Informal Discussion Transcript

Session 2C — Developing a Winning Strategy to Address the Good, the Bad and the Wrinkled of Our Aging Workforce

Presented at the Living to 100 Symposium

Orlando, Fla.

January 8–10, 2014

SOCIETY OF ACTUARIES
LT100
Session 2C — Developing a Winning Strategy to Address the Good, the Bad and the Wrinkled of Our Aging Workforce

ANNA RAPPAPORT: Good afternoon. Welcome to Section 2C, Developing a Winning Strategy to Address the Good, the Bad and the Wrinkled of Our Aging Workforce. In this session, we will be focusing on older workers and the aging workforce. Older workers is generally not a politically correct term, and most of us usually need to be careful about what we say. In this session, however, we will say older workers and each of us will represent ourselves.

I've asked the panel to be forthright and open and not to worry about being careful about this; however, the session is being recorded. I will introduce the presenters and then share a controversial comment before we have some brief opening presentations and an interactive discussion.

Don Fuerst is a senior pension fellow from the American Academy of Actuaries. Today, he is filling in to represent the large employer perspective. He was formerly a worldwide partner and senior retirement consultant at Mercer, and a colleague of mine. He was recognized as a thought leader within the firm. He's the author of one of the prize-winning Society of Actuaries Retirement 2020 papers. In that paper, he sets forth the vision for the future of the retirement system. He'll be providing a perspective based on work with one of his former clients, Aerospace Corp. The presentation actually was prepared by Aerospace. Sally Haas is a consultant and those of you that were at the session this morning heard her bio. She's the nation's recognized leader in the design and delivery of workplace retirement and benefit education. During her 30-year career at Weyerhaeuser, her programs inspired and motivated many of the 50,000 employees to do a better job of retirement planning. She's implemented solutions that elongate careers and selected talent both pre- and post-retirement, reducing the risk of lost knowledge and maintaining the competitiveness of the workforce. Her consulting practice assists employers with improving the quantity and effectiveness of their retirement education. Our next panelist, Haig Nalbantian, is a senior partner, Mercer, and he's a founder and leader of Mercer's Workforce Sciences Institute. As we heard this morning, we are multidisciplinary. Haig brings us a different perspective. He's a labor and organizational economist. He's been instrumental in developing Mercer's unique capabilities to measure the economic impact of human capital practices. He's widely published in books and articles and he co-authored the prize-winning book on human capital management, *Play to Your Strengths*. He's also the editor and chief contributor to the book *Incentives, Cooperation and Risk Sharing*, and a frequent speaker before industry groups, professional associations and academic audiences around the world. He led the research team and coauthored the 2012 World Economic Forum/Mercer's study of global talent mobility called "Talent Mobility Good Practices: Collaboration at the Core of Driving Economic Growth."

And we have a fourth person helping us on the panel. He is doing an opening presentation, but he's going to be on the panel at the general session on business implications, and that's Tim Driver, founder and CEO of RetirementJobs.com, and you'll all hear his bio later.

Now my controversial comment, to get us started. I've been concerned about older worker employment and phased retirement for many years. Older workers are protected by age discrimination legislation in the United States. But I've come to believe that our focus on discrimination and the regulations is a two-edged sword. While people are protected, innovation is discouraged. And in talking with some of my fellow panelists, I think we all agree that although these regulations are protecting people, they're also a barrier to doing what's good for people. When organizations want to experiment and offer innovative programs, the advocates for the programs are often told that there are legal barriers. And all of us are losing out. This panel builds on the discussion this morning about the implications of longer life spans. We will be talking about jobs and people working longer. Our focus is on human resources issues. We're building on the earlier panel. Our four panelists represent four very different perspectives, but we all are thinking about employers. Haig's focus is on research, serving clients, workforce planning and human capital management as part of the business. He looks at employee groups for organizations and how they function versus focusing only on individuals.

Don has been consulting with major employers for many years before joining the American Academy of Actuaries. He now hears from colleagues. He's provides us with a typical large employer point of view, and with sensitivity about how managements of large companies think. Sally has a great deal of experience in helping individuals plan for retirement. The workshops she ran at Weyerhaeuser for many years put her in contact with many employees and today she's still doing that. She's worked hands on with many people, but generally, as a representative of the employer, and she also worked extensively on innovations in corporate programs. And Tim, as president of RetirementJobs.com, works with employers on a regular basis and hears their concerns. His company also certifies age-friendly employers. And as I mentioned before, he'll be on our panel later on.

We will start with three short presentations, and then we’re going to have an interactive discussion among the panel. I’ve also been asked to remind you all that there is an antitrust policy, and it’s in your booklet, so just be sure to be mindful of that. And with that, I’m going to call Don up here. Thank you.

DON FUERST: Thank you, Anna. Good afternoon to everyone. As Anna mentioned, I was kind of a late addition to the program. And drawing on some of my past experience was about the only way that I could prepare properly for this. I was very fortunate to be the retirement consultant to the Aerospace Corp. for over 25 years. And [I] developed a number of very good friends there, one of whom agreed to let me use this presentation because I thought it would be of interest to you. I was familiar with it and knew about this presentation and Anna said that we might need a case study to get started off with.

And I liked this, this story, because it says, yes, you really can make a difference if you work hard at something to accomplish a goal. You really can make a difference in the employment practices and the patterns of how people react and how they work at your organization. So I think this is a very optimistic story that I’m going to tell about, about what the Aerospace Corp. does.

I particularly want to thank Charlotte Lazar-Morrison, who’s the general manager of human resources at the

Aerospace Corp. for allowing me to use these slides and tell the story.

The Aerospace Corp. is a non-for-profit organization, 3,600 employees and 5,000 retirees. That's, first of all, I think, you'll probably recognize that's an unusual relationship. That sometimes happens in a declining industry, where the industry is shrinking, but they have lots of retirees. That's not the deal here. This company has actually had very stable employment for quite a long time. It's not at all a declining corporation.

One thing I know from my work with their pension plan is that their pension assets are now approaching $2 billion. When I left as actuary about three years ago, it was $1.7 billion and I know it's grown some since then. So it's almost $2 billion. For any of you familiar with pension plans, you'll also recognize that for a plan with about 8,600 participants, that is a lot of money. So it's a relatively rich plan. They've devoted quite a bit to it.

They are a federally funded research and development center. FFRDC was the acronym that we used for them. It's a very unusual type of organization. There's only about a dozen of them in the country. But they're dedicated to the application of science and technology. They have a very highly educated workforce. The employees are predominantly scientists and engineers; two-thirds of them hold advanced degrees, one in four has a doctorate. They have a very wide range of ages of their employees. They hire as young as 20, mostly college graduates. Their oldest employee is 85 years old and still working. I met that individual a couple of times and he’s quite a character and enjoyed working there.

The average age is 52. And approximately half their workers are over 50. They have over 100 employees still actively working, they’re over age 70. If you do the percentages on that, that’s quite a substantial percentage of employees at that age too. Very unusual.

Maintaining—Their challenge in their business was to maintain an adequate labor and skill supply to sustain their business operations. At any particular time, approximately a third of their employees are eligible to retire. And could literally leave the next day. That, that was always a big issue to them. They continue to analyze ways to attract, retain and motivate their workers. They also focused on bringing in a lot of new talent. They hired college graduates every year. They decided to address, many years ago, they decided to address these kind of workforce challenges actively and early, rather than waiting and having to react at a later time.

They did that through quite an array of different benefit programs. A number of health and welfare benefit programs, various approaches to managing the workforce in terms of job postings, training, succession plannings, a number of things. On this list of things that I'm going to—Really, I think you can look at the list and see they were, they were always wanting to accommodate their workforce. To react to them and, and train them when they needed, make flexible work schedules when they needed, react to what the employees wanted.

The last two elements I'm going to talk the most about, phased retirement practices and what they called their "Retiree Casual Program."

The phased retirement alternative had four components. A leave-of-absence program, part-time employment program, what they call casual employment and then consulting, consulting arrangements for their retirees. Take a look at each of these.

