Living to 100: Challenges and Opportunities for Employers

Mary Nell Billings
Anna M. Rappaport

Presented at the Living to 100 Symposium
Orlando, Fla.
January 5–7, 2011

Abstract

Long life opens up a number of questions for employers as they manage their talent and offer employee benefits. The economic crisis of 2008-09 also means employees are not as economically secure as before. Several sets of forces are coming together: longer-term talent challenges particularly in some skill sets, the needs of individuals to work longer, rising health care costs, and the higher cost of offering benefits that provide lifetime protection to retirees. Today, work is increasingly accepted as part of retirement, but it is rare to find people working in their 70s and 80s. Many of those who work at higher ages work on a reduced basis, but others, such as Supreme Court Justices, elected officials and symphony conductors, sometimes work to very high ages at full speed. Certain jobs, such as those that require heavy lifting, become very difficult for some people well before the traditional retirement age of 65.

This paper examines issues related to today's work environment but it also considers the possibility that many more people may work in their 70s while others with manual labor jobs may be unable to do so. Some of the questions explored are:

- What are the priorities and concerns of employers?
- What are the priorities and concerns of employees?
- What challenges does the aging society and changing workforce create for the management of talent? What opportunities?
- What challenges does this create for the management of active employee and retiree benefits?
- Does the aging of parents create special challenges for the employers of their children, who may be part of the sandwich generation?
- To what age is it realistic for people to work?
- Are there barriers to employers who want to innovate?
- What factors support successful adaption to new work and retirement patterns?

Introduction

This paper focuses on the issues confronting employers as they seek to manage their talent in a country with an aging population. It focuses on the goals of employers and employees and examines patterns of work as the population ages. It is primarily based on the U.S. environment, but many of the issues also apply in other countries.

The paper is organized in the following major sections:

- Setting the Stage: an exploration of key factors in the current environment including signals and societal factors that lead people to different retirement ages, plus labor force projections in the United States.

- How the Employer and Other Stakeholders Fit In: a discussion of the employer concerns, goals and perspectives, and how they fit with the concerns of employees, plus a link to other stakeholders.

- New Patterns of Work and Retirement: an exploration of new patterns of work and retirement, reasons why innovative work patterns fit the needs of employers and employees, and some examples.

- Conclusions and Focus on the Future: the authors' predictions and a checklist for successful innovation of programs that adapt to the future, and some conclusions about this topic.

Living to 100 is an international effort. This paper provides an analysis of a problem with a global reach, but the analysis focuses primarily on the United States. It then extends common themes to a more global focus. It combines U.S. and international sources. While there are many common challenges, demographics and business forces, there are differences in labor market practices, benefits and legal structures. Terms that apply specifically to the United States are defined in footnotes to help the international reader.

Setting the Stage

This section of the paper explores key factors in the current environment including signals and societal factors that impact retirement choices, plus labor force projections in the United States. It provides a backdrop of major demographic change, with very little change in the signals surrounding retirement expectations and not much adaption to a very different society. It should be noted that other Living to 100 papers explore the demographics in much more detail, so examples are provided here to help set the stage.

Current Environment: Big Picture

The environment for retirement reflects a combination of social and demographic trends, challenges and opportunities facing business organizations, and challenges and opportunities facing individuals. Some key factors in the current environment include:

- Longer life. Social Security, which has largely set retirement age expectations for the United States, was developed during the 1930s when life expectancy was much shorter, and average life in retirement was 13 years for those who retired at age 65. This compares to 18 years today. And in 1935, relatively few people made it to age 65 and of those who did, many did not retire. Exhibit I shows the change in life expectancy over this period.
- Evolving age mix. The boomer cohort reaching retirement age means that workforces are heavily weighted to people approaching retirement age. Employers need to assess what impact this will have on their talent pool and business operations.
- Boomer concerns. Many boomers are afraid they are inadequately prepared for retirement and are unwilling to retire at the present. At the same time, businesses have cut back on headcount and hiring. Many businesses find that delayed retirements when combined with reducing hiring has led to gridlock in labor force progression and blocked promotion paths.
- Signals about retirement ages. Government and businesses set age expectations for retirement based on several sets of assumptions:
  - Social Security. Started with full benefits at normal retirement at age of 65, this age is now gradually increasing to 67.
  - Medicare.[1] Benefits are available at age 65.
  - Pension. Normal retirement ages are generally 65, and sometimes they are earlier. For public sector employees, it is common for them to be earlier.
  - Distribution requirements. Federal law requires individuals who are more than age 70.5 to take an annual Required Minimum Distribution[2] from their retirement funds.

1 Medicare is a U.S. national government-sponsored program that provides medical care for Americans older than 65 and the long-term severely disabled.

2 The Required Minimum Distribution is the amount that U.S. law requires as a minimum amount to be withdrawn each year from tax-sheltered pension funds for individuals older than 70.5. It is calculated based on life expectancies.

Our view is that these assumptions are out of date and need updating.

- Retirement is changing. Many people are choosing to retire over a period of time in steps, sometimes moving in and out of the labor force. There are a number of reasons for phasing including family issues, aging parents, financial needs and personal preferences. The rationale for phasing from the perspective of both the employer and the employee is discussed below.
- Situations vary. The American population is a mix of people along a spectrum. At one end, people have more than adequate resources to retire, and at the other are those without nearly enough to retire. The situation reflects different job histories, savings habits and shocks that have happened to different households.
- Shifting roles of stakeholders. Financial security (or insecurity) comes from a combination of public, employer sponsored and individual efforts.
- Current laws do not make it easy to phase. If employers wish to pay partial pensions, there are significant problems with doing so.

Exhibit I reinforces just how much life spans have changed without very much change in retirement age signals and normal retirement ages.

Exhibit I
Life Expectancies of the U.S. Population, By Age and Calendar Year

	Males Age 0	Females Age 0	Males Age 65	Females Age 65
1935	59.4	63.3	11.9	13.2
2010	75.4	80.0	16.6	19.2
2050 (projected)	79.5	83.6	18.9	21.4

Source: Social Security Administration, Actuarial Study No. 120, Table 10, Life Tables for the United States.

