects that the average age will increase for most countries around the world, with developed nations impacted only slightly more than developing nations. Figure 4 shows a sample of how the average ages of the populations in countries will increase over the next 45 years.

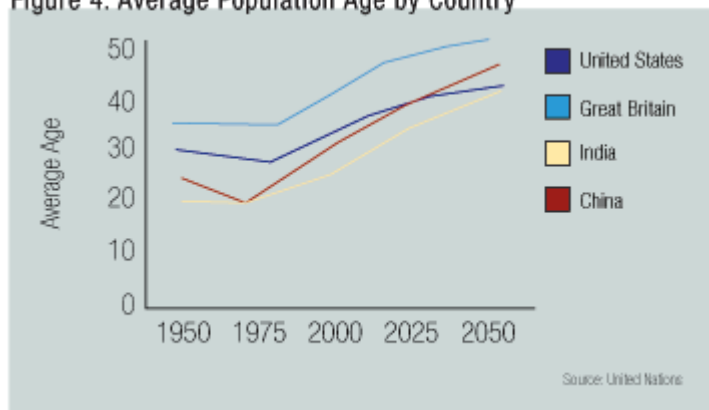
Organizations need to start investigating not only their own workforce's demographics, but also the demographics of their outsourcing partners. In addition, companies that historically use immigrant labor pools may need to start implementing guest worker programs in order to continue to attract the same level of offshore labor, along with promoting legislative initiatives to relax visa policies on individuals with critical skills.

Just as the baby boomers have impacted every other age group they have moved through, they are about to reinvent what it means to be old. Baby boomers have the resources and soon will have the extra time to kick off a discretionary spending spree the likes of which the world has never seen.

As pointed out by Ken Dychtwald of Age Wave, the 50-and-older group currently earns almost \$2 trillion in annual income, controls more than \$7 trillion in wealth, owns 77 percent of all financial assets in America and represents 50 percent of all discretionary spending power. This prime business motivator must be factored into any strategic plan as it is directly related to new sources of revenue.

Most likely, these new business opportunities will act as the main catalyst to compel organizations to change their labor force. The confounding factor is that this emerging client base and a large segment of the employee base come from the same population. This is a dilemma that only careful planning can address if the opportunities are to be realized.

Figure 4: Average Population Age by Country



Organizations that understand the immediacy of the baby boom exit and thoughtfully prepare for it will be in the best position to achieve unmatched success. To help you think through potential strategies for your organization, ask the following questions:

- What are your company's demographics (age, gender, position, years in position and anniversary date)?
- What are your company's retirement policies? Is early retirement encouraged or discouraged?
- What mechanisms and programs must be put in place now to capture key competencies and critical work knowledge of employees who will be retiring?
- Demographic trends show that you may be faced with large groups of both very young workers and very old workers. Will these two groups have different learning needs? Are you prepared to customize your current programs?
- What is the gender breakdown by position? Do specific positions have gender imbalance? Are there programs to correct these imbalances?
- Will your organization need to increase its reliance on new immigrants?

- If your organization is offshoring, what is the age breakdown of your overseas partners?
- Will your offshoring partners face a labor shortage that may impact their ability to provide services?
- Is your organization positioned to meet the need of the over-65 customer segment? How will this change your business? What new skills and competencies will this change require?

As a learning executive, you have already recognized that the answers to these complex questions are not just within the purview of learning. Mounting a comprehensive strategic plan for the entire organization must involve your peers and the CEO. While you may be the one to reveal the dimensions and significance of this demographic shift, the CFO and the senior vice presidents of sales, marketing, R&D and HR are key players in crafting a comprehensive and long-term strategy. It is the very comprehensiveness of this strategy and its buy-in at all levels that will ensure that your company will ride the crest of the baby boomer wave and not be swallowed by it. Both alternatives are a matter of choice—one informed, the other not. Make that choice now.

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