The leave-of-absence program was particularly unusual, I think. They would allow an employee who was eligible for retirement to request an unpaid leave of absence for a full year. The employee essentially could use this to try out retirement and see if they liked it. If they did, they were required to return to employment status before they actually retired. I never fully understood that provision and why they did that, but that was something that was part of their program. It could be as brief as just for a few days. But then they could retire. On the other hand, if they said, no, retirement is not the thing for me, they could return to full-time employment status or one of the other employment statuses that we're going to talk about.

One of those was part-time employment. They had a very liberal part-time employment program. The practice allowed virtually any employee to request a reduced work schedule. They did have some jobs where this didn't work out well and wasn't, wasn't feasible, but for the vast majority of their employees, it was workable. Active employees had to work a minimum of at least 20 hours in order to maintain their benefits. Vacation and sick leave were prorated based on these hours worked and their retirement accruals were based on their actual hours worked and salary, salary that was earned. They had a lot of take up on this program. I'll tell a personal story too. It was actually an incentive to me in the 25 years that I worked with them. There was one point when I was in my mid-50s that I was really just getting burnt out with the consulting work quite a bit. And I had been with Mercer for my entire career. And I was aware of this program that Aerospace had and I basically went to my employer, Mercer, and said, "I need a deal like this! I'm getting burnt out and I'm afraid, you know, if I can't work something out here, I'm going to have to quit, and go do something else." My employer, Mercer, didn't have a formal program like that, but was very flexible and responded positively to that. I went on a part-time schedule of working 24 hours a week for 18 months and then came back to full time, totally refreshed and really loving the business and worked another 10 years before I ultimately retired from Mercer and then took this job at the academy. So, from personal experience, I can tell you this is an effective program. And it worked quite well for Aerospace also.

The next element is what they called casual employment. This is a very interesting program that they started informally a long time ago, and then they formalized it in 1984, made a few recent changes to it that I'll tell you about also. This was a program to rehire a retiree on an as-needed basis. So, there was never any formal commitment or promise that it would be available to anyone, but as the work was needed, they would be in touch with retirees, and if the retirees were interested in the casual retirement program, casual employment program, they'd be on the list and they would be notified and called in when, when they were needed. It was extremely effective for the Aerospace Corp. in handling what they considered surge work. When their contracts became due and a lot of work had to be delivered, they were able to gather additional labor resources to do this kind of work and it wasn't brand-new people that they were hiring. It was experienced people who knew the work and could be immediately productive on there. So a very, very effective program for them.

The casual retirees received their normal retirement benefits and compensation for the time that they worked. They're limited to about 500 hours per year and they have to have a six-month waiting period before they actually come back. This is the element that changed just very recently. They used to have no waiting period, and they used to be able to work up to 1,000 hours per year. And this is an area where I think our public policy is, as Anna mentioned, our regulations to protect people sometimes hurt things. They were advised by their lawyers that, that the program was too liberal. They weren't, they were concerned that people weren't actually experiencing a bona fide separation from employment, and they advised them to have this six-month waiting period before people could be casual employees, and limit their time to 500 hours rather than a 1,000 hours. That's only been, I think, this has been in effect less than a year. We'll see whether or not it dampens the effectiveness of this program over the years. I'm, I'm not optimistic about that. I liked it better the way it was. But the lawyers sometimes drive us in these, in these areas.

Salaries are always reviewed upon rehire, but usually the pay is at the same level that they were receiving prior to retirement.

Consulting is the other area. I don’t know quite so much about this aspect of it. But it’s a little bit more technical. It was generally used for employees in very specialized and highly technical areas where, where their expertise was, was particularly needed and that would generally be on a contract basis. So they would hire back retirees as consultants. Again, it was on an as-needed basis. It was much less frequent than the casual employment and it was, as I say, used for those with, with specialized, restricted skills.

Last, I just want to mention some of the benefit issues that that you have to look at in having a program like this. The design of the retirement program is very important. One of the aspects of theirs that made this particularly easy to implement was that it was not a final pay plan. It was what we call a career accumulation or a career average plan, where your benefit grows based on how much you actually earn in a particular year, rather than an average over a few years and then multiplying by years of service. That gets real messy when you get into part-time employment. So, so that was an element that helped.

Another thing that they became aware of was the retiring medical plan. If you don’t have a retiree medical plan, it’s more of an incentive for people to continue to work. They’re not so—especially early retirement before eligibility for Medicare. That wasn’t their style. They do have a retiree medical program. But they did structure it so that it was clearly less valuable than the active plan. So that when you went from active employment status to the retiree medical status, there was some disincentive there, because the benefits for that retiree medical plan were not as generous.

The cooling-off period, the six-month wait that they’ve decided to add now, that’s something under their control. They’re going to measure how effective that is, and how that works. The jury is still out on that. And the last two things aren’t, aren’t things that are under your control as your own benefit program, but, but how, how these type of programs would affect eligibility for health care under the new ACA [Affordable Care Act]. Frankly, I have no idea. That’s not my area of expertise. And what the effect on Social Security benefits is. That, that I do understand, you can’t control that, but clearly, it can affect your retirement age for full benefits that the earnings that you make, even in casual retirement, are eligible for Social Security taxes and will increase your benefits as you go on.

So this corporation has, as you can see, done a number of innovative things to adapt to a different type of workforce. Their workforce is very different from the typical U.S. company. Their workers are, on average, are eight to 10 years older. They're much more highly educated. But, but they have a real need for continuity. A story their chief financial officer told me one time, I think, was the most relevant, very relevant to me about how important their employment situations were.

We went into a meeting one, one day and he, he asked us if any of us had, if any of us in the meeting, had any problems in the previous week with our smart phones or our GPS devices, in letting us know where we were and things like that.

Everybody around the room, uniformly said, "No, we didn't have any problems at all with them last week." And he said, "Well, that's exactly what we wanted." But last week, all the GPS satellites orbiting the earth underwent a massive and total rewrite of their implementation of a new software system that controlled everything on GPS devices. And he said, "We supervised every bit of that and nobody noticed the change." Which is exactly what they wanted and you can imagine, in something like that, how important it is to have a highly educated workforce with lots of continuity and the intellectual knowledge to, to make these things happen smoothly. They did an excellent job and I just offer this to all of you as an example of how you really can make a difference in, in these benefit programs. Thank you. (APPLAUSE)

ANNA RAPPAPORT: Sally.

SALLY HAAS: Well, thank you, Anna, for the great introduction and, Don, as I was listening to your remarks, it occurred to me that many of the things that I'm going to talk about here really are illustrated by your example.

I do want to start off and say how delighted I am to be invited here to talk to the Society. I realize that my perspective, coming from kind of the employer side of things, is perhaps somewhat unique here and I have felt very welcomed in the sessions this morning as well as at lunch. So I am not as intimidated as I was earlier this morning to be here.

Anyway, what I wanted to do first of all, is just to talk about who are the kinds—who are the companies and the employers that are interested in making adaptations to their aging workforce? And I come at this, not through any statistical data, oh, oh, Anna, I've forgotten where the key is to advance the slide. Let's see if this is it. All right.

Not through any statistical data, but through who rings my phone and actually wants to talk to me about making changes to their workplace practices, their HR practices, benefit designs and all of that. Who are the kinds of employers that actually call me and want to talk about this? And so, I just want to share with you what I think are some of the background factors that cause employers to want to adapt to an aging workforce.

The primary driver, of course, is the adequacy of their incoming talent to fill their pipeline. And this is overwhelmingly the No. 1 driver. If there's a shortfall between what's coming in, in terms of both quantity or skill level, and what is outgoing, then employers have a desire to do this. But there's also some other things that they can do to fill that gap between what's coming in and what's going out. They can automate or raise productivity. They can export work, import workers, they can amplify skill levels through training. They can expand their labor pool, they can expand their labor pool by elongating careers, both pre-and post- retirement, and they can improve their branding and recruiting and try to steal workers from other employers.

But of all of those kinds of hammers they can swing at the gap in the pipeline, probably one of the easiest things to do is to try to elongate the careers of their existing talent.

So some other factors though that I think are worth talking about here, is the age of the company. It's been my experience that the older the company, in other words, if it's been around 40, 50, maybe even 100 years, the more institutional knowledge that company has, and also the more mature or the more older workers they have in the workforce. So it just makes sense that if you're an older company, you probably care about this more and, Don, that's the case with the Aerospace Co. You know, they're an older company.

