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Helping Employers Become Age-Ready

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Mercer

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Abstract
The evidence shows us that is proving to be a tricky concept for employers to get to grips with. What do we mean by age-ready for starters - do we mean ready for older age workers or do we mean ready for a multi-generational workforce and their perceived differences? The demographic evidence shows us that by 2050, almost one quarter of the world’s population will be aged over 60, almost treble the mid-20th century figure. Given that many of these people will still be at work to finance their longer life expectancy, (pension incentives, state retirement ages and low interest rates are not favouring an early exodus from the workplace), my focus for this paper will be mainly on the older age worker phenomenon. However, it has been interesting to learn, that in solving some of the challenges that this group of workers present, employers can solve many of the challenges faced by other generations in the workplace too. This paper will therefore examine how living longer is likely to influence working longer, how the nature of changes to work itself will influence future generations of work, workers and workplace, and ultimately, the paper will dive deeply into what employers can do to achieve a competitive advantage from the changing demographics. In short – how do employers become age-ready?

Disciplines
Economics

Comments
The published version of this Working Paper may be found in the 2018 publication: How Persistent Low Returns Will Shape Saving and Retirement.
How Persistent Low Returns Will Shape Saving and Retirement

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Chapter 10
Helping Employers Become Age-ready

Yvonne Sonsino

After years of concerted effort, employers in the developed world have designed and implemented numerous processes to reduce racial, ethnic, and sex discrimination in the workplace. Yet age is the last remaining frontier that employers must tackle, in terms of adjusting to an increasingly diverse workforce. By 2050, almost one quarter of the world’s population will be over the age of 60, almost three times the mid-20th century figure. Longer lives require additional financing, and many older people will still need to work to finance these longer lives. In addition, as people see pension tax incentives decline, state retirement ages rise, and returns on pension investments fall, they are beginning to realize that early exodus from the workplace may not be feasible.

Of course, some firms recognize that older workers are productive and well aligned with customer demographics, yet others have not yet perceived opportunities accompanying the aging workplace. This chapter therefore focuses on how employers can prepare to embrace the growing number of older employees in the workplace.

Key Elements of an Age-ready Workplace

A recent UK population survey suggested that old age may actually be less relevant than we might believe for individuals. Over 80 percent of those surveyed in a UK analysis (aged 18–99) said they wished to keep active as long as possible, learn new things, and mix with those of different ages and generations (AONR 2016). In other words, employers would do well to heed the report’s conclusion, namely that age does not define us.

To this end, firms will need to consider several key factors when designing a more age-friendly workforce. In particular, we focus on the role of employers in helping workers attain health and financial wellness; building their motivation/commitment, as well as new skills; and focusing on workplace design alongside succession planning. We take up each in turn.
Health and Financial Wellness

The term ‘wellness’ has come to connote more than just physical and mental health. Indeed, today it refers to methods helping employees to make healthy lifestyle changes while addressing emotional and mental health issues.

Health and Aging. A good place to start this discussion is to recognize that there is little evidence that chronological age is a determinant of good health, cognitive and physical ability, sickness absence, work-related injuries, or workplace productivity (Yeomans 2013). Instead, workers over age 50 have been proven to have similar physical ability to younger workers, in terms of physical strength and stamina. While muscle strength and aerobic capacity does decline between the ages of 30 and 65, most age-related declines in physical capacity do not normally affect job performance, as physical capacity varies more across individuals than by age. Moreover, today few jobs require sustained strength over a long period of time, and labor-saving machinery and devices are often used to supplement brute force. It is also worth noting that other aspects of job performance, such as good timekeeping, helping colleagues, better anger management and people skills, do improve with age.

In addition, workers under the age of 35 have proven to exhibit higher sickness absence rates (2.6 percent) than their older counterparts (2.4 percent for those age 50+); in the UK the sickness absence cost to employers amounts to an annual £16 billion (Xpert HR 2015). Lost productivity due to absenteeism and presen teeism has been estimated at 7.85 percent of payroll (Lambert 2015) Of course, one can reduce this with targeted and proactive prevention strategies targeted at all age groups.