Global Scope of Population Aging

Population aging is global and very important to business as an employer and as a producer of goods and services. The United Nations Department of Economic and Social Affairs commented on the global situation:

- *"Population ageing is unprecedented, without parallel in human history—and the twenty-first century will witness even more rapid ageing than did the century just past.*
- *"Population ageing is pervasive, a global phenomenon affecting every man, woman and child—but countries are at very different stages of the process, and the pace of change differs greatly. Countries that started the process later will have less time to adjust.*
- *"Population ageing is enduring: We will not return to the young populations that our ancestors knew.*
- *"Population ageing has profound implications for many facets of human life."*[3]

3 United Nations Population Division, "World Population Ageing, 1950-2050," Department of Economic and Social Affairs, 2002.

U.S. Labor Force Projections

U.S. Labor Force Projections for the 2008-18 period show an aging and more racially and ethnically diverse labor force, and employment growth in service-providing industries.[4] Their findings show that:

Total employment is projected to increase by 15.3 million, or 10.1 percent, during the 2008-18 period.

- The projected growth rate is 0.8 percent per year at all ages, but this is a combination of a projected decline of 0.4 percent per year at ages 16 to 24, 0.1 percent per year growth at ages 25 to 54, and 3.6 percent growth per year at ages 55 and up.
- The age 55 and older labor force was 17.1 million in 1998 and 27.9 million in 2008, and it is projected to be 39.8 million in 2018.
- The projected growth for 2008-18 is larger than the increase of 10.4 million from 1998-2008, or 7.4 percent.

It should be noted that the relatively slow growth rate for the earlier 10-year period was affected by the recession that began in December 2007, and the projected growth rate is higher than would otherwise be expected because the 2008 starting point is a recession year with lower employment than would be expected without the recession.
It should also be remembered that, if retirement ages increase and people work longer, the 55 and older workforce could potentially be much larger.

More than half of the new jobs are projected to be in professional and related occupations and service occupations. These are areas where there should be significant opportunities to use older workers and offer alternative job structures.

As the baby boom ages, there is a rapidly growing population near traditional retirement ages. At the same time, life spans are increasing, and employees are becoming more responsible for their own retirement. The current and projected civilian population and labor force at older ages are shown in Exhibit II and Exhibit III.

4 U.S. Bureau of Labor Statistics, November 2009, Monthly Labor Review showing several articles focused on labor force and related projections.

Exhibit II
Civilian Noninstitutional Population (in 1,000s)

	1998	2008	2018 (Projected)	Annual Growth Rate 1998-2008	2008-18
55-64	22,296	33,491	42,192	4.2%	2.3%
65-74	17,947	19,881	29,668	1.0%	4.1%
75+	14,290	17,281	19,786	1.9%	1.4%
Total Population – 16 and Older	205,220	233,788	258,906	1.3%	1.0%
% of Total – Older Than 55	26.6%	30.2%	35.4%		

Source: Mitra Toosi, "Labor Force Projections to 2018: Older Workers Staying More Active," *Monthly Labor Review*, November 2009, Table 2.

Exhibit III
Civilian Labor Force by Age and Sex (in 1,000s)

	1998	2008	2018 (Projected)	Annual Growth Rate 1998-2008	2008-18
Male					
55-64	7,253	11,345	14,479	4.6%	2.5%
65-74	1,826	2,724	4,753	4.1%	5.7%
75+	413	711	1,154	5.6%	5.0%
% of Total Male Labor Force Older Than 55	12.8%	17.9%	23.0%		
Female					
55-64	5,962	10,270	14,275	5.6%	4.0%
65-74	1,352	2,261	4,291	5.6%	3.3%
75+	255	547	883	5.3%	6.6%
% of Total Female Labor Force Older Than 55	11.9%	18.2%	24.9%		

Source: Mitra Toosi, "Labor Force Projections to 2018: Older Workers Staying More Active," *Monthly Labor Review*, November 2009, Table 4.

Preparation for Retirement and Expectations About Retirement

The Retirement Confidence Study[5] provides insights about Americans' perception of how well prepared they are for retirement. This survey series is now in its 20th year. The 2010 study showed that the record-low confidence levels measured during the past two years of economic decline appeared to have bottomed out.

The 2010 Retirement Confidence Survey asked a question to determine how many workers reported they postponed their expected retirement age in the past 12 months. Historical data is shown in Exhibit IV.

5 The Employee Benefit Research Institute working with other organizations sponsors the Retirement Confidence Study, an annual telephone survey showing how prepared for retirement U.S. citizens are.

Exhibit IV
Percentage of Workers Reporting they Postponed Their Expected Retirement age During the Past 12 Months

Year	Percentage
2002	15%
2005	18%
2008	14%
2009	25%
2010	24%

Source: 2010 Retirement Confidence Survey, Employee Benefit Research Institute, 2010.

The top reasons given in 2010 for the change by workers postponing planned retirement was poor economy (29 percent), a change in employment situation (22 percent), and inadequate finances or can't afford to retire (16 percent). The percentage of employees expecting to retire after age 65 has increased over time, from 11 percent in 1991 to 19 percent in 2000, and 33 percent in 2010. However, it should be remembered that more than four in 10 retirees retired before they expected to, often due to job loss, poor health or meeting family caregiving needs.

How the Employer and Other Stakeholders Fit in

This section of the paper includes a discussion of the employer concerns, goals and perspectives. It provides a linkage of the concerns of employers and employees. It also offers a discussion of opportunities for a range of stakeholders, showing how they fit with the concerns of employers. While some of the discussion applies to employers of all sizes, much of the discussion, particularly the part about talent management and traditional benefits, is primarily applicable to larger employers.

Employer Goals and Roles

Employers are faced with several different goals. Sometimes they seem to be conflicting, and management needs to find the best balance to meet these objectives. Big picture goals include:

- Meet bottom line expectations. The financial market focuses on quarter-to-quarter results, and employers are under great pressure to produce short-term financial results.
- Reduce risk and uncertainty. Traditional benefit plans when combined with modern accounting rules and market expectations have proved to be a very difficult mix.
- Maintain flexibility as business changes. It is important that companies be nimble as new competitors enter markets and customer preferences change. Technology also changes markets. For example, e-mail has greatly reduced the need for overnight packages.
- Keep talent needed for jobs and do so within an acceptable time frame.

While these goals seem straightforward, it is complex to apply them in practice, in part because they are conflicting and because the environment is filled with forces that work against each other.

