

# **Competitive Strategies for an Aging U.S. Workforce**

**October 2006**



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## ▶ Introduction

An ongoing challenge faces mid-sized businesses competing in the U.S. economy: the effects of the aging workforce. As the first wave of baby boomers (those people born between 1946 and 1964) approaches retirement, mid-sized companies must learn how to attract, motivate, manage, and retain more mature workers.

This mature worker, with great skills and experience, is already attracting the attention of larger companies who are seeking a solution to the reduced availability of younger workers. This trend will be central in defining the success or failure of many mid-sized firms in the coming two decades.

No matter how you do the calculations, the numbers are impressive:

“According to the report ‘Reversing the Aging Work Force Crisis’ by Forrester Research, over the next 10 years, 76 million baby boomers will retire, with only 46 million younger employees in line to replace them.” – Eric Lesser, *The Maturing Workforce — Managing the Crisis Before It Hits*, ASTD LEARNING CIRCUITS, January 2006

“With one-fifth of American workers reaching retirement age by 2020, an estimated 25 million people are poised to leave the workforce. The mass exodus will not only create a shortage of workers to fill jobs — one Bureau of Labor Statistics estimate put the shortfall at 2.3 million by 2014 — but it will precipitate a ‘boomer brain drain’ that will be felt for decades.” – Melissa Hennessy, *The Retirement Age*, CFO MAGAZINE, February 15, 2006

**“The bottom line is that there aren’t going to be enough skilled people to go around.”**

Daniel Weinfurter, CEO, Capital H Group LLC, quoted in: Melissa Hennessy, *The Retirement Age*, CFO MAGAZINE, February 15, 2006

For mid-sized and growing enterprises, those with 50-999 employees, there is a talent “squeeze” specific to attracting and retaining the mature worker — between the mom-and-pop employer using personal relationships, and the largest employers using expensive and effective talent management systems. Both ends of the competitive spectrum will be “poaching” the mid-sized firms’ human capital, creating a new risk to these firms’ survival.

**“Organizations that fail to understand the complexities or recognize the opportunities associated with an aging workforce may risk their ability to stay competitive.”**

Jeri Sedlar, Senior Advisor to The Conference Board, September 2005

## ▶ Developing a Competitive Workforce Management Strategy

To succeed with the increasing competition for talent as millions of baby boomers approach — and seek to redefine — retirement, companies will need solutions to attract, assess, motivate, manage, and retain talented employees of all ages. However, the requirements of the experienced workforce will add complexities to the way workers are managed productively and profitably.

Multiple publications describe new hurdles such as the need to offer employment situations that provide flexible scheduling and/or part-time work options, as well as benefits of interest to mature workers, such as long-term care insurance, pre-retirement planning, health and wellness programs, and prorated benefits for employees on flexible work schedules.

Plus, there is the raw challenge of finding and selecting qualified employees from an ever-shrinking pool of potential candidates, as Generations X and Y move through and into the workforce. Certain industries are more vulnerable to the potential shortages of skilled talent — including energy, healthcare, technology, and government.

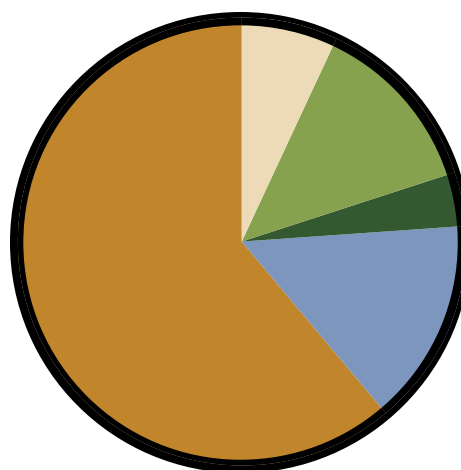
There is a great risk of losing valuable intellectual capital as older workers retire and newer workers take on their responsibilities. The April 2006 MetLife study, *Living Longer, Working Longer: The Changing Landscape of the Aging Workforce*, states, “To effectively transfer knowledge from older, more experienced workers to the next generation, employers will need to use a wide

range of practices, including enhanced training and development, mentoring programs and better documentation systems.”

All of this will have to be accomplished within the context of increasing cost pressures, especially from rising healthcare benefits costs, and competitive pressure for gains in productivity.

### Barely on the Radar

Do you have any plans in place to retain baby boomers beyond normal retirement?



