

Combating the Future “Retirement Gap” with Tailored Total Rewards

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At 58, Irene Miller is just a few years away from retiring from a satisfying and productive sales career spanning multiple decades. In 2008, she, along with the oldest of the baby boom generation (born between 1946 and 1964), will turn 62. On one hand, Irene has a hefty savings account, aging parents needing her assistance, and grandchildren awaiting her visit. On the other hand, she struggles with the reality of retiring and completely losing touch with her key clients and business associates.

Sixty-year-old pharmaceutical technician Neil Bartlett has lake property overlooking a fisherman's paradise. Unexpected events in his family and recent stock market volatility have given him a debt burden that's delaying the construction of his lake house as well as his first day of full retirement. With the life of leisure out of immediate reach for economic reasons, he considers the prospect of continued full-time employment with mixed emotions.

Are these employees' only options: (1) to work full-time or (2) to pursue full-time retirement? Although, the exact timing and details of Neil's and Irene's retirement – along with millions of other baby boomers in this age range – rests heavily on personal circumstances, the need for strategic alternatives and tailored choices for employees (to mitigate this situation), rests squarely in the lap of Human Resources. If baby boomers pursue full retirement “on schedule” in the next half-decade, human resources professionals could be faced with a nationwide staffing shortfall of historic proportions. This article defines the scope of the impending “retirement gap” in the workforce along with a multi-faceted approach to averting the crisis, with Human Resources taking the lead role.

RESEARCHERS DEFINE THE CHALLENGE

By 2010, the U.S. Bureau of Labor Statistics predicts the United States will experience a shortage of 10 million workers – with healthcare retirees alone outnumbering entrants by 13,800 per day.¹ The workforce implications of this demographic reality are the growing focus of much research and discussion. Entire companies such as Age Wave, a San Francisco-based consulting firm, are

springing up to facilitate strategies to avoid this unprecedented hole in human capital. Research findings from Age Wave's yearlong study, *Demography is Destiny*,² suggest an urgent need to find ways to attract and retain employees of all ages – with particular concern for the potentially debilitating mass retirement that threatens to starve many businesses of key talent in the next 10 to 15 years.³

In a perfect world scenario, older employees would mentor younger employees to ensure a balanced mix of experience and continuity. Companies such as Wal-Mart and the CVS pharmacy chain have begun to embrace this idea of an age-balanced culture that values experience; however, according to a recent survey from the Society for Human Resource Management, two-thirds of U.S. employers don't actively recruit older workers. Furthermore, more than half do not actively attempt to retain key ones... and 60 percent of CEOs say their companies don't account for workforce aging in their long-term business plans.⁴ However, there are not enough people in the younger generations to fill the positions being vacated. If this trend continues, corporate America will face a staffing cri-

sis with negative fallout impacting everything from Social Security to the level of wellness within the elderly population.

AVERTING THE CRISIS BY AVOIDING THE “ONE-SIZE-FITS-ALL” MENTALITY

The process of predicting future needs while also coping with today's needs is what differentiates the successful companies from the unsuccessful. With a workforce comprised of men and women of every race, age, orientation and background, the challenge at hand for corporate America is to understand and balance the needs of four generations, while bridging the impending “retirement gap.”

This degree of diversity eliminates a “one-size-fits-all” solution. The world's steady movement toward increased customization is evident in everything from the varied menu of choices within 401(k) plans to the varied menu of choices of coffee combinations at the Starbucks counter. As Figure 1 demonstrates, the same dramatic trend toward customization is happening with total rewards. As Stanley Davis notes in *Future Perfect*, “customized compensation is the application of mass customization to compensation design.”⁵

While benefit plans have addressed employee needs at the individual level for years, the potential mass exodus of baby boomers into retirement is providing companies a strong motivation to more fully apply this concept to total rewards. Corporate America is realizing that customized compensation works by finding the rewards that best *motivate* an individual employee and making them attainable. According to the 2003 WorldatWork annual *Total Salary Increase Budget Survey*,⁶ 75 percent of companies are offering employees some form of variable pay, up from 65 percent in 2002. In addition to variable pay, companies are using sign-on, retention, spot and referral bonuses to attract and retain talent.⁷ Figure 1 documents this dramatic trend toward customization in compensation over the last century.