The World Economic Forum report[6] identified a number of roles and activities for employers:

- Redirect recruiting and sourcing efforts to include older workers.
- Retain employees through developing alternative flexible work arrangements such as reduced hours, phased retirement, occupational shifts and telecommuting.
- Preserve critical knowledge through succession planning.
- Undertake demographic audits to inform labor force planning.
- Provide “lifelong learning” opportunities for workers to continually update their skills, including use of technology.
- Facilitate the coexistence of multiple generations in the workforce through exchanges such as mentoring or teaching.

---

6 Chiemi Hayashi, Heli Olkkonen, Bernd Jan Sikken, and Juan Yermo “Transforming Pensions and Healthcare Strategies in a Rapidly Ageing World:Opportunities and Collaborative Strategies,” World Economic Forum in collaboration with Mercer and OECD, 2009.

Employers in Paradox

Employers face a variety of challenges, creating apparent conflicts as they try to deal with the aging workforce.

- Short-term market pressures often swamp out attempts to deal with longer-term issues such as management of intellectual capital and orderly transitions.
- A bleak economy means that the first cutbacks are usually seen in labor costs through layoffs and reductions in benefits. These cutbacks make it more difficult to deal with longer-term issues.
- As we think beyond the current period, we are faced with the exit of older employees. In the current period and beyond, we are faced with the costs of our current workforce.
- Employers will experience a brain drain as older employees leave the labor force. Often it is very difficult to replace the experience of mature employees.
- At the same time, employers are under great cost pressures. Where they are able to work with new and younger employees, they experience cheaper labor costs. In today's market, younger inexperienced employees are often ready and willing to work long hours. This varies with the economy and with generational attitudes toward work.
- Benefits, particularly health benefits, are costing more and more each year. The cost of these benefits is crowding out other spending for employees and particularly putting pressure on pension costs. As health costs rise, it increases the spotlight on which employee groups contribute more to benefit costs and raises concerns about older employees, who on average have higher costs for health insurance.
- Most employers have moved away from traditional pensions that offer guaranteed income and facilitate retirement. These changes are driven by a number of factors including legislation and Financial Accounting Standards Board[7] rules.
- Traditional retirement packages included retiree health plans, but most retiree health benefits have been terminated or greatly reduced. This makes early retirement much more difficult.
- Health care reform will change the considerations with regard to offering retiree health plans starting in 2014, and depending on how the market and regulations develop, some employers currently offering these plans may rethink their offerings in this area.
- The global economy is making it very difficult for legacy companies to compete and is forcing them to change long-standing practices including benefit programs.
- Older employees are often perceived as driving up benefit and disability costs.
- Productivity figures are hard to improve—older employees have less absenteeism, more knowledge, etc., but also higher benefit costs.

7 The Financial Accounting Standards Board (FASB) is the U.S. organization that sets accounting rules for the financial statements of public companies and organizations that must comply with generally accepted accounting principals. The securities regulators endorse these rules.

All of these factors create a very complex situation for employers as they try to manage their employees.

Employee Goals

Employees have several goals as they think about work and retirement in their middle and later years. Employee goals include:

- Keeping their jobs until they are ready to retire.
- Building adequate resources for retirement.
- Maintaining health benefit coverage before and after retirement. In some cases, health benefit coverage can be provided through a spouse's employment.
- Staying engaged in a meaningful way during work and retirement.
- Finding adequate time to pursue dreams and care for family.
- Achieving flexibility and freedom in retirement, while staying engaged.
- Reducing risk. Individuals face a wide range of risks and may need to prioritize addressing those risks.

Some employees have a definite plan for retirement and a point in time when they are emotionally ready to retire. However, financial security systems may not be adequate at that point and they may need to work longer. Others may wish to continue working, at least on a partial basis, beyond the point that they have secure financial resources.

Employees are Caught in an Uncertain Environment

The conditions in the American economy and in the business world seem to spell uncertainty as they are operating together. Many employees are not good long-term planners regardless of the environment. The challenges of planning are complicated because change creates uncertainty for all, including those who are longer-term planners. Areas of uncertainty include:

- Rules and options are changing around employees.
- The need for health insurance is a driving motivation for remaining in the job market and the selection of an employer.[8]
- Retirement benefits are also a driving motivation for those employees who think longer term.
- High unemployment rates have left workers with little choice other than to remain employed where they are, often trapped when they might prefer other jobs.
- Those near retirement are now postponing retirement due to:
  - Declines in value of their retirement accounts or fear of future drops.
  - Home values that have fallen. In addition, some people expected future growth of home values that will probably not materialize.
  - Medicare eligibility. Most must meet this age to have health insurance.
  - Uncertainty and fear.

---

8 In 2014, the situation with regard to health insurance will change as coverage will be available to those without employer coverage through the state exchanges. This depends on the implementation as scheduled of the Health Reform legislation enacted in March 2010.

- Many employees need to care for a spouse or an aging parent, often for a fairly long period. They usually do not know how long care will be needed and how the need will change.
- Employees need flexibility for leaves of absence and/or reduced work schedules, and sometimes they need access to some retirement money as their situations change to respond to circumstances beyond their control such as the need to care for an aging parent or other family member.
- Actual retirement date often is not as planned due to:
  - Personal health issues.
  - Family obligations.
  - Early loss of job due to contracting economy or changing business needs.

Options with regard to retirement age and possibilities are also dependent on type of job—sedentary or physical.

Aging Affects Many Stakeholders

While much of this paper is focused on the United States, the issues raised are indeed global and the actions of the employer depend on and interact with those of other stakeholders. Fundamental changes are needed in labor force participation at older ages, and in the organization of systems for supporting old age, both employer-sponsored and other systems. The World Economic Forum working with the Organization for Economic Development and Co-operation (OECD) and Mercer focused broadly in 2009 on pensions and health care in a rapidly changing world. As part of this project, they identified a number of opportunities for key stakeholders. This paper focuses on the employer as a stakeholder, but the actions of the employer are closely connected to those of the other stakeholders. The opportunities identified in the World Economic Forum focus on the bigger picture, which is very important. The discussion below builds on the ideas from the World Economic Forum project.[9] It reviews opportunities by stakeholder for five stakeholder groups.

Stakeholder: Governments

Governments are involved in several ways. They provide programs that are a base, regulate employers, support employers through tax and other policy, and encourage employers to act. Several opportunities for governments in light of current conditions are to:

- Recognize the economic crisis as a once-in-a-generation opportunity for transformational change in pensions and health care policies, which can help stimulate economic growth and, in emerging economies, nurture the development of capital markets.
- Nurture a vibrant "silver economy" by creating opportunities for seniors to continue to work for as long as they want to and remain engaged in societies.

