Anticipating the challenges of an aging workforce
Shifting workforce demographics and business requirements are creating significant risks for employers that rely on experienced workers. To mitigate these risks and lay a foundation for an effective future workforce, managers must understand the drivers of attraction and retention, the knowledge and skills that must be shared before they are lost, the dynamics of careers, and the best ways of tapping and rewarding the future pool of talent.

Anticipating the challenges of the aging workforce allows managers to proactively engage in solutions. Tools exist today that can not only identify future workforce gaps, but also quantify and prioritize the best interventions to fill those gaps. These interventions are informed by hard data gathered in Mercer’s analytics, allowing for an efficient spend of organizational resources on targeted, measurable and actionable workforce programs.

Anticipating the challenges of the aging workforce:

- Loss of key skills and experience through downsizing and retirement
- Misalignment of remaining skills with future business requirements
- Employee dissatisfaction with existing career paths and reward systems
- Increased turnover, training and recruitment costs
- Increasingly more employees outside their home country
- Contingent workers making up a greater proportion of the workforce

**The emerging labor gap**

At many firms – especially those in industries that rely on a tenured workforce, such as utilities, oil and gas, chemicals, aerospace/defense, insurance and health care – a large portion of the workforce is approaching retirement or is already eligible to retire. Consider the trends depicted here and on page 2:

- The percentage of the US population aged 65 and over will increase to more than 20 percent by 2050.
- With the huge baby boom generation approaching retirement age, the population of employees age 55 and older is increasing significantly.
- Beginning in 2007, the number of available jobs is predicted to outpace the number of available workers in the civilian workforce in the US.

**Current workforce dynamics and risks**

- **Demographic shifts**
  - Aging population
  - Increasing diversity
  - Changing attitudes toward work
  - Emerging talent shortages in select areas

- **Economic pressures**
  - Need to grow earnings
  - Need to rationalize staffing after M&A

- **Operating pressures**
  - Rising customer expectations
  - Changing job and technology requirements
  - Increasing use of offshoring and outsourcing
Despite these demographic trends, few companies have effective strategies and workforce practices in place to head off their consequences. A recent MetLife study noted that more than one-third of all employers, and nearly half of those with 25,000 or more employees, agreed that the aging workforce will have a significant impact on their operations, yet more than three-quarters of them have not taken any steps to prepare for the departure of older workers.

The issue is especially urgent in some industries. For example, utilities that run nuclear plants face a shortage of young engineers and other staff who are trained and certified to operate and repair the plants. University programs for such positions have also waned. Aging workforces thus pose a major challenge for utilities, especially those that may be gearing up for a wave of plant construction. The oil and gas industry faces a similar lack of specialists – in this case, petroleum engineers – and the shortage has become critical in this booming industry.

Our research and client experience suggest that there is no single solution to address the challenges of an aging workforce. Instead, each organization will need to develop an approach that is tailored to its own business requirements and operating environment, including a unique mix of tactics addressing turnover, recruiting, training, career structure, rewards, knowledge transfer and other long-term measures to develop the future talent pipeline.

**Powerful analytics needed to address key risks**

Historically, many companies have relied on high-level benchmarks, existing performance reports and anecdotes to identify and evaluate workforce planning issues. These traditional approaches, however, cannot provide information that is sufficiently specific and forward-looking to be useful in answering detailed questions such as:

- Which skills and capabilities are most at risk?
- In what functions, levels and geographies will these be located?
A more rigorous analytic approach will help managers define, prioritize and mitigate their aging workforce risks. We have found that an effective first step is a workforce gap analysis that brings together business strategy requirements with detailed workforce data to highlight any gaps between the current trajectory and the targeted future state. Gap analysis can target the workforce broadly or target specific subsets of employees. Identifying the gaps then helps shape an action plan to address the most important risks.

The sidebar article illustrates three different types of analysis that we use to help companies assess their risks and make sound planning decisions related to aging workforce issues.

### Workforce gap analysis and outcomes

#### Desired state: Business requirements
Inputs include:
- Market and customer data
- Strategic and operating plans
- Performance targets
- Productivity, quality and other effectiveness measures

#### Current state: Workforce dynamics and external labor market
Inputs include:
- Labor market data
- HRIS data
- Employee perspectives and feedback
- Recruiting data
- Other internal data (training programs, etc.)

#### Gap analysis, plan design and implementation
Outputs include:
- Workforce requirements by business unit
- Expected evolution of current workforce
- Assessment of critical gaps and best means to fill those gaps
- Targeted workforce practice and policy changes, timing and responsibilities
- Milestones and human capital metrics for tracking progress
Workforce planning
Analysis of the current workforce and future requirements helps to:

- Identify areas at risk by level, pay bands, job classification, occupational groups, departments and sites
- Quantify the drivers of turnover, promotion, attraction and performance so interventions can be identified and investments can be made
- Identify succession management needs, focusing on selected problems instead of generic responses