CUSTOMIZATION'S POTENTIAL FOR THE RETIREMENT ISSUE

Customization offers HR strategists a powerful retention tool to lure baby boomers into considering continued employment – in some form. By offering retirees additional options beyond working or retiring full-time, companies can create a transitional platform to bridge the impending gap in the workforce. Although it may seem like the concept of different rewards for different employees is not internally equitable, the approach seeks to maximize motivation for each person, which does provide each employee with an equal opportunity. Figure 2, from the WorldatWork *Total Rewards Management* course,⁸ demonstrates how total rewards fit into the corporate strategy.

The tailored total rewards approach offers an ideal solution for

retirees who might prefer to continue work on a part-time basis, or under a different set of circumstances. It allows each retiree's situation to be handled on a case-by-case basis so that a work arrangement can be designed to align both the needs of the company and the individual. For example, cash may inspire some retirees to continue working, while others may prefer more time off or a different career focus.

Cash is not a critical issue for retiree Irene Miller, mentioned at the outset of this article. Since she is more interested in the work/life side of the total rewards model, her company could potentially retain her expertise by approaching her with a part-time opportunity that positions her in a mentoring role. In this capacity, she could continue to enjoy the social side of her job while transition-

ing other employees into relationships with key customers and vendors. HR could sell her on the health benefits of staying active along with, perhaps, the new title of client relations manager. To further gear a new total rewards package to her needs, perhaps the company could add long-term care insurance for her parents as an additional benefit of prolonging her retirement.

The tailored total rewards model would look differently for retirees at the technician level like Neil Bartlett. Neil represents the employee segment that approaches retirement with a degree of job burnout, but who are financially unprepared, as in this instance, to exchange their business slacks for a fishing vest just yet. To keep him from dreading his financially driven plight of continued employment, his HR representatives could offer him additional vacation leave, shorter days, and

Figure 1. Compensation Customization: 1900 – 2000

Developments in Compensation Packages – Wages, Time-off, and Reimbursement; Health Care and Life Insurance Benefits; and Retirement and Savings Plans					
	1900	1925	1950	1975	2000
Wages, time-off And Reimbursement Accounts	Wages	Wages	Wages	Wages and Annual Bonuses	Wages and supplements that tie to performance
	Paid holidays	Paid holidays	Paid holidays, and vacation	Paid holidays, vacation and personal Leave	Consolidated leave plan giving employee choice of days Unpaid family leave; Reimbursement account for child care expenses
Health Care and Insurance Benefits		Company doctor	Basic medical plan through Blue Cross-Blue Shield	Basic medical plan plus major medical through commercial Carrier	Choice of medical plans including Health Maintenance Organizations (HMOs)
		Benevolent association death and disability benefits	Fixed amount life insurance and weekly disability benefit	Dental plan Medicare Life insurance varying with earnings	Choice of dental, vision and prescription drug plans Choice of life insurance amounts; paid sick leave
Retirement and Savings Plans			Social Security benefits available at age 65	Social Security benefits available at age 65, with reduced benefits at age 62	Social Security full benefits available at age 67; with reduced benefits at age 62 for workers born in 1960 or later
				Defined benefit pension	Combination of pensions and 401(k) savings plans

Source: *Compensation and Working Conditions*, U.S. Bureau of Labor & Statistics, Fall 2001

perhaps a new position involving business travel or a different set of responsibilities utilizing his career expertise. Another retention tool experiencing a surge in popularity is restricted stock. Neil's company could offer him a bonus in restricted stock that was tailored to his needs. Restricted stock is a relatively low, amortized expense for the company that can be a valuable retention tool by vesting over a number of years. Several companies such as Dell and Microsoft have been offering these types of awards recently with many others planning to follow suit.

rule of thumb for trading off various forms of compensation is as follows:

US\$1 of Base Salary is roughly equal to:

- \$1.10 - \$1.50 of restricted stock,
- \$2 - \$3 of targeted annual incentive allowance,
- \$4 - \$7 of targeted stock option gain, or
- \$5 - \$10 of retirement benefit.

While drawbacks to customization also include increased complexity in

savings are realized by moving employees into part-time positions, in some cases saving even more money that would typically have been invested in the hiring, training and overhead of a full-time, less experienced employee. Additionally, with retirees staying on the payroll longer, companies achieve a smoother succession plan by avoiding sudden gaps in knowledge and productivity. Most importantly, the employee is rejuvenated with a work arrangement tailored to his or her needs, and is thus motivated to continue being a productive member of the team and society. The bottom line: the cost for hiring, retraining and cultural indoctrination is exponentially higher than the cost of retention.

