

Aging Populations and the Workforce

Challenges for Employers

by William B.P. Robson

and

A BNAC Statement

British-North American Committee

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A BNAC Statement on Aging Populations and the Workforce: Challenges for Employers

The demographic structures of the United States, the United Kingdom, and Canada are undergoing profound changes. In the coming decades, fewer young people will enter the workforce, growth in the population traditionally considered to be of working age is projected to slow or even reverse, and people past today's normal retirement ages will almost certainly make up a larger share of the pool from which employers must draw.

The members of the British-North American Committee (BNAC) are concerned that employers and policymakers are not yet sufficiently aware of the challenges these changes pose. Many current practices and public policies were shaped during times when high unemployment, particularly among the young, was a key preoccupation, and are ill suited to the conditions of the early twenty-first century.

Seeking to improve its understanding of these challenges and possible employer responses, the BNAC asked a working group under the chairmanship of Claude Lamoureux to study the issues. The accompanying study by William Robson, which includes a survey of organizations with which BNAC members are associated, is the result.

As the study reveals, the potentially chronic labor shortages that loom ahead will require responses in many areas — hiring and contracting, work scheduling, training, compensation and job assignment, and workplace organization. Many current public policies are inconsistent with future needs, and the long lead times for reform mean that employers need to keep policymakers abreast of the challenges and urge them to timely action.

There are several implications of this exercise that BNAC members feel deserve the attention of all employers.

First, members found the survey — the simple act of subjecting their organizations to a series of questions about current practices — highly illuminating. How, if at all, does an organization monitor the age-profile of its workforce relative to that of the pertinent population base or its clients? Could redesigned duties and compensation help develop and retain key skills? Could improved workplace organization and location improve the productivity of older workers? Answering questions such as these can expose opportunities that might otherwise remain undiscovered and unexploited.

Second, employers who tend to focus on recruiting and retaining younger workers and letting older ones go need to examine the longer-term implications of these practices. There are functions that younger people are uniquely able to fulfill. Often, however, treating age as an indicator of aptitude can mislead. In a world where labor is scarcer, failure to deploy certain classes of workers effectively will be an increasingly costly mistake.

Third, many employers will benefit from a systematic reexamination of their compensation practices. Traditional compensation packages tailored to a “peak and out” career path can limit employers’ ability to match pay with productivity and tailor benefits to match their needs with the needs of older workers. Employers may find that new, more flexible pay and benefits arrangements — pension plans with novel accrual patterns and in-service benefits, for example, or innovative mixtures of defined-contribution and defined-benefit pension and benefit plans — yield rich rewards.

Finally, we call upon policymakers to facilitate mutually beneficial arrangements between employers and employees. The mix of taxes and public services each country provides will be critical in determining how attractive it is to potential immigrants, and to potential emigrants. Labor markets must be flexible, so that high fixed costs and other regulations do not deter employers from hiring older workers. Policymakers need to recognize and emphasize the advantages that continued labor-market participation up to and past normal retirement age bring to employers, to the national economy, and to individual workers themselves. And taxes, transfers, and in-kind services to the older population must continue to evolve in ways that make work more attractive.

In closing, we urge employers and policymakers alike to read this study and consider its implications for human resource planning, now and in the future. While the views expressed are not necessarily identical with those of each BNAC member, the challenges, approaches, and policy changes it describes deserve close attention. Innovation and flexibility in responding to the labor-force challenge of the twenty-first century will be a key source of future competitive advantage, both for individual employers and for countries.

July 19, 2001

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**Aging Populations
and the Workforce:
Challenges for Employers**

by

William B.P. Robson

Preface

An author of a British-North American Committee study benefits from the extraordinary range of experience and wisdom of its members, which presents a challenge when it comes time to acknowledge individual contributions.

At the risk of too brief a summary, I thank the participants in the BNAC's working group on Business and the Challenge of Aging in the Western World, and especially its chairman, Claude Lamoureux, for comments and discussion on earlier drafts. The respondents to the survey of organizations with which BNAC members are associated were generous with their time and included additional comments that provided valuable depth to the results. Thanks are also due to Malcolm Hamilton, of William M. Mercer Limited, for several useful comments; to Ted Wannell, of Statistics Canada, for guidance in preparing the survey of BNAC members, and to Shay Aba for assistance in compiling the survey results. Lee d'Anjou copy edited the manuscript with her hallmark skill and attention to detail, and Barry Norris and Marie Hubbs ably handled final production. Responsibility for errors and for the opinions expressed here is mine.

William B.P. Robson
July 2001

Aging Populations and the Workforce: Challenges for Employers

William B.P. Robson

For several decades, analysts have known that the demographic structures of the United States, the United Kingdom, and Canada are undergoing changes that will profoundly alter the age profiles of their populations over the next 20 years. Different forecasts vary in their details, but the long lead times in demography permit projections that are broadly reliable.

These projections show that, thanks to declining birth rates, growth in the population traditionally considered to be of working age will slow and then essentially cease. The average age of the workforce will rise, as will its average level of education. The proportion of female workers will grow. And people past traditional retirement age will make up a larger and larger share of the pool from which employers draw.

For societies in which preoccupation with high unemployment, particularly among young people, has been the norm, such a transition will be unsettling. Public policy has begun to respond, albeit slowly, with reforms to shore up public pensions and other social security programs, plus refinements to laws governing private pensions. Less discussed, however, has been the challenge this change

will present to employers. Job growth in the second half of the 1990s was robust enough to bring unemployment rates down to levels not seen since the early 1970s in the United Kingdom, the United States, or Canada, complicating the task of hiring and retaining. But that cyclical boom is a mild foretaste of the recruiting and retention challenges to come.

The current period, with the late-1990s' experience still fresh in memory, seems an appropriate time for businesses and other organizations to reflect on their human resource policies, preparing for the more chronic shortages that loom ahead. Hiring and contracting strategies, work scheduling, human capital development, compensation and job assignment practices, business structures, and workplace technologies will all require adaptations for a relatively smaller, older, and more female workforce. Many relevant public policies are out of step with the imperatives of the future, and the long lead times for reform mean that employers need to keep policy-makers abreast of the challenges and urge them to timely action.

