



# EMPLOYERS LUKEWARM ABOUT RETAINING OLDER WORKERS

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## INTRODUCTION

Working longer has emerged as a major response to the coming retirement income challenge. Going forward, Social Security will replace a smaller portion of household earnings for retirement at any given age. Employer plans, now primarily 401(k)s, generally have modest balances, and the income they provide will be much less secure. And individuals save virtually nothing outside of 401(k)s. But workers can offset much of the projected decline and increased risk in their retirement income by remaining in the labor force two to four years longer.<sup>1</sup> For this shift to occur, workers must be willing to extend their careers and employers must be willing to employ them.

To gain perspective on the market for older workers, the Center for Retirement Research at Boston College conducted two surveys of 400 nationally representative employers. The first survey found that employers generally considered older workers at least

as attractive as younger workers.<sup>2</sup> The second survey found that employers expect that 1) half their employees over age 50 will lack the resources needed to retire at their organization's traditional retirement age; and 2) half of those who lack resources will want to work at least two years longer than similar workers have in the past.<sup>3</sup> In terms of retirement income security, the intention for many to work longer is clearly good news.

This *brief* reports additional results from the second survey on whether employers will create opportunities for employees to work longer.<sup>4</sup> The policy community generally thinks they will. Many observers say employers will face labor shortages and a loss of "institutional intelligence" when the Boomers exit the labor force, and these developments will push them to seek out older workers.<sup>5</sup> However, our survey results raise a cautionary flag.

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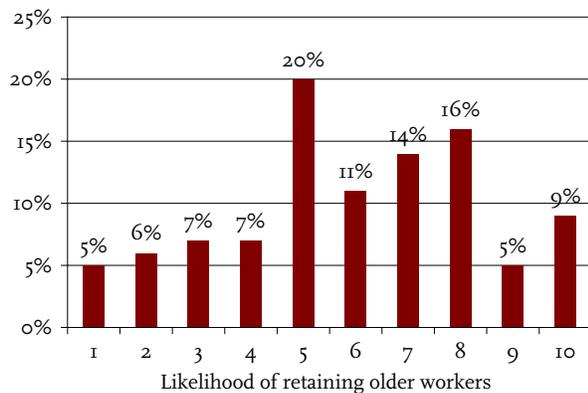
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## LIKELIHOOD THAT EMPLOYERS WILL RETAIN OLDER WORKERS

Employers were asked whether they would create opportunities for a “significant number” of workers to remain on the job two to four years longer than workers have in the past — with a “significant number” defined as at least half who want to stay.<sup>6</sup> On a scale from 1 to 10, with 1 being “highly unlikely” and 10 “highly likely,” the median response was a 6. Employers, in other words, are only slightly more likely than not to accommodate even half their employees who will want to stay on.<sup>7</sup>

While the median response to the likelihood of retaining older workers was a lukewarm ‘6,’ the distribution shows significant variation (see Figure 1). To understand this variation, additional information collected for the survey was used in a regression analysis to explain the employer response. The results are presented below.

FIGURE 1. LIKELIHOOD THAT EMPLOYER WILL RETAIN OLDER WORKERS\*

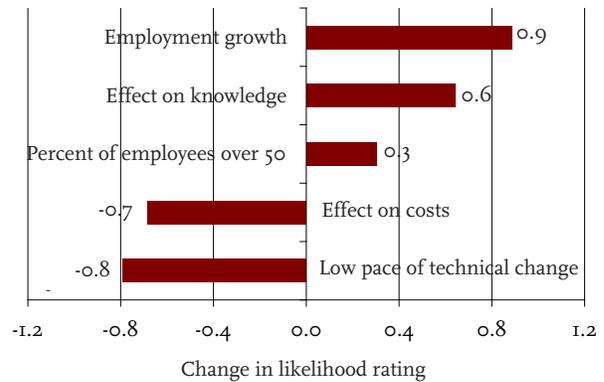


\*Retaining older workers is defined as creating job opportunities for at least half of workers who wish to work two to four years longer than the firm’s traditional retirement age. *Source:* Authors’ calculations from Center for Retirement Research at Boston College (2006).

## GOOD BUSINESS

Employers can be expected to create opportunities for older workers if they see it as profitable. The survey gathered information on factors that could affect prof-

FIGURE 2. FACTORS AFFECTING THE LIKELIHOOD THAT AN EMPLOYER WILL RETAIN OLDER WORKERS\*



\* Retaining older workers is defined as creating job opportunities for at least half of workers who wish to work two to four years longer than the firm’s traditional retirement age. *Source:* Authors’ calculations from Center for Retirement Research at Boston College (2006).

itability. The analysis found that companies are more likely to accommodate older workers if they expect employment growth, value older workers’ institutional knowledge, and/or have older workforces (see Figure 2). On the opposite side of the coin, employers that view older workers as costly and/or operate in an environment where the pace of technical change is slow were less likely to say that they would accommodate older workers. (See Appendix Table 1 for full results). These results are explored further below.

