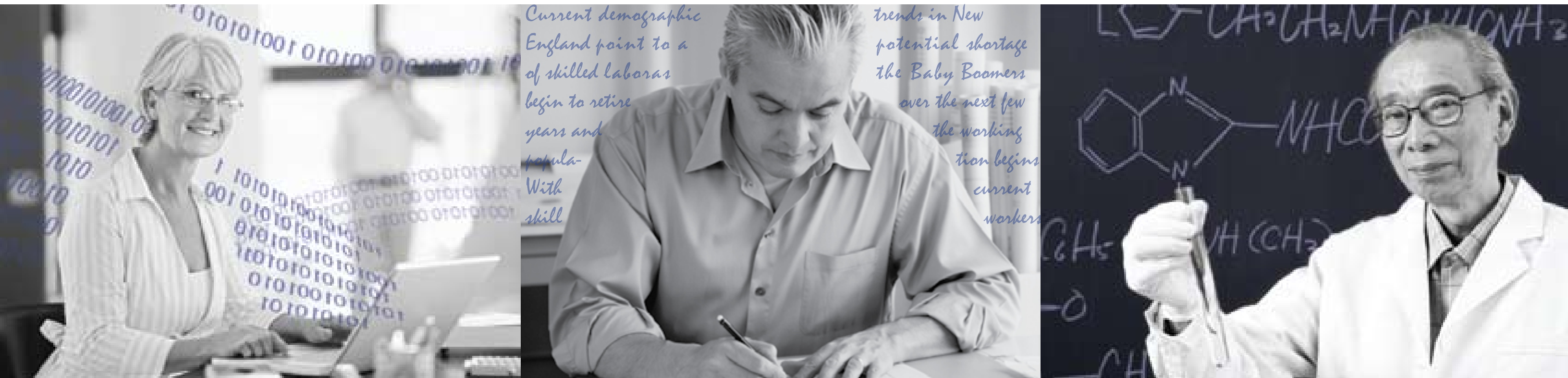
Employing the Region's Assets

Baby Boomers Meeting New England's Skilled Workforce Needs



New England Public Policy Center
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New England Public Policy Center
at the Federal Reserve Bank of Boston

The New England Public Policy Center is dedicated to providing high-quality research and analysis of economic and public policy challenges in the region, and ensuring broad access to its findings.

In addition, we convene members of the public policy community to enhance our research and inform policy making. Events include annual conferences, meetings throughout the region, and meetings of the Center's Advisory Board.

These proceedings summarize the Center's 2008 annual conference. For helping to make this event a success, we would like to thank the conference speakers: Barbara Bovbjerg, Lynn Browne, Jeff Davis, Jim McCaffrey, John Richardson, Deborah Russell, Steven Sass, Gene Steuerle, and Andy Sum.

Employing the Region's Assets: Can Baby Boomers Meet New England's Skilled Workforce Needs?

By Heather Brome, senior policy analyst and Sandra Hackman, editor

Executive summary

Demographic trends in New England point to a potential shortage of skilled labor as Baby Boomers begin to retire over the next few years and a smaller generation of workers follows. One segment of the labor force that is expected to grow is workers over the age of 55.

The New England Public Policy Center's fourth annual conference, held December 3, 2008, explored the role that older workers can play in meeting the region's labor force needs over the coming decades. The conference featured presentations that investigated changing demographics and labor force trends in New England and the nation, and examined what employers, workers, and the public sector can do to lengthen the labor force participation of New Englanders. Several key themes emerged from the conference:

Older workers are an untapped resource for future labor needs. As the definition of work and work demands have changed, Americans' health has improved, and cultural expectations have shifted, workers are able and willing to work at older ages. Moreover, many Baby Boomers may need to work longer as the value of their retirement savings and homes has fallen. Current workplace policies and public policies nudge older workers toward retirement. However, with the traditional supply of workers growing more slowly than it has in the past, older workers represent an opportunity for expanding the region's labor force.

The shift from career to retirement has become more complicated. Workers are taking more interesting exit routes from work to retirement, including "retirement jobs," second careers, phased retirement, and seasonal employment. Older employees often want access to flexible hours, benefits, and work locations, including part-time work and telework—options that also appeal to younger employees. Given the diverse skills that older workers offer, employers need to think creatively about matching their needs with those of potential employees.

Mixed signals make Baby Boomers' retirement plans uncertain. Federal regulations surrounding Individual Retirement Accounts, Social Security, and Medicare all send different signals to older Americans about the costs of work and leisure. Ages ranging from the late fifties and to the early seventies trigger different retirement benefits, while private pensions may send different signals based on age and tenure. Moreover, the shift from defined-benefit to defined-contribution plans has left employers uncertain about when their employees plan to retire, and employees uncertain about when to retire and how to communicate their plans to employers.

Introduction

In opening the conference, Lynn Browne, executive vice president of the Federal Reserve Bank of Boston, noted that one of the most pressing concerns the Boston Fed has heard from business leaders, public leaders, and civic leaders is anxiety about the future of the region's supply of skilled labor. Long considered the region's competitive advantage, the skilled labor supply is growing less quickly than it has in the past.

This is due, in part, to the aging of the population. While this trend can be seen throughout the nation, it is more pronounced in New England. All six New England states rank among the top ten in the country in the median age of their population. Maine and Vermont rank first and second, while New Hampshire ranks fifth, Connecticut is tied for seventh, and Massachusetts and Rhode Island tie for ninth, according to U.S. Census population estimates as of July 1, 2007.

The impact of an aging population on the labor force will be especially pronounced in New England because the other sources of new workers—birth rates and the rates of people migrating into the region—are lower than in other parts of the country.

Overview: How might labor force participation change?

Eugene Steuerle, vice president of the Peter G. Peterson Foundation, provided an overview of changes in the U.S. labor market over the past several decades.

Dr. Steuerle noted that the percentage of men aged 55 and older in the workforce declined precipitously from 1948 to 1990—from just over 70 percent to about 47 percent—and then began to climb. Economists and social scientists are divided as to whether this upward trend will continue. Some economists and actuaries predict that older Americans will continue to retire pretty much as they have in the past, because wealthier people demand more leisure. However, Steuerle contends that as an economy gets richer, people demand more of many things—not just leisure—and that they may therefore work longer. Conference participants also noted that the current recession may require many Americans to ignore preferences for leisure and to work longer to regain savings. (see Figure 1 on page 6).