---

9 Chiemi Hayashi, Heli Olkkonen, Bernd Jan Sikken, and Juan Yermo "Transforming Pensions and Healthcare Strategies in a Rapidly Ageing World:Opportunities and Collaborative Strategies," World Economic Forum in collaboration with Mercer and OECD, 2009.

- Revive the ethic of community by harnessing volunteerism and supporting community-oriented solutions to elderly care.

Stakeholder: Employers

Employers are involved through employment policies and practices, as providers of financial security for employees, and as educators and encouragers of employees. Several opportunities for employers in light of current conditions are to:

- Retain experienced workers by offering more flexible working arrangements and gradual retirement.
- Explore ways to transfer knowledge from the retiring baby boomer generation to their successors.
- Empower employees to take charge of their retirement and health care choices.

Stakeholder: Individual and Families

Individuals and families are employees and consumers, as well as members of the local community. Several opportunities for individuals are to:

- As consumers, demand the provision of more innovative and tailored products and services in health care and retirement planning.
- Remain healthy and active until later in life, contributing to a positive cycle of older age groups enjoying improved visibility, status and opportunities in society.
- Help strengthen communities through volunteer work as a part of active aging.

Stakeholder: Financial Institutions

Financial institutions are the providers of products and services for employers and employees to support financial security. They are the source of investment vehicles for investment of plan assets. Several opportunities for financial institutions are to:

- Create new capital market products to deal with concerns about extended life expectancy, such as longevity bonds and swaps.
- Collaborate with health care providers to promote products that integrate retirement planning with health care insurance and long-term care.
- Develop cross-border solutions to serve increasingly mobile populations.

Stakeholder: Health Care Providers

Health care providers offer products and services for employers and individuals. Opportunities for health care providers are to:

- Cater to the growing markets of the elderly, the middle classes in emerging economies and individuals concerned with "wellness."
- Mainstream a new paradigm of health care that is patient-centered, preventive and takes a "life course" approach.
- Develop solutions in individualized medicine that help prolong good health into old age and are affordable for the mass market.

New Patterns of Work and Retirement

Building on our discussion of employers, employees and other stakeholders, a major area of focus is exploration of new patterns of work and retirement. Working later is a key part of this discussion, and it is interesting to note that retirement ages are quite different by country. Data is provided for comparison. Innovative work patterns fit the needs of employers and employees. Case studies show some examples of how employers and employees are implementing new patterns of work and retirement.

What Solutions Should Employers Consider?

During the past two years, employers have been heavily focused on dealing with the difficult economy. They have had to work with very lean staffs, and dealing with longer-term talent issues has not been feasible for many of them. However, going forward, the talent issues will again become important. Some of the areas of focus suggested for employers include:

- Working with employees to encourage and support later retirement; in many cases, this will involve more than just encouraging employees to stay in their same jobs.
- Consider whether approaches to retirement benefits should be modified; however, such changes generally would affect future generations and not the next generation of retirees.
- Options for phased retirement including making health benefits available; these opportunities can be structured considering health care reform.
- Helping workers to have job options in different jobs that fit changed preferences during the third ages.

To What Age is it Realistic for People to Work To?

The OECD publishes data on official retirement ages for full benefits and on effective retirement ages. Most OECD countries have effective retirement ages in the range of 60 to 65. The extremes are Mexico with age 72.2 for males and age 69.8 for females, and France with age 59.1 for males and 59.7 for females.[10] There is clearly a lot of potential for change in many locations.

Citizens in all developed countries are living longer as life spans are continuing to increase. Labor force participation data demonstrates that there have already been changes in work by people nearing retirement age in many locations, and that today the level of labor force participation by older people varies a great deal between countries. Generally, countries with higher participation rates experienced much less change. Australia, a country with a large change, moved away from traditional defined benefit (DB) plans during this period. Iceland, the country with the highest participation rates, experienced little change, and its change was a reduction in participation over the period. Most of the countries reviewed experienced an

10 Average effective age of retirement versus the official age, 2004-2009, OECD (downloaded on 4/28/2011).

increase in participation. The range of participation rates (Exhibit V) shows that there are a number of countries where higher participation at older ages is already a reality.

Exhibit V
Older Workers (Age 55-64) as a Percent of the Population at Those Ages[11]

Country	1998	2008
Australia	43.9	57.4
Austria	29.0	41.0
Belgium	22.5	32.8
Canada	46.8	57.5
France	33.0	38.2
Iceland	86.7	83.3
Italy	27.9	34.4
Japan	63.8	66.3
New Zealand	55.7	71.9
Norway	67.2	69.3
Switzerland	64.4	68.4
United Kingdom	48.3	58.2
United States	57.7	62.1
OECD – Total	**47.6**	**53.6**

Labor force participation rates from recent years and as projected by the Department of Labor (Exhibit VI and Exhibit VII) provide insights into United States experience.[12]

Exhibit VI
U.S. Male Labor Force Participation Rates by Age

	1988	1998	2008	2018 (Projected)
55-59	79.3	78.4	78.8	78.6
60-61	67.1	67.0	67.9	68.9
62-64	45.4	47.3	53.0	58.8
65-69	25.8	28.0	35.6	40.3
70-74	15.2	16.5	21.9	26.4
75-79	9.6	9.9	13.5	17.6

11 OECD Social Policies statistics, Employment to Populations Ratios, updated Oct. 2, 2009; Data for Canada for 1999 and 2008

12 Source: Mitra Toosi, "Labor Force Projections to 2018: Older Workers Staying More Active," *Monthly Labor Review*, November 2009, Table 3.

Exhibit VII
U.S. Female Labor Force Participation Rates by Age

	1988	1998	2008	2018 (Projected)
55-59	53.3	61.3	67.7	73.3
60-61	41.7	47.3	56.5	64.8
62-64	28.5	33.3	42.0	50.9
65-69	15.4	17.8	26.4	33.9
70-74	7.5	9.3	14.3	18.3
75-79	3.8	4.2	7.9	11.7

Life expectancies at birth are increasing about one year per decade. For many years, life spans increased but retirement ages did not increase, so an adjustment is long overdue. In addition, retirement is becoming more of a process. Our view is that it is reasonable to expect the retirement age range to increase about four years by 2030 and about eight years by 2050. The authors believe that most people will leave the labor force by age 75 between now and 2030. It is unclear whether this will increase after 2030.