## EXPECTED EMPLOYMENT GROWTH

Not surprisingly, employers that expect strong growth over the coming decade are more likely to create opportunities for employees to stay on past the traditional retirement age. The survey asked employers to project employment growth on a scale from 1 to 5, with 1 being “significant contraction” and 5 “significant growth.” Three out of four survey respondents answered either ‘4’ or ‘5,’ while the remainder expected little or no employment growth.

One way to interpret the effect of employer characteristics on the likelihood of retaining older workers is to estimate the effect of a swing from the 20th to the 80th percentile response. Our analysis indicates that such a swing in the employment growth response — from “not much change” to “significant growth”

results in a 0.9 point rise in the likelihood of retaining older workers. For example, holding all else constant, more rapid expected growth would move the ‘likelihood’ response up by about 1 point on the 10 point scale — e.g., from a ‘3’ to a ‘4’ or a ‘7’ to an ‘8.’

#### POTENTIAL ATTRITION DUE TO RETIREMENT

As the Baby Boomers retire, some employers stand to lose a substantial share of their workforce. To gauge the effect of this potential problem on the job prospects of older workers, the survey collected information on the share of an employer’s workforce age 50 or over.<sup>8</sup>

The analysis found some support for the importance of potential attrition due to retirement. A swing from the 20th to 80th percentile values — from 10 to 50 percent of the workforce age 50 or more — results in a 0.3 point rise in the likelihood measure.

#### CONTRIBUTION TO THE KNOWLEDGE BASE

Older workers are often viewed as the repository of “institutional intelligence,” a valuable organizational asset. For this reason, retaining older workers could be beneficial to a company’s productivity. The survey asked employers to characterize the effect on the organization’s knowledge base if a significant number of older workers remained on the job two to four years longer than workers had in the past. Two thirds of respondents rated the impact as somewhat or highly positive, confirming that older workers are widely viewed as valuable repositories of institutional intelligence.

Contributions to the knowledge base also raise the likelihood that an employer will retain older workers. A swing from the 20th to 80th percentile values — from “neutral” to “highly positive” — results in a 0.6 point rise in the likelihood measure.

#### THE PACE OF TECHNICAL CHANGE

While the conventional wisdom sees older workers as repositories of institutional intelligence, it also sug-

gests they may not be suited to dynamic high-tech environments.<sup>9</sup> To gauge the effect of technology on the ability of employees to work past the traditional retirement age, our survey asked employers to characterize the pace of technical change in their organization as low, moderate, or high. Some (12 percent) responded “low,” most (51 percent) responded “moderate,” and the remainder (37 percent) reported a “high” pace of change.

Contrary to the conventional wisdom, the “low” respondents were associated with a 0.8 point *reduction* in the likelihood measure. Apparently, employers swimming in a moving technical stream are far more amenable to retaining older workers. Nor does that diminish when the pace of technical change shifts from moderate to high.

#### COST

In the earlier survey conducted by the Center, employers viewed older workers as more productive, but also more costly, than someone younger in a similar position.<sup>10</sup> This survey asked employers to estimate

the effect on labor costs if a significant number of older workers stayed on the job past the traditional retirement age.

On a scale from 1 to 5, with 1 “highly positive” and 5 “highly negative,” the median response was 3 and the average 3.2 — somewhat negative.

As the negative effect on the employer’s finances rises, the likelihood of creating opportunities for older employees to stay declines. A swing from the 20th to 80th percentile values — from “2” to “4” — results in a 0.7 point decline in the likelihood measure.

#### FACTORS WITH LITTLE APPARENT EFFECT

Other factors sometimes listed as important turned out not to have a significant impact on the likelihood employers will create opportunities for older workers (see Appendix Table 1). These factors included employer size, type of worker (rank and file vs. white collar), an early traditional retirement age, and type of industry (goods vs. services firms).

**EMPLOYERS’ LUKEWARM RESPONSE TO OLDER WORKERS WHO WANT TO STAY ON SUGGESTS A MESSY MISMATCH.**

## CONCLUSION

For working longer to become a viable response to the retirement income challenge, workers must be willing to extend their careers and employers must be willing to employ them. The results from the Center's surveys of employers paint a mixed picture about the prospects for longer worklives. Employers surveyed expect one quarter of workers currently in their 50s will be unprepared for retirement and will respond by wanting to stay on the job at least two years past the firm's traditional retirement age. But employers are lukewarm about retaining even half. This is not good news. It suggests the possibility of a messy and uncomfortable mismatch with large numbers of older workers wanting to stay on while employers prefer that they do not.