Part-time opportunities	7%
Consulting opportunities	13%
Mentoring opportunities	4%
All of the above	15%
None of the above	61%

Base: 110 attendees at Computerworld™'s Premier 100 IT Leaders Conference, March 2006

Source: *Workforce crisis: Preparing for the coming IT crunch*, Kathleen Melymuka, COMPUTERWORLD, July 3, 2006.

## ▶ Addressing the Requirements of an Aging Workforce

As they have been accustomed to doing throughout their lives, the baby boomers are now changing the meaning of retirement. Nearly 70% have told AARP that they intend to continue to work in their retirement years. They are motivated not only by financial concerns, but also by a desire to remain active and productive.

According to a recent *COMPUTERWORLD* article, *Workforce crisis: Preparing for the coming IT crunch*, “the most popular pattern is not reduced hours or regular part-time, but rather larger chunks — even six months — of time on and off... Few employers are ready to handle such flexibility, but they should start putting practices in place soon.”

*The MetLife Study of Employee Benefits Trends, 2005*, states, “Those employers who do take such steps are likely to benefit from a well-trained, loyal workforce. Overall, older employees report significantly higher levels of job satisfaction and loyalty than do younger workers, with 67% of Pre-retirees reporting high levels of job satisfaction and 75% reporting strong loyalty, versus 44% and 46% of employees overall” (see Figure 2).

Flexible scheduling and benefits are becoming the norm, and companies’ ongoing success will depend upon their ability to build employee commitment. Committed employees work with the employer to develop mutually agreeable

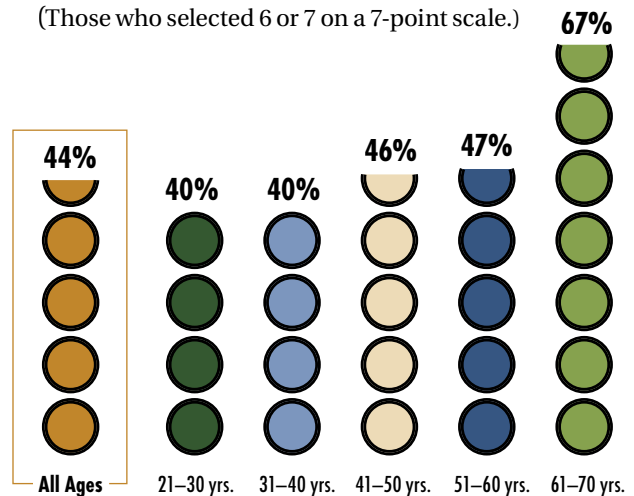
work programs, while working more efficiently over a longer lifetime. This enables on-the-job productivity gains, along with allowing HR and operating management to pursue further competitive gains without the distraction and cost of high employee turnover, understaffed schedules, and time-consuming candidate searches.

Based on a review of academic research, along with extensive primary research and direct client testing, The Loyalty Research Center has

### Employee Workplace Satisfaction

Percentage by age that “strongly agree” with being satisfied at work.

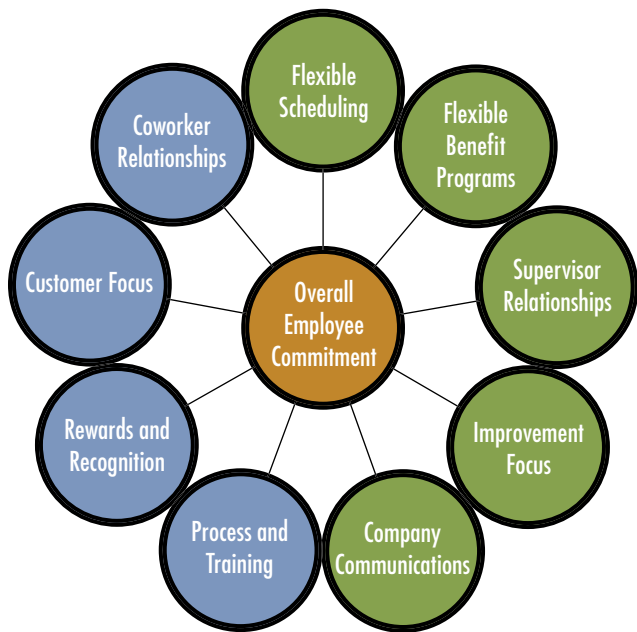
(Those who selected 6 or 7 on a 7-point scale.)