New Patterns of Retirement and Phased Retirement

For many people, retirement has become more of a process than a one-time event, with several steps on the way between full-time commitment to work and total exit from the labor force. There is no agreed-on definition of phased retirement, and different people have used the term in different ways. All of the definitions include at least some movement in steps between total work and total labor force exit. The discussion of phased retirement includes reasons creative work options are good for employers and employees, some case studies of employers who have used creative work options and examples showing how individuals have phased.

Why Creative and Restructured Work Arrangement: The Employer Perspective

One can ask the question whether from an employer perspective, it is not simply more efficient and desirable to work with full-time employees. Certainly full-time employees are the majority of the workforce in most organizations, but there are a number of situations where alternative arrangements can be a strong support and complement to the regular full-time work force. Here are some examples relating to the aging workforce:

- As many organizations have cut their regular staffs to the bare minimum, many special projects wait for time to do them. Former employees are often ideally suited to assist with such projects.
- Former employees may be ideally suited to assist in running special training classes and seminars.
- Some organizations have peak loads related to external events, some of which may be unpredictable. For example, utilities need extra help after major storms to restore power. There is also a lot of building and home repair, construction and other work after natural disasters.

- Some organizations need to offer customer service around the clock or beyond one work shift. Health care, banking and retail organizations are examples of industries with such requirements. Using a mix of part-time and extra help can work very well for such organizations, particularly since their need for help is not constant around the clock.
- Mining and manufacturing companies may also need to operate around the clock. Depending on the situation, their needs may be more uniform around the clock.
- Some organizations use a mix of regular employees and added employees depending on workload, and work with on-call people. For example, hospitals supplement their regular nursing staff with on-call nurses.
- Some organizations have very seasonal work patterns or additional workloads. Full-time workforces need to be supplemented. Examples of industries with seasonal variation in workloads include agriculture, travel and tourism, cosmetics, and toy manufacture and retail.
- It is important for promotion paths to be open to people who are building careers. There are many situations where it would be very helpful to have senior experienced people who are expecting to retire move into different roles so that they can help mentor and facilitate knowledge transfer. They can also be invaluable in continuing to build intellectual capital.
- Temporary help is needed when people are out on disability or maternity leave, as well as for longer vacations. Usually, temporary help is not from the organization where they are working, but people who know the organization can often be much more effective. Some organizations have set up pools of their own retirees to fit into temporary jobs. Substitute teachers are an example of a temporary pool where there is clearly a long-term well-established need.

Why Creative and Restructured Work Arrangements: Individual Perspective

One of the questions that some people will ask is why people choose a reduced or restructured work arrangement rather than work full time for a longer period. Our view is that there are a number of reasons:

- Many professional and white-collar jobs, particularly those that do not pay for overtime, have become much more demanding and turned into stressful 50- and 60-hour-a-week jobs.
- Disability and physical limitations. A study by the Congressional Budget Office13 indicated that of the people age 50 to 61 not in the labor force, 54 percent of men and 40 percent of women were disabled. These people may still wish to work but probably on a reduced basis. Research presented at the Society of Actuaries annual meeting in 2007 by Barbara Butrica of the Urban Institute indicated that work at older ages is not limited to those in good health, but those in good health are much more likely to work. Of adults age 55 and older in 2002, 39 percent were working, 51 percent of those in excellent health were working, 39 percent of those in good health were working, and 20 percent of those in poor

13 The Congressional Budget Office (CBO) is an arm of the U.S. government.

health were working. This research used the National Institute on Aging's Health and Retirement Study (HRS) as the underlying data source.

- Family members needing care. Many people 50 or older have parents or spouses who need regular help and care. Women are more affected by spending large amounts of time on caregiving than men.
- Being able to choose projects, have flexibility with regard to time and degree of work commitment, and reduce work pressures.
- Interest in a different life balance and ability to take more vacations and spend more time with family.
- Interest in doing a different type of work.

It should also be noted that for many years about four of 10 people retired earlier than planned, often due to job loss, ill health and family members needing care. Many of these people would like continued work but often on a basis that fits redefined priorities.

Examples of Innovative Employer Programs

The following are creative approaches to rehiring retirees:

- The Southern Co. uses a retiree pool. This is a utility, and the retirees are used to fill in when there are extra demands from events such as major storms. Utilities commonly need extra help in such situations. Note that while many case studies describe professional and office jobs, these are blue-collar jobs.[14]
- YourEncore is a consulting and innovation company that works with a group of client organizations to do projects using a core of experts, most of who are retirees. The experts cannot work more than 1,000 hours per year, and they may work for their former employers or others. YourEncore's original client companies were Eli Lilly and Co., Proctor & Gamble and Boeing Corp. (http://www.yourencore.com/) YourEncore is an example of a third-party solution using an innovative approach well fitted to the needs of individuals and companies.[15]
- The Aerospace Corp. is an independent nonprofit company that provides technical analyses and assessments for national security. The organization has a retiree casual program to bring back retired engineers. About 600 retirees are signed up for the program and approximately 300 may be working at any one time.[16]
- The MITRE Corp. is another nonprofit organization that manages government-funded research and development programs and brings back retirees through its "Reserves at the Ready" program.[17]

14 Anna Rappaport testimony on phased retirement at the Employee Retirement Income Security Act (ERISA) Advisory Council, 2008.

15 Anna M. Rappaport and Mary B. Young, , Phased Retirement After the Pension Protection Act, The Conference Board, Research Report 1402-07—RR, 2007.

16 MetLife Mature Market Institute and David DeLong & Associates,, Searching for the Silver Bullet: Leading Edge Solutions for Leveraging an Aging Workforce, November 2007.