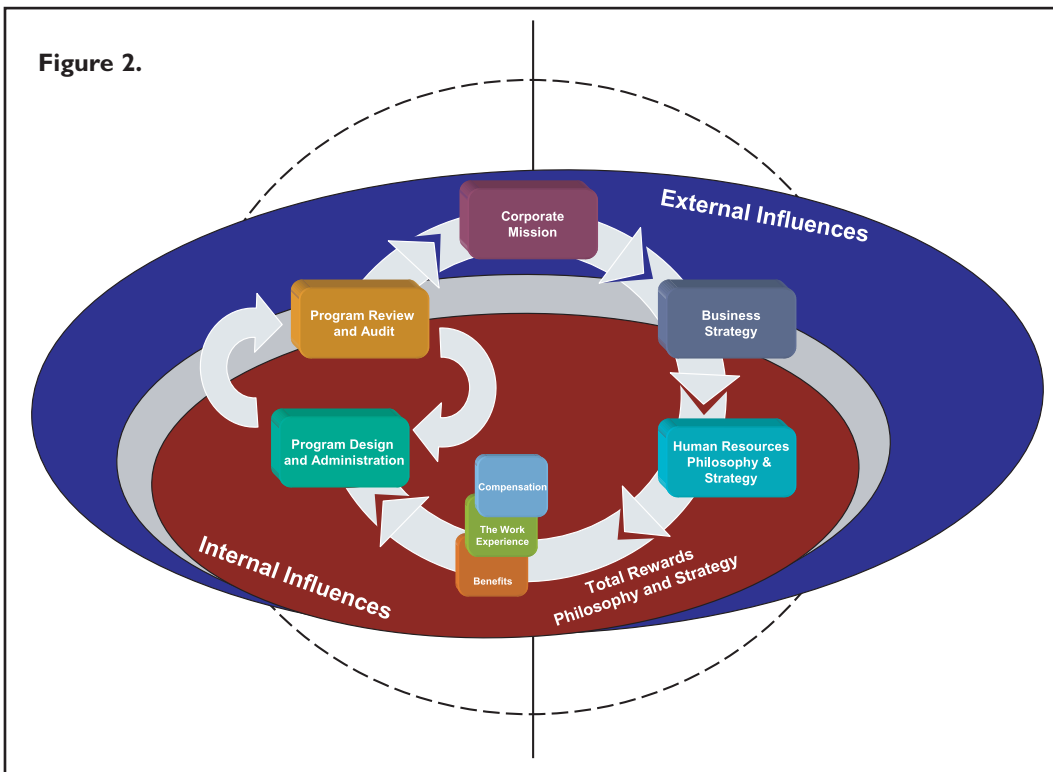
**GETTING THERE:
HR PARTNERS WITH
TECHNOLOGY TO
LEAD THE WAY**

What better place to introduce this new line of thinking regarding new retirement options than HR? Through the design of compensation packages, human resources personnel can have a profound influence on labor efficiencies. Managing the bottom line maximizes corporate results – and, one of the easiest ways to manage the bottom line is through the retention of current employees.

HR professionals' most immediate priority is to help their organizations stay ahead of the curve. Here's one approach:

1. Step One: Understand the demographic age issues and their impact to the organization.
2. Step Two: Understand the needs of the aging workforce to best balance corporate and individual employee goals.
3. Step Three: Develop creative

Figure 2.



THE PROS AND CONS OF ADDED CUSTOMIZATION

To make the personalized “trade offs” within the total rewards model requires determining the market value of the employee and assigning a dollar amount to the compensation element. Determining an employee’s market value is part art and part science. It is generally based on all the facts and circumstances around the job. Putting that dollar amount to those variables is one of the bigger hurdles to developing customized total rewards packages. Our general

pay system design, reporting, and management, we agree with other compensation experts who believe the benefits of customization still far outweigh the challenges.

Attracting, motivating and retaining baby boomers on the brink of retirement has multiple payoffs. On the macro level, it alleviates a sudden drain on the Medicare system and Social Security system and the accompanying increase in taxes. It impacts wellness on a national scale by keeping aging adults active and insured. At the company level, cost

solutions to bridge the retirement gap.

STEP ONE: UNDERSTAND THE DEMOGRAPHIC ISSUES AND THE IMPACT TO THE ORGANIZATION.

As the need for a new, more multi-faceted vision of retirement emerges; the first critical success factor in the transition is to develop a cross-functional team approach to the problem/solution process. Since employment and retirement decisions impact the bottom line via multiple operational areas, each company's HR-related solutions to the aging workforce challenges must factor in a wide base of input from key departments.