Also, age of leadership seems to be a factor influencing this. If you've got a more senior management team, it's on their minds about how their age is going to affect their career and their ability to maybe phase into retirement, so they're interested in some of these illusions.

Also the profitability of the company. If a company is making profits and has the ability to kind of stick their head up and think about some of these things and they're not in crisis mode, given an economic downturn, then they're going to be more willing to take a look at this as well. And I think the economic slowdown definitely impacted the ability of many major employers to look at this. And to spend time on this as an initiative.

Also the rate in growth of expansion. If a company, it's interesting, if a company is really growing rapidly, you'd think they'd be a prime candidate to look at adapting solutions for their aging workforce, but typically they don’t have the bandwidth to take this on. And so, they oftentimes won’t—what can I say?—spend time thinking about this and working on this, because again, they’re in crisis mode.

I also think the type of business very much influences whether an employer wants to deal with this. We know that health care faced a problem of older workers, especially with nurses, fairly early, but engineering, chemical companies, utilities, petroleum, some transportation sectors, but also there’s blue collar jobs that have really cropped up. Welding, machinist, people that understand manufacturing, those are the kinds of careers that people are not building skill in today. And yet those are some of the very skills that are needed to keep an operation running.

I also believe that the product life cycle itself, if you have a product that just takes a very short time to bring to market, that’s probably not an industry that’s going to be interested in adapting careers to an aging population, but if you’ve got a longer product life cycle—you’re building airplanes, you’re growing trees, as an example—if your product life cycle is long, you’ve got an interest in this. And I also think that culture and values of a company has a significant influence. Some companies or employers simply desire a stronger relationship with their employer—employee base and value long tenure. At one Canadian client, and they're actually a small client, small employer, they only have 600 employees, but their values are such that they desire to be one of the top employers in all of Canada for employees and they have been rated as one of the top five employers of all of Canada to work for. And they want to do a good job for their, their clients and they want to be the place that employees will come to work and stay for their entire career.

Interestingly enough, they let every employee come when it's time for retirement with a proposal on how they'd like to retire. Do they want to retire just all at once? Do they want to phase? And so it's kind of enlightened management, but it also, I think, is a reflection on the culture of that company. So those are some of the factors that I think influence an employer's willingness to think about accommodations or adaptations for an aging workforce.

Now just a few of the kinds of solutions that employers have put into place. We certainly have talked a lot over the last decade or even longer about phased retirement and reduced schedule. And, we have some examples of that. But increasingly, the No. 1 thing that older workers want is flexible schedule. And boomers typically want to break all the rules. And they don't just want reduced hours each week, they want to work 10 hours one week, 40 the next, five the next, 60 the next, and so they really want to redefine what flexible means in terms of a schedule. They also want, in some cases, flexible place. Work from home, but work from the ski cottage, or the beach, or you know, wherever. So they'd like some opportunity to have flexible place.

Some of the other things that employers are doing is to change their benefit eligibility rules. Not only have, in some cases, have they lowered the number of hours to be eligible for certain benefits, but they've also done some creative things with the language. So, as an example, one client had language in their benefit plans that you must work 25 hours each week. That employer realized that this was getting in the way of that flexibility that the boomers wanted and they changed the language to read, you have to be regularly scheduled to work 25 hours a week, whether you did or not was between you and your manager. So that's how they, they were able to change their language and their benefit plans.

The next three bullets really have to do with the impact of elder care support on active workers. Increasingly, people are leaving work and retiring early due to elder care support needs for their parents and this is especially true for women. Now I don't want to imply that men are not involved in the elder care for their parents, but it's typically the women that are giving up their careers for elder care support. So what some of the companies are doing is, enhancing their EAP [employee assistance program] services to provide more robust support for elder care and they're also increasing time off for caregiving and one company that I know of rolled out not only long-term care insurance for their employees, but they rolled it out for their employees' parents and they did this in such a way that it was not an added cost to the company, no added cost to benefit plans. They did it in such a way that employees could take advantage of being involved in a group discount and so it was a lower rate for the employees and they also could sign up if they had medical disqualifications. They could sign up at first issue and not have that count against them. So they really had quite a number of employees, almost 18 percent of their employee base, signed up for long-term care insurance for themselves and many of them took advantage of it for their parents. And this was just kind of an interesting way to try to help people stay in the workplace longer.

We've also seen monetary incentives, although the research shows that monetary incentives really don't go a long way to keeping people on the job longer. Some of them had provided some special training and education. There's been a number of clients who have allowed employees to change their work assignments and to do something that was meaningful for them in the last years of their work career, as a way to keep them in the workforce longer. They've also put in place special mentoring and knowledge transfer programs, not just for older workers but across the board for their entire workforce. And this knowledge transfer, we generally think of as just the content, what someone, someone knows in terms of the content of their job, but oftentimes it goes beyond that. It's know-how, know why, know who, know when. And so the knowledge transfer programs that have been put in place have tried to capture all of those aspects of knowledge transfer.

And then there's been some employers that have put in place sabbaticals, Don, like you talked about or leave of absence, and then others have also implemented retiree rehire or job bank processes. And so this was just kind of a laundry list of some of the things that I have seen employers do to adapt to an aging workforce. In my experience in working with employers, one of the things that I will tell you is typically these kinds of things are not thought through and implemented in a three-month or six-month timeframe. It generally takes a number of months to kind of study the situation at a—within the employer population to look at the demographics, to look at the solutions, to think about what—which of those solutions you're going to go after and how to implement them so they can have success.

And typically, there's some things that pop out at you right away; you're going to go after these things because those are the low hanging fruit and then here's some things that are going to take a little bit longer. So, in coming up with the recommendations in terms of what an employer is going to do, it's typically a multiyear timeframe to think about and then actually implement the solutions. I guess the other thing that I will share with you is, in all of the cases that I've been involved in and the changes that employers have made to their HR practices, work practices, benefit designs have really benefitted the entire workforce and not just that older population of workers that they have.

I think that's it for my opening. (APPLAUSE)

ANNA RAPPAPORT: Haig.

HAIG NALBANTIAN: Thank you, Anna, thank you all for the very kind invitation to join this group today. It's a very happy experience for me, an economist, to be with a group of actuaries. We compete for first place as the butt of professional jokes about "boring" professions. But I think we all agree our professions are anything but boring and I feel a great sense of solidarity with this organization.

I do want to give a little perspective on where I'm coming from before I plunge into the core content of my talk. As Anna mentioned, I help lead a group called the Workforce Sciences Group at Mercer. Back in the early '90s, we brought this group together with the express purpose to bring more of an economic discipline to decisions around the people side, to bring the perspective of economists and organizational psychologists together to try to better understand what really creates and drives an organization's workforce and its impact on firm performance. Functioning both as a consulting practice and research group, we spend our time pulling together and analyzing extensive archival workforce and performance data. We create large longitudinal datasets of the running record of workforce outcomes and business performance, primarily from large client organizations, many of them global organizations. Our aim is to better understand, on an empirical basis, where value is coming from and what influences the ability of an organization to secure the right workforce, to manage it effectively. Our goal is to help ensure that the age-old mantra of business organizations—namely, "people are our most important asset"—is more than politically correct verbiage, but is, in fact, a reflection of a true and new business discipline. We aim to help organizations bring the same kind of discipline to the workforce side as they do to decisions about financial investments, investments in plant and equipment, logistics, marketing, etc.

Our journey has been a long and sometimes frustrating one. But it is truly fulfilling to see how this core idea and the methods behind it are being embraced and how this whole field of evidence-based workforce management is booming. Today there is broad recognition that people are, in fact, *all* that important to business success. We're also in what is called "the era of big data" and more and more organizations, no matter where you're looking, are relying more extensively on data to inform their decisions. Analytics to support decision-making are all the rage. The proliferation of digital data and increasing possibilities for meticulous segmentation of such data permit organizations to better understand market and behavioral realities and focus their investments on "high-yield" areas. Harnessed properly, this information enables decision-makers to rely on hard empirical evidence rather than judgment alone. I share the point of view with the plenary speaker this morning that good decision-making is about both science and art. Data does not supplant judgment. Good judgment is always the final arbiter of the real story within the data. But neither data nor judgment alone is sufficient. In our work, we have found that well-developed predictive models can be very reliable; in the least, they help, help narrow the field to which pure judgment can be applied.