17 Ibid.

- Monsanto Corp. has a Resource Re-entry Center, a program available to former employees, whether they are retired are not.[18]
- Several companies offer third-party solutions to rehiring retirees. For example, Kelly Services manages a pool of claims examiners for an insurance company. They are called in times of greater need, such as after major storms. They also manage the substitute teacher programs for some school districts. Kelly Services offers people registered with them the opportunity to work in diverse locations.[19]
- Some organizations offer "snow bird" programs allowing employees to work at different locations during different parts of the year. The authors understand that organizations with such programs include Home Depot, CVS Caremark and Walgreens. These are not retiree rehire programs, but these are organizations that are likely to have a significant number of older workers.
- First Horizon National Corp. offers full-, prime- and part-time employee's flextime, compressed-work schedules, job-sharing, telecommuting and a formal phased-retirement program. Further, full-time employees are able to move to part- or prime-time work on a temporary or permanent basis. In addition, when personal issues arise, employees with at least one year of service can work with their leaders to find scheduling solutions. Several First Horizon employees have reduced their schedules to 20 to 32 hours per week and have continued to receive all full-time benefits. This flexible arrangement is referred to as a "prime time" schedule. First Horizon's more than 1,400 retirees can take advantage of work opportunities in the company, including temporary assignments, consulting and contract work, telecommuting, and part- and full-time positions.[20]

Organizations both inside and outside the United States are trying to adapt to an aging workforce. Here are some examples from outside the United States:[21]

- The retailer Asda Stores Ltd. in the United Kingdom provides older workers with such benefits as "Benidorm leave" (three months unpaid leave between January and March) and "Grandparent leave" (a week unpaid leave after the birth of a grandchild).
- Westpac Banking Corp., an Australian financial services provider, trained 900 recruits 55 and older to address concerns of some older customers that younger staff were too inexperienced to appreciate.
- The hardware retailer B&Q in the United Kingdom has two stores staffed entirely by people over 50. Their profits are higher and they score higher for customer appreciation of the staff's knowledgeability.

---

18 Ibid.

19 Mary B. Young with Diane Pitakalis and Anna Rappaport, , Grey Skies, Silver Linings, The Conference Board . Research Report R1409-07—RR,2009.

20 AARP Best Employers for Older Workers, 2009, authors' compilation from description of company programs shown on AARP website.

21 Chiemi Hayashi, Heli Olkkonen, Bernd Jan Sikken, and Juan Yermo "Transforming Pensions and Healthcare Strategies in a Rapidly Ageing World:Opportunities and Collaborative Strategies," World Economic Forum in collaboration with Mercer and OECD, 2009.

- Managed by Ireland's Chambers of Commerce, Assisting the Recruitment and Retention of Older Workers (ARROW) subsidizes training of older workers in, for example, information technology, customer service skills, communication skills, and occupational health and safety.
- Singapore Health Services (SingHealth) offers a "Silver Connection Consultant" who provides guidance on career transitions and management of older employees, including automation to alleviate physical demands and make work more suitable for older employees.

What Phased Retirement Means to Employees

The following are stories[22] of individual employees and how they shifted roles over their careers:

> *"Job-sharing is tougher to accommodate but it can be done, too. Jackie started her nursing career at Bon Secours in 1971. She had been mentoring Becky, who is also a nurse. Last year, Jackie had remarried and decided, after 36+ years in nursing, that she wanted more time to stop and smell the roses. Becky wanted to spend more quality time with her four boys, ages 7 to 17. They had observed a successful job-sharing arrangement elsewhere in the health system and asked their supervisor about co-managing their department.*
>
> *"Their supervisor, James, asked lots of questions, such as if the staff would accept it, if it would create confusion over who was in charge and if any possibility existed that tasks or information might fall through the cracks. During the decision-making process, he said everyone laid their concerns on the table and discussed them openly. That reflected well on the team and in the end, the job-share was approved on a pilot basis. It's working well—this is a great example of mentoring and knowledge transfer that's so vital to our business."*

> *"Jane was a nurse at one of our hospitals for 40 years before it closed. Then she transferred to the Rapid Admit Unit at our then newest facility. She was thinking she'd just be marking the days until she could retire. However, the environment at this facility came as a very pleasant surprise. And at age 67, she loved her job and the people so much, she really didn't want to retire. But like many after age 50, she was finding the physical demands of nursing increasingly difficult.*
>
> *"Her supervisor, Jill, recognized that a valuable resource was about to disappear and had something else for Jane in mind. She saw the perfect opportunity to fill a department need with someone who had a tried-and-true set of skills who could hit the ground running. Jill had no idea whether Jane would be interested—it was a shot in the dark, but she took it. The offer was a welcome surprise to Jane. She*

22 Stories presented by Dawn Malone of Bon Secours Health System in a webcast on phased retirement sponsored by the Conference Board of Canada and included in an article in the Society of Actuaries Pension Section News. Thank you to Dawn Malone for sharing these stories.

called Jill's offer a gift. In addition to being able to stay with friends in an environment she enjoyed, she appreciated the extra income and continuation of her health benefits. She now works 15 to 18 hours over three days each week."

"In this next scenario, we'll look at Nettie's career. She began nursing in 1957. She worked on three units. She was one of the first 'working mothers' to request flex scheduling to accommodate child care issues. Her husband was in the military and was gone for months at a time. She was originally hired to work 3 p.m. to 11 p.m. However, with small children at home and child-care issues interfering with her work schedule, Nettie lobbied the Nursing Director to allow her to flex her schedule. She worked 7 a.m. to 7 p.m. for many years.

"In 1975, she transferred to Employee Health. During this time, she also worked PRN evenings and weekends on the units. This made her the first employee allowed to work in more than one cost center—another flex scheduling milestone. In 1999, she retired. Then in January 2000, she returned to work for Employee Wellness. Among other duties, she performs TB skin tests on employees. She has gradually reduced her hours since retirement. She currently works two days per week."

"Finally, we have Jean's story. She first retired as a nurse in 1997. She loved her work in the psychiatric department and she loved her coworkers. However, the physical nature of nursing had led to two knee replacements and later a broken foot.

"A few months after she had said her good-byes, she got a phone call from a nurse manager she had worked with who asked Jean if she would come back as a substance abuse counselor. Jean was flattered. She had learned a lot from social workers on the unit, as well as the patients. And, as it turned out, she was wanting to do something else with her time. She talked with HR about reinstating and found that her retirement benefits would accommodate this situation. She was excited about being able to continue collecting her pension while working part-time. Most importantly, she just loved what she was doing. She has since retired again and is enjoying spending time with friends, many of them former nurses."

These stories offer us an unusual insight into what phased retirement can mean at the individual level. Many of us who think about statistics and groups of people do not envision the practical aspects of how one person's job and role can successfully change during a phased retirement period.

Related Benefit Plan Issues

As employers work to adapt to the aging workforce and to introduce new programs, several areas of benefit plan management need to be considered. These include health care and changing options as a result of health reform, disability benefits and the implications for the organization of employees who are involved in significant caregiving.

