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CHECKING THE EXITS

IF YOU HAVEN'T ESTIMATED HOW YOU WILL BE AFFECTED BY THE EXPECTED SURGE IN RETIREMENTS, START PREPARING NOW.

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Do you look around at your senior managers and wonder how many will still be with you in five years? Are you concerned that so many retirement-eligible employees will leave that some departments will be left barely functioning? If so, it's time to get answers and make plans.

One of the biggest challenges facing human resource managers is determining how their companies will be affected by the departures of those now eligible, or soon to be eligible, to retire. The demographics are clear: The number of workers 55 or older is expected to grow 50 percent by 2012, according to the federal Bureau of Labor Statistics.

The major impact of retirements, experts say, will be felt by the more mature workforces, such as those in manufacturing, utilities and the public sector. In fact, 69 percent of federal supervisors will be eligible for retirement by 2007, according to the Partnership for Public Service, a non-profit group that studies federal personnel issues.

Companies that have put off gathering information and preparing for large-scale retirements shouldn't wait any longer. "If you've never done it, do it over

the next year or two," says Warren Cinnick, a senior manager of leadership and succession planning services in the Chicago office of PricewaterhouseCoopers, the New York-based global accounting and consulting firm. "If you haven't done it by then, you're not keeping up. This has become imperative."

Whatever urgency the experts may express, it appears that most companies have not made much headway in determining the scope of voluntary retirements they face in the next few years. The results of the *2005 Future of the U.S. Labor Pool* survey by the Society for Human Resource Management show that 39 percent of the 387 HR professionals who responded said they were just beginning to plan for large-scale retirements, and 38 percent said they were just becoming aware of the issue.

First, the Facts at Hand

Planning for a wave of retirements should be a priority, but not a problem, Cinnick and others say. There are several



Larry Gartner

steps that companies can take every year to prepare, starting with the basics.

Determining how your firm could be affected by retirements involves a variety of considerations, such as whether to survey employees and whether to hire an actuary or to contract with planning services firms. But every company, experts say, should start with its numbers – culled by its HR department or retirement services provider – on who is eligible for retirement.

“I’m always surprised by the numbers of HR VPs who haven’t done a chart of retirement-eligible employees,” says Cinnick, who works with federal agencies that have large numbers of employees who are now, or soon will be, eligible to retire. “That’s an available figure right in your files. That’s just plain good planning.”

Cinnick adds: “Obviously, people don’t have to retire at their eligibility date, but it does give you an idea to work from.”

Compilations of such company data, Cinnick continues, should be grouped by age and retirement eligibility, and that latter category can be further broken down by job category and by the estimated impact on the organization when the person leaves.

In all but one of those compilations, however, no names should be used, Cinnick cautions. The reason is to preserve the confidentiality of personal information. “This is a great role for HR to be in – to maintain a wall between the raw data of individuals and the aggregate data to plan by,” he says. The only exception to the no-names practice applies at the highest executive levels, where planning for retirements is expected, he explains. “Boards that don’t try to estimate that are missing a piece of their responsibility.”

The retirement-eligibility information should be released only to senior executives and perhaps the board of directors if the company is publicly traded, according to Cinnick. “This is a senior management activity to go no lower than the first couple of levels below the CEO. There is no reason for it to be known among employees.”

Figuring Out Intentions

Simply knowing when employees can retire doesn’t tell you enough about when they will choose to, however. Companies have several options for getting more and better information. The best approach – and the one with the fewest legal risks – is to have an actuary analyze information, many experts say.

Actuaries typically are enlisted to study a company’s employment data, which includes retirement eligibility, to help executives plan for the future. Their analyses of such data can reduce the need for employee surveys and the troubles they can create, such as morale problems from employees inferring a power shift away from older workers, experts say, or legal risks from flawed questions or poor administration.