## ENDNOTES

- 1 See Munnell, et al. (2006); and Mermin, Johnson, and Murphy (2006).
- 2 Munnell, Sass, and Soto (2006).
- 3 Munnell, Sass, and Aubry (2006). In addition to workers who will want to stay with their current employer, others who lack the resources to retire can be expected to seek work with a different employer.
- 4 The survey sample is representative of U.S. employment by employer size. As in the nation, three-eighths of employers in the survey have more than 1,000 employees, three-eighths have less than 100 employees, and one-quarter have between 100 and 999 employees. To eliminate noise in our relatively small sample, we excluded employers with less than 50 workers or with less than 10 percent of all workers age 50 or over. The sample is also reasonably representative in terms of geography, with 21 percent in the Northeast (versus 18 percent of U.S. non-agricultural employment), 35 percent in the South (the national percentage), 28 percent in the Midwest (versus 23 percent), and 16 percent in the West (versus 23 percent). Goods producing industries (manufacturing, construction, and mining) are somewhat over-represented, accounting for 30 percent of the sample versus 20 percent of U.S. non-agricultural employment.
- 5 Ernst & Young (2006); and Towers Perrin (2005).
- 6 The question, asked separately for white-collar and rank-and-file workers, was “On a scale from 1 to 10, where 1 is highly unlikely and 10 is highly likely, how likely do you think it is that your organization will create employment opportunities for a significant number of workers to remain on the job 2 to 4 years longer than workers have in the past — and by significant we mean at least half of those workers who want to remain on the job?” In general, results for white-collar and rank-and-file workers were similar. Therefore, for discussion purposes, this *brief* does not distinguish between the two types.
- 7 In the interest of brevity, “stay on” will henceforth mean “stay on two to four years past the organization’s traditional retirement age.”
- 8 The survey included only organizations where at least 10 percent of the entire workforce was over age 50. So all face the prospect of losing at least 10 percent of their total workforce when the Baby Boom generation retires.
- 9 Ahituv and Zeira (2005); Beckmann (2005), among others, find a negative relationship between the pace of technical change and the employment of older workers. On the other hand, Aaronson and Housinger (1999) find that technical change does not disproportionately hurt older workers. Bartel and Sicherman (1993) find that technological shocks, not a high rate of technical change, are especially damaging. They find that a rapid pace of technical change is associated with high levels of on-the-job training, which keeps older workers up-to-date and actually extends their careers. Technical shocks, on the other hand, create discontinuous skills gaps that older workers are unwilling or unable to cross.
- 10 Munnell, Sass, and Soto (2006).

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# APPENDIX

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## APPENDIX

TABLE I. FACTORS AFFECTING THE LIKELIHOOD OF CREATING EMPLOYMENT OPPORTUNITIES

Independent variables	Coefficient	t-statistic	Percentile value		Effect of 20th to 80th percentile shift
			20th	80th	
Employment growth <sup>*a</sup>	0.44	3.51	3	5	0.89
Effect on knowledge <sup>*b</sup>	0.32	3.56	3	5	0.64
Percent of employees over 50 <sup>**</sup>	0.01	1.76	10	50	0.30
Effect on costs <sup>*c</sup>	-0.34	-3.70	2	4	-0.69
Low pace of technical change <sup>*</sup>	-0.79	-2.66			-0.79
Traditional retirement age (years) <sup>d</sup>	0.04	1.38	5	0	0.18
More than 1000 employees (large)	-0.26	-1.37			-0.26
Rank and file employee	-0.24	-1.25			-0.24
Manufacturing	-0.07	-0.32			-0.07
Ability to recruit <sup>e</sup>	-0.02	-0.54	4	8	-0.10
Constant	4.23	5.38			4.23
<b>Pseudo R<sup>2</sup></b>	<b>0.10</b>				
<b>Number of observations</b>	<b>633</b>				

\*Statistically significant at 5%; \*\*Statistically significant at 10%.

<sup>a</sup> Scale of 1 (significant contraction) to 5 (significant growth).

<sup>b</sup> Scale of 1 (highly negative) to 5 (highly positive).

<sup>c</sup> Scale of 1 (highly positive) to 5 (highly negative).

<sup>d</sup> Years prior to age 65.

<sup>e</sup> Scale of 1 (extremely difficult) to 10 (extremely easy).

Source: Authors' calculations from Center for Retirement Research at Boston College (2006).

## ABOUT THE CENTER

The Center for Retirement Research at Boston College was established in 1998 through a grant from the Social Security Administration. The Center's mission is to produce first-class research and forge a strong link between the academic community and decision-makers in the public and private sectors around an issue of critical importance to the nation's future.

To achieve this mission, the Center sponsors a wide variety of research projects, transmits new findings to a broad audience, trains new scholars, and broadens access to valuable data sources. Since its inception, the Center has established a reputation as an authoritative source of information on all major aspects of the retirement income debate.

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