This paper describes the key challenges, outlines some promising approaches, and discusses the public policy changes that will affect employers' ability to make the needed adjustments. Among the issues highlighted are:

- new recruitment strategies that tap underused resources, such as older workers and immigrants, and target younger workers more effectively;
 - adopting work schedules to accommodate the desires and needs of older workers;
 - training;
 - novel approaches to work content and compensation that can more effectively match pay with productivity over the course of a career; and
 - changes in workplace organization and technology that can help employers and employees find mutually satisfactory arrangements.
-

A survey of organizations with which BNAC members are associated (see the Appendix) provides a number of insights about the challenges created by demographic change, as well as solutions that innovative employers are already adopting.

Many employers will find useful precedents and lessons from changes they have already made to accommodate workers who want nontraditional hours, who must balance their work obligations with demanding family situations, or who have particular physical needs. Others, starting with less experience, will be in a position to learn from the successes and failures of their fellows. Innovation and flexibility in responding to the labor force challenge of the twenty-first century will be a key source of future competitive advantage, both for individual employers and for countries.

Understanding the Challenge

The demographically driven changes in the workforces of the United Kingdom, the United States, and Canada are numerous. Three of their most striking results will be labor that is more scarce, labor that is, on average, older, and a workforce that has a larger proportion of women than in the past.

A Slower-Growing Labor Force

Although the situation varies slightly among the three countries, the birth rate in each of the United Kingdom, the United States, and Canada has declined since the 1960s. As a result, growth in the population conventionally considered to be of labor force age — roughly 15- to 64-year-olds — is slowing. By the second decade of the twenty-first century, it is projected to grow very sluggishly in North America; in the United Kingdom, it seems likely to shrink slightly (Table 1). And in subsequent years, if current birth rates continue, the population ages 15 to 64 is likely to stagnate or shrink in all three countries.

As the population of traditional working age grows slowly or not at all, its composition will shift. Groups, such as women ages

Table 1: *Annual Growth of Population, United States, United Kingdom, and Canada, 1960–2030*

	United States	United Kingdom	Canada
	(% growth)		
	Ages 15–64		
1960–90	1.4	0.3	1.9
1990–2000	1.0	0.4	1.1
2000–10	1.0	0.5	0.9
2010–20	0.3	0.0	0.1
2020–30	0.2	–0.3	–0.3
	Ages 65 and over		
1960–90	2.2	1.3	2.8
1990–2000	1.1	0.3	2.1
2000–10	1.3	0.8	2.0
2010–20	3.1	1.8	3.3
2020–30	2.7	1.9	2.8

Sources: United States: US Bureau of the Census; projections from the Center for Strategic and International Studies; United Kingdom: National Statistics database and Government Actuary's office; Canada: Statistics Canada, CANSIM database; C.D. Howe Institute projections.

60 to 64, whose workforce participation rates have tended to be relatively low, will make up a larger share of the total. Without changes in the participation rates of various demographic groups, overall growth in the pool of potential employees would be even more subdued than suggested by the total numbers in the 15 to 64 years age group.¹

Aging Workers

The most prominent feature of the looming shift in the composition of the working-age population is, of course, its increasing age. Pro-

1 In Canada, for instance, projection of current workforce participation rates by age and sex suggest that overall participation of men and women of labor force age, which was 65 percent in 2000, will fall to 63 percent by 2010 and to 60 percent by 2020 (Sunter 2001, 5).

jections from the US Bureau of the Census, for example, show that almost 90 percent of the next decade's net increase in the working-age population will occur in the 55 to 64 years age category (Purcell 2000, 20). In Canada, C.D. Howe Institute projections show that growth in the same age group will account for about 70 percent of the net increase in the working-age population by 2010 and all of it by 2020. In addition, growth in the population ages 65 and over — already relatively rapid thanks to rising life expectancy — is on the verge of picking up. So not only is the average age of workers within the usual group rising, but the importance of people ages 65 and up as potential employees will increase.

Tighter labor markets and changing habits are already keeping more older workers in the workforce. In the United States, a strong economy in the 1990s was associated with a leveling off and then a rebound in the previously declining participation rates of older men. The proportion of pension recipients who are in the workforce has been rising since the early 1980s; among male pensioners ages 55 to 64, nearly two in five are now employed (*ibid.*; see also Herz 1995). In Canada, a weaker economy delayed the turnaround, but by the second half of the 1990s, the long-term decline in labor force participation of men ages 55 to 64 had reversed. In the United Kingdom also, the employment rates of older men had risen by the late 1990s from the troughs encountered earlier in the decade. And the rising tendency for women to participate in the paid workforce has buoyed the employment rates of older women in all three countries since the early 1980s (Table 2).

Many analysts think that the aging of the postwar generation will amplify these trends toward greater labor force participation by older people. A much-cited 1998 survey of baby boomers sponsored by the American Association of Retired People (AARP) found that 80 percent of respondents said they would stay in the workforce after age 65 (Roper Starch Worldwide 1999, 6). Talk and action are not the same thing, of course, but growing awareness of the positive associations between continued labor force activity and both good health and longer life expectancy would reinforce this predisposition. Certainly, the experience of older people in sev-

eral Scandinavian and Asian countries shows the potential for considerably higher participation rates than those currently evident in the United States, the United Kingdom, and Canada.²

More Female Workers

Less noted but equally striking is the fact that the older workforce will be increasingly female. Since women tend to live longer than men, the composition of the older population is always tilted toward women. Differing trends in the labor force participation rates of the sexes, moreover, present a prospect of a transformation of the workplace that is more pronounced than the change in the general population.

Because of recent decades' increase in labor force participation by older women, the sex composition of the older workforce has already changed markedly. A generation ago, women were a relatively small share — one-quarter to one-third; now they are approaching half the total. Twenty-five years ago, fewer than one in three Canadian workers ages 55 to 64 were women; now, two in five are. And Canada is the laggard in this respect. In the United Kingdom, 44 percent of workers over age 50 are female. In the United States, women make up 45 percent of the workforce ages 55 to 64.

Labor force participation after the traditional retirement age of 65 is much lower for women than for men, but largely offsetting that fact is the sex disparity in the size of the over-65 population. The share of over-65 workers who are female has risen from one-

² Statistics from the Organisation for Economic Co-operation and Development (OECD) for 1998 show the United States seventh among 29 OECD countries for the labor force participation rates of people ages 55 to 64, behind Iceland, Switzerland, Norway, Sweden, Japan, and South Korea. The United Kingdom and Canada were in the middle of the pack, in 13th and 14th place, respectively (Visco 2001, 20). The gap between Iceland's participation rate, in the high eighties, and the US rate, in the high fifties, suggests how much potential there is for increases, even in countries that rank relatively high by this measure.