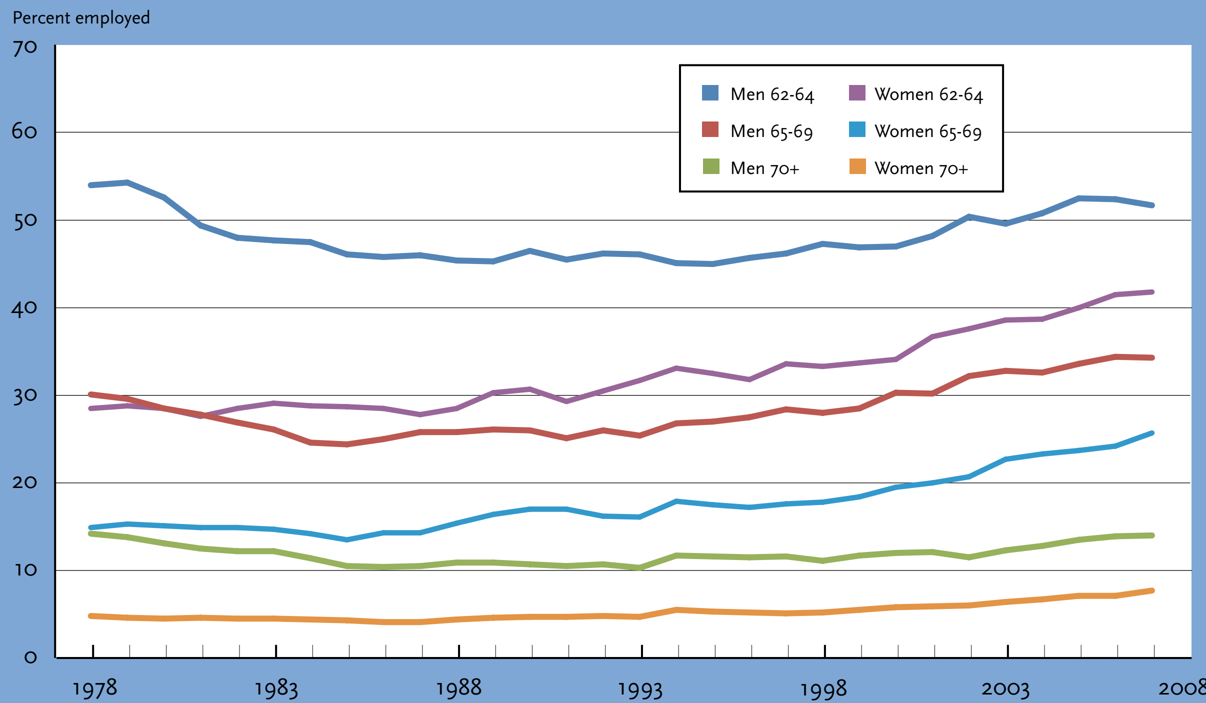
Labor supply is only half the equation. Labor demand matters as well. Dr. Steuerle argues that the nation's aging population may help fill this demand, which itself is a function of demand for goods and services.

During the last half of the twentieth century, women and Baby Boomers entered the labor force, helping fill labor demand.

How Do We Define Older Workers?

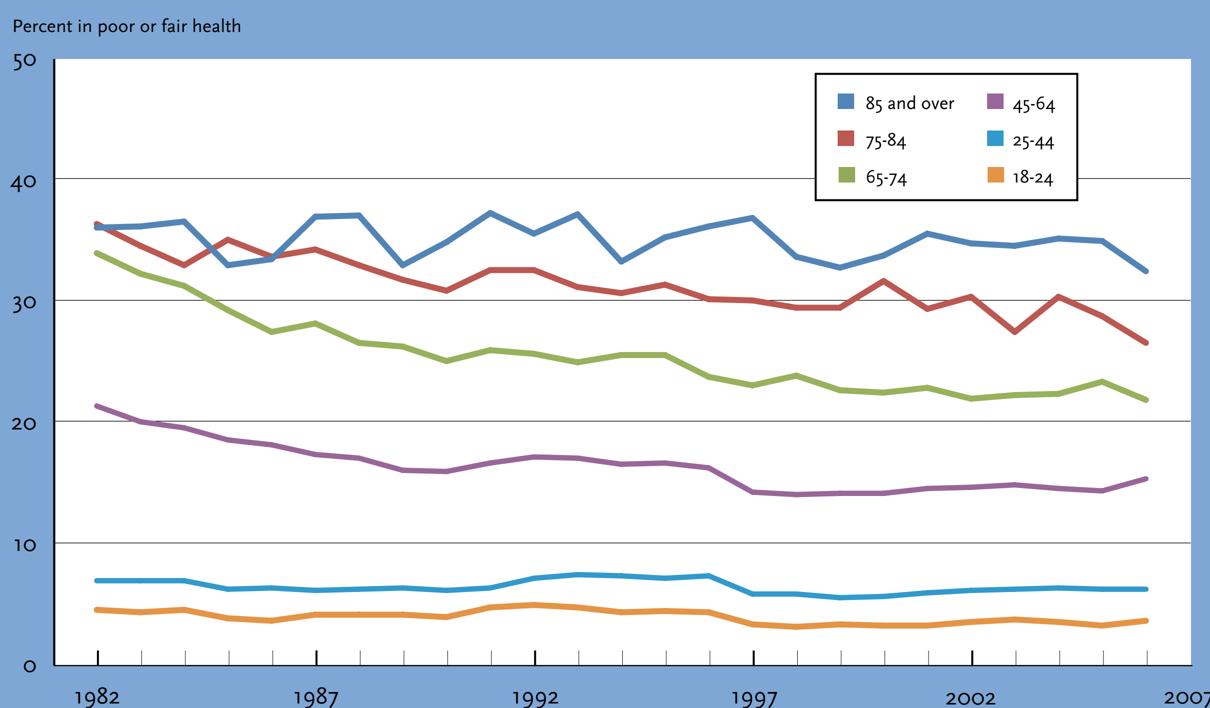
A theme throughout the conference was what exactly Americans mean by "older workers." Employers often consider older employees those aged 50–55 and up. However, the Federal Age Discrimination in Employment Act actually applies to workers over age 40. And Baby Boomers—the demographic bulge of Americans born after World War II—now range from age 45 to 62. The discussion that follows includes many definitions of older workers because the conference focused on lengthening people's participation in the labor force—whether that means postponing retirement from age 50 to 55, or from age 70 to 75.