Examples of our powerful analytics

Revenue growth relative to total employees

Annual required employee growth rate of 7.75%

Revenue (dollars in billions) vs. Total employees

Mapping employee career progression

Entry engineer

- 2 years

Engineer

- 1.4 years

Senior engineer

- 6.4 years

Supervisor

- 2.4 years

Manager

- 10 years

Consultant

Talent management (including recruitment, training and careers)
Mapping how employees develop in targeted functions or job families helps to:

- Identify future gaps between the current trajectory and desired future state of the workforce
- Identify actions to be taken, such as:
  - When and where external hiring should be considered
  - What types of training programs should be introduced and when
  - What other steps might be helpful – for example, alternative career paths or phased retirement
**Practice and policy choices**
Analysis of initiatives against a set of leading practices helps to:

- Determine new initiatives that might have been overlooked
- Understand potential success of current initiatives in development
- Prioritize initiatives against identified gaps

### Comparing to leading practices

<table>
<thead>
<tr>
<th>Goals</th>
<th>Initiatives/focus</th>
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<tbody>
<tr>
<td><strong>Goal 1</strong> Create a bigger pool of labor through education support</td>
<td>College campus presence&lt;br&gt;None&lt;br&gt;Company-sponsored tuition support/scholarships&lt;br&gt;Precollege efforts</td>
</tr>
<tr>
<td><strong>Goal 2</strong> Increase pool of nontraditional applicants</td>
<td>Minority/female&lt;br&gt;Military&lt;br&gt;Professional recruiter&lt;br&gt;Referral&lt;br&gt;Nontraditional schools&lt;br&gt;Niche associations and online niche sites&lt;br&gt;Workforce investment board</td>
</tr>
<tr>
<td><strong>Goal 3</strong> Increase channels of reaching applicants</td>
<td>Experienced, older, past employees&lt;br&gt;Nontraditional schools&lt;br&gt;Foreign</td>
</tr>
</tbody>
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☑ Ongoing  ✔ Partial/planned  ❌ Identified best practice
Fact-based solutions through careful analysis
A detailed process and careful analysis will help each organization develop a set of solutions to address its unique workforce needs. Examples of solutions that have been implemented through this process include:

- Accelerating career development for key pipelines of talent
- Phased retirement and retiree rehires for periods of peak activity
- Wellness programs targeted at mature at-risk employees – for example, those in physically demanding jobs
- Managing attrition and developing talent pools in feeder jobs to critical positions
- Identifying alternative recruiting sources using external labor market analysis
- Retention plans focused on identified at-risk groups
- Job sharing and job restructuring opportunities

Such solutions are based on facts and evidence, not hunches, opinions or anecdotes – increasing the likelihood of success and decreasing the misalignment between future business needs and your future workforce.

Questions for managers

Desired state: Business requirements
How are your company’s business requirements going to change over the next five years and 10 years?
- New products/services?
- Changing customer preferences and needs?
- New skills requirements and skill replacements?
- Technology and other productivity investments?

Gap analysis, plan design and implementation
What key issues and gaps exist?
- Known?
- Possible?

What degree of confidence do you have that the most important gaps are:
- Identified?
- Prioritized?
- Targeted by action plans?
- Being addressed with appropriate effort and speed?

Have you sufficiently explored potential action areas in:
- Job and career redesign?
- Creative hiring practices?
- Knowledge management and transfer practices?
- Pay and benefit alignment?
- Culture and communication practices?

Current state: Workforce dynamics and external labor market
What is your current workforce situation?
- Demographics?
- Available skills?
- Job mix and career path options?
- Systems (reward, recruitment, training, knowledge transfer, workforce planning)?
- Engagement?
- Other?

What is the outlook for the external labor market? How well do you understand these issues across your full workforce?
- Management?
- Technical and specialist staff?
- Support and shared functions?
- Other?
Why Mercer and Oliver Wyman

Together, our firms have in-depth understanding of business and human capital issues and proven capabilities in workforce planning and analytics. Our approach draws on the combined strengths of our human resource consulting and management consulting expertise to help you reach the right decisions based on your organization’s unique business context, needs and goals. Further, we do more than help you analyze the problem; we also help you design and implement programmatic solutions to address your specific needs, ensuring that your workforce gaps are addressed and that your organization has the workforce it needs, both today and in the future, to thrive.

About Mercer

Mercer is a leading global provider of consulting, outsourcing and investment services, with more than 25,000 clients worldwide. Mercer consultants help clients design and manage health, retirement and other benefits and optimize human capital. The firm also provides customized administration, technology and total benefit outsourcing solutions. Mercer’s investment services include global leadership in investment consulting and multi-manager investment management.

Mercer’s global network of 17,000 employees, based in more than 40 countries, ensures integrated, worldwide solutions. Our consultants work with clients to develop solutions that address global and country-specific challenges and opportunities. Mercer is experienced in assisting both major and growing, mid-size companies.

About Oliver Wyman

Oliver Wyman combines deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation and leadership development. The firm works with clients to deliver sustained shareholder value growth. We help managers to anticipate changes in customer priorities and the competitive environment, and then design their businesses, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. We have more than 35 years experience serving Global 1000 clients. Our staff of 2,500 operates from offices in more than 40 cities in 16 countries.

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