So that's, that's the background I bring to this discussion today. The thing that has really brought this aging workforce issue to the fore for my colleagues and me is the surge of interest and demand for workforce planning among client organizations. In helping organizations secure and manage the right workforces, we find a basic bifurcation of the world. For some client organizations, older workers are a solution to the challenges of workforce planning; for others, older workers are, themselves, a challenge to effective workforce planning.

In the growth sectors, energy, engineering, procurement, construction, more and more these days health care, talent shortages abound. It's very clear in those sectors that the challenge for organizations is getting their more experienced workers, who might be thinking of retiring, to prolong their careers, to stay on and help drive the business and help prepare the next generation of technical and managerial talent. If they can't do that, particularly in the energy sector, they're finding they're really at risk of not being able to meet their business goals.

And I think the social challenge, the broad policy challenge on that front concerns how we create institutions and markets, almost like an “aftermarket” for senior, experienced talent, to get back into the workforce, find the right job matches with employers and be able to help drive business growth for the economy at large. I think, Tim, what you’re doing with your organization is very much about that. It is very inspiring. Such institution building is critical to solving the talent shortage problem. In today’s economy, it is becoming an important development in making labor markets efficient. Clearly, we still have a long way to go.

The other side of the coin, however, is also real and I think very pertinent to the “living to 100” theme of this gathering. It’s one of the big challenges facing mature organizations in a low growth mode, and who tend to build their workforces from within—who pursue a “build strategy” for talent. In these kind of organizations, tenure is really important. Value derives less from the inherent capabilities of employees than from institutional knowledge, internal networks, from the know-how that arises from long-term association—knowing how to get things done within the structures and systems unique to the firm. Such organizations that require and value homegrown talent end up, inevitably, creating back-loaded pay and reward systems. They rely on career value as the foundation of rewards—an approach that requires a well-functioning and coherent “internal labor market,” or ILM. By ILM, we mean the dynamic process by which organizations bring people in, move them through, keep some, lose some and, simultaneously, value the attributes, behaviors and attitudes of their employees—that is, who they are and what they do. This really is a form of market, and how well it functions will determine how aligned your workforce is with your business needs. We’re finding that many of the “build-from-within” organizations I mentioned are really struggling these days to maintain a well-functioning ILM. For example, if you’re not growing, and employees are not retiring when expected, say, because of concern over the economy and an absence of real incentives to retire, how do you prevent having the dynamics of your internal labor market effectively stall out and end up precipitating the exit of the up-and-coming, early career employees who bring new skills and perspectives required for future business success—the very people you least want to lose? The stark reality is, in the absence of growth, delayed retirement can be a serious hazard to build-from-within organizations and put at risk their ability to adapt their workforce to changing business requirements.

So I want to spend my remaining time sharing examples of each, because this is not an all-or-nothing phenomenon. Where you sit matters a lot. Developing good ways to deal with these issues, I think, will help support the broader goal of effectively addressing the aging workforce phenomenon and keeping older workers productively employed and delivering the true social value of their knowledge, know-how and experience to the economy at large.

Let me give you an example. Anna mentioned that we worked with World Economic Forum on the Talent Mobility Study. One of the astonishing things highlighted by that study is the incredible paradox of a world economy in which there remain large numbers of unemployed people. There are over 200 million officially unemployed people, and yet, in various surveys, and various analyses of actual talent shortages, we find that 35 percent or so, as of 2013, are saying they can’t find the talent they need to staff their open positions. So the macroeconomy at a global level, despite all the unemployment, is suffering from talent shortages, particularly among the higher skilled jobs. That’s the broad climate in which companies are operating. For individual companies, we’re seeing this play out in very stark terms. As an example, we’re working with a large energy producer. They are focused on quadrupling the size of their operations in the United States, Gulf region, focused largely on the liquefaction of natural gas, fracking, extraction of natural gas. They’re making a double digit billion dollar investment over the next five years to bring these facilities on line. I can tell you—and we've analyzed both the local, the regional and even the national data—there is no way they will be able to staff those operations through hiring unless they cast a very wide net, due to the extent of competition for the kinds of talent they need.

And, as we did an internal labor market analyses for them as well, we also realized there's no way they're going to be able to support this massive growth investment unless they can get many of their older workers to stay on. A big challenge for them is thwarting the very predictable planned exits of a large part of their workforce, which, if it happens, will really put them behind the eight ball when it comes to realizing their business goals. When you're making an investment of that kind, you can't leave this to chance. They're looking very closely at interventions and the kinds of things talked about earlier by my fellow panelists as ways to induce older workers to delay retirement and/or be available to help speed the accession of new, capable talent into the organization.

So, this is a very real story we see playing out quite frequently in various sectors. But there is another story as well, best reflected in the situation of a large global consumer products company with which we work. This is a household name company, broad, global. They make many different types of consumer products, a lot of household products. The reality of their world is that most of their growth is abroad and most of it is in emerging markets. That's the healthy buoyant part of their business. In the U.S., and most of Europe, their business is flat and in some areas declining.

This is an organization that has historically built its talent from within: Hire people right out of school, project a long-term career for them and help them develop and grow. Historically, they have been quite successful in executing this strategy. People tend to move in and through the organization in a very regular fashion—through assignments, jobs, career levels, sometimes across geographies and business segments until they retire.

In the late '90s, this company, like many, followed the crowd in abandoning their defined benefit plan. Why? Because the folks in finance pushed them in this direction out of concern for the "costs," risks and liabilities associated with their DB plan. They felt the DB plan was no longer good for the company and, as so many other companies were (and are) doing the same thing, it was hard to resist the gathering herd. I know Don can talk to the reasons for this dominant trend much better than I can.

Unfortunately, the decision to jettison the DB plan has led to some very serious unintended and unanticipated problems. They're materializing only in the most recent years, produced by the confluence of low business growth, declining stock values in the aftermath of the crisis, leading, for a prolonged period, to a significant loss of value in employees' 401(k), dim prospects for employability—e.g., employees concerned that if they leave the job now, they may never get employed again. All of these factors together has led to a stark reduction in retirement. Employees the company anticipated would be retiring were simply holding on, pushing average retirement age back about four years, to 66.

The net result of this changed behavior shows up in this picture of the company's internal labor market—what we call an ILM map. We find the ILM map to be a very useful way to visualize the talent flows that create an organization's workforce—"a system at a glance." It is also a way to begin the process of applying predictive modeling methods to see what drives these talent flows and workforce outcomes. What you're seeing here is, for the exempt salaried workforce of this organization globally, across the multiple career levels all the way from support at the bottom to senior executive at the top, you're seeing where those employees are. The width of the bars are showing the concentration of employees at various levels, where employees come in from the outside labor market, where employees exit the organization to the outside. The numbers in between are average annual percentages of rates of promotion and, on the side, percent of lateral moves. The latter are people moving across jobs but not having a promotion associated with that move.

These are the talent flows that actually produce a workforce, right? So, now ask yourself the question: What would be the unanticipated consequences of the move away from the DB plan? Of eliminating incentives for people to retire that are inherent in a DB plan and leaving them, instead, to the vicissitudes of the equity markets? In effect, of ceding control over that important decision that employees make? Well, one major consequence shows up in this measure of, of so-called ILM “velocity.” The velocity of movement represents promotions and lateral moves combined. For this organization, velocity was roughly around 10 percent, very low for an organization that relies on a build strategy, on talent development and on promotion as the engine of motivation.

The other thing that materializes are what we call career “choke points.” So I’ve circled two of them here. A choke point is a place in the career hierarchy where the probability of moving up shows a precipitous and stark decline relative to the adjacent levels. You can see here at the senior professional level, there is less than a 4 percent probability of moving up in any given year. At the senior manager level, promotion probability drops below 2.5 percent; it actually rises a little at higher levels, but these rates are very, very low for an organization that aims to build its workforce from within. The final picture emerges from the statistical modeling we undertook of the drivers of these talent flows, to determine what actually predicts who stays and leaves, who gets promoted—what predicts the various arrows you see in the ILM map? We found that if you were a high-potential, high-performing up-and-comer in the organization, at one of those choke point levels, you had a higher probability of exiting the organization.

So for this company, in a sense, they're trading off their future workforce for their past workforce, and because their talent model is structured around long-term career prospects, this really poses a hazard for the company.