Figure 1. Employment rate of older workers



Source: Bureau of Labor Statistics (2008).

Figure 2. Share of older adults reporting poor or fair health



Source: National Center for health Statistics (2006).

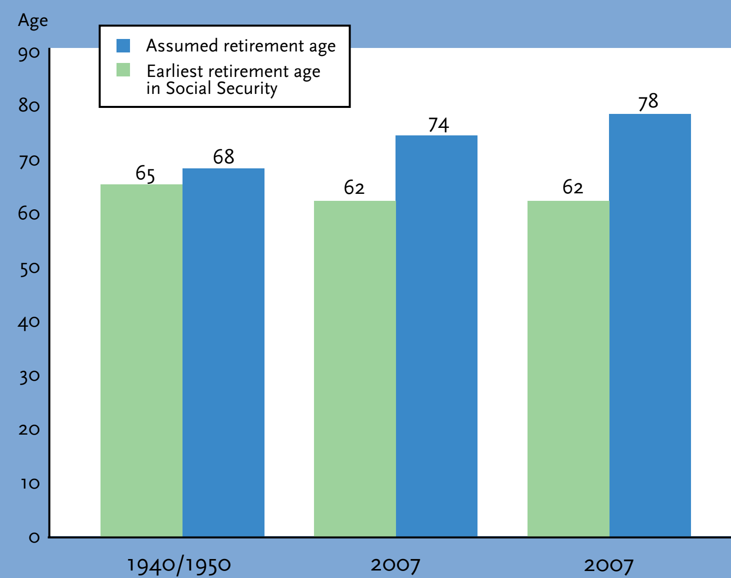
Now that Baby Boomers are starting to drop out, and women have come close to catching up to men in labor force participation, who will meet that demand? Dr. Steuerle argues that individuals aged 55 and older are "the largest underutilized poolof human resources and talent we have."

Today people are physically able to work longer even as the physical demands of jobs have declined. And better health tends to correlate with living longer. For example, men aged 65 in 2001 could expect to live as many years as men aged 59 in 1940. Meanwhile, Americans report that they remain in better and better health as they age (see Figure 2). All these factors mean that people aged 65 today have much greater capacity to work than such individuals 40 years ago. In fact, Dr. Steuerle disputes the accuracy of measures of aging such as the percentage of the population over age 65. Lower birth rates —not longer lives— make a population age. The "over-65" measure incorrectly combines both those factors.

However, despite the fact that older Americans are living longer and are in better health, public policy incentives clearly influence the percentage who remain in the workforce. For example, the percentage of men with about 16 to 17 years of life expectancy (the equivalent of men aged 65 at the beginning of this century) who continued to work remained fairly constant until 1960, when Americans could begin drawing Social Security retirement benefits at age 62. Medicare became available soon thereafter, in 1965.

Those findings suggest that the nation might want to adjust the age when people can draw Social Security and other pension benefits to reflect their longer life expectancy. In 1940 and 1950, when the earliest age at which people could receive Social Security retirement benefits was 65, the average worker retired at age 68. Today, although older workers can opt to receive Social Security benefits at age 62, the equivalent retirement age in years of life expectancy is 74 (see Figure 3). And in 2065, people working until age 78 can expect the same number of retirement years as people working until age 65 in 1940.

Figure 3. Program retirement age, indexed for life expectancy



Source: Urban Institute analysis of data from the Social Security Administration, Birth Cohort Tables, 2005.

A related option to encourage work is to back-load Social Security benefits. That is, the federal government could provide lower Social Security payments to people in their sixties, and higher payments to people in their seventies or late seventies.

Obstacles to work at older ages

However, even if older Americans want to remain in the workforce, several barriers may prevent them from doing so, and those may affect whether labor force participation rates continue to rise or level out. One barrier is the cost of health care. That cost begins to take an ever-steeper share of total earnings after workers reach age 50, even after adjusting for the fact that middle-age employees earn more than they did earlier in their careers (see Figures 4 and 5 on the next page). That, of course, means higher costs not only for workers but also for their employers.

Although workers can enroll in Medicare at age 65, federal law stipulates that Medicare is the second payer for employees of companies that offer health insurance. Those companies must therefore pay high insurance premiums to cover health care for older workers, with the