Table 2: *Employment-to-Population Ratios of Older Population, United States, United Kingdom, and Canada*

Age	Males				Females			
	1983	1988	1993	1998	1983	1988	1993	1998
(percent)								
United States								
55-59	76	77	74	76	46	52	55	60
60-64	54	52	51	54	32	33	36	38
65-69	25	25	24	27	14	15	16	17
United Kingdom								
55-59	76	73	66	69	47	49	51	53
60-64	53	49	45	46	20	18	24	23
65-69	13	11	12	15	7	5	8	8
Canada								
55-59	75	74	66	66	37	41	43	46
60-64	56	50	43	42	24	24	23	23
65-69	21	18	15	18	7	7	7	7

Source: OECD, 89-90.

quarter to almost one-third in Canada, and to 42 percent in the United States.³

Early Signs

Other straws in the wind hint at the more profound changes ahead. A recent survey of major employers by the Conference Board of Canada indicated an important shift in concerns relative to those

³ It is worth stressing that the relative size of the underlying population of each sex drives this phenomenon. The labor force participation rates of older women drop faster than do those of men, so fields where women are a substantial share of the workforce, such as nursing and education, will experience a larger than average exodus of older workers.

revealed in its earlier survey, made at the time of the last cyclical peak in the economy a decade earlier (Bachmann 2000). The number of respondents citing productivity and employee performance as problems dropped between the two surveys from more than two-fifths to one-third. Meanwhile, the number citing recruitment as a concern increased from one-half to two-thirds, while those citing retention as a problem rose from about two-fifths to more than one-half. Similarly, of ten concerns related to the labor force in the BNAC's survey of its members, retention and recruitment ranked as the top two (see the Appendix).

Organizations that typically recruit younger workers, such as fast-food outlets and the military, are already feeling the pinch of a reduced population base. Stories of businesses making special accommodations to retain older workers are becoming familiar; General Electric, Chevron, Prudential Insurance, and Monsanto are some of the companies whose efforts in this regard have recently attracted attention. The US armed forces recently began to pay cash bonuses to retirees who come back for one more tour of duty. Many large employers have joined Wal-Mart and McDonald's in explicitly targeting retirees for hiring: Days Inn, Disney, Home Shopping Network, and temporary-help firms, such as Express Services and Kelly Services, are making increasing use of senior workers. And Travelers Group, Cigna, Boeing, and Whirlpool, along with major hospitals such as the Cleveland Clinic, are among the organizations that have launched efforts to bring back their own retirees. The Royal Bank of Canada has responded to the aging of both the workforce and its customers by employing its own retirees to sell retirement products. (See Reingold 1999, 113; Coleman 1998, 21; Hickins 1999; Raphael 2000; Goldberg 2000, 6-7, 155.)

Public Policy Responses

The prospect of an aging population is leading public policy to begin to react on several fronts. Many countries have reformed their tax and other regulations affecting private pensions. As for

public pensions, current reforms to US social security will gradually raise the normal eligibility age and have already eliminated the clawback of benefits for those who work past that age. The Canada and Quebec Pension Plans (CPP/QPP) have trimmed the generosity of their retirement benefits and raised contribution rates to improve the schemes' funding levels. The UK government is raising women's age of eligibility for the national insurance pension to equal that of men. The United States has abolished mandatory retirement, and in the United Kingdom the government has announced its intention of relaxing the currently mandated retirement dates (Whitehead 1999) and has released a nonstatutory code of practice for employers, covering such topics as recruitment, promotion, training, redundancy, and retirement (United Kingdom 1999).

As the BNAC notes in a previous publication (Robson 1997), these and further reforms are badly needed to adapt policy to the challenge of an aging workforce. The environment governments create will affect employers' ability to respond effectively to the demands of an older and more female workforce. But the continued importance of government action takes nothing away from the urgency with which businesses ought to anticipate the effects of these changes on their own practices. Advance planning will improve firms' ability to discern the policy changes that are needed and to present governments with informed suggestions about how to bring them about. And early action in anticipation of the twenty-first century's workforce challenge could be a source of competitive advantage.

Finding People

Difficulties in getting good help are, of course, nothing new for many employers. But the demographic change under way will so profoundly alter the population base from which businesses draw that many human resource policies in the areas of recruitment practices and the contractual basis of work will likely need to change in response.

Age Profiling the Workforce

Consider first the information base from which employers operate. Aided by new human resources management software, firms will probably become more conscious monitors of the demographic profile of their workforces. Just over half of respondents to the BNAC's member survey said their companies already do such monitoring. Marketing departments have long paid attention to the intensity with which a company interacts with various population subgroups as customers; human resources departments increasingly will do the same.