And, you know, this is a really interesting phenomenon. I was at a conference a few months ago, at Stanford University, on aging workforce issues and the economists there were talking about how the research should, by now, have put to bed as a myth the idea that older workers pre-empt opportunities for younger workers. It is clear from a macroperspective that this is not the case, that when older workers stay on and remain productive, they actually create more overall economic opportunity through their spending and involvement with the economy. As a broad macrophenomenon, that’s really, I think, quite well established. But that still begs the question whether this can be a problem for individual organizations who may be facing this low velocity challenge and the consequences of severe career choke points. The macro- and microworlds don’t always dovetail so smoothly. How do organizations deal with this very real issue? How do they respond to a dynamic that may impede their ability to shape their workforce to future business needs? Frankly, unless we figure out how to help them manage the issue, the aging workforce issue will be more dramatic for our organizations and ultimately for our economy overall. It does older workers no good for us to pretend this problem doesn’t exist or is a reflection of pernicious ageism among employers. Those who really care about older workers need to help develop the firm-level interventions and social/labor market institutions to ensure the macro- and microdynamics properly align.

Lest you think that my consumer products company example is just a fluke and that there is no connection between decisions around retirement plans and these ILM dynamics, take a look at the ILM map of another another large, well-known products organization with which we're working. They're one of the few who still have a DB plan. Take a look at these dynamics. They have high velocity, closer to 20 percent, no choke points at all, no delayed retirement; their people leave and retire, in an orderly, predictable way. No, we can't just view the low velocity syndrome of our first consumer products company as just an aberration of today's economy and the uncertainty around it. This other company is also operating in today's economy but they have nonetheless managed to preserve a nice dynamic for a build organization. So there are costs and opportunities associated with the issues I have raised with these examples. I'm running out of time so I'm not going to go through each of these now. I think the main point I wanted to put on the table for our discussion is that there's no way you can do workforce planning today in large organizations without confronting the older workforce issue and figuring out what your posture towards it has to be.

We used to think retirement programs are blunt instruments, they're really not a major part of overall human capital management. Well, we've learned better. That idea is far, far from true. There are big impacts and if you don't look at and anticipate the impact of your retirement plan changes on workforce outcomes, you're likely to end up like our first consumer products company with a big, high-cost problem that was not anticipated. Retirement plans are central parts of the incentive and price system driving the dynamics of your internal labor market. Please don't forget that. And please don't let your fine colleagues in finance impose their narrow, noneconomic view of labor cost on the organization. It may well come back to haunt you. Thank you. (APPLAUSE)

ANNA RAPPAPORT: I want to thank the panelists for their perspectives on real-world issues. I have questions for them and then you can join the discussion. First, what we see as the barriers to desirable solutions. Do we see any policy or legal barriers? Please include them in your responses. I'll start with you, Don.

DON FUERST: OK, thanks, Anna. I think some of the barriers that I see fall into a couple of different categories. First of all, there's the big change in the retirement programs that have happened over the past 15, 20 years of moving more toward defined contribution where it really depends—People, people end up making decisions very much based on their account balances and whether or not they think they have enough money to last for a retirement. And so at a time like early 2009, retirement rates plummet because people believe they don't have the money to handle it.

There was an opposite kind of situation in the year

2000 when a, when a lot of people retired thinking they had so much money they'd live a life of luxury the rest of the way. The millionaire 401(k) plans. And they got the bitter surprise that many of them had to come back to work later. So, so that's one whole area of obstacle.

The other area of obstacle that I see is in some of our regulations that are meant to regulate these plans, regulate the workforce, and often have unintended consequences. So for instance, the one that I mentioned of a bona fide termination being required to get lump sum distributions or pension payments or a number of other things that it might affect. Where in this new labor force or demands that we're having, maybe a bona fide termination isn't what we need. You know, we need these, these phase-outs of from—gradual phase-outs from the workforce rather than, than true termination. So I think regulations like that—The IRS, a few years ago, proposed some regulations on phased retirement plans that very few employers have adopted because they're so, they're relatively onerous to implement. So those, those kind of things are clearly obstacles.

ANNA RAPPAPORT: Don, I want to add to the bona fide termination of employment discussion. It seems to me that it would be so easy to have a safe harbor on that point. I do not understand why that would be difficult. I was excited a few weeks ago to attend a conference in Washington which was promoted as including a discussion on policy issues relating to longer work, and they did not even mention this issue, or other issues related to private pension plans. They didn't even talk about the issues that cause problems to real employers. They talked about Social Security retirement ages and that is important. But that conversation, held in the U.S. Senate Office Building, with staffers and Congressmen there, did not acknowledge the nitty gritty issues facing employers. Sally, do you want to add anything to the barriers?

SALLY HASS: I think about barriers mostly from the standpoint of the individual and what's getting in the way of the individual really taking charge of planning for their future and I do think when I look at younger employees, you know, we've got things today like automatic enrollment in 401(k) and target retirement funds and even though we, in many cases, have eliminated the benefit of pensions, which is a huge advantage in planning for retirement, but even though we've eliminated that, some of our language and the way we talk about benefits causes employees to think that they can just go on a cruise. They're automatically enrolled. Their funds are automatically invested. So, you know, I'm going to be OK. The reality is though they're going to see many of their parents really struggling to make ends meet to meet their needs in retirement. So that might be kind of the wakeup call for younger employees. But I guess the other thing that I feel very strongly about is, that even though employers have a significant challenge just to pay benefits and make their companies profitable, I do believe employers are in the best place and the best position to educate employees about planning for retirement and employers have significant skin in the game because they're providing a piece of the benefits that people are going to use in retirement. So the barrier, though, is there are a lot of regulations that cause employers to feel like they've got to tread very carefully on giving advice, and on providing education. They don't want to be sued. And so employers, if there is a liability to them, are likely to step away from any real assertive or aggressive or robust education programs in the workplace.

ANNA RAPPAPORT: Tim?

TIM DRIVER: Yeah, in addition to that, I would say that there is a clear barrier in the sense that the employees themselves can make themselves more attractive to employers, in certain situations. You know, in the Aerospace Corp., you know they're doing everything they can to hold on to these folks. In the case of other organizations, they tend to not to hire older workers due to age bias and age bias sometimes you know is a terrible thing, and it’s very evident it’s out there. It’s a fact of life. But there are a lot of things that older workers can do themselves to make themselves more attractive. So that’s a, that’s a barrier.

Another barrier that I would put out there is that there’s a lot of benefits to hiring older workers the companies are just not aware of. There’s a lot more data—you know, Haig mentioned we’re in this era of big data—there’s a lot more data out there that points up to companies and I will single out the—You know, retailers of America are gaining greater knowledge around the fact that customer satisfaction measures are higher, measurably higher when they employ an older worker.

That’s maybe the biggest facts to come out in the last eight years of running my business, RetirementJobs.com. And I say it’s the biggest fact because it’s the most meaningful to the top line and the bottom line of an organization. It’s not a qualitative point like you should do this because it’s a good thing for society. It’s a very measurable action-oriented reason why at every level of the organization, it’s good strategy to hire older workers.

And then the last point, just to touch on another legal barrier out there. You know, the legal barriers are significant. And we’ve talked about a couple of them so far and you know, one that has come up sadly, in our business, on more than one occasion, and this has only come to us by our confidential discussions with retired chief executives. But in these cases, and there are more than a few now, they're retired chief executives of major American organizations that have said they weren't hiring older workers because of the fear of frivolous age-bias lawsuits. And that's, of course, a terrible example of the, you know, the outcome of these discrimination laws being the reverse of what was intended.

ANNA RAPPAPORT: Haig, do you want to add anything to this?

HAIG NALBANTIAN: Barriers, there are two that I would speak to. One is "silo thinking" that continues in organizations, siloed management, and the other relates to what you said at the opening, Anna, about unintended consequences of well-meaning discrimination laws.

On the first, I'm spending a lot of time with my retirement colleagues, going to organizations to see if we can help them deal with some of the unintended consequences of the move away from DB plans that are materializing now and I'm astonished at how dominant finance remains in decisions around these plans. And I guess I will just put the observation bluntly on the table, meaning no disrespect to any finance person here, that human capital management is too important to be left to finance alone. Those who bring an expense lens to cost rather than a productivity lens to cost are bound to get it wrong. And I find that that mindset is very hard still to overcome and it’s, it’s eroding a bit and I hope that will continue.