While some health conditions do rise with age, including stress, musculoskeletal disorders, and cardiovascular disease, it may not be workers’ ages but rather workplace-specific conditions driving the results. And though eyesight and hearing also deteriorate with age, these can usually be compensated with spectacles or hearing aids, and by environmental adaptations such as better lighting and sound proofing. Regarding mental health, it is commonly found that cognitive performance remains relatively stable until the age of 70, and that cognitive skills such as intelligence, knowledge, language, and complex problem solving are resistant to age-related declines, and can continue to improve with age until 60 (Yeomans 2013). Yet the aging of the workforce will imply that dementia will become an increasing problem. As a consequence, regular annual physicals will likely need to include cognitive well-being assessments along with early detection and intervention. Such cognitive tests have not yet been adopted widely, though employers will likely need to implement these for workers of all ages.
Health-related insurance costs will also rise as the workforce ages. In the UK, it has been estimated that a workforce ten years older than average will cost 56 percent more than the baseline, and 98 percent more if the workforce is 15 years older (Mercer 2015a). In countries lacking state-sponsored healthcare, such as the United States, employer benefit costs may rise more. Given persistently low investment returns, political turmoil, and growth and trade challenges, such a rise in benefit costs will present a growing challenge. One way to address this would be to do more to prevent disease and chronic conditions. The Oxford Health Alliance (2017) indicated that curtailing three risk factors (tobacco use, poor diet, and lack of physical exercise) will protect against the four major chronic diseases (diabetes, heart disease, lung diseases, and some cancers). Models that use health data captured from individuals through wearable devices can also be useful in containing costs as good health behavior will be treated favorably for underwriting purposes.

Financial wellness. Paying for each extra year of life can be expensive, and one response to this is to delay and indeed, redefine, retirement. In the United States, the ‘freelance’ or ‘gig’ workforce is predicted to grow from 53 million workers in 2016 to over 100 million by 2020 (Rashid 2016); many of these will be older individuals. Short-term temporary assignments and part-time work also can supplement pension income and help people balance work–life tensions.

It will be increasingly important for employers to help younger as well as older workers understand retirement needs and opportunities. For instance, plan sponsors will need to enhance access to programs that help people forecast their longevity and retirement needs, as well as software programs to help them plan and save for later life. Employers can help fill retirement income gaps by offering regular and personalized reminders to nudge people to save more. Short personalized videos and other visual methods make this information more likely to encourage pension saving (Mercer 2017). Increasingly, advice will be offered via digital or robo-advice platforms, which are online services that provide automated, algorithm-based portfolio management advice without the intervention of human financial planners.

Despite these clear needs, a recent UK survey found that only 26 percent of UK employers gave employees access to helpful financial planning (Mercer 2015a, b); by contrast, over two-thirds of US firms offered employees financial advice. It is also worth noting women may be the most vulnerable and needing of such advice, since in most countries, women live longer than men, often have career gaps for childbirth and caring, and tend to earn less over their lifetimes with an average pension gap of 40 percent in Europe (Sonsino 2015; Mercer 2017). A related question arises as to whether the
products made available will be age-friendly (Financial Conduct Authority 2016). In particular, more evidence is needed to explain how to provide financial advice to older versus younger people, some of whom may be cognitively impaired. Looking ahead, as employees work longer, they may confront age limits for work-related employee benefits and, in the United States, requirements to withdraw from their retirement accounts.

Motivation and commitment. In the past, life cycle earnings profiles have traced out an inverted U-shape, with pay levels declining after age 50. As yet, however, there is little evidence on how future pay profiles may change as people remain employed for longer. Today’s five-year olds, who could live to 120, could have a working life of 80+ years. Figuring out how employees can remain motivated and committed in the same job for 80 years defies belief. If firms are to accommodate such long careers, these should be linked to productivity measures ensuring success. There is already evidence suggesting that even those who are very happy in their jobs are considering leaving, and even more so among the younger generations (Mercer 2015b). Moreover, money will no longer be the only or even the main motivator. Learning opportunities, job and working time flexibility, the quality of one’s colleagues, and even a greater sense of purpose will need to be examined as alternative motivators.

Training and skills. A related concern is that almost two-thirds of current primary-school children will take jobs as adults that do not even exist today (WEF 2016). Moreover, close to one-third of job-related skills will change by 2020, meaning employers will require bigger training budgets and recruitment efforts unparalleled in the past. Office and administration workers will be replaced by automation, along with many manufacturing and production jobs as well as many posts in construction and extraction, and even the professions. Positions that are likely to increase will be for data scientists in business, financial, and operational activities, driven by rising processing power and the possibility of mining big data pools. Information security analysts will also be in greater demand as more cyber-crime occurs and corresponding prevention strategies are devised. It is also expected that there will be a greater need for educators to support reskilling needs, and carers, to support the aging population (Frey and Osbourne 2013; OECD 2016; McKinsey Global Institute 2017).

The fact that this Fourth Industrial Revolution (Schwab 2016) is coinciding with large demographic shifts presents new challenges for those seeking to attract, hire, train, and keep employees. Employers must be not only age-ready, but they must also prepare for changes in the future of work as well. Already, annual spending rates for training are growing at over 10 percent of compound annual growth rate (ReportsnReports 2016), and ensuring readiness for older workers will be a component of the larger need to reskill.
Workplace design. Workplace ergonomics impact peoples’ bodies and mental states, so these too will become more salient to employers as their workforces age. Evidence shows that BMW enhanced older workers’ productivity by 7 percent by making many small and inexpensive changes, including better seats, adjustable workbenches, and wooden flooring providing better cushioning and insulation (Champion 2009). Other job sites, such as those for utility workers, water/drainage engineers, road/construction workers, and others working outdoors, may not be able to offer similar improvements. Nevertheless, some employers are using older field engineers as trainers of the next generation, or using them as consultants and trouble-shooters.