Source: *The MetLife Study of Employee Benefits Trends: Findings from the 2005 National Survey of Employers and Employees.*

2

## Framework for Workforce Commitment



Source: *Employee Loyalty Research Study*, The Loyalty Research Center, 2004.

3

developed the above model to help structure employee loyalty-building initiatives in an aging workforce environment (Figure 3).

To accommodate the mature worker's first-level requirements — for flexible work schedules and specialized benefits — companies will have to leverage new systems with the ability to plan schedules, capture unusual work hours, and keep track of employees' and candidates' skills.

In addition, specific to benefits, organizations must deliver benefits programs with a deeper variety of options than in the past without overburdening their internal HR/Benefits administration systems.

As a result of proactive innovation, many providers of workforce management solutions are effectively meeting these challenges with leading-edge employee and manager self-service solutions. The right workforce management solutions directly enable an organization to pursue new strategies in employee scheduling, production management, and benefits administration.

Workforce management solutions also provide tools to serve leadership in the areas of communication, training, and rewards and recognition, indirectly enabling a stronger business and customer focus within a team environment. By leveraging the technology and best practices of a workforce management solutions provider, the company's leadership — at all levels — is freer to focus on their employees and the critical strategic tasks of the business.

Building a strong, loyal workforce with experienced workers requires organizations to deploy workforce management solutions that deliver on all of these requirements.

## ▶ Responding with Effective HR Leadership

The Human Resources department can invest substantial time and money working for years to build the capabilities of the organization to achieve successful workforce strategies. One approach is to benchmark the firm's current capabilities against one of the recognized leaders in the field.

### Assessment Criteria of Human Resource Management Solution Providers

Source: The Loyalty Research Center, 2006.

Current Period Performance	Strategic Vision and Execution
<b>Breadth of Solutions</b> <ul style="list-style-type: none"><li>• Compensation</li><li>• Benefits administration</li><li>• Personnel information</li><li>• Compliance</li><li>• Employee performance and management</li><li>• Time and labor reporting and management</li></ul>	<b>Actual Introduction of New Solutions</b> <ul style="list-style-type: none"><li>• Timeliness of new tools to market</li><li>• Efficiency of new tools in use, such as employee and manager self-service</li><li>• Fit with current and impending compliance requirements</li></ul>
<b>Market Preference</b> <ul style="list-style-type: none"><li>• Organic growth rate</li><li>• New client selection</li><li>• Retention rate performance and trend</li></ul>	<b>Clarity of Strategic Direction</b> <ul style="list-style-type: none"><li>• Focus on the strategic challenges of the employer</li><li>• Focus on the lifestyle challenges of the employee</li></ul>

In 2006, The Loyalty Research Center performed an extensive review of the recent data on workforce management solutions. Looking at the market leaders and using the key dimensions of (1) current period performance capability and (2) strategic vision and execution, LRC has identified ADP as the industry leader upon which to benchmark capabilities.

While alternative providers should always be considered when evaluating solutions, ADP demonstrates the most complete range of relevant services, the highest levels of customer preference, and a track record and strategy supporting this view.

Using ADP as the benchmark, we have identified key values that can be derived to recruit and retain the critical skills possessed by an aging workforce.

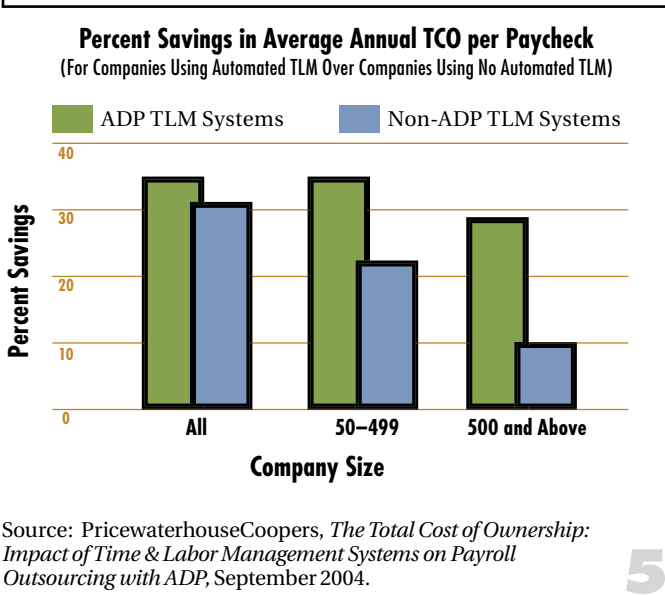
To the extent that ADP or its competitors can excel in providing the resources to address each of the experienced workforce's needs and loyalty commitment areas, significant financial, productivity, and performance results can be attained even during the coming decades of intense competition for human capital.