Figure 4. Health care expenditures as a percentage of wages

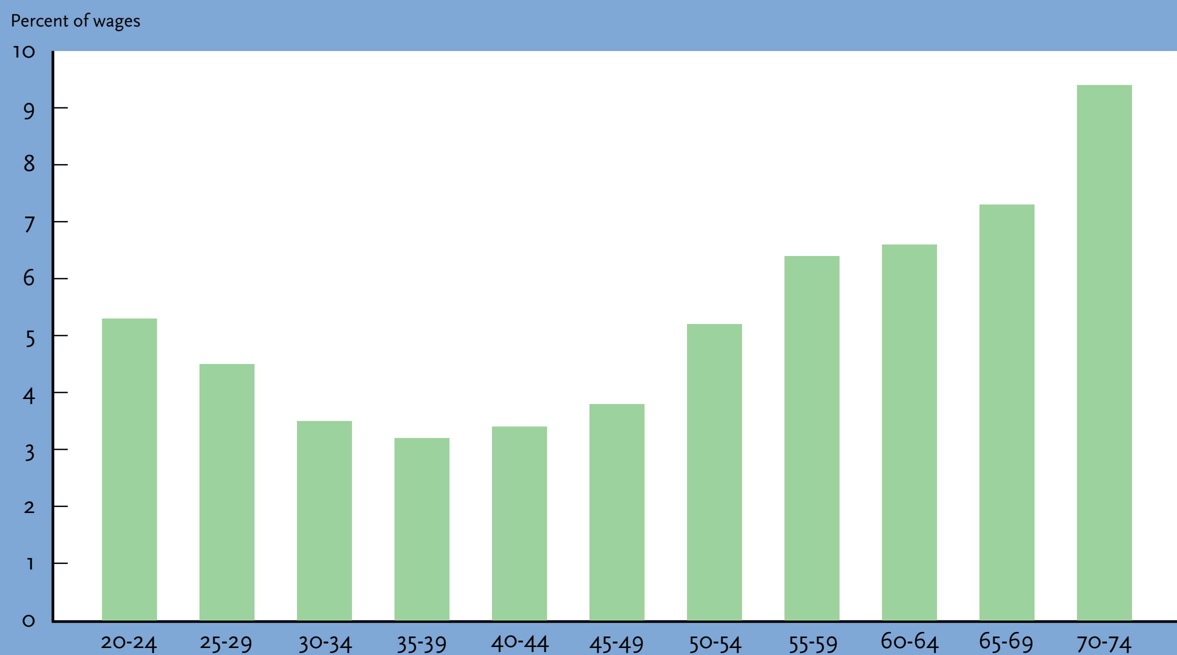
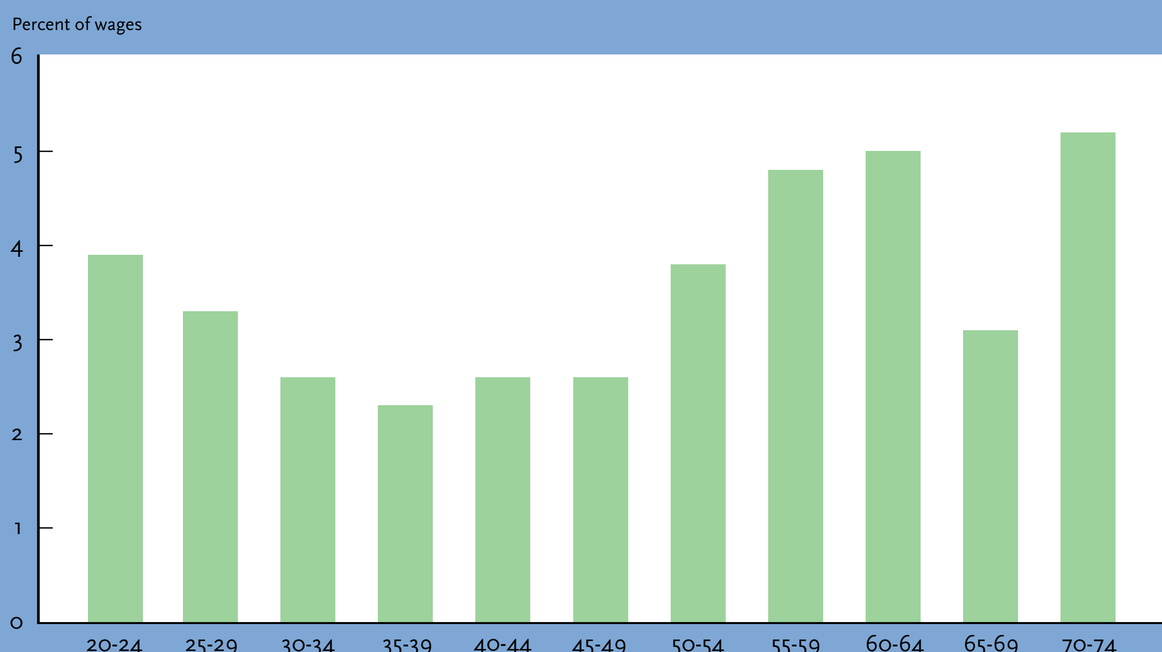


Figure 5. Private health insurance expenditures as a percentage of wages



Source: "Legal and Institutional Barriers to Partial Retirement and Part-Time Work by Older Workers," Penner, Perun, and Steuerle (2002). Authors' calculations from the 1996 Medicare Expenditure Panel Survey and the Bureau of the Census.

loss of Medicare benefits like a tax that either employers or workers must absorb.

Does that health cost factor, along with other barriers, make employers less willing to hire older employees? Evidence shows that during good economic times employers sometimes actually favor older workers, keeping them on the job despite their higher costs. However, older Americans do seem to have more trouble getting a foot in the door for an initial interview with employers.[1] Employers also invest fewer resources in older employees.[2] Employers may not expect to see a payoff from investing in workers who are closer to retirement age.

A final barrier to work is the common perception among older workers that working past age 62 places a heavy "tax" on them. First, individuals who continue to work between ages 62 and the normal retirement age (now 66) receive lower Social Security payments while they remain on the job. For other reasons—such as the fact that they no longer contribute to retirement accounts and that they pay lower income taxes and no Social Security tax—individuals who retire in their early sixties often find that they start out with almost as much cash income as if they had continued working. However, in truth, Social Security payments do rise when people retire later, and their other income also increases. Those adjustments actually "make working longer a pretty good deal for most people," says Dr. Steuerle, and most people who do so will "be a lot better off" down the road.

Postponing retirement not only gives most individuals greater security but also benefits society as a whole—partly because of the taxes they pay to support government programs. If individuals work longer, they not only add to their own lifetime income but they also continue to pay Social Security taxes, federal income taxes, and state income taxes. Changing public policy to lower barriers to working longer is therefore important to both individuals and the larger society.

Fortunately, the barriers to expanding paid employment among older Americans are eminently surmountable. For example, better communication could make the nation's retirement system more transparent. The federal government could clarify the fact that when people retire at age 62 or 65, their wage status drops significantly over the course of 20 years, compared with that of the rest of the population. That's because the wages of people who are working rise over time, whereas the "wages" people receive in the form of Social Security benefits do not, apart from cost-of-living adjustments.

The first step in the reform process, says Dr. Steuerle, is to redefine what is "old": as long as age 62 is the benchmark, "that sends an extraordinary signal to people…that they should retire for one-third or more of their adult lives."

Focus on New England

Andrew Sum, director of the Center for Labor Market Studies at Northeastern University, addressed the implications of these trends for New England, and shed more light on what drives labor force participation of mature Americans—including those who are less educated.

He noted that individuals aged 55 and older will account for *all* the increase in the working-age population in southern New England—that is, Connecticut, Massachusetts, and Rhode Island—from 2006 to 2014. The Bureau of Labor Statistics predicts that the labor force participation rates of people aged 55–65 and 65–74 will continue to rise over the next decade, while the participation rates of teens and young adults will decline. The result: people aged 55-plus will generate all the net increase in the region's labor force during that period.

