
The Aging Workforce

2008

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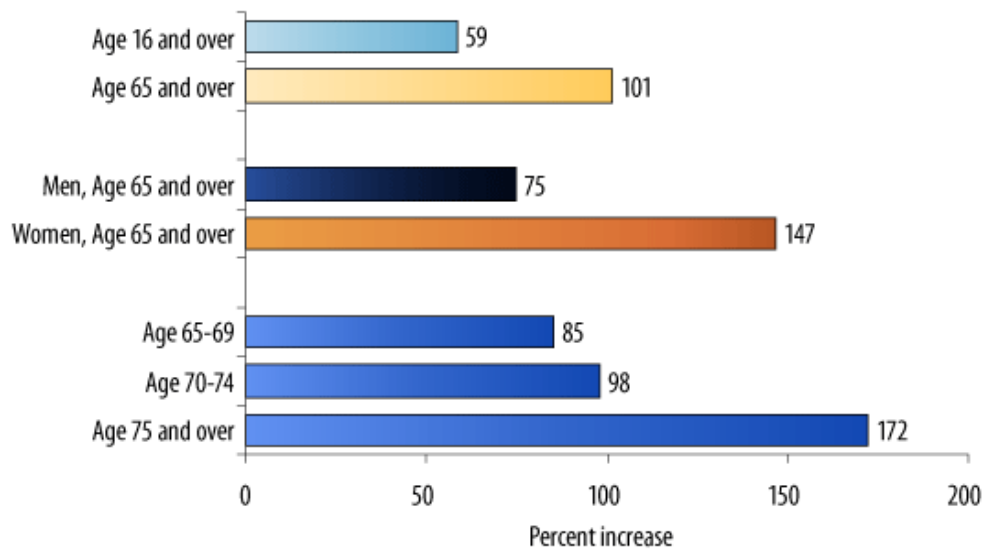
Introduction: The Aging Workforce

Over the next decade, the average age of the working population will increase. As this “graying” of the

workforce takes place, some companies and the government are considering what should be done to anticipate it.

Statistics are showing that the number of younger people entering the workforce is beginning to slacken and older workers are working beyond the typical retirement age. The U.S. Bureau of Labor Statistics¹ study shows that the number of workers who are remaining on the job at age 65 and older has more than doubled over the last 30 years. The increase according to BLS was 101 percent. Surprisingly this does not indicate the aging of the baby boomer population. The baby boomer generation is defined as those born between 1946 and 1964. Consequently, it's the previous generation that is beginning to stay longer in the workplace. Statistics show that the majority of increase is among women (147 percent) than men (75 percent). In addition, the percentage increase of workers over 75 is large but the actual number of workers is small at .08 percent.

Percent increase in employment by age and sex, 1977-2007



Source: U.S. Bureau of Labor Statistics

www.bls.gov

Several surveys and studies are indicating the reasons behind the statistics. Economic factors are influencing the decision regarding working or retiring along with the change in the retirement systems and the rising healthcare costs.

Economic factors include the current climate of uncertainty, a fluctuating stock market, the rising health care costs and loss of home values. A recent survey by AARP² found that one in five workers ages 55 to 64 intend to delay retirement due to the economic downturn. Most blame stock market losses, while others cite declining home values. In addition to the trend of employees delaying their retirement simply for financial reasons, are those who simply have a desire to continue to working.

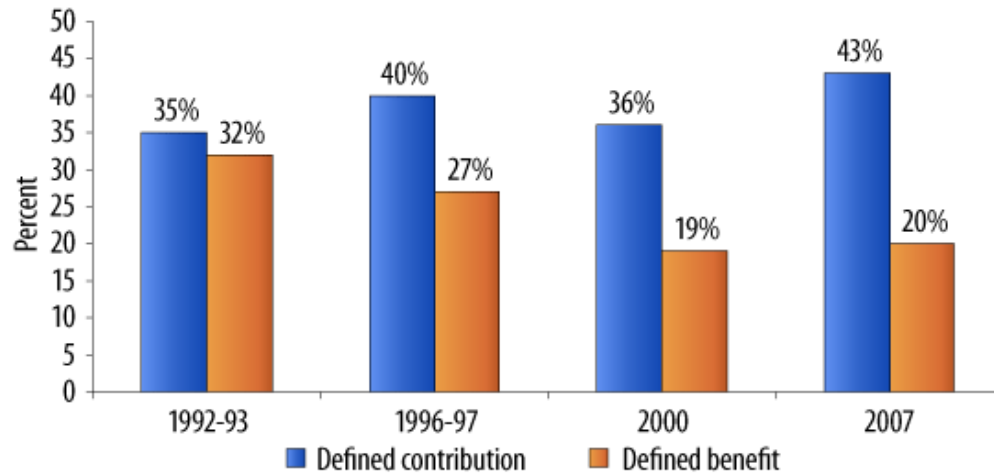
Financing Retirement

¹ <http://www.bls.gov/>

² <http://www.aarp.org/>

The reduction in the number of workers with defined retirement plans, such as pensions, has declined in favor of defined contribution plans such as a 401(k). The Bureau of Labor Statistics reports the percentage of workers covered by defined benefit plans dropped from 32 percent in 1992-1993 to 20 percent last year. "For more and more workers, this means that risk -- in terms of steady retirement income -- has been transferred from the employer to eventual retiree," the BLS said on its Web site. This shift is encouraging individuals to stay in the workplace in order to continue to build a nest egg, or in some instances, support their day-to-day needs.