The five specific benchmark capabilities that LRC evaluated are:

#### 1. Flexible Scheduling

The HR team can provide the systems and tools to allow efficient scheduling of complex work arrangements and accurate reporting of hours. Beyond attracting and retaining mature employees, the benefits of this capability include reduced overtime, reduced open shift positions, increased labor cost control, and accurate job cost management. Clear communication of schedules also reduces potential friction between supervisors and employees.

## Total Cost of Ownership of Payroll



5

**The ADP Benchmark:** ADP’s time and labor management tools enable companies to monitor employee utilization and ensure cost-effective coverage to meet business needs. ADP TLM solutions are proven to reduce the cost of time and labor management (see Figure 5), while also delivering the control and flexibility required to meet emerging scheduling needs.

### 2. The Right Benefits

Employers are improving their ability to offer attractive healthcare and financial benefits programs to their employees. However, along with this comes the added complexity of communicating and administering these plans. Without effective systems, employees do not recognize the value of their benefits programs; they may “over-enroll” in costly programs or “under-enroll” in those that could save the

employer money. The right benefits are key to retaining employees of all ages.

**The ADP Benchmark:** ADP’s tools help educate employees about the company’s benefit programs, while giving them a simple way to intuitively make the right selection for their individual needs. ADP also assists companies in showcasing their employee benefits programs to help employees understand the total investment the company makes in them and their well-being.

### Health Insurance: Costs and Concerns

*Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2005:* The average cost of single coverage in 2005 was \$355 per month or \$4,024 per year (including both employer and employee contributions). The average cost of family coverage was \$907 per month or \$10,800 per year.

*Towers Perrin research on employee behavior in healthcare decision making, 2005:* Survey respondents “worry that their current health plan doesn’t provide adequate financial protection, cover the services they need (or may need) or deliver enough value for the cost.”

### 3. Effective Management

Access to accurate and timely personnel information is crucial to supporting effective supervisor-employee relationships and keeping employees functioning optimally in their roles. Performance reviews are another important tool for keeping employees on track and informed of their value to the company. Strengthening the relationship between supervisor and employee also helps in career development and succession planning — growing priorities in the changing workplace.

**The ADP Benchmark:** ADP helps companies ensure timely reviews by notifying managers that reviews are due or overdue. Documentation also plays a significant role in performance reviews; ADP assists companies in keeping written records to ensure that managers and employees share an understanding of goals, measurements, business expectations and improvement plans.

#### 4. Continuous Improvement

Eliminating time-consuming administrative responsibilities, such as payroll and benefits administration, allows the organization and its HR staff to focus on more strategic tasks, including the mission-critical areas of the business such as meeting customer needs. Employees recognize employers for this effort by being more committed to the firm's mission. To have an engaged workforce will not only enable better customer service but also aid in retention and recruiting.

**The ADP Benchmark:** Among its many services, ADP offers industry-leading payroll and benefits management systems that help companies gain greater control over these cost centers. A 2004 ADP PricewaterhouseCoopers study found that companies can increase efficiency and reduce indirect costs for payroll and HR-related processes by as much as 50% with ADP's help.

**“With so many key employees positioned to retire in the near future, companies need to take formal steps to ensure smooth transitions and business continuity. When the talent and knowledge of retiring workers walks out the door, every organization needs to make sure they have others ready to fill the gaps.”**

Debra Cohen, SPHR, Chief Knowledge Officer, Society for Human Resource Management

#### 5. Enhanced Communications

Employee satisfaction has been directly tied to understanding the company's mission, strategy, and benefits programs. However, despite the existence of various communications vehicles, organizations are still seeking to communicate effectively. The use of “company portals” and manager and employee self-service systems are now within reach of even small employers; improved technology allows access to functionality previously available only to larger companies.

**The ADP Benchmark:** ADP's self-service HR applications and employee communications tools can help to increase employee satisfaction. ADP offers a portal solution that includes an integrated

**“We had to put in place a way to distribute accurate information to employees quickly and easily, while empowering them with self service, so they could conveniently access the information they needed instead of making inquiries to HR.”**

Pat Delbene, CFO, Go Kids, Inc., a multi-service childcare agency

approach to employee communications. It provides a turnkey corporate communications site — an electronic hub where vital company information flows easily.