For example, Dr. Sum's research shows that in Connecticut, the number of labor force participants over age 55 will rise by more than 98,000 from 2006 to 2014, while the number under age 55 will fall by nearly 30,000. The latter includes sharp declines in the number of teens and 35–44-year-olds in the workforce—the "baby bust" generation. That means the older group will account for all the net increase in the state's civilian labor force. Similarly, in Massachusetts the number of labor force participants over age 55 will increase, while the labor force under age 55 will decline from 2005 to 2015.

Several demographic and socioeconomic forces underlie the increases in labor force participation rates of older people in New England in particular:

There is a very strong link between educational attainment and labor force participation rates of men and women aged 55–74. For example, in Connecticut today, 71 percent of women aged 55–64 with a college degree remain in the labor force, while only 45 percent of women that age with less than a high school education do. Baby Boomers are better educated than their predecessors and New Englanders are better educated than the rest of the country, so this could indicate rising labor force participation in the region.

Older married couples show strong "complementarity of leisure." That is, when a husband works, his wife is more likely to work. Recent evidence also shows that when a wife works, her husband is more likely to work. The result is that as growing numbers of older women stay in the labor force, their husbands, too, will be more likely to continue working. And "families that work together stay together," Sum says. However, those trends mean that income inequality will rise markedly within the next generation of older workers. In better-educated older families, two members will earn salaries and bring in high pension income, while less-educated families will have to rely on fewer workers, fewer hours, lower wages, and lower pension income.

Higher wages attract older workers to the labor force, and encourage them to work more. From 2000 to 2007, in Connecticut, Massachusetts, and the nation as a whole, median real weekly earnings of people aged 55-plus working full-time rose 8–9 percent, while earnings of full-time workers under age 35 declined. Dr. Sum asserted that this rise in earnings will draw older workers into the labor force.

The higher someone's nonwage income, the less likely he or she is to be in the labor force. The impact of today's declining home prices and financial assets on labor force participation rates among older New Englanders is unknown. However, Dr. Sum estimates that for every $10,000 an individual receives in nonwage income, he or she is two to three percentage points less likely to be in the labor force.

While this conference focused on skilled workers, older Americans with less education and lower incomes need workforce development services for several reasons, according to Dr. Sum. Poverty is more time-dependent and persistent within this group. That is, the older an individual and the more likely he or she is to be poor one year, the more likely that individual is to be poor the next year. Thus "those who are poor when they are 60 are going to be poor for the vast majority of their life," says Dr. Sum.

Finally, as Syracuse University political economist Arthur C. Brooks shows in his recent book *Gross National Happiness*, the happiest older Americans are those who contribute to the community. Thus volunteer work and paid work are the great contributors not only to the macro- and microeconomy, but also to the "gross happiness of the nation," notes Dr. Sum.

Challenges individuals face to working longer

The conference's third speaker, Barbara Bovbjerg, director of Education, Income, and Workforce Security at the U.S. Government Accountability Office (GAO), pointed out that retirement requires sophisticated decision making, given that it is more complicated than pulling an "on-and-off switch" for full-time work or full-time retirement.

In response to Dr. Steuerle's and Dr. Sum's presentations, audience participants agreed that retirement is not what it used to be. One participant observed that the majority of older Americans who leave full-time career jobs do not quit the labor force. They move instead to "bridge jobs"—shorter-term part-time or even full-time work, often self-employment. Thus the word *retirement* is deceptive: it is a series of events rather than a single juncture.

The key to encouraging older Americans to remain in the workforce is therefore to provide a range of "interesting exit routes." Measurements of labor force participation of older Americans may miss some of these partial-work arrangements, and it is a challenge for researchers to determine who is retired, who is working, and how much of each an individual is doing.

According to Ms. Bovbjerg, recent economic conditions have shown older Americans who expect to rely heavily on a 401(k) that they do not have enough savings to retire. Two years ago, many of these individuals were not on track to have enough savings to retire, but they did not realize it. Still, many older Americans now face barriers to remaining in the workforce:

Both health and health insurance are likely to affect retirement decisions. Individuals who have held blue-collar jobs are much more likely to be in poor health, and to retire early. Older caregivers who themselves remain healthy may leave the workforce to care for a spouse or an aging parent. If such individuals have participated in a defined-benefit pension plan, that means they will forego the key years for accruing higher pensions. If they have participated in a defined-contribution pension plan, both they and their employer will stop adding funds to their retirement account.

On the other side of the ledger, people who are concerned about paying for health insurance will try to wait to retire until they are eligible for Medicare.

Older Americans perceive few employment opportunities. Dr. Sum noted that older Americans are less likely to get an initial job interview; Ms. Bovbjerg has found that they are also less likely to get jobs. This may reflect a mismatch in perceived needs between workers and employers. Older individuals may want to work part-time, whereas employers may prefer that employees work full-time or retire.

Cultural expectations encourage Americans to retire in their mid-sixties. Most people cite 65 as the normal retirement age. Although Dr. Sum noted that both women and men work longer if their spouses continue to work, the opposite may also occur, according to Ms. Bovbjerg: women tend to marry older men, and thus may retire earlier to join them in retirement.

Law and public policy give people mixed signals about when to retire. The rise of the full retirement age to 67 under Social Security is encouraging some Americans to rethink cultural expectations that they will retire at age 65. However, people may still begin drawing Social Security benefits at age 62, and enroll in Medicare at age 65. Meanwhile people may often tap defined-benefit pensions beginning at age 55. And Americans may withdraw from their IRAs beginning at age 59 and a half, but must start withdrawing from them by age 70 and a half (see Figure 6).

Figure 6. Federal retirement rules

Age	Eligibility, rules
59.5 years	May begin drawing from IRAs without penealty
62 years	May begin drawing Social Security benefits, although the longer one waits, the larger the benefits will be
65 years	Eligible for Medicare
66 years	If born between 1943 and 1954, full Social Security benefits begin
70 years	Must begin drawing Social Security Income, maximum benefit received
70.5 years	Must begin withdrawing from IRAs based on IRS formula for required minimum distribution

Source: IRS, Social Security Administration

The GAO has recommended that Congress review these mixed signals and make them more consistent while ensuring that they encourage people to work longer. However, in so doing, policymakers will seek to avoid penalizing individuals who are no longer healthy, and those who have performed physically demanding jobs.

The GAO has proposed that the federal government pursue a three-pronged approach to lowering barriers to work among older Americans:

The Department of Labor should lead a national campaign to promote work at older ages among both workers and employers. Although the department has not yet launched such a campaign, it has convened a task force composed of representatives from all federal agencies that consider the needs of older Americans. The task force released an initial report highlighting the importance of training and retraining older workers.