So that’s No. 1. As for the regulation or diversity laws, my team and I spend a lot of time using this empirical approach to helping organizations enhance the diversity of their workforce on a strong fact-base, but it remains the case that too many organizations are scared to even look at their data because of what legal says. They think if you’re analyzing your data in a proactive way, you may be doing the plaintiff’s work for them. So why would you do that?

Well, why would you drive blind? You have to take that risk and I think our laws have to get more flexible to help ensure that companies do the due diligence and take the intelligent and responsible approach of trying to be on top of their workforce data and know what’s helping and what’s hurting them from a diversity perspective. We shouldn’t have companies in effect be penalized if they do the serious work of data analysis and, in the process, unearth some things that are not pretty, so long as they move quickly to address the gaps and genuinely try to fix them. Diversity-related laws and regulations should not end up functioning as an obstacle to learning and, therefore, to progress on the diversity front

ANNA RAPPAPORT: I was to share discussions with one of the major think tanks some years ago. I am very pleased that they were really interested in the use of older workforces and they hoped to partner with a few large companies to get some data and study these issues. But, sadly, not one company was willing to give them data because they were concerned about analyzing the data.

Let's move to a different question. Tim's organization has a program for certifying age-friendly employers and maybe, Tim, you can just give us a real quick snapshot of what do you think age-friendly means and why?

TIM DRIVER: Sure. So the name of my company is RetirementJobs.com; we're a career site aimed at people over 50, you can think of it as Monster.com for people over age 50. So we, we specialize in what I refer to as the vocal minority of employers that sees good reason to hire and retain people over 50. And we, we work with them to post their job listings and we also, as Anna said, work with them to give them a designation as a certified age-friendly employer. So what does that mean?

Well, what it means is they provide the most welcoming environments for mature workers, for a variety of reasons. What tends to drive them, I mentioned one of them, it's a newer one, it's a customer satisfaction point. There are some other main drivers, such as lowering their turnover rate and having a closer affinity with their older customers and there are a variety of other reasons. But what we've, what we look at when we filter these companies and they apply for this designation and the reason that they do that is so that they can get more applicants to their job listings. And also because they'd like to be seen as good citizens. We then evaluate them on a pass/fail basis based on 30 questions that we've distilled and, you know, we review this program every year. But the goal of the program is to sort of be what Consumer Reports would create if they were creating a program to evaluate employers, as to their suitability for older Americans.

So we look at them on a number of different fronts, half of those fronts are, you know, easily quantified measures and others are much more subjective. We'll look at, for example, the training programs which were mentioned in Sally's presentation. You know, are those training programs made available, you know, across the board or are they really kind of tending to focus on, you know, one set of, let's say, younger employees? We look at the, just the numbers you know, versus their peers by industry. So we always compare companies against their peers than in an industry that wouldn't be appropriate or compare a retailer to a hospital, for example.

So we’ll look at their peers and say, well, what’s the percentage of your workforce over age 50 versus your peers? And we, we take that into consideration. We also look at, and this gets into the subjective side of things, what is, what some of these values are against. Again, Sally mentioned these. You know, what does the management think and what do they state publicly either to their employees or, you know, in their recruitment collateral about their commitment to older workers? If all of their recruitment collateral is picturing, you know, kids that just came out of college and there’s no representation of their, you know, you know, looking at older workers as valued members of the community, that says something.

We also, we really want to see intent too. So we have had examples of employers that go through the process of, of getting certified. We give them the certification and then when we get a complaint from an employee who says, “Well, you know, this company is certified but I’ve got an example here of where they broke the rules.” We want to see the company, we require the company to, you know, get recertified. We, we make them go look at it, and give an honest investigation of it, confidentially. We don’t disclose who they are. And then we want to see what happens. So we’ve had, you know, plenty of examples where the companies have gone back and rectified what they

acknowledged was a, you know, an inappropriate treatment of an older workers and we've had workers reinstated who were let go inappropriately because of age-bias situations.
So, it's, it's a battery of questions. There's 30 of them. We break them into 12 different categories and, and we look at them and we, and we give these companies a pass/fail as I said, compared against their peers. And then we recertify them every two years.

ANNA RAPPAPORT: I consider myself a phased retiree and older person. I've written about phased retirement from the viewpoint of the retiree. I believe that there are many age-unfriendly older employers, many of the people that I know have met them, and they're in many different industries. They're just not limited to one particular industry at all and I think that they can be, are extremely shortsighted. Many organizations today are not focused on using people well to add value to their businesses.
(LAUGHING)

I want to hear from each of the panelists. Do you have specific recommendations to important stakeholders? The stakeholders could be human resources managers, policy people and influencers, researchers, actuaries or individuals. Please share both your recommendations and things you'd like to see happen.

Don.

DON FUERST: OK. I think I'd address it two ways. One to policymakers in Washington, which is a big part of my job now, but the other to the policymakers at corporations, which is the big part of the job I used to have. So those people in corporations, I think what we need to be saying is, is more information about the value of older workers. What, what—Tim, last night when we were having dinner and Tim told me the statistic about the retail industry having a demonstrable correlation between the age of the, of the retail worker that helped you purchase whatever it is, or showed you the goods and customer satisfaction. A very strong correlation. That just flabbergasted me. Actually it didn't surprise me. What surprised me was that he had good data on it. We, we need to get that kind of information to the leaders in companies and getting them to understand that. The Aerospace Corp. has recognized that very clearly but it's because they need such a highly educated—There's so much intellectual capacity, knowledge that needs to be maintained. It's much more obvious in a business like that. But, but I think it's prevalent in other businesses also and we need to get leaders of companies understanding the value of older workers. If they appreciate that, they'll implement programs that enhance the workforce for those people.

With policymakers in Washington, I think I'm less optimistic and it’s a harder, a harder accomplishment because there are so many diverse things that are trying to be accomplished. I mean, you talk to any of the staffers, or any of the members of Congress and they will all say they want to help older workers. I mean, just everybody. That’s like apple pie and motherhood. But then getting them to agree on how you do that is really difficult because so many of these regulations have unintended consequences. I’m, I’m not as optimistic on that. I guess, I, I think in some ways, I feel like less regulation would be the solution, rather than, than more regulation or ways to help us. So, so we need, we need to be looking at those programs very carefully, and I think before we implement regulations that affect these kinds of things, we really need to explore what the unintended consequences might be so that we don’t unintentionally damage what we’re trying to accomplish.

ANNA RAPPAPORT: I want to share a story that is illustrative of something people don’t understand. I’m also a painter. And I went to an art teacher for many years, who was fabulous and very fast. And somebody said to him, “How long did it take you to make that painting?” And he said, “Well, 20 minutes or 20 years, depending on how you look at it.” The idea that, the person that has the knowledge can answer a question immediately or with little work, whereas, a less experienced person has to do weeks of research and may never find the right answer. So, that experience is often not valued or appreciated. And continue with the question of what do you recommend. Haig.

HAIG NALBANTIAN: Well, I certainly agree with Don on the information issue. It's extremely important in this age of big data. It's so much easier now to capture what's really happening in the workforce and understand productivity effects, and understand behavioral outcomes. My colleague Rick Guzzo and I did a study a few years ago of the annual reports of the Fortune 500 and the FTSE 100 companies; in a nutshell, only 25 percent had any data, hard data on their workforces and most of it was soft stuff just relating to their intents and how they value their workforces. When you think of it, the investments companies make in their workforce are the single biggest collective investment they make for most companies, and yet it's the investment that they know the least about in terms of what the overall return and impact is.

It's astonishing to me that capital markets have not pushed faster and harder to oblige companies to furnish more of this information and report on how they're tending to their workforce assets and what's happening in their workforce in a way that would allow investors to gauge if this is a company they really want to invest in. I am talking about the kind of the thing you're doing, Tim, on the matter of companies being age-friendly. There are economic implications to that, not just social implications. So the data side, I think, is a big opportunity area. The good news is that the provision of such valuable information is accelerating and I believe if we hold this session 10 years from now, we'd probably be talking quite a bit differently.