HR can emerge a hero of sorts by doing a comprehensive sensitivity analysis that defines the "retirement gap's" impact to their individual organization. HR must also play a role in changing opinions by educating internal and external publics about the harmful effects of age discrimination. Although precise estimates of age discrimination are not available, age continues to work against many older men and women, as evidenced by the length of time it takes many to find employment, the wage loss many experience upon re-employment, and the size of court awards to victims of discrimination. HR professionals have the opportunity to promote a corporate culture that values employees in their "retirement years."

STEP TWO: UNDERSTAND THE NEEDS OF THE AGING WORKFORCE TO BEST BALANCE CORPORATE AND INDIVIDUAL EMPLOYEE GOALS.

The Financial Planning Association believes the majority of baby boomers will need personal assistance in the transition toward retirement. HR professionals can reconnect with the over-50 crowd by helping them calculate how much they will need to save for a comfortable retirement. Economist Douglas Bernheim has concluded that baby boomers are only saving about 36 percent of what they should.⁹ Going through this exercise will likely result in a "reality check" that will boost baby boomers' motivation to stay in the workforce longer.

HR practitioners must then make

sure the corporate culture is one that welcomes their maturity and experience via recruitment advertisements, equal opportunity training and development policies, and the design of jobs that are attractive to this demographic target. Many mature workers want to keep working, but in a less time-consuming and pressured capacity so that they may pursue other interests.¹⁰ Several staffing companies such as Resources Connection and Robert Half International have already capitalized on this new trend.

Research indicates that most older workers enjoy their work, which is the reason a sizable percentage expects to work in retirement. Additionally, growing numbers of pre-retirees say they will continue working to maintain health insurance.

STEP THREE: DEVELOP CREATIVE SOLUTIONS TO BRIDGE THE RETIREMENT GAP.

Organizations across America are not yet poised for the steady departure of huge numbers of their most experienced people. With the baby boom generation more than twice as large as today's elderly population, HR professionals need to develop creative options for an enormous generation that has always *forged its own path*. Companies such as Deloitte Consulting have discovered a way to reignite older employees who have come to find their jobs a bit stale.¹¹ Deloitte looked at the firm's demographics and realized that by 2003, 40 percent of its then 850 partners would be 50+ and eligible for retirement at 55. The firm didn't want to lose this talented group of men and women *en masse*, so it created the Senior Leaders program, which enabled partners to redesign their career paths. Each nominated employee customized a second career including flexible hours and work location, special projects and the opportunity to engage in mentoring, research, training, development, company promotions or global expansion. An unexpected bonus: being a senior leader became extremely prestigious within the firm as well as with external client audiences.

Other creative solutions include job sharing or redeployment – any-

thing that keeps people with enormous experience from walking out the door. Retirement associations have determined that people tend to identify strongly with their work, wishing to learn and continue trying new things – particularly as they enter their retirement years. While some will be able to leave their careers for a full-time life of leisure, more and more are opting for some level of continued employment. For all these reasons, the notion of retirement as it is traditionally practiced – a one-time event that permanently divides work life from leisure – may no longer make sense for the masses.

TECHNOLOGY'S ROLE IN THE TAILORED TOTAL REWARDS TREND

Advances in technology have helped accelerate the business trend toward increased flexibility and personalization of total rewards. Interactive, Web-based applications and innovative software programs allow companies to release information in password-protected ways that keep employees more informed about their compensation choices.

Technology advances are also helpful in the communication piece of the equation. With cost effective, Web-based training applications, retirees can learn about their options, and potentially even design their own plans online at their convenience. Technology also plays a key role as employee surveys, e-newsletters and other forms of online communication become the expected norm.

For incentive plans to be effective, employees – particularly retirees moving into new work arrangements – must understand what is required of them. By failing to communicate desired behaviors and reward systems, companies can look for employees to miss the mark.

The greatest challenge for technology professionals is to avoid the misuse of technology that can lead to misinformation, particularly as it relates to this highly confidential area. Misinformation creates a misalignment of expectations that could impact productivity or even lead to employee turnover.

The “New Workforce:” The Benefits of Keeping Retirees Engaged

Old age isn't what it used to be.

As aging baby boomers swell the “pre-retirement” ranks, experts are noting that the U.S. cannot continue with a *business-as-usual* approach without incurring an employment crisis. In recent years, for example, a growing number of business executives have been continually called out of active retirement to inject stability, direction, confidence and leadership into flailing major corporations.