Participation in defined contribution and defined benefit retirement plans



Source: U.S. Bureau of Labor Statistics

www.bls.gov

Marcie Pitt-Catsouphes, director of the Sloan Center³ on Aging & Work at Boston College said “The good news/bad news story is that we are living longer, so you actually need to have more money.” Another factor is the ‘sandwich’ generation where people are paying for a child's college and taking care of one or more parents. This can be a financial drain as well making difficult to attain a reasonable nest egg.

Overall Retirement Confidence Drops Sharply

One annual study on retirement confidence conducted by the Employee Benefit Research Institute found the lowest confidence concerning financial health and retirement in 7 years. As the study states, Americans' confidence in their ability to afford a comfortable retirement has dropped to its lowest level in seven years, reflecting worries about health costs, the economy, and home values, according to the 18th annual Retirement Confidence Survey® (RCS). Decreases in confidence occurred across all age groups and income levels but were particularly acute among younger workers and those with lower income. Moreover, only 18 percent of workers and 29 percent of retirees now feel very confident about having enough money for a comfortable retirement -- the smallest percentages in at least a decade, according to the Employee Benefit Research Institute⁴

The percentage of workers *very* confident about having enough money for a comfortable retirement decreased sharply, from 27 percent in 2007 to 18 percent in 2008, a decline of 9 percentage points and the biggest one-year drop in the 18-year history of the survey. Retiree confidence in maintaining a

³ Sloan Center on Aging & Work at Boston College – [Http://agingandwork.bc.edu/](http://agingandwork.bc.edu/)

⁴ <http://www.ebri.org/survey/rcs/>

financially secure retirement has also decreased sharply, from 41 percent *very* confident to 29 percent, down 12 percentage points. The main reasons cited in the survey were;

Health care costs have become a big issue for retirees—

- 54 percent of retirees who left the workforce earlier than planned did so because of health problems or disability.
- 44 percent say they have spent more than expected on health care expenses.
- 54 percent say they are now more concerned about their financial future a 14 percentage-point increase from a year ago

Workers may be waking up to the lack of health insurance in retirement—

- 34 percent of all workers now expect to have access to employer-paid health insurance in retirement, down 8 percentage

Retirement planning up, but still not high—

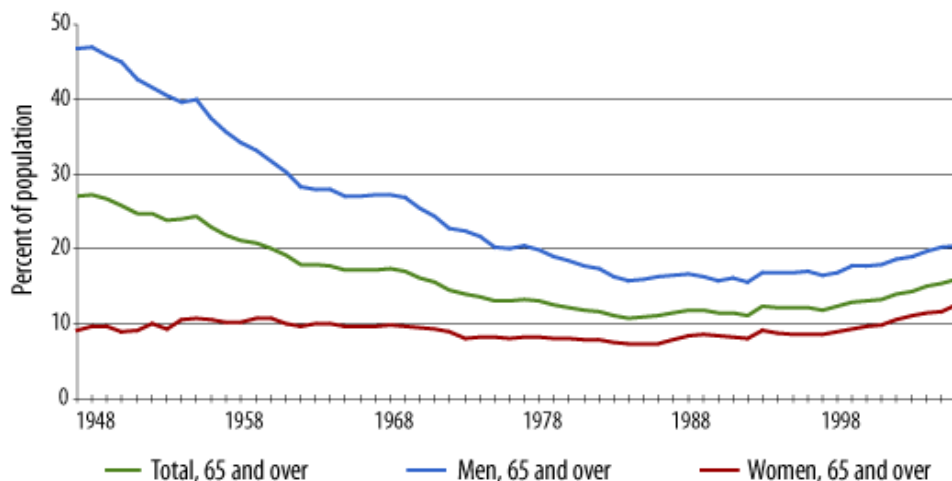
- 47 percent say they and/or their spouse have tried to calculate how much money they will need for a comfortable retirement, up from the 42 percent measured in 2004–2006
- 44 percent who calculated a goal changed their retirement planning, and
- Of those 59 percent started saving or investing more.

Most savings levels are modest—

- 72 percent say they have saved for retirement
- 49 percent of workers report total savings and investments (not including the value of their primary residence or any defined benefit plans) of less than \$50,000.
- 22 percent of workers and 28 percent of retirees say they have no savings of any kind.

It is clear that workers are struggling with the financial challenge of retirement. Companies should be aware of their changing employee demographics and the issues associated. Some employees will need extra support and guidance to achieve their goal. To assist these employees, companies can promote retirement planning resources and a 401(k) catch up program, both designed to help employees in establishing a solid financial base.