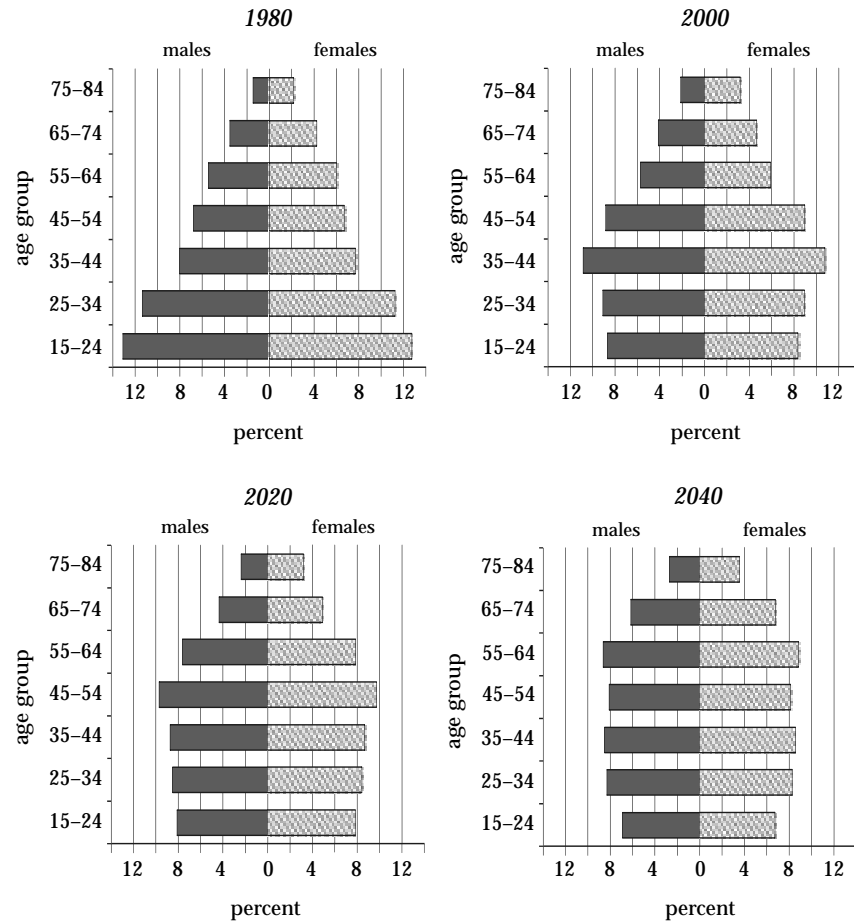
To get a simple idea of the principle involved in such monitoring, simply scan the evolution of a population profile that breaks the potential workforce down into ten-year cohorts by sex (Figure 1).⁴ For any given employer, the prospective evolution of the relevant population base will differ from the stylized figure. But once an employer has identified the relevant population base, tracking the age profile of its workforce against that base can be a useful tool. For example, tracking may reveal shortages that loom because a disproportionate number of employees are approaching ages at which exit rates rise. It may bring to light discrepancies between the profile of the workforce and, say, the customer base, often an issue for organizations oriented to personal services. And it may suggest recruiting from population subgroups that are relatively underexplored — fishing where the most fish are.

Recruiting More Aggressively

Finding fish and landing them are, of course, two different things. The tightening labor market of the late 1990s ignited wage pressure, and anecdotes about employment offers with rich signing bonuses and accelerated salary review became common. But other

⁴ Figure 1 is based on Canadian data from the C.D. Howe Institute, but the projected changes in the age profiles of the US and UK populations are very similar.

Figure 1: *Age Shares of Working-Age Population, Canada, 1980, 2000, 2020, and 2040*



Sources: Statistics Canada, CANSIM database; C.D. Howe Institute projections.

anecdotes from human resources professionals show that a tight labor market induces recruiters to become more imaginative and aggressive.

Traditional media for bringing employers and employees together, such as job fairs and trade shows, are getting flashier. New matching methods, such as Internet job boards, have sprung up, and more active Internet-based recruitment is developing. The

need to tap underexploited segments of the potential workforce has forced fresh attention to outreach practices. For example, geographic pockets of extreme labor market tightness have prompted even employers not normally noted for innovative practices, such as boards of education, to use third-party video-conferencing facilities to interview out-of-district candidates.⁵

Some companies are involving their own employees more directly in their recruiting (Howes and Cattaneo 2000). In Canada, Nortel pays its employees referral bonuses, and CP Hotels is introducing a “talent scout” program to do the same. Other companies are forging links with educational institutions. The high-tech sector is becoming noted for reaching into secondary schools as well as the postsecondary sector. Cisco, for example, provides curriculum material to high schools, seeking to encourage more students to pursue careers in the field and to think of the firm as an employer when they graduate.

Looking for Youth

The last example above is an appropriate segue into the observation that, although the primary focus of this monograph is on the challenges and opportunities of an older workforce, the intensifying struggle for young blood will be one of the coming decade’s most prominent features for many organizations. An alternative to the traditional view that young and old workers are substitutes — so that creating room for the young in an organization (or in an economy) involves pushing the old out — is that young and older workers are complements. This perspective has some encouraging implications, especially that keeping older workers active need not reduce opportunities for the young. But it also has a flip side: in organizations and economies where the skills of the young and the

5 “Districts get creative amid teacher shortage,” *Chicago Tribune*, August 31, 1999, p. 5.

old complement each other, rising numbers of older workers will make younger workers all the more valuable.

Thus, the next decades will see employers competing more vigorously for youth, especially in fields, such as science, where its correlation with major advances is very strong. Thirty percent of respondents to the BNAC's survey indicated that adding young blood was already a priority for their organizations. For those concerned about declining relative incomes among generation Xers and their successors, the prospect of a tighter labor market for young people has its positive side. But for employers, it will create challenges of recruitment, retention, and motivation. In addition, it will force attention to the common practice of using age as a shortcut marker of attributes such as original thinking, rather than taking the time and trouble to look closely at the individual characteristics of prospective and current employees and perhaps finding youthful characteristics in an older package.

Finding Help Abroad

Another strategy that will become increasingly important in the United Kingdom, the United States, and Canada — as indeed in all developed democracies — is finding talent abroad. Both immigration and outsourcing across borders will be important in this environment.⁶

Thus, the United States, the United Kingdom, and Canada will likely compete with each other more fiercely than ever for the services of their own citizens. And although these three countries are in

6 Discussions of immigration sometimes treat it as a tool that could largely or even completely offset the impact of population aging on, say, the ratio of seniors to people of working age (as currently defined). But numerical simulations reveal that the required volumes of net immigration would be large multiples of current levels, with implications for overall population growth and social policy that make them appear unrealistic (Visco 2000, 15; UN 2000). Thus, although increased sourcing of labor from abroad may make sense for individual employers, even widespread practices along those lines will not significantly alleviate the conditions that inspire them.

relatively advantageous positions compared with most other developed democracies (Visco 2001, 7; see also Tuljapurkur, Li, and Anderson 2000), this good news has a problematic side: all three will be disproportionately subject to competitive pressure from other countries. Moreover, as parts of the less-developed world become wealthier and begin to experience demographic pressures of their own, countries such as China and India may be less-ready sources of bodies and brains than they are now. For this reason, employers must continue to remind policymakers how important it is that the package of taxes and public services on offer makes their jurisdiction stand out as an attractive place to live and work.

Measures directly affecting immigration are naturally an important priority for changes in public policy. In 1998, following representations from the software industry, Canadian immigration rules were eased to speed approval for temporary workers. The US Congress recently voted to raise the limits on H-1Bs (temporary visas for skilled foreigners) and to exempt certain categories of labor from the limits altogether (Alvares 2000). In the future, increased competition for such workers, many of whom would prefer permanent status, will likely mean that repeated upward adjustments and extensions to provisions for temporary workers will be supplemented by measures that make permanent immigration easier.