## ▶ The Value of Using a Single-Source Solution Provider

Delivering on this broad range of strategies is a major undertaking, even for larger enterprises with considerable financial resources.

For mid-sized firms, these types of investments can easily overwhelm the capital available for infrastructure — not to mention the constraints on management resources available for identifying, building, customizing, and then learning the many new systems and routines required.

Selecting a single-source solution provider enables an organization to implement a complete, turnkey solution for building new human

resource capabilities without the burden and cost of working with multiple providers. In this paper,

**“ADP was able to help us establish the right administrative infrastructure within HR to track and monitor what we need to know as we grow. ADP was the most flexible company and this is why we selected them. They allow us to stay focused on our top business challenges.”**

Kathleen Arlinsky, Vice President—HR, CRAssociates, health service management

ADP has been highlighted as the industry leader in the area of workforce management solutions for mid-sized companies. Their broad array of solutions and use of cutting edge technology to deploy and support these solutions puts them ahead of the pack.

### Leadership: the *InformationWeek* 500

In recognition of ADP's world class solutions, people, and programs, *InformationWeek* recently ranked ADP number two on its *InformationWeek* 500 for 2006, an annual ranking of companies that demonstrate the power of innovation in information technology.

ADP is the highest ranking provider of Consulting and Business Services on this year's list, and earned special recognition for "the most effective use of emerging technology."

*InformationWeek* publishing director Fritz Nelson stated, "From the thousands of nominations received, ADP stood out by driving some of the most forward-looking business technology initiatives to date."

## ▶ Summary

How will your firm look in the year 2020, and what solutions will ensure success with your aging workforce at that time?

The demographics of your employee population — as older, more ethnically and culturally diverse, and with a broad range of personal needs, especially around flexible scheduling, benefits, and more effective human management responses — is most likely to be your biggest workforce challenge in 2020.

More than 50% of your employees could be over the age of 50, and their motivations for working will vary: from a need for financial security, to a desire to remain active and engaged, to an opportunity to do meaningful work. Their choice of workplace will give heavy weight to accommodating their personal schedules, as well as their real and perceived healthcare needs.

Finally, at the relationship level, they will require their employer to continue to attract, select, and retain quality coworkers, and manage them profitably. The employer will need robust training,

performance management, and communication tools that are accessible to employees and managers across the organization — and to workers of all ages and in all stages of their own careers.

The Loyalty Research Center has reviewed the single-source outsourcing solutions that ADP offers and recognizes the effectiveness that these workforce management solutions can deliver. By partnering with ADP, companies can achieve their goals related to effective workforce planning and management, including compensation and benefits administration, while delivering needed gains in productivity, efficiency, and compliance.

There are literally hundreds of solution sets that can be applied to your particular workforce management solutions needs. Industry leader ADP provides options to consider as you seek to address your specific issues in a way that is an effective and solid investment for tomorrow as well as today.



## About The Loyalty Research Center

The Loyalty Research Center offers industry-leading research, tracking, and strategy consulting to clients seeking to maximize the performance of their workforce and customer value proposition by understanding and acting upon the value driving elements underlying loyalty. To learn more, visit [www.loyaltyresearch.com](http://www.loyaltyresearch.com), or call Allen Paison at 317.465.1990.

## Marty Reader, M.B.A. — Partner

Marty has over twenty years' experience in outsourced services operations, marketing, and consulting, including all areas of HRMS technology and services. Marty earned his M.B.A. in finance and marketing from The Johnson Graduate School of Management at Cornell University, and his B.A. in economics from Colby College.

## Michele Swift, Ph.D. — Consultant

Michele has over ten years' experience in human resources, payroll, and consulting, including the full range of HR services. Michele earned her Ph.D. in organization management from the University of Colorado, and her B.A. in economics from the University of California, Irvine.

## About ADP

ADP has more than 50 years of experience providing employers with business solutions such as Payroll, HR and Benefits Administration. ADP solutions focus on making businesses more productive by reducing costs, increasing productivity and, most importantly, standing ready to grow with your business. With the widest range of powerful, cost-effective solutions, only ADP can offer your business the flexibility it demands to grow and prosper — whether you have one employee or hundreds of thousands.