“It’s a very slippery slope to ask individuals questions such as retirement, salary or when they are planning to leave,” says Craig Rosenthal, an actuary and principal at Buck Consultants, an HR and benefits firm based in New York. “Whereas, if you mine the data, you’re able to look at patterns to determine what number of people are likely to leave. Mining data isn’t personal.”

Each year Rosenthal’s clients send him data – usually compiled by their HR staffs – containing demographic information on employees, including job

titles, descriptions and classifications as well as salaries and locations. With the help of a computer program, he crunches the data into summary tables. These are designed to help his clients plan ahead in light of expected change in the company's industry, its core work function and employee demographics.

"We make sure the data is clean and accurate and that there are no discrepancies," Rosenthal says. "The data must look reasonable. We do an analysis of actual turnover vs. what was expected. If the actual is far off, we question company officials. Maybe something happened, like a location was shut down. That's something we should know."

Another Way For Smaller Firms

Actuaries are effective, but only when an organization is large enough – at least 1,000 employees – and has enough employee history to make accurate assumptions about the data, Rosenthal says. Because actuaries look at patterns of retirement, they likely will not be effective for companies that have had only a few retirees, he says.

Instead, smaller and newer companies can do their workforce planning either by studying employment information themselves or by surveying employees.

There is nothing illegal about surveying employees to try to determine in general how the company could be affected by their retirement plans, says Lawrence Gartner, an employment partner with the Baker & Hostetler law firm in Los Angeles and former attorney with the Equal Employment Opportunity Commission. "But it is a balancing act," he says. "It requires very careful wording. It is legitimate for planning purposes to ask people whether they are considering

retirement – and when. But there have to be a lot of caveats such as, "We're not suggesting you should' and 'You're not bound by your answer.'"

Gartner and others suggest that such surveys be done by a neutral third party, that no information be made part of an employee's file and that all identifiable information be kept from decision-makers.

Although an employee survey is not likely to spark an age discrimination lawsuit, it can complicate matters for a company already accused of age bias. "There is case law of this happening," says Condon McGlothlen, a partner in the Seyfarth Shaw LLP law firm in Chicago. There have been cases of such surveys being used as plaintiffs' evidence to try to prove an atmosphere of discrimination, he says.

McGlothlen says he doubts the legal risks in surveying would be outweighed by the value of the information obtained. "People do change their minds, and the further out you plan, the less reliable the information will be. You're going to get a significant number of 'I don't know.' I think it would be of marginal benefit."

If a company decides, however, that surveying employees is its only way to estimate the impact of large-scale retirements, McGlothlen advises that the company make it clear, in written and spoken communication, that the survey is voluntary, it is not a condition of employment, and no adverse action will result because of it.

Rosenthal, who sometimes conducts employee surveys for his clients, agrees that pointed questions about an employee's plan for retirement can backfire. He suggests trying to get at the same answers by asking questions such as, "What types of benefits are you most interested in?"

Says Rosenthal: "Employee attitudes toward benefits tell you a lot. If you have a workforce that values 401(k) but not a long-term disability, you're probably looking at a more mobile workforce."

Cinnick recommends using companies such as the Washington, D.C.-based Gallup Organization or Saratoga, a service of PricewaterhouseCoopers, for surveys that go beyond retirement plans and get at the heart of organizational turnover. Such surveys, he says, can be "wonderful predictors of employee turnover" because they ask questions aimed at assessing employee satisfaction.

"If you're looking at retention, only one exit door is retirement," Cinnick continues. "Rather than only focusing on

retirement, think about all of the reasons that people leave, and try to get a handle on the reasons why." (For a report on innovative analyses of employee attitude surveys, see "Find What Workers Want" in the April 2005 issue of *HR Magazine*.)

Most of all, experts say, start planning.

Many companies haven't begun "because it hasn't become that painful yet," says Cathy Fyock, SPHR, president of Innovative Management Concepts in Crestwood, Ky. Nonetheless, Fyock continues, "more and more organizations are saying, 'Oh my gosh, we need to start planning.'" People are just at that threshold of saying, "This is about to be an issue."