Governments can open doors, but employers have to entice employees through them and into their organizations. As the outside world becomes relatively more important as a source for labor, including skilled labor, companies that extend their recruitment efforts beyond national borders can be expected to benefit. Indeed, where immigration is difficult or economically unattractive, declining transportation and communication costs increasingly may mean that bringing people to work makes less sense than bringing work to people. Software engineering and data processing are already well-known examples of industries with global subcontracting, and technological advances are widening the range of activities that can benefit from such arrangements.

Seeking Older Workers

More aggressive general recruiting inside and outside national borders can be only a small part of how employers will cope with a scarcer and older workforce. Much of the important action will be in efforts to emulate — indeed to outdo — those organizations that already target older potential workers.

Most firms do not have such strategies. A recent survey of US employers by the AARP and the Society for Human Resource Management (SHRM) found that 65 percent did not actively recruit older workers to fill open positions, and 81 percent did not offer any provisions or benefits designed specifically with the older worker in mind (Fandray 2000, 298). Among BNAC members, the same is true; just over one-third of respondents to its survey reported targeting specific demographic groups for hiring, and of those that did, only 13 percent said they targeted older workers.

In part, becoming a more successful recruiter of older workers may be a matter of avoiding practices that inappropriately or inadvertently screen them out. Understandably, when managers must rapidly sort a large pool of applicants, they often use age as an indicator of aptitude. As noted earlier, however, when labor is scarce, such information shortcuts are less defensible. Recruitment practices with implicit or even explicit references to age limits may also turn potential older applicants away.⁷ Managers may be uncomfortable hiring subordinates who are older than they are. In some cases, mixed-age recruiting or job interview panels may increase comfort with unusual age differences among potential work teams (United Kingdom 1999, 8).

Moving toward the active end of the recruiting spectrum, one finds scope for businesses to increase their efforts to alert older potential workers, especially women, about the jobs on offer and benefit packages that may appeal to them. Recruiting older workers requires operating through nontraditional channels — such as posting notices in senior citizens' centers — as Days Inn discovered

⁷ Worsley (1996, 71) discusses evidence from the United Kingdom on this point.

when it launched its efforts in the mid-1980s (Goldberg 2000, 132–133). Professional societies can be good places to look for retired people who are reconsidering their decision to leave the workforce. Advertising in media focused on a regional or seniors' lifestyle is another way to uncover older people who are looking for temporary or seasonal opportunities.

Some companies have found that developing a reputation as an active recruiter and a good employer of older workers can also improve passive recruiting efforts — a virtuous circle as able older potential workers seek them out. Poorman-Douglas, a US print/mail firm that has turned to older workers to help meet seasonal demand for its invoicing and claims-processing work, has received awards for its efforts in this area, awards the company says have reinforced its successes by bringing in more older workers.⁸

A lesson from other labor market policies is pertinent here for governments. Employers are inevitably more willing to hire when they have confidence that doing so will not expose them to fixed costs in the event of a decline in demand for their products. Public policy directed at improving the lot of older workers — such as imposing obstacles to employers' letting them go — could end up making older workers less attractive to employers and therefore less likely to be hired. Employers need to remind policymakers that the positive association between a fluid labor market and low unemployment will be as strong among the older workforce as it is everywhere else. Employers who cannot fire will not hire.

Keeping Older Workers

Although employee retention is a preoccupation for the vast majority of employers, measures aimed specifically at retaining older workers do not, at least among BNAC members, appear to be common. Even in the absence of positive measures, however,

⁸ Poorman-Douglas has received awards from Green Thumb, Inc., a nonprofit provider of employment and training services for older and disadvantaged people, and from the magazine *Oregon Business* (Albrecht 2001a).

ensuring that recruiting practices do not unintentionally or inappropriately screen out older workers has an obvious counterpart: ensuring that layoff practices do not unintentionally or inappropriately target them.⁹

When a firm faces downsizing, it may quite reasonably weigh into its decisions the potentially affected employees' expected tenure. But human resources managers should be aware that expected time in the workforce and expected time with a given firm are not necessarily correlated. Early 1990s' data from Canada and the United States showed five-year retention rates (the proportion of workers of a given age at the start of the period who were with the same employer five years later) that were higher for workers age 45 and over than for the workforce generally. In Canada, the figures were 51.9 percent for the older workers and 47.9 percent for all ages; in the United States, they were 56.2 versus 48.6 percent (OECD 1998b, 139). Indeed, the contrast that is starker than the raw figures suggest, since the numbers for those age 45 and over include workers who reached normal retirement age during the five-year period. If the normal retirement age were higher, the contrasts would be stronger.

Because younger workers are, on average, likely to remain with a firm for a shorter time, a redundancy plan that targets older workers will not only flush out disproportionate amounts of firm-specific human capital but also expose the firm to higher future turnover. Several human resources issues that shape redundancy policies are discussed further below. Here, however, it is appropriate to highlight the point that formal or informal age limits and standard assumptions about age differences in reporting relationships may play a role in layoff decisions. The retention of able employees was the top concern cited in the BNAC's survey. Employers who have responded to cyclical downturns by dispro-

⁹ Of course, in individual cases other considerations, such as avoiding layoffs of workers with young families, inevitably will affect such decisions.

portionately thinning the ranks of their older employees have often had occasion to second-guess that decision afterward.

Considering the Contract Option

Many employers already have programs to bring their own retirees back as temporary help or as consultants (Watson Wyatt 1999).¹⁰ Such contracting offers flexibility that businesses and older employees may find attractive. It may also be a response to legal provisions that prevent tailoring pension and benefit plans to reduced work hours or compensation arrangements, a topic taken up below.

An interesting variation on this theme exists among employers whose former employees have particular skills for which demand is not constant. J.P. Morgan's intermittent need for help in maintaining legacy computer systems provides an example; it collaborated with several information technology companies to establish Pinnacle Alliance, which now manages Morgan's global IT operations. Travelers' experience with bringing its own retirees back on a large-scale basis has become widely cited partly because its success outran the supply of the insurer's own retirees, and it expanded to include those of other companies. Travelers found that replacing agency temporaries with its own pool both saved money by reducing agency fees and improved reliability by reducing absenteeism.¹¹

Collaboration with noncompetitors in sharing a pool of skilled retirees is easiest to envision. But cooperation with competitors is

10 Sixty-two percent of respondents to the AARP/SHRM survey reported that they were currently hiring retired employees as consultants or temporary workers (Fandray 2000, 30). A recent William M. Mercer survey of 232 private and public sector employers found that 36 percent were hiring back retirees as consultants and independent contractors without benefits and 37 percent were hiring them back for part-time and temporary assignments (Walsh 2001a).