Flexible working is also growing more common in this increasingly diverse workforce. In the UK, for instance, a recent survey showed that over half of all workers would prefer a flexible work schedule over a 5 percent salary boost, and some 45 percent of those would sacrifice pay rises of 10 percent to have flexible working arrangements (My Family Care and Hydrogen 2016). Additionally, over 80 percent of people seeking work stated they would rather have flexible working than any other employee benefit. Yet there is, thus far, no standardized definition of flexible working. It can include the possibility of working remotely (where), working non-standard hours (when), freelance contracting (how), and multiple jobs (what), 'shift-stacking' (where people may work for several employers at a time and arrange shift patterns to fill their availability during the workweek). Human resources managers will need to devise a framework to help define jobs’ flexibility quotients and to review how flexible jobs influence other workers. Moreover, there may be obstacles to such practices embedded in labor law and social protection systems, such as overtime, sick, and holiday pay requirements, which will make it difficult for people to offer their time on a freelance or flexible basis.

Succession planning. Firms need to engage in predictive labor-force analysis so as to do a better job recruiting from the outside and moving people internally. As many nations have outlawed mandatory retirement, human resource teams now face additional uncertainty about when jobs will become vacant. Moreover, some employers believe that older workers ‘take work away’ from younger ones, leading them to conclude that they should bring in fresh talent and move older workers out. Additionally, some employers believe that older workers cost more than younger incumbents, suggesting that costs could be cut by additional turnover.

At a macroeconomic level, of course, the so-called ‘lump of labor’ belief has been widely refuted based on empirical evidence: in particular, the labor market does not offer a fixed number of jobs. Instead, offering generous early retirement programs tends to damage younger workers’ prospects.
(Gruber and Wise 2009). Accordingly, in the UK, Andy Briggs, CEO of Aviva UK Life, has spearheaded a campaign called One Million More (BITC 2017). The aim of this program is to boost older workers’ labor force participation in the UK to the same levels as persons aged 35–49 by 2022, or about one million additional workers. It is estimated that this would increase GDP by 5.5 percent. Inasmuch as the UK is slated to experience a significant labor shortage in the coming years, keeping older people employed can help make up the difference (Mercer 2017).

Regarding how relatively expensive older workers may be, Mercer’s UK pay survey data show that, in many jobs, pay actually climbs steeply for the young and then plateaus at a relatively early age. For example, in lower-level and unskilled jobs, 25-year-olds earn similar pay as 55-year-olds; for more skilled professional and middle managers, 35-year-olds earn about the same as 60-year-olds. Across all pay levels, pay declines by 0.1 to 7.4 percent per annum after age 50. In other words, older workers may not necessarily be more costly, contrary to many employers’ beliefs. This may be partly due to the large cohort effect of this generational group, which in some studies has been shown to depress wages (Sapozhnikov and Triest 2007). Other studies, however, show wages are increasing for older workers due to a higher educational attainment relative to younger age groups than in the past (Burtless 2013). This bodes well for economies with both a growing and an educated older population.

In the workplace of the future it will also be important for firms to consider workers’ ages as a standard diversity and inclusion metric. Currently in the UK, over 90 percent of employment agencies do not determine whether clients are discriminating on the basis of age, and very few firms check to see whether managers hire workers older than themselves (Mercer 2015a). Though age bias in recruitment and promotion is illegal, it still occurs and will need to be tackled head on.

**Potential Roles for Other Stakeholders**

Prior to the first Industrial Revolution in the 1700s, individuals and their households bore most of the financial risks due to unemployment, exclusion, sickness, disability, and old-age. Thereafter responsibility for managing risk moved toward state- and employer-sponsored social protection plans. Yet now, risk management is devolving once again to individuals, posing new challenges to manage sickness, disability, unemployment, and longevity (Sonsino & Veitch 2017).

Employers will need to reconfigure their future workforce decisions against this complex backdrop of social and cultural expectations. For instance, a recent UK study found that over 70 percent of workers expected
their employers to do more to prepare them for the future (Mercer 2015a, b). As we have argued above, this conflict of expectations will surely become increasingly political in the future. Moreover, state retirement and health systems around the world are urging their employees to do more with less, as people live longer and medical care becomes ever more sophisticated and expensive. Individuals and their families will also be challenged to take a more active role.

Conclusions

The so-called Silver Economy is already the third largest ‘economy’ in the world (European Commission 2015). Becoming an age-ready employer in this context has a compelling business rationale. As well, becoming more age-ready also requires firms to optimize physical and mental wellness for workers of all ages, including providing training and skill upgrades. At the same time, thoughtful workplace changes can increase worker motivation, engagement, and productivity, and these developments are likely to engage all generations over careers that could last for 80+ years.

References


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