Labor force participation rate of workers 65 and over, 1948-2007

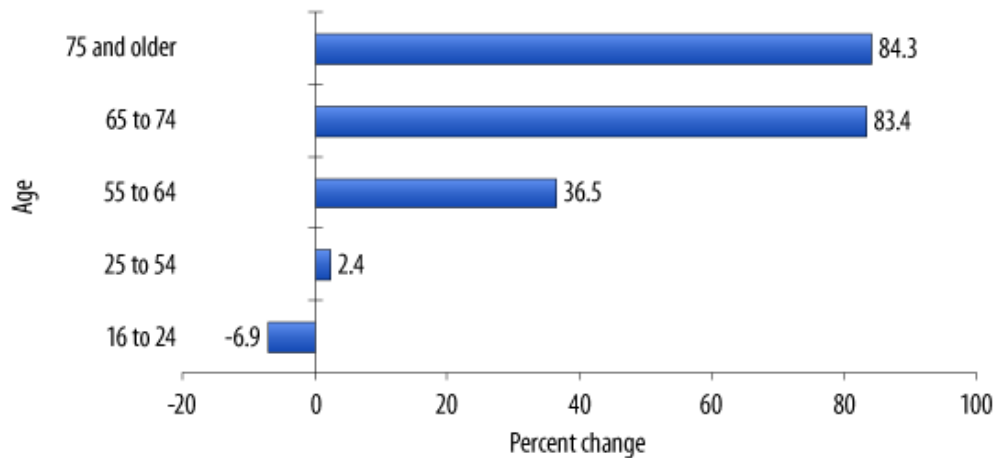


Source: U.S. Bureau of Labor Statistics

www.bls.gov

Between 2006 and 2016 the total workforce is expected to grow 8.5 percent. Examining the statistics by age category, the trend indicates this workforce will experience significant graying. While the over all workforce will only grow 8.5 percent, the percentage increase of workers 55-64 is expected to rise 36.5 percent. Additionally, workers 65-74 year of age and worker 75 and over are projected to rise 83.4 percent and 84.3 percent respectively.

Projected percentage change in labor force by age, 2006-2016



Source: U.S. Bureau of Labor Statistics

www.bls.gov

The workforce is expected to grow 8.5 percent from 2006 to 2016. As the chart indicates the number of workers 55-64 will rise 36.5 percent and 65 to 74 will rise 83.4 percent while the 16 to 24 year olds actually decrease 6.9 percent and the 25 to 54 group will rise only 2.4 percent. In the future the question may be whether companies will have the personnel available to replace the retirees once they leave the workforce.

Skill Set Retention: Planning for the Future

While many people are currently choosing to work past age 65, that may change. An improved economy and recovering home values may provide the financial stability needed for people to leave the workforce. If that happens companies may find it difficult to attract all the people they need to fill the gaps left by the retiring employees.

Businesses and the government are beginning to plan for such an outcome. Companies are beginning to identify key personnel they will need to retain in order to continue to operate efficiently. This retention of key skill sets and knowledge bases will be crucial for some companies so it makes sense to put plans in place to retain key personnel.

An HR manager of a northwest company with 7000 people across 4 states is already planning for an older workforce. They have found that there are advantages in retaining older employees. One is knowledge, their experience makes them very efficient and their work ethic on average is very high. Healthcare costs do not seem to have risen due to an aging workforce. Chronic conditions exist across all age groups and while older generations may have some health issues, the younger generations that are beginning families or with young children have their own issues. Medicare's role for those who would otherwise qualify is that it acts as a secondary insurance to the group health insurance. For this particular large company, if group health insurance is available then that is the primary health insurance for active employees, regardless of their Medicare eligibility or enrollment.

Wellness programs play an important part in the company's long term plans. If employees are remaining on the job longer it is to the benefit of the workers and the company to establish programs that will help employees maintain good health.

The government is also taking steps to help businesses plan for an older workforce and retain key skill sets. One option that is being considered is how and when pensions are paid out. The government is looking to assist companies with retaining vital skill sets by allowing them to offer targeted employees early access to their pensions. This would allow employees to begin receiving retirement payments while they are still working.

Currently, the only way retirees can return to work without affecting their retirement is to take a full cash payment for their retirement and then after 6 months return to work. For most retirees this option presents too much of a financial risk. With the early payment option companies may be able to entice their key personnel to continue to work for a little longer, without adverse financial risk.

Conclusion

The studies seem to indicate that there are a few key steps companies should consider now, in preparation for an older workforce.

- Establish financial planning and coaching programs.
- Provide 401(k) catch-up programs.
- Develop and encourage participation in health and wellness programs.
- Identify key skill sets and knowledge bases that will be important to retain.
- Develop a phased retirement plan

As with any business decision, prudent planning now can have a long term impact. Anticipating the requirements of an aging workforce and having plans and programs in place to fulfill those requirements will help ensure that a company can continue to function well in the future.