11 Worsley (1996, 125-128) provides a detailed account of the growth of the Travelers program.

also a possibility. The Talent Alliance, which began at AT&T and has grown to include about 30 large companies, provides an example of a common labor pool (Capelli 2000, 109–111). Another example of an experiment in contracting that took on a life of its own is UK-based Skillbase, which was founded in conjunction with IBM in 1990 to assist with early retirement and voluntary redundancy programs and has since become a well-established supplier of management services to companies such as BT (Worsley 1996, 122–125).

Contracting may not be as attractive to the parties as regular employment would have been. After all, the option to hire on contract nearly always exists, but a “make” rather than “buy” relationship is, as a rule, more attractive to both employers and employees. This point raises three issues related to public policy.

First, from the point of view of both contractor and contractee, it is important to ensure that a prior employer-employee relationship changes sufficiently to make the new arrangement safe from challenge by tax authorities or regulators.

Second, policymakers should be careful about tilting the playing field in favor of one or the other type of arrangement. Favoring employer-employee relationships over arm’s-length relationships — through, for example, different tax treatment of social insurance contributions in the two cases¹² — will simply impede the striking of mutually satisfactory arrangements.

The potential spread of this type of arrangement as the workforce ages may give rise to pressures on policymakers to “do something” about the perceived plight of a contingent workforce that is older and therefore appears vulnerable. This possibility requires a third caveat. As noted above and will be noted again below, policy that attempts to reproduce in these arrangements the same mix of compensation and fixed versus variable costs as exists in the employer-employee relationship will tend to suppress contracting,

12 In Canada, recent legislation leveled the playing field by allowing the self-employed to deduct fully the notional employer-paid portion of their CPP/QPP premiums in the personal income tax, eliminating a previous bias in favor of an employer-employee relationship.

reducing the opportunities for older workers to enter into these arrangements. If government becomes concerned that firms are using contracting to escape the policy-related obligations of regular employment, it would do better to make regular employment more attractive by reducing those obligations than to make contracting less attractive by increasing them.

Adapting Work Schedules

The benefits of contracting force attention to a question that human resources departments will face more often in the future: what adjustments to work schedules will keep older workers happy and productive? Fewer hours and flexible scheduling are widespread desires among older workers (Rowe and Kahn 1998, 35). Modifying retirement systems so that work need not cease completely at a given date will probably also be part of the answer.

Flexible Hours

In making flexible schedules more widely available, many employers already appear to be adopting practices that should suit an older workforce. In the Conference Board of Canada surveys mentioned earlier (Bachmann 2000, 4, 7), the share of respondents offering flextime arrangements to nonunionized employees rose from 49 percent in 1989 to 88 percent a decade later. Part-time work with prorated benefits, available from only 30 percent of respondents to the 1989 survey, was available in 53 percent in 1999. Three-quarters of respondents to the BNAC survey reported that their firms had flexible hours provisions.

To date, many work-schedule innovations have addressed the needs of younger workers. The Conference Board surveys, for example, found that, while programs and benefits oriented around children had become the rule rather than the exception among employers, provisions oriented to help workers with older dependents were still comparatively rare. The results of the BNAC survey

were consistent with this finding; although a large majority of respondents reported flexible-hours provisions, only one said they were specifically designed to accommodate older workers.

That many workplaces lack more flexible practices does not mean they are unnecessary or unsuitable. A number of commentators observe that the vital first step — listening to employees (or, more challengingly, prospective employees) to find out what they want — is often missing. Among respondents to the Conference Board of Canada survey that said they conducted opinion surveys of their employees, only in the financial services sector had more than half included questions on work/life issues. Not surprisingly, when employers were asked why they did not offer their employees dependent-care provisions, the most common response was that they had never considered it (*ibid.*, 9).

Establishing such practices to respond to wishes and needs of older workers may involve small additional costs relative to the benefits. The increasing importance of women in the older labor force reinforces this consideration; since women tend to shoulder more of the burden of caring for relatives than men do, the need to accommodate personal schedules will likely become more acute.

In companies where flexible work schedules are not now the rule, innovative thinking about the “packaging” of work may yield insights. An intriguing proposal for simplifying the tasks imposed by flexible scheduling involves redefining work in terms of four-hour “work modules” (Rowe and Kahn 1998, 203–206). Giving employees or junior managers the flexibility to set schedules in such units — long enough for the completion of serious tasks but short enough to permit a variety of workdays and work weeks — might provide a good balance: assurance that tasks will be completed on time and flexibility in accommodating the needs of older and younger workers alike.

The case for flexible hours is often made on straightforward productivity grounds. A study for the UK Institute of Personnel Management, for example, found that flexible employees may be more productive, suffer less end-of-day fatigue, and show lower absenteeism rates (Worsley 1996, 42). But implementing such

arrangements is fraught with difficulty. Firms that have pioneered “family-friendly” practices, for example, have sometimes found that childless workers expect accommodations similar to those provided to workers with children. Flexibility designed to accommodate employees’ nonwork needs and desires can foster resentment and put managers in the position of deciding whose off-the-job needs are most important (Hayashi 2001). An obvious way around this problem is to make various kinds of flexible arrangements available to all employees. Another approach is to allow employees, singly or in groups, to design their own arrangements within guidelines that keep the playing field level (and help to ensure that it is seen to be level). In general, setting up a formal process for evaluating and approving such arrangements is likely to be attractive, especially in large organizations, where the individualized approach places an intolerable burden on managers, who are forced to make complicated decisions about the relative merits of different employees’ life/work tradeoffs (Shellenbarger 2001).