Keeping potential retirees actively engaged in the workforce – at all levels – is a strategy that benefits individuals, corporations and entire nations.

- **Inspiring significant contributions to society.** Famed heart surgeon Dr. Michael DeBakey, who continues to perform heart surgeries at age 96, has saved countless lives. Had DeBakey headed to the lake house rather than remaining in the workforce, he may not have received the NASA Commercial Invention of the Year for the DeBakey Ventricular Assist Device at age 94. If William Lowell had pursued retirement “on schedule,” the world would not have the benefit of the golf tee that he invented at his dental office as a 60-year-old. Additionally, at age 69, Ronald Reagan would never have been elected president and Louis Armstrong would never have recorded the #1 song, *What a Wonderful World*, at age 67.
- **Improved Wellness.** Research indicates the top motivations for working in retirement include: a general desire to work for enjoyment, to have something interesting to do, and to stay physically active.¹⁴ As ages climb, a heightened level of physical activity has a positive impact on health. According to a study conducted by the Financial Planning Association, workers age 60 and older tended to be healthier than their retired contemporaries.¹⁵
- **Economic Benefits.** In addition to protecting the Social Security system from an unprecedented hit, keeping retirees engaged in the workforce has economic benefits to the individuals as well as to companies like Wal-Mart and Home Depot who have found special employment niches for this segment of mature workers. For instance, in 2003, Home Depot and The AARP Foundation Senior Community Service Employment Program (SCSEP) launched a national hiring partnership to encourage the hiring of qualified, skilled, mature workers for Home Depot's chain of 1,500 stores. Candidates must be 55 or over and meet federal income guidelines (with incomes falling at or below the federal poverty line).¹⁶
- **Quality Control.** By avoiding the temptation to operate at inadequate staff levels, companies can hedge the pitfalls of lower staff morale, as well as avoid potential increases in errors that can have a domino effect in a supply chain or an entire industry.

Employees of all ages seek a work/life balance and a vibrant work environment in which they can grow, learn and perform. Many older workers put an extra high premium on workplace flexibility – particularly as it relates to staying in the workforce into their retirement years. This suggests that employers **who have yet to implement flexible scheduling practices** may lose valuable employees.¹⁷

Other trend-related changes include:

- **Less reliance on traditional sources of market data.** Technology will play an increasingly important role as companies gather their own data from many different sources to better build their own picture of the labor market.
- **More global positioning.** As jobs become more global in nature, companies will employ a stronger dependency on technology to achieve low-cost, high-value labor resources to perform in the information economy.
- **Different pay strategies for different types of work.** Database-driven software will become critical in the years to come as the business world continues to design narrowly focused, more customized compensation packages for individuals rather than classes of employees.

In many ways, human resource and technology system costs are directly related to the speed at which the organization can react – or wants to react – to changing market conditions. According to a 2002 Hewitt study, 72 percent of CEOs surveyed identified speed and agility as a critical aspect of their business plan to address market pressures.¹² For this reason, the use and importance of automated HR activities and the application of additional technology will continue to increase in the near future.

CONCLUSION

In the battle over attracting, motivating and retaining the most productive employees, there is a growing struggle for companies to find and maintain an efficient mix of ages in the face of the impending workforce gap. In anticipation of this transition, some companies are succeeding with the strategy of keeping employees on the payroll beyond the typical retirement age. One such company is ARO Incorporated, a business process outsourcer based in Missouri. The company's CEO targeted baby boomers to fill 100 offsite jobs and found that the older workers stayed with the company longer than younger employees,

plus the older workers were a better match for the company's customer demographics.¹³

The challenge for companies will be to adequately retain experienced workers while balancing the needs of various age groups. Accomplishing this goal is possible with an integrated multi-departmental approach and tools such as customized compensation that enhances the value proposition between future retirees and their employers. Social, demographic, economic and political trends suggest that individually customizable total rewards plans are quickly becoming the primary method to attract and retain top talent – regardless of age.

ENDNOTES

- 1 Healthworkforce.org/guide/pipeline/sec1
- 2 *Harvard Business Review*, Ken Dychtwald, Bob Morison and Tamara Erickson, 2004
- 3 *Harvard Business Review*, March 2004
- 4 *Harvard Business Review*, March 2004
- 5 *Rethinking Strategic Compensation*, 2003, p. 46
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