Impact of Health Reform Legislation in the United States

Prior to the enactment of the health reform legislation, the existence and type of health benefits was an important factor in what jobs people chose and how they moved between jobs. Individuals without decent retiree health coverage until Medicare eligibility age often could not afford to retire prior to age 65.

Health reform legislation enacted by Congress in March 2010 will likely change the link between health benefits and decisions about work and retirement. Once the bill is fully implemented and the state exchanges are in place, Americans should be able to get decent health insurance regardless of whether they have a job that offers such coverage. Pre-existing conditions in the family should no longer serve to lock employees into their current jobs.

The authors expect that more people will choose different job options and paths as they near retirement age and will prefer a phased approach in the future.

The health reform legislation will also make it feasible for employers to exit the provision of retiree health benefits for future retirees after the legislation is fully effective. It remains to be seen how many will do so, but the authors expect that many will choose to do so. Some of the considerations are expected to include:

- The strategy chosen with regard to active employees.
- The employers' risk pool and how it compared to the population risk pool.
- The requirements imposed by regulations.
- Evolving marketplace options.

This legislation should also serve to give employers more freedom in designing work options without needing to worry about how the work options intersect with their health benefits.

It should be noted that health benefits do not play a role in retirement decisions in countries with national health benefits.

Disability: An Area of Challenge for Employers and Employees

Emerging retirement designs in the United States often leave gaps when we think about the security of people who become disabled. Traditional benefit programs included final average pay pensions and long-term disability benefits. The final average pay pension plans often included continued accrual of service during periods of disability, so that the individual who was disabled for a long period still received a decent retirement benefit. That retirement benefit was paid out as a joint and survivor pension.

In organizations with defined contribution (DC) plans and some of the new DB designs, there is no continued contribution to retirement savings during disability. Furthermore, plan benefits may be paid out when there is long-term disability. This leaves a big gap for disabled people if they live to retirement age and for their surviving spouses.

One of the likely changes in the future is that people will work considerably longer and that retirement ages may be increased. It this happens, there will be more people who are unable to work and more need for disability benefits. Disability benefits would need to be adjusted to go to a higher age.

Traditional retirement programs were designed with the expectation that retirement was a clearly defined event. However, as people are phasing into retirement and reducing work schedules, they can still become disabled. Furthermore, health limitations of a lesser degree than those would mean disabilities are one of the reasons people may wish to reduce their work schedules. However, if they do so in most disability programs today, their disability coverage will likely be reduced and may be discontinued. Thought is needed to find ways to fit the disability and retirement parts of the benefit program together.

It is the authors' opinion that there are several challenges with regard to adjusting disability benefits so that they work in the benefit and employment environment of the future.

The application of these issues to other countries will depend on the structure of social benefits and employee benefits. This is an area for further study.

Caregiving and the Employer

Many Americans, particularly those older than 40, have parents and other older relatives who depend on them for various types of help. An assessment of productivity and implications of caregiving from the MetLife Mature Market Institute[23] found:

> "There are millions of Americans providing care to family members. *Caregiving in the United States*, released by the National Alliance for Caregiving and AARP in 2004, revealed over 44 million Americans, or an estimated 21 percent of all U.S. households, provide care for an adult family member or friend age 18 and older."

Key findings of the study included the following:

- 79 percent of family caregivers were caring for someone older than 50 and the average age of the caregivers for this group was 47.

23 MetLife Mature Market Institute and National Alliance for Caregiving, The MetLife Caregiving Cost Study: Productivity Losses to U.S. Businesses, July 2006.

- The majority of these caregivers were full-time workers and nearly 40 percent were men.
- Most family caregivers are unpaid and often care for parents or grandparents.
- The majority had to make some adjustments to work-related responsibilities.

As the population ages, caregiving is likely to be a growing issue for employers. The Family and Medical Leave Act[24] requires that they give a modest amount of unpaid leave, but that does not solve the challenges to either business or the caregiver.

24 U.S. federal legislation requiring a limited amount of time off for family caregiving.

Conclusions and Focus on the Future

The concluding section of the paper includes questions to be addressed as organizations adapt to the new environment, the authors' predictions, a checklist for successful innovation of programs that adapt to the future and some final conclusions.

Questions for the Future

It appears that many organizations are not focused on longer-term labor force planning at present and that issues relating to population and labor force aging will be addressed when talent shortages are felt or when the economy turns around enough that there is more time to think about these issues. Some of the longer-term questions for the future include the following:

- How will the economy and families deal with an increasingly aging population and the need for a higher "normal" retirement age? In 2010, people are working longer in many cases but often after they have left their long-term jobs.

- How will employers adapt to this new reality? They may seek to keep people longer, or use innovative arrangements to engage later career workers, often on a basis other than as permanent employees. Depending on the positions organizations take after health reform becomes effective in 2014, the options used to bring in employees may change.

- Will concerns about age discrimination remain a key consideration? Age discrimination requirements are a two-edged sword. On the one hand, they serve to protect older employees and job seekers. On the other hand, they may serve to discourage innovation and to make employers very cautious when they consider new options and older employees.

- How will employees keep their skills up to date to compete? What will they need to do to adapt to evolving communication styles and new cultures. Technology is ever changing, presenting both opportunities and challenges. Older employees may find it more difficult to get up to speed on changing technologies. Social networking has changed the way many people communicate and this is often not comfortable for people accustomed to a different communication style.

- What kind of transition will there be and how long will this transition to the new reality take? What will it look like along the way? Many organizations implemented retirement plans in the 1950s and 1960s (and a few before that), with age 65 normal retirement ages. Since then, life spans have increased, actual retirement ages dropped as early retirement provisions were liberalized and then they increased again. While Social Security full benefit retirement age was gradually increased from 65 to 67, there was no change made in the retirement age requirements for private sector pension plans. By moving away from defined benefit plans, many larger organizations have avoided explicitly redefining normal retirement ages. Those who still have defined benefit plans will need to think about this issue in future years. Policy changes will be needed to support a clear redefinition of societal expectations and to enable desirable changes to pension plans.

- To what age is it realistic for people to continue working? This varies by situation and type of job, but it appears unlikely that many people will work beyond age 75 in the next few years.

- If retirement ages go up, how do we need to adjust disability benefits? If people work longer, there are likely to be increasing challenges as more people become disabled while in the labor force. It is feasible to do some jobs with health limitations but not others. The historical structure of employment-related disability benefits was designed to fit well with traditional pensions but not with defined contribution plans. A paradigm shift is required to adapt to the new realities.