Certain types of production and service businesses may find such proposals naive. In others, introducing such practices into existing collective-bargaining agreements may be difficult. Past surveys have revealed that a significant minority of employers contemplating such plans found that a major obstacle was opposition from managers and the workers themselves (Swank 1982, 24–25).¹³ And in some professional fields, output is difficult to evaluate day by day and long hours are a signal managers use to judge worker dedication (Landers, Rebitzer, and Taylor 1996). Government regulations (a topic discussed at greater length at the end of this section) are also a pervasive constraint.¹⁴ But in cases where these rigidities or practices have counterproductive effects, the need to accommodate an older workforce could prove a helpful spur to change. And

13 One of the respondents to the BNAC survey cited this problem.

14 In the United States, the *Employment Retirement Income Security Act* requires full-time-equivalent fringe benefits for all employees who work more than 1,000 hours per year.

forward-looking labor leaders will see the prospect of retaining older workers in firms as an opportunity much superior to losing them to competitors with different representation or even to another country.

Phased Retirement

Retirement plans are, naturally, a key focus of the employer-employee relationship affecting older workers. Until recently, flexibility in retirement plans was mainly keyed to moving older workers out. In the 1980s, estimates were that two-thirds of retirements in the United States involved early retirement plans. Changing demographic and business conditions, however, have shifted this focus. By the late 1990s, only one in ten US retirees was leaving as part of an early retirement program (Walsh 2001b). Whereas a central feature of what became the standard phased-retirement plan was a commitment to retire by a specific date — no turning back once an employee had opted in — the new plans are evolving in directions that emphasize retaining talent. Forty-nine percent of respondents to a 1999 survey of US employers by Watson Wyatt named retaining key talent as their primary motivation (1999, 3).

Among the respondents to the BNAC survey, 35 percent indicated that they had flexible retirement plans. In Canada and the United States, other surveys have, however, found lower numbers; only one-sixth to one-fifth of employers reported having had some form of retirement transition leave or phased-retirement program (Bachmann 2000, 4; Fandray 2000, 3). These figures suggest the existence of a lot of unmet demand since a sizable majority of older workers say they would rather reduce hours gradually than stop working all at once.¹⁵

15 The US Health and Retirement Survey found that three of four workers ages 51 to 61 would do so (Herz 1995). Yet, of the firms responding to the BNAC survey that said they had no such plans, half cited lack of demand from workers as a reason.

A key difficulty with the gradual approach is that pension plan benefits can often be tapped before termination only on limited bases, such as plan loans or hardship payments. Under those circumstances, employees who are eligible for early retirement may find continued work with their current employer unattractive. If they want reduced hours and early access to benefits to supplement their incomes, they may conclude that they are better off leaving — and perhaps working for a competitor down the road. As older workers grow in number, the pressure for flexible arrangements that avoid these outcomes will grow.

A typical plan designed to reduce the number of employees who cease work outright at the earliest possible age allows individuals employees approaching normal retirement age to reduce their work hours — through shorter workdays or fewer days per year — to a minimum schedule of, say, 60 percent. In some respects, the issues such plans must confront, such as the relationship between changes in hours and changes in current pay and benefits, are similar to those involved in other types of flexible hours arrangements. In addition, phased-retirement plans raise questions connected with the continuation of, the level of contributions to, and entitlements earned under employer-sponsored pension plans and with “in-service distributions” — the employee’s ability to access previously earned pension benefits while still working.

The options available to an employer looking at such a scheme are intimately bound up with other decisions affecting pension plans. Defined-contribution plans are generally easier to adapt because of the straightforward link at any point in time between money in and entitlement.¹⁶ In defined-benefit plans, payout formulas that, for example, refer to earnings in the last few years of service present an obstacle to anyone who contemplates reduced hours of service during those years. But this problem can be fixed.

¹⁶ As noted below, however, the regulatory environment may work against what seems a natural advantage. In the United States, distributions from defined-contribution plans prior to age 59½ are subject to punitive taxation, whereas defined-benefit plans can distribute as early as age 55 (Purcell 2000, 28).

Formulas can use some other reference period — such as the three to five years of highest earnings or the best three of the last ten years — or they can link the pension to the individual's last full-time year or convert the part-time service into a full-time equivalent for the purpose of computing benefits and contributions (Worsley 1996, 52).

In-service pension distributions that allow workers who opt for part-time status to supplement their earnings with early pension-plan payouts will likely be an important type of employee compensation in the future. Prominent examples of such “double-dipping” suggest it may already be common in sectors that have passed from a heavily regulated environment, where pension benefits tended to be rich and job security strong, to a less regulated environment.¹⁷ And it is, on its face, an expensive option for employers. But it may compare favorably to the cost of hiring and training new employees if the alternative is early retirement.

Making these plans available can be a delicate business. Regulations affecting defined-benefit plans typically do not allow employers to target provisions, such as in-service distributions before the normal age of retirement, on selected groups of workers. Employers who would like to use such distributions to retain certain employees thus face the unpalatable option of making early retirement available to the entire workforce and possibly losing more in earlier retirements than they gain. Yet ways of controlling access to this type of program will be necessary if employers are to avoid problems of adverse selection,¹⁸ as well as the burden and

17 For post-deregulation arrangements among employers and unions in airlines and telecommunications companies, see Smolkin (2000, 22) and Walsh (2001b).

18 Adverse selection can be a problem when potential sellers of insurance cannot easily observe the characteristics of potential buyers that could affect the risk of a claim. A price based on the average expected payout over the entire potential pool will fail to attract business from lower-risk customers. An employer who offers employees a wide range of retirement benefit options in one plan is likely to find that, as employees select the options that best suit each, the cost of the program rises above what it would have been if everyone had been in the same pool.

risk of the perceived unfairness that results from managers' having too much discretion to make complicated judgments about employees' individual circumstances. These conundrums are, on balance, one more factor that will tilt employers toward offering defined-contribution rather than defined-benefit pension plans in the future — an issue taken up below.

Since both private and public pensions appear to have helped to lower the average age of retirement in the past,¹⁹ there is reason to think that modifications to existing practices could help raise it again in the future. The core goal will be to retain more employees until normal retirement age or past it, allowing those for whom full-time work is no longer attractive or possible to stay in the workforce on a less-demanding basis. To the extent that public policy allows, flexible retirement plans may come increasingly to resemble the leave-with-income-averaging schemes that some organizations have adopted; they provide similar flexibility in work hours but do not specify a date when employment must cease.²⁰

The Regulatory Environment

The extensive involvement of governments in labor markets and retirement-income systems means that successful strategies in work scheduling will depend critically on the policy environment. Some issues connected with, say, the eligibility of part-time workers for benefits are logically separate from retirement-income issues. The primacy of these latter concerns for older workers, however, makes it convenient to discuss these topics in a framework organized around the key parts and objectives of the retirement-income system.