The federal government should identify legal barriers to work among older Americans and promote potential changes. The task force is evaluating those barriers.

The federal government should become a model employer of older workers. For example, the Office of Personnel Management is trying to convince federal agencies to seek the skills they need among older workers rather than recruiting only on college campuses. The State Department has pursued this approach by bringing back retirees to provide essential skills.

Fortunately, cultural changes that encourage Americans to work longer are beginning to take root. And the nation's economic conditions may speed conversations about what individuals should expect from retirement, what employers can provide, and how the public and nonprofit sectors can help.

Challenges for employers in hiring and retaining older workers

The conference's fourth speaker, Steven A. Sass, associate director for research at the Center for Retirement Research at Boston College, noted that while some older Americans are self-employed, most still rely on employers as their path to remaining in the labor force.

In earlier decades, employers were "not really keen on older workers," he observed. Many instituted mandatory retirement (which the government later outlawed) and defined-benefit pension plans, which are designed to retain prime-age workers but encourage older workers to leave, once they have qualified for a pension or reached a designated retirement age.

Employers developed these approaches partly because mature workers are at or close to their peak productivity. That is, the value of their work may have reached its maximum while their compensation is likely to rise, given cost-of-living increases, merit raises, and defined-benefit plan accruals.

However, the situation for employers and employees alike has changed, owing to several factors:

Career employment is on the decline in the U.S. labor force. In 1982, when 63 was the average retirement age (as it is today), 70 percent of male workers aged 58 to 62 had been working full-time for the same employer since age 50. Only 24 percent were working full-time for a new employer. In 2004, in contrast, just 44 percent of men in that age range had been working full-time for the same employer since age 50, while 48 percent were working full-time for a new employer (see Figure 7).

Those figures show that despite preferences that employers may state, they are hiring workers over the age of 50, and doing so more than they have in the past. Therefore, if older Americans work longer—and they must, given that Social Security is replacing a significantly smaller portion of household earnings, and that 401(k)s may not rebound to previous levels even if the U.S. economy recovers—the majority will change jobs after age 50. These Americans will require not only bridge jobs but also longer-term, full-time employment—often in second careers.

The educational profile of the population has changed. In 1962 two-thirds of workers aged 50–65 lacked even a high school diploma, and only 9 percent had a college degree. By 2000, just 12 percent of older workers lacked a high school degree, a third had obtained a college degree, and a significant percentage had attended some college. This dramatic shift reflects the long rise in educational attainment over the course of the twentieth century—a process that largely came to an end with the Baby Boom generation. Thus employers no longer need to push older workers out and bring in younger employees to boost the education levels of their workforce.

How employers view older workers

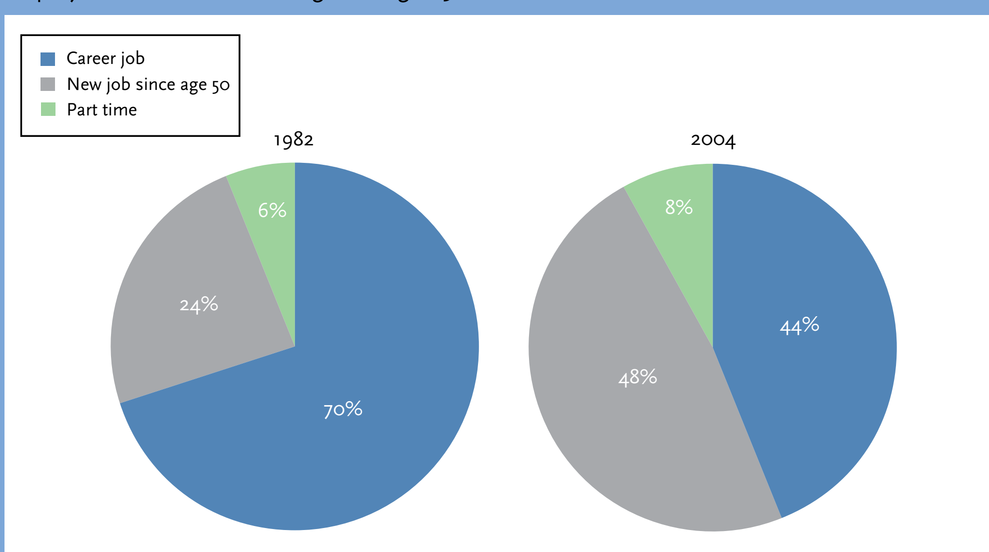
Surveys by the Center for Retirement Research reveal that employers hold mixed attitudes toward older workers. In a 2006 survey, 56 percent of employers reported that the productivity of older white-collar employees is higher than that of younger white-collar employees, while 38 percent ranked such workers just as productive as their younger counterparts. Employers viewed older rank-and-file workers almost as positively: 41 percent rated the productivity of such workers higher than that of their younger counterparts, while 41 percent ranked the former just as productive.

These employers cited "job know-ledge"—that is, experience—and the ability to interact with customers as the most important attributes of older workers. Employers ranked older workers less highly on their ability to learn new tasks, and on their physical health and stamina. Employers also reported that older employees cost more, given rising wages and health insurance costs.

Overall, 70 percent of employers rank their older white-collar employees as highly as younger ones, while 23 percent rank such workers *more* highly. Some 68 percent of employers say they value their older rank-and-file workers as highly as their younger counterparts, while 15 percent rank rank-and-file employees *more* highly. Employers thus seem reasonably happy with their older workers: they cost more, but they are more productive. Taking

Figure 7. The decline of career employment

Employment status of working men aged 58-62



Source: Boston College Center for Retirement Research.
Note: Author's calculations from the Current Population Survey, 1982 and 2004.

the higher cost of older workers into consideration, employers generally viewed older workers as about as attractive as younger workers.

Nevertheless, employers are somewhat less enthusiastic about extending the careers of their existing employees two to four years beyond the traditional retirement age of 65. Some 45 percent reported being lukewarm about that idea, and 25 percent were cool; just 30 percent were enthusiastic. The researchers also found "unmistakable evidence" of age bias: older respondents viewed older employees much more positively than did younger respondents.

