



June 22, 2006

Highlights

An aging and shrinking workforce, plus generational attitude differences, create major challenges for employers, but also offer a significant opportunity for those willing to be proactive.

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The Hewitt Research Advisory is a regular Hewitt newsletter designed to provide a detailed overview of specific legislative and regulatory developments in Canada relating to human resources.

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The Changing Workforce: Challenge and Opportunity

Canada's population, and its workforce, is aging – as is the whole developed world's. The combination of longer life expectancies and lower fertility rates has led to large demographic shifts, with Japan and Europe leading the trend. North America is following right behind, Canada even more so than the United States, due to higher birth rates in the U.S.

In Canada, the median age – half are younger, half older – is now 39.5, up from 33.5 just 15 years ago. Seniors, those aged 65 and up, now make up 13 per cent of the Canadian population; by 2031, the percentage of seniors is expected to approach 25 per cent.

The Shrinking Workforce

This demographic shift has huge ramifications for Canadian society, and particularly for the workforce. The “Baby Boom” generation (those born between 1945 and 1965, roughly) make up about one-third of the entire Canadian population, and an even bigger percentage of the workforce. This generation, affectionately known as the “Boomers,” is now starting to reach retirement age. That means that a massive exodus from the workforce will take place over the next 20 years. Instead of five working-age people for every one person over 65, the ratio will drop to only three to one by 2025.

Immigration is not a solution for filling the gap. In 2001, there were 1.86 million workers aged 55 and over, and only 1.83 million immigrants to Canada in the ten years between 1991 and 2001 – and not all of those people would have joined the workforce. Furthermore, the number of older workers in 2001 did not include the huge Baby Boom group, meaning the number of older workers will soon be much higher than it was in 2001. Canada's immigration rates would have to increase enormously to replace the massive number of retirees expected in the coming 20 years. Even if this were politically feasible, there simply may

not be enough potential immigrants to fill the coming labour shortage, especially considering that all the other industrialized countries are in the same situation.

The bottom line: employers will soon be competing for employees at virtually all job levels. Skilled and experienced people will be at an even greater premium. In the United States, for example, it has been projected that labour demand will exceed supply starting *this year*. By 2012, in a mere six years, more than 6 million workers are expected to be needed than will be available.

The Challenges, and the Opportunities

The approaching demographic shift presents plenty of challenges. Organizations will need people, and they will desperately need experienced, knowledgeable people. Employees will have many other employment choices, so retaining employees will become essential. Employee engagement will be a necessity, not a frill. Every employer will need to assess and plan for ways in which it can:

- Keep all employees enthused, excited, and wanting to remain with the employer;
- Ensure that essential knowledge gets transferred from employees before they retire; and
- Minimize, as much as possible, and deal with future labour shortages.

Given that the demographic changes won't become critical for a few years, many employers may think they can wait to deal with the coming changes. However, the time delay creates a significant opportunity for employers who are willing to be proactive.

Organizations that take the coming transformation of the workforce seriously, and that begin planning now, can position themselves to be ahead of the pack. Organizations that foresee and prepare for these new challenges stand to reap substantial benefits – deep talent pipelines, staffing flexibility, desired retention levels, and more motivated workforces.

Organizations that fail to prepare, on the other hand, face a future of worker shortages, skill deficiencies, and lost organizational know-how.

Extending Boomers' Effective Work Life

The demographic shift will need to be accompanied by an equally large shift in attitudes, along with the policies that reflect those attitudes. For example, for many decades Canadian society as a whole, as well as many individual organizations, have supported and even encouraged early retirement. The result is that the average retirement age in 2005 was 61.4, rather than 64.9 as it was in 1976.

In light of the coming workforce shortages, the early-retirement trend needs to be re-thought. Perhaps retiring early is not desirable or necessary, if employees can obtain and maintain work-life balance as their needs and interests change over time. Furthermore, retirement need not mean the end of all paid work, for many people. Employers will need to foster a different environment where employees are welcome and encouraged to continue contributing to the organization for as long as they wish and are capable of doing so, regardless of age.

In the coming months, Hewitt Canada will publish a series of Advisories looking at options for reversing the early-retirement trend and encouraging older employees to keep effectively participating in the workforce. In addition, the Advisories will examine the details of workforce management and the compensation issues that will arise from changed retirement attitudes and practices.

Succession Management and Knowledge Transfer

No matter how long retirement is delayed, all employment ends eventually. Even though an organization can't retain its employees forever, it can retain as much of their knowledge as possible. Employers with a large number of employees approaching retirement age will need to ensure the preservation of their institutional knowledge once the older generation of employees departs. This requires advance planning, because once the knowledgeable employees are gone, their knowledge will be gone, too.

“Tacit knowledge,” the knowledge that employees carry in their minds, can be crucial to organizational success, yet it is difficult to access. Organizations need to plan how and when key knowledge and skills will be transferred. That involves two separate steps: capturing the knowledge from the person who currently has it, and passing it on to the person who will eventually need it.

Employers cannot count on younger employees remaining with them throughout their careers. Studies show that “Generation X”, the generation following the Baby Boomers, has a penchant for changing jobs and employers. The generation after Generation X, sometimes called “Generation Y” or “the Millennial Generation,” is even less concerned with employer loyalty and long service with a single employer. Add to this the future competition for labour in general, and organizations cannot count on limited numbers of individuals to preserve their vital institutional knowledge. Thus, organizations must find ways to preserve tacit knowledge in a form that can be accessed by any future worker – even those who will never directly interact with the current holders of that knowledge – and that can be re-used as often as necessary.

In order to plan for knowledge transfer, employers will need to review their workforce demographics as a whole. Next, identify the risk of high retirement, employee turnover and/or knowledge loss in each functional area. Which skills and knowledge topics are critical to organizational objectives in those functional areas? Those are the skills and knowledge that will need to be transferred, and the demographic projections will show the timeline in which that transfer will need to take place.

Phased retirement, rehiring retirees as contractors or consultants, and rehiring retirees on a part-time or seasonal basis can all be leveraged as one last opportunity to encourage knowledge transfer. These options can therefore serve a dual purpose, maintaining workforce numbers and strength as long as possible, and also ensuring that key knowledge and skills are retained for the organization's future success.

Getting a Jump on the Competition

The workforce of the future will be younger, less experienced and may lack some of the knowledge and skills required in a knowledge-based economy. But because this workforce will be much smaller, demand will exceed supply and there will be intense competition for workers.

Employee engagement, therefore, will be more important than ever. Since they'll soon be competing for employees, anything an employer can do now to improve employee engagement and retention will likely pay off. And organizations should strive to position themselves as a Best Employer (an employer of choice), so that they will have the upper hand in the coming battle for scarce worker resources. Employee turnover, always costly, will become much more so in the future.

Understanding what will motivate and retain Generation X and Generation Y employees, and building those policies now, can only help. At the same time, Baby Boomers need to be encouraged and inspired to prolong their workplace contributions. The organizations that can adapt to these requirements and be proactive in balancing the engagement needs of all the generations are the ones that will have the tactical advantage, both now and in the future.

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