To the profession, and those of us who are interested in these demographic issues, the one bit of advice I'd offer is to recognize that our work is still far too nationally focused. The change going on out there in globalization of labor markets is maybe as profound a change as has ever occurred in the economic landscape. Yet, when we talk about these older worker issues, we still talk as if we're operating in a closed economy. We know very little about how globalization of labor markets and the younger populations emerging in the emerging markets will affect these older worker issues. And if we don't have more research on that, and learning about that, I think we're going to be caught short and our research will quickly get outdated. So we should have a more global perspective on this issue.

TIM DRIVER: I would concur that information is power here, in terms of what can have an impact, what can change the current situation. I think that there's a growing amount of data because of the, you know, the growing amount of research to suggest the benefits of maintaining older workers and hiring older workers. There have been in the past, efforts—We were actually contacted by the aging community in the U.S. Senate so that they could go out and shine a light on companies that were friendly to older workers and we, of course, obliged and went out and did press conferences and tried to do that. It went a little way. In fact, it was incredibly useful for us as a business, but it was only just a little way. I think it needs to be done at a much higher level to get this information out there as to why it's a good idea to keep older workers employed. For all the, you know, you know, all the benefits to the employer, but also the benefits to society. So I think that, you know, getting more information out there. I think there have been—There was an Older Worker Opportunity Act that was put forth a number of years ago, didn't get much momentum, because it was going to cost the country money in the form of tax credits to employers that hire older workers. It didn't get anywhere for that reason. I don't know that it would get any further today. So I think that, you know, it's basically information as power, is the way, is the way to go. And then my other recommendation would be to the, you know, to those who have access to this big data, is to take advantage of it. I mean this point, that has come, you know, across our stern recently, across our transom about the increased productivity of older worker and increased, you know, the high correlation between older workers and customer satisfaction. This is not a single retailer that's come to us with this point. It's a number of them and they each come to us with the point and then they say, we don't want to be named publicly because it's proprietary. So, you know, but I would suggest to every company, go dig into the data and figure it out for yourselves and then act upon it, because there's a solution lying in there to some of these issues.

ANNA RAPPAPORT: Sally.

SALLY HASS: I'm a strong proponent in the need for employers to really do their due diligence around their workforce demographic, so I very much support that. But at the end of the individual level, I believe that the No. 1 thing that's going to save the retirements of many workers and especially American workers, but it could transcend globally, is simply to work longer. And so I'm an advocate for what I call a "new filter" that we have and we run through our HR decisions, our benefit designs, our workplace practices, our labor laws, our tax codes and everything through that filter and that filter says, is this a helping force and encouraging and enabling people to work longer? Is this a hindering force or is this neutral? And I think we need to come up with a new mindset.

At the same time, I'm not for a lot of regulation. But I do think we need a change in our mindset that really celebrates and encourages people to work longer. Certainly, 62 is not the number. We need to be thinking about 72 and maybe beyond.

ANNA RAPPAPORT: Do some of you have a question or comment that you'd like to make?

JON FORMAN: I'm with Sally about, you know, people need to work longer so I'm a lot less troubled. Most of my comments are directed to Haig because I, for one, am happy that employers don't get to use their pension systems as a way of managing their workforce quite the way they did in the old defined benefit world because I think people tended to retire too young when they were still productive. I'm a lawyer, so what I take from economics, the little that I know, is that if you pay people for their productivity, then you'll be pretty much on track and so if older workers aren't productive, then they shouldn't have the highest pay in the company. If you're paying them what they're worth, if that's not enough, then they'll leave or whatever. And you get the right incentive structures if you pay people enough.

You raised two concerns. One was these companies can't manage their workforces. Well, you can't use the pension system anymore, but if you want to get rid of them, here's $25,000 cash taxable if you leave.

HAIG NALBANTIAN: And then you're likely to be subject to age discrimination suits because it's going to fall disproportionately on older workers. The issue of productivity is not that simple. If you are a build organization, it means early in career, you're investing a lot in employees and institutional knowledge and general knowledge for them to be productive over a career. That means you transfer earnings early to earnings late. You pay people less than their actual productivity early in their career. You pay people more than their productivity later in the career. It's like the old Japan Inc. Their whole society was structured on that model. That works if there is a predicted time of retirement. If people don't leave at a certain time, it becomes noneconomic. If you're a buy organization, this may absolutely work. Pay for "contemporaneous" performance dominates. Let me offer an analogy. Are there baseball fans here? Anyone a baseball fan? I ask the question: Is Alex Rodriguez overpaid? All right. Well, yes, in retrospect he is, but I think the Yankees realized the risk they took in signing him to this long-term contract but went ahead anyway. Why, because they knew that in order to get him for an extended period of time, they had to pay him and the presumption was, they would get more out of him early in his stage with the Yankees and less out of him later, but that was what it took to manage the whole process. So we have here the career earnings perspective.

But adopting a career earnings perspective requires at a company level that there be some termination point and there be some incentive to leave at that point; otherwise it won’t work. I think from a social level, we need institutions to ensure that that macro-optimization doesn’t come at the expense of the—pardon me, the micro-optimization doesn’t come at the expense of the macro-optimization, which is to your point. These are still highly productive people with great skills and important knowledge. How can they be re-employed either with their current employer on different terms or with other employers? For the latter, we need to open up labor markets for great people who at present don’t have much access to the labor market so we can tap their skills and value them … and yes, lead us to a far older retirement age, having people still working at 72 or 80.

JON FORMAN: Let me just raise one question at the lower end which is, you were saying and I, I’m from Oklahoma, so it’s an energy state, with a shortage of workers and so on. And you said, well that’s going to mean that we’re going to want to keep our older workers. And, of course, that’s true. But you know, isn’t this exactly what the market economy deals with? In other words, if there’s a shortage of competent computer programmers, then what you have to do is to pay people more for that job, and then people will get the education or they’ll get training and instead all I hear from the companies is they want to bring in more foreign workers rather than training Americans to do some of those jobs, and paying those Americans more to do it. They want those workers; we want a computer programmer for $30,000 a year, gee, we can’t get him. Well excuse me, then pay $40,000 a year, and maybe you can.

HAIG NALBANTIAN: And there I agree with you. We’re certainly seeing a lot of pressure, upward pressure on wages and salaries, but it doesn’t seem to be sufficient as of yet to close the gap. I can tell you the employees themselves are realizing this. We did a study of the energy sector in Canada—we do a lot of work with employers there—and what was so astonishing is to see the transition taking place in a sector that used to be all about “build.” People come in early career and grow. But when we look at those internal labor market maps for the industry, we see that career advancement and increases in pay are coming mostly from cross-company moves, not within-company moves. So, employers, in fact, are very dependent on each other. They may look at each other and say, ahh, you're stealing our employees, but actually all the talent is being developed through this cycle of cross-company moves and I think that's what's happening across the board—the outside labor market is overtaking the internal labor markets of these firms.

DON FUERST: I'd like to comment on just one feature that you brought up, Jonathan, about defined benefit plans and managing the workforce. Whether they're effective or not depends, I think, not just on whether or not it's a pension plan, but how it's designed and there are a lot of them that are designed that don't do a good job of managing it the way you might want. Many years ago we wanted to encourage people to retire early, so we implemented early retirement subsidies to plans. OK, here's another unintended consequence. ERISA [Employee Retirement Income Security Act] does not let us to cut back on benefits. So it's very difficult now to eliminate those early retirement incentives when we'd really like to have people working longer. It's possible but it's very cumbersome in how you get it done.

Final-pay plans aren't the best kind of plan for this sort of thing. Particularly when you allow the abuses that happen in some plans that allow, say, spiking, counting all your overtime pay into your average. Well, that makes you target a year that you're going to work an awful lot and get that extra pay and now I'm going out of here because if I don't, I lose it. So there are a lot of features to these plans that could be changed. I think the career accumulation plan is much more effective. It also allows it, it doesn't so much target a specific age that you have to go, because you get a uniform growth in your benefit, even if you continue to work beyond that. But it's adequate or hopefully, if it's a reasonable level, it enables people to retire at a time but it doesn't push them out. That's, that's the kind of plans that we ought to have, but it's very difficult and we have these unintended consequences, like that anti-cutback rule, that don't let us change a plan to adapt to changing circumstances for the organization. So again, that's an example of where regulation becomes a barrier. Something that was intended to help people ends up hurting them.