- What other changes will be needed to benefit packages? One of the big questions will be which, if any, benefits are provided to people with alternative work arrangements. Another big question will be what kind of options are available to employees who are involved with caregiving for elderly parents or spouses who need help. Such caregiving can be short term or it can last for a very long time. It is often difficult to predict how long it will last and how intensive it will be.

Predictions for 2030 and 2050

The authors have some predictions for changes in the workplace of the future in 2030 and 2050 due to population aging:

Factor Considered	Today	2030	2050
Usual retirement ages	62-65	67-70	71-75
Method of existing labor force	One-time retirement from long-time job, very common to work at other jobs before full exit	Phased retirement options very common and usual to start new career after age 50	Expected that healthy people will work until about age 72, phased retirement common
Prevalence of formal phased retirement programs	Very rare	15-20% of large employers offer these programs	30-40% of large employers offer these programs
Role of family in helping older people	Depends on family, but substantial role in many families	Depends on family, but substantial role in many families	Depends on family, but substantial role in many families
Structure of disability programs	Based on expected normal retirement of age 65 Provision for partial disability is rare	Offers benefits to higher age and more focused on rehabilitation and return to work	Offers benefits to higher age and more focused on rehabilitation and return to work

Factors Leading to Success in Building Future Programs

A comprehensive approach to talent management and employee benefits, linked as part of an overall human resources strategy is important to success. Some of the key factors that can lead to success include:

- Fact-based analysis: A thorough assessment of talent and talent needs, identifying expected gaps and which employees are in critical jobs.
- Fact-based analysis: A critical evaluation of employee benefit and compensation programs to determine what incentives are embedded and whether the programs support future talent needs.
- Fact-based analysis: Examine employer policy and culture with regard to work options and whether they fit talent needs and employee interest.
- Gap analysis: Identify gaps in needs vs. current state and changes needed to better align programs to talent needs.
- Appropriate changes: Implement changes in employment options and benefits to align with talent needs.
- Align culture: Work with management throughout organization to make sure that culture is friendly to the new environment.
- Gradual implementation: Try pilot programs, evaluate and refine.
- Ongoing evaluation: Assess results on an ongoing basis.

Conclusions and Recommendations

As the population ages, the labor force will also age. This is the result of the interaction of longer life, the boomers aging and different numbers of births at different times. There has been relatively little adaption to major changes in life spans over the past 100 years. The authors' view is that these changes in life spans and the changes in population age mix will require much greater changes in the years to come. The changes in the future will reflect a combination of catching up to where we are now and moving forward.

It is important to plan for a future where the total population will be much older. Many people will want or need to work longer and employers will need their talent. New job options will be needed and innovation will be key. Some of the issues that require attention include:

- Gradually increasing retirement ages.
- Helping people keep skills up to date and build new ones so that they remain employable.
- Providing options for different work schedules, enabling individuals to find an option that fits their needs and capabilities while meeting employer needs.
- Updating disability benefits to fit new retirement patterns and to work side by side with defined contribution plans.
- Re-engineering retirement programs.
- Developing phased retirement programs.

Note: The opinions in this paper are solely those of the authors and do not represent the viewpoint or opinion of any organization that either author is or has been affiliated with.

Biographical Information

Mary Nell Billings
Hilton Worldwide, Director of Retirement Benefits—the Americas

Mary Nell Billings is currently director of retirement benefits—the Americas for Hilton Worldwide, based in McLean, Va. She is responsible for Hilton's domestic retirement plans as well as those in Canada and Puerto Rico. She was manager of employee benefits for FedEx Express and prior to that the manager of strategic planning and governance, retirement plans for FedEx Corp., both headquartered in Memphis, Tenn. She has more than 25 years experience in human resources and finance from both a plan sponsor and a third party administrator perspective, including qualified and nonqualified retirement and health and welfare benefits, compensation, training and communications. She previously managed FedEx's defined contribution plans and defined benefit plans, which cover approximately 200,000 domestic employees and recently managed health and welfare plans covering 300,000 lives. Billings holds both a bachelor and a master of business administration degree in accounting and finance from the University of Memphis.

She has served on both the Profit Sharing Council of America's Communication and Education Committee and Legal and Legislative Committee and been the recipient of several PSCA Signature, Golden Quill, Telly and FedEx awards, including FedEx's highest honor, The Five Star Award for leadership. Billings has also written articles for retirement newsletters and presented at several PSCA, Council of Employee Benefits, Society of Actuaries and Wharton seminars and conferences on topics including communications, retirement plan oversight and behavioral finance. She was second chair on the PSCA board of directors and executive committee and holds designations from the International Foundation for Retirement Excellence (InFRE) for certified retirement counselor and administrator. Billings was a member of the Practice Analysis Committee for InFRE, which developed and conducted a study of practicing certificants to identify the skills and tasks necessary to update the exam content Billings represented the employer viewpoint in the Society of Actuaries 2020 Retirement project. She is recently completed a three-year term on the Department of Labor ERISA Advisory Council and was vice chair for the Phased Retirement study and the Chair for the Disparities for Women and Minorities in Retirement study. Billings is currently a Contributing Editor for Employee Benefit News and serves on the plan sponsor steering committee for DCIIA.

Anna Rappaport, FSA, MAAA
Anna Rappaport Consulting

Anna Rappaport is an actuary, consultant, author and speaker. Rappaport is a nationally and internationally recognized expert on the impact of change on retirement systems and workforce issues. She formed Anna Rappaport Consulting in 2005 after retiring from Mercer Human Resource consulting at the end of 2004 having served 28 years with the firm. Rappaport serves on the boards of the Women's Institute for a Secure Retirement (WISER) and the Pension Research Council**.** She served as president of the Society of Actuaries in 1997-98 and is currently chair of the SOA's Committee on Post-Retirement Needs and Risks, and has participated extensively in structuring and leading the SOA's research efforts on post-retirement risks since its inception. She has participated in the three prior Living to 100 Conferences and has submitted prior papers to Living to 100. She is a member of the ERISA Advisory Council and the Government Accountability Office (GAO) Retirement Security Advisory Panel. She is passionate about creating a better future for older Americans, improving the retirement system in America, and is particularly concerned about the many women who do not fare well at older ages.