Employers' expectations about whether employees will remain on the job are critical. Most respondents cited prospective employees' "promotion potential" as a key factor in deciding whether to hire them. "And that's one thing that a lot of older workers don't have to offer," Dr. Sass noted. However, GAO data suggest that younger workers change jobs frequently. Employers' expectations regarding the job tenure of older versus younger workers may therefore be unrealistic.

Tapping an abundant resource to gain competitive advantage

Of course, employers must confront the fact that the workforce is aging.

Although older employees are as educated as younger workers, that learning is of an older vintage, so employers do need to provide training. That presents a chicken-and-egg problem: If more employers expected older employees to remain on the job, they might provide such training. And if such employees received training, they might remain on the job longer and make the right investments and decisions—and provide more value to employers.

In hiring and retaining older workers, employers need to recognize their heterogeneity, says Dr. Sass: older workers differ more from each other than do younger employees, because of the experiences the former have gained over their careers. That is, as the workforce ages, employers must do a better job of matching the skills they need with those of their current and potential employees. To make better matches, both employers and workers will have to conduct much more intensive searches, according to Dr. Sass.

Employers also need to explicitly address the retirement process with their employees. When defined-benefit plans were the norm, retirement rates were predictable, and employees could establish succession plans. However, with defined-contribution plans now much more common, retirement ages vary widely, and employers do not know how much money their employees have saved for retirement. That creates confusion. Employers will continue to be nervous about hiring older workers until they figure out how to address that uncertainty, says Dr. Sass.

Practitioner panel discussion

In the concluding session, four practitioners from private industry, the nonprofit sector, and state government provided on-the-ground perspectives on how companies and public officials are actually addressing the needs of employers seeking employees, and those of older workers seeking jobs, especially in New England.

The New England Council

Panel moderator Jim McCaffrey, a worldwide partner at Mercer, has been working with the New England Council—an alliance of businesses and public and private institutions that helps shape federal and regional policy—to find out how best to address the aging of the region's workforce. The council has held roundtable discussions with a broad cross section of employers throughout New England on the demographic reality they face, and on the federal regulatory framework governing older workers.

The nation confronted a dramatically different demographic picture when Congress passed the key laws governing older workers, and those laws still define the "socially acceptable way for employers to ease workers into retirement" while ensuring that they are not forced out of the workforce, according to Mr. McCaffrey.

In its discussions with companies, the New England Council has found that the emerging themes are flexibility and selectivity. That is, companies and employees alike must adapt to the new needs of both. Meanwhile public officials must modify the regulatory framework to allow employers to choose the older employees they want to keep and take more chances in hiring new ones, rather than fearing the economic costs and social and legal sanctions.

Today employers often "take the easy way out by allowing people to retire because it's time to retire, and they have reached the socially acceptable age," says Mr. McCaffrey. However, "the economic reality of workforce availability will be the catalyst spurring employers, employees, and the government to take a harder look."

Massachusetts General Hospital

Jeff Davis, senior vice president of Human Resources for Massachusetts General Hospital, noted that as the region's largest acute-care hospital, MGH is also one of the biggest employers in the state, with more than 21,000 employees. His industry faces a perfect storm, he says: the region's aging population means that residents will be demanding more and more health care, but the workforce from which he must recruit is shrinking. And health care is a local industry: it can outsource very few jobs.

MGH's strategy is to retain older employees as long as possible, so they can provide essential services while training newer employees. And the key to that strategy is flexibility. MGH assigns managers acertain number of worker-hours they must fill, rather than a certain number of full-time or part-time jobs. Those managers, in turn, allow employees to determine the number of hours they work. Nurses, for example, work from 5 to 40 hours a week. The result is that 4,000 registered nurses on the MGH staff fill the equivalent of 3,000 full-time positions.

Mr. Davis noted that young parents as well as older employees appreciate the flexible schedules and part-time work that MGH offers. In fact, he finds that all employees prefer a menu of benefits from

How Phased Retirement Can Work

The panel further explored how phased retirement can work. MITRE Corp., based in Massachusetts and Virginia, has creatively tapped employees who have officially retired. The company performs a significant amount of contract work for the federal government, and understanding how to apply for federal grants and complete the paperwork for federal contracts takes years. Rather than hiring temporary workers, MITRE has found it more cost-effective to rehire retirees for these and other short-term projects. The company gives older employees the opportunity to sign up for this Reserves at the Ready program before they officially retire.

At MGH, older employees can receive full retirement benefits while continuing to work fewer than 20 hours a week, although they do not qualify for the fringe benefits that employees who work more than half-time receive. Older employees choose this option for the social contact and mental stimulation as much as the extra income, with many reporting that after six months of full retirement they feel bored and lonely. By working a couple of days a week, these employees provide experience and productivity that MGH would otherwise lose.

Retirees who continue working part-time at the jobs they previously held receive the same wage rate, as the company is paying for experience. However, MGH also finds that many former supervisors no longer welcome the pressures of a managerial job. Retirees who prefer less stressful jobs—such as front-office positions in physicians' offices—receive the wage rates appropriate for those jobs.

MGH also provides retirement flexibility through its defined-benefit pension program, which differs from the defined-benefit plans typically offered by state and local governments. In the latter, employees who work after they have qualified for a pension do not accrue extra retirement income, even though they continue to pay into the plan, so they have an incentive to retire at that point. Under the MGH plan, in contrast, benefits rise each year that employees continue to work, so the plan does not push people to retire after a certain age.

When MGH employees do want to retire, they can initially opt for either partial or full retirement benefits. Under the former, they can receive an initial but partial lump sum, and add an annuity later. Under the latter, they can take the full lump sum or annuity. Clearly, "one size does not fit all" older workers who are considering retiring, says Mr. Davis. He advises employers to "listen to what their needs are and see what you can do to meet them."

Best Practices for Older Employees—and All Employees

Panelists Deborah Russell of AARP and Jeff Davis of Massachusetts General Hospital expanded on best practices in employing older workers, which often benefit all employees.

According to Ms. Russell, human resource managers at forward-thinking companies are focusing on the health-related behavior of their employees rather than their age, to control the cost of health coverage. These employers offer smoking cessation classes, wellness days, cancer screenings, and discount gym memberships, for example. One company even reimburses the cost of one month's health insurance premium for employees who lose a certain amount of weight. The best employers also offer a wide range of flexible work opportunities that may appeal to mature workers, from job sharing and part-time jobs, telework, and compressed workweeks to phased retirement.