ANNA RAPPAPORT: OK. Sandy?

SANDRA TIMMERMANN: I'm a gerontologist. I was at MetLife heading the Mature Market Institute until it was eliminated in June. And I was interested in looking at this a little differently, because Haig, your choke point comment is a reality in many ways. We've been doing a great deal of research in the Mature Market Institute over the years on older workers and I feel like I'm a cheerleader for their many talents and abilities. There is data from Boston College Center on Aging and Work that shows that baby boomers are productive and more engaged than younger workers. I believe that there are bonus years, the encore years, for many older workers which are not yet recognized. There are companies that are in a choke point. There are also younger industries which need to have a balance of skill and experience in their workforces, and there are other companies that are helping older workers transition to different kinds of jobs before they are put in a situation where they have to "hang on" because they want to work and have no other alternatives. Those employees have nowhere else to go. This idea may be somewhat self-serving, but Intel is one company that is working with Encore.org now to give employees a leave of absence to work in a nonprofit. Employees continue to receive their pay, and may decide that the nonprofit work is what they really love to do and move on to that type of work. As we transition into retirement years, we may not have liked our job that much and feel that it may be time to do something different, to have some purpose in life. There have been studies done by Encore and others that find that baby boomers really would like to find a job that gives them a sense of purpose or offers them something that they really would want to do. So are we making a mistake by forcing people to hang onto their current jobs in a big corporation, which has its own life cycle, and not helping them find a way to get into things that they really like to do and also can give back to society? I think it's also a burden on the employees themselves to hang onto a job they don't like. I believe that there is a shift now, and younger people know that they need to be prepared to hold many different jobs. Studies show that younger people are not as loyal to their employees as in the past, and they see what's happening in the big companies where people have put in 20, 30 years, promoted to a manager and they're suddenly out the door in their 50s and they're saying, what happened to me? But now, as we look at younger generations, we should be helping them to think about a career trajectory, and training themselves for different jobs so, as they move along into their retirement transition, they might find opportunities outside of a corporation. I'm not taking corporations off the hook because they're missing the boat if they're letting their older workers go prematurely.

But I do think from what I've been reading and hearing is that in many instances it is the managers who are let go. In fact, there is a big group of people who were managing people, but they have lost the specialized skills. If they want to phase into retirement, one strategy is for them to recast themselves as individual contributors, particularly in a world that is increasingly high-tech, and not look for another job as a manager. Maybe they'd be happier doing what they have done early in their career, at a slower pace, part time. I do think that there are a lot of companies that either have policies that are subtly discriminating against older people or they aren't at a choke point, particularly in this economy. But things are going to shift in 10 years. The reality is, however, that we should get our workers to be proactive.

ANNA RAPPAPORT: Let's look at a different question. Sandy's discussion really spurred me to to think about: Can we use this discussion to help individuals who are planning for their own lives? So far we've been employer focused, but what about the individual? I will also ask everyone on the panel if they have any closing comments. I make the request that we want everyone to leave here with some to-do items on their personal to-do list. Think about what you can do to make things be better. So, let's move to the closing remarks.

SALLY HASS: I'll do my closing remark first. Objects in a mirror are closer than they appear. So that's my closing remark to all of you. It'll be here before you know it. But I think that everyone should be asking themselves at an appropriate age: Am I in a career that if I need to work longer, I’m going to be able to do that? Am I working for an employer where that is going to be possible? And am I doing work that if I did need to work longer, it wouldn’t be bad to continue doing this work? And if you’re not OK with those answers, then I think you’ve got to re-deal the cards and think about how, in your own lives, you could possibly work longer or earn some money and have that be not such a bad thing. Have that be something that contributed to your own health and happiness and economic prosperity.

And I’m very much an advocate of kind of marrying up traditional retirement planning, financial planning with career management and I think that when we really look into our hearts and discover our unique talents and capabilities, maybe there’s an opportunity to understand ourselves in new ways and to make an even bigger difference in the world using our unique talents and strengths.

TIM DRIVER: Sure I’ll try [inaudible] next. I’m fascinated by this topic of the build scenarios and what, and the implications of all this on the build scenarios and the fact that we live in a different world today, where, you know, we’re looking with a much shorter time horizon than we’ve ever done in the past and the implication of that is that loyalty going both ways is, has eroded so significantly. And I think that, you know, to bring this around to the personal side, you know, the employers do have their job, and, and obviously, individuals have their job too, which is to, first and foremost, you know, look out for their own economic security as they're approaching, you know, their older worker years. And I would emphasize that for all of the age bias that does exist out there, there's also a lot of responsibility that falls on older workers. It is a two-way street, and you cannot find yourself in a situation where you, you know, appear condescending to the younger workers in your organization, you can't take direction from a younger worker, you come across as though you're living in the '70s. You know, you, you bear that responsibility to not come across the wrong way in environments that, you know, that should be encouraging a younger workforce working with an older workforce. So, you know, it's your job as the older worker to, to you know, to get along with the other members of your community. Just the same way this is not that different from, you know, the other diversity hiring implications that started decades ago. You know, we've encouraged employers for years to, you know, to create a diverse workforce. This is another prong or another, you know, an added dimension to the definition of diversity.

HAIG NALBANTIAN: Well you know, economists distinguish two forms of human capital. One is general human capital which are the capabilities, attributes, energy, creativity that reside in the individual and is transportable; the other is firm specific or relationship specific, human capital which is that special know-how, and capability that derives from long term association.

When we work with organizations, the very first question that we try to address empirically is to understand the relative importance of these two types of human capital. Of course, all organizations rely on a mix of general and firm specific human capital, but where is the needle moving in a specific organization? Where does value ***primarily*** derive from? I can tell you in some organizations it's firm specific that dominates. So, for example, in a large retail bank we work with, modeling their performance across all their branches, we found that the single biggest predictor of retention of customers, growth of premium accounts market share and net income at the branch level was the average tenure of employees in the front line jobs. It dwarfed everything else. But I could show you another similar type bank where the results were opposite. It was general experience, education, age, prior job history, that, dominated.

So for our client organizations, we're always looking at what's the right mix of general versus firm specific to drive their business value? For individuals, this goes to

Sandy’s point. I think about this all the time for myself. I’d encourage all in the room to think about what happens as we work, how much of our human capital accumulation is general versus firm specific? Companies usually will pay a premium for that firm specific value because they can’t go out and replace you and meet their business needs instantly. They have to build it.

So there is reward, but there is also risk. You can become hostage to that employer and I think it’s really important as an employee and I advise younger employees to think about that balance and make sure that they’re diversifying their human capital sufficiently so that later in their career, even if they’re very happy at their work, they can seize new opportunities and remain productive in general. So the kind of programs you were talking about, Encore, they were at that Stanford conference too. I find them very interesting. I think essentially they’re aimed at helping to grow opportunity for older workers and permit labor market matches that help older workers and employers alike. They’re trying to make it possible for older workers to succeed and show their value in a broader sense.

DON FUERST: I think we’re over time, so I’ll try to be brief. I want to tie my closing remarks, tie together personal experience with this and kind of how everybody feels about this. I think the key to people working longer is—There is one important key that we haven’t talked a lot about and it’s just personal job satisfaction, how much people enjoy doing what they’re doing. I think most people enjoy being productive, doing a job well, and particularly if it’s an interesting job that they like.

That doesn’t necessarily mean it’s at the same company forever. And they might actually say, gee, people maybe should be more mobile in their later years, and do things that really intrigue them and that they like to do. I used to always say, I’m going to work until I don’t enjoy it any more. I lied. I worked a couple of years beyond that in the consulting business. It got kind of boring at the end and finally I said, that’s enough. And I probably retired earlier than I really wanted. Fortunately, I was able to find a job that I really was intrigued by and enjoyed. So now I say I’ll do it as long as I enjoy it and I’m probably lying again. But I think that’s a real key to things. And if companies, from their viewpoint, if they can make the jobs more satisfying to people, I think they’ll stay longer. So I’d leave it with that. Thank you.

ANNA RAPPAPORT: Thank you all. We’re going to be continuing this discussion, but much more focused on business as a whole, in the general session in just a few minutes.

(APPLAUSE)(END)

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