A growing number of companies are finding other creative ways to respond to the needs of older employees while also benefiting all employees. CVS's Snowbird Program, for example, began when one employee who lived in a cold-weather climate wanted to spend a wintertime month in Texas visiting her grandchild. When that employee found that she could not afford to do so without continuing to work, she asked her manager at the CVS in her home community if she could work at the CVS near her grandchild during that month. Recognizing the woman's value as an employee, the company granted her a short-term transfer, and then expanded the practice into a formal program.

Borders has developed a similar plan known as its Passport Program. And L.L. Bean has its own version: the company allows employees who prefer not to drive at night to leave work before dark.

One conference participant observed that employers cannot legally offer such benefits to a single class of employees. Ms. Russell agreed, noting that the Snowbird Program is open to anyone, and that AARP emphasizes that all employees may appreciate such programs.

which to choose. The only benefit his company specifically targets to older workers is phased retirement (see sidebar).

MGH has not found that older employees are more costly. However, because physical abilities decline more rapidly than cognitive abilities, and because nursing is a strenuous job, older nurses do need assistive equipment. To accommodate their needs while also benefiting other employees, MGH is installing patient lifts in every room.

AARP

Deborah Russell, director of Workforce Issues at AARP, noted that her organization has long been committed to assisting the growing number of members who hold or seek jobs. However, in so doing, the organization has found that employers are often reluctant to hire even well-prepared older workers. AARP has responded by encouraging employers to recognize the value of such workers, and to improve their policies and practices to meet their needs.

For example, AARP has created an annual Best Employers for Workers over 50 program, which recognizes employers who are taking steps to recruit and retain older workers. The program has enabled AARP to create a database of best practices that other companies can tap (see sidebar).

AARP also acts as a labor market intermediary, matching employers with older Americans who want jobs. Today the organization helps broker matches between members seeking jobs and 38 employers nationwide, including the Internal Revenue Service, the Peace Corps, and the Small Business Administration. AARP is also partnering with RetirementJobs.com to operate an online job search board.

In response to requests from human resource managers for help in addressing the nation's shifting demographics, AARP has developed a workforce assessment tool, which assists employers in analyzing the average age and average retirement age of their employees. Employers who find that the average age is in the low-forties often assert that they are in good shape. However, the tool helps them see that employees in critical departments such as sales or research and development may average age 55 or 60. The tool also asks employers to inventory their human resource policies and practices, and highlights the gaps that may prevent older workers from meeting their needs.

Maine's Department of Economic and Community Development

The fourth panel member, John Richardson, commissioner of the Department of Economic and Community Development in Maine, noted that his state faces pressing workforce development challenges, given that the median age of its residents is the highest of any state in the nation. The state has used AARP's workforce assessment tool to study trends in specific industries, given that they have different needs and abilities to respond to changing demographics.

The Maine Department of Labor has found that the largest percentage of Maine workers is in the age range of 45–54, and that the average age of Maine dentists is 51. Even traditional industries such as pulp and paper face labor shortages: the average age in that sector is also in the 45–54 range and 75 percent of all its workers can retire in the next 5 to 10 years. Given that the industry is "fairly healthy"—thanks to new technology, and contrary to conventional wisdom—its biggest challenge is retaining existing workers and recruiting new ones, says Mr. Richardson.

The state has responded to this looming demographic shift by working with AARP to survey 100 companies on how they plan to navigate the retirement of today's workforce. Many companies, the survey showed, have not even thought about the challenge. Those that have would like to see more flexibility in federal law. Companies, their boards of directors, and chambers of commerce would like more freedom to talk about retaining and hiring older workers.

Reauthorization of the federal Workforce Investment Act presents an opportunity to use federal policy to boost job prospects for older employees, says Mr. Richardson. The act's predecessor—the Job Training Partnership Act—set aside federal funds specifically to help train older workers. The WIA, in contrast, targets young, displaced homemakers but not older workers.

Moreover, employers often find that the One-Stop Career Centers established across the country under the act do not provide workers with the skills companies need. Yet some One-Stops do perform well, according to Mr. Richardson: "They have figured out the formula of working with the employer community and community colleges in a partnership," to ensure that such colleges train workers to provide the skills employers need.

To support that process, and recognizing that the state is moving from a manufacturing economy to a service economy despite the tenacity of industries such as pulp and paper, the state has invested in its community colleges, and also provides matching funds to employers who train their employees. For example, a large accounting firm in Portland is using state funds to train people to embrace second careers as accountants, noted Mr. Richardson.

Some companies are also creating a new category of worker between an employee and an independent contractor—a hybrid that provides opportunities for all parties. For example, employers may use third-party staffing agencies to obtain the employees they need, including older workers. This allows both an employer and an employee to determine if there is an appropriate match. This system also gives employers a pool of employees from which choose as permanent positions are filled. Meanwhile some employees may want permanent employment while others may want only occasional work. Such agencies therefore provide flexibility for both parties.

Closing thoughts

The good news of the day was that one aspect of labor force capacity is growing: older workers. Given that knowledge workers will be in continuous demand, and that traditional sources of new labor will not grow as quickly as in the past, understanding how to lengthen individuals' work lives will be increasingly critical to the region's economic growth.

This and related challenges will affect New England in a unique way. The region's highly educated and highly skilled labor force may be willing and able to contribute. However, just as Baby Boomers may need to adjust their retirement expectations, employers and policymakers will need to adjust the signals they send to individuals about how and when to leave the labor force.

Endnotes

[1] According to Lahey (2008), for example, employers interviewed women aged 35 or 45 who had submitted job applications 5.3 percent of the time. Yet they interviewed women aged 50, 55, or 62 just 3.8 percent of the time. See Johanna Lahey, "Age, Women, and Hiring: An Experimental Study," *Journal of Human Resources*, Winter 2008.

[2] For example, Frazis et al. (1998) found that employers provided job training to 79 percent of workers aged 25–34, and 65 percent of workers aged 45–54. However, employers provided training to just 51 percent of workers aged 55 and older. And the training employers do provide to older workers is less intensive than the training they offer younger employees. See Harley Frazis, Maury Gittleman, Michael Horrigan, and Mary Joyce, "Results from the 1995 Survey of Employer-Provided Training." *Monthly Labor Review*, June 1998.

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