19 Anderson, Gustman, and Steinmeier (1999) estimate that changes in pensions may account for a quarter of the movement toward earlier retirement in the United States during the 1970s and 1980s.

20 Such schemes are now typically used by employees with school-age children who wish unpaid leave in addition to regular summer vacations. One in six respondents to the Conference Board of Canada's 1999 survey of employers had such policies (Bachmann 2000, 4).

Basic Income for the Elderly

The first pillars of public pension systems, the basic or safety net payments to seniors, help to shape the environment in two ways. First, the more generous the income they provide, the greater opportunity they give seniors in less remunerative jobs to leave the workforce without a serious blow to their living standards. Particularly in Canada, where this pillar is more generous than in the United States or the United Kingdom, future trends in the level of, and age of eligibility for, these benefits will affect the labor force participation of much of the older population.

Second, the more first-pillar payments are clawed back as other income rises, the more they will discourage continued work after the age of eligibility. High effective marginal tax rates on seniors are less of a problem in the United States now than they were, thanks to the abolition in 2000 of the earnings test for social security recipients ages 65 and over.²¹ In Canada, however, the overlap of the first pillar with a number of geared-to-income transfers and in-kind benefits makes continued work utterly unattractive for seniors at modest income levels. The same is true of the United Kingdom's minimum income guarantee, although the modest level of support provided by this transfer means that it probably affects relatively few potential workers.

In the long run, absent discretionary increases, the fact that first-pillar benefits are indexed to consumer price inflation rather than to wages will reduce these effects. A better approach would be gradual increases in the age of eligibility, as in the United States, where it is scheduled to climb to 67 by 2022, and in the United Kingdom, where the age for women is scheduled to rise to that of men between 2010 and 2020. Because these changes need phasing

²¹ For those under age 65, however, earnings above a modest level are still subject to a 50 percent clawback. The US Social Security system is designed like a second-pillar (mandatory income-replacement) program but fulfills much of the function of a first-pillar system thanks to its extensive redistribution.

in over substantial periods of time, however, they inevitably take quite a while to make a difference.

Public Employment-Related Pensions

Much of the above discussion of eligibility ages, accrual rates, payout rules, and adverse selection applies to the second-pillar systems — public employment-related pensions. They offer a variety of options for moving in directions that would make phased retirement more attractive, rather than a once-and-for-all departure from the workforce at an early age. Liberalizing access to reduced benefits before normal retirement age, for example, could complement changes to private plans to allow more in-service distributions. And it is possible, as in the province of Quebec, which runs its own second-pillar plan, to allow pension contributions to continue at a rate consistent with unreduced earnings, thus protecting employee entitlements from the impact of a reduced work schedule.

In approaching governments to discuss these options, however, employers will need to keep important caveats in mind. If earlier access to benefits encourages earlier exit from the labor force in general, it will work against the growing imperative to keep people active longer. Even for companies that will benefit from such changes, the resulting higher costs of the retirement-income system as a whole will reduce the net gain. Moreover, adding more discretion to social insurance plans will undermine the compulsory pooling that motivates them in the first place. The more workers who pay the same premium rates are free to select the options that suit them best, the higher the overall costs of second-pillar plans will rise, and the more onerous the overall payroll tax burden will grow.

Private Pensions

The third pillar, private pensions, offers considerable scope for innovation. Finding arrangements that are mutually satisfactory to employers and employees would be easier, however, if the regula-

tory regimes that govern these pensions were more permissive with regard to the prorating of benefits, contributions, and accruals for part-time employees and with regard to in-service distributions and other arrangements for time-varying payments. In Canada, Quebec allows employees under age 69 and less than ten years from normal retirement age to agree with their employers to reduce their hours of work and take early pension benefits. The United States has seen recent attempts to liberalize the rules governing in-service distributions (Walsh 2001a; see also Purcell 2000, 28; and Graig and Pagenelli 2000). Also important when it comes to easing the way for employees to work longer will be liberalization of the rules that force individuals to convert assets in defined-contribution plans into income at specified ages. A desire for more flexible arrangements in this area was a frequent theme in the responses to the BNAC survey.

Overall

Discussions with policymakers will be more fruitful if employers who seek change can address concerns about undermining the objectives of the income-replacement system and about fairness. Critics of in-service distributions, for example, may see them as transforming an income-replacement system into a tax-subsidized wage supplement. They will have heard about employers' inducing employees to forgo the sizable benefits that typically accrue in defined-benefit plans when they are in their fifties, leaving them poorly off in old age. Or they may worry — as did the designers of US regulations forbidding special deals for specific groups of employees — that plans designed to hold on to employees with specific skills redistribute wealth inside pension plans in ways that favor relatively high-earning individuals (Purcell 2000, 25–28; Walsh 2001a). These concerns are legitimate, and employer groups that confront them squarely — and preferably not shortly after such a plan has provided a company with a headline-making gain to the bottom line — can expect a better hearing.

This is an appropriate point at which to remark again that regulations often have perverse effects and unintended consequences. For example, public pension provisions in Canada and private pension regulations in the United States require cessation of employment before benefits can begin, although employment can resume (even with the same employer) once they are in pay. Heavy-handed interventions intended to benefit employees may, in fact, work to their disadvantage if the rules prevent contracts that well-informed employers and employees wish to conclude.

Policymakers concerned that employers will take advantage of more accommodating regulation to impose disadvantageous terms on their employees should be reminded that the world for which they should be preparing is one in which labor's relative scarcity will give employees a stronger position from which to bargain. Best-practice models are an effective way to demonstrate to policymakers the virtues of appropriate enabling legislation. And given the long gestation periods that are typical in such matters, companies now thinking they might want to implement programs with unusual provisions in five years' time should start discussions with policymakers immediately.

Training and Retraining Workers

The pace of technological change and its impact on the workforce make training a natural preoccupation for a company contemplating an older workforce. Changes in average education levels may make this challenge easier to deal with than is often assumed, and older workers themselves represent a training resource that is often insufficiently tapped.

A Note on Schools

For the sake of completeness, a discussion of education and training should make at least passing mention of the elementary, secondary, and tertiary institutions that play a central role in educating

those young workers whose scarcity value will be greater in the years ahead.

The United States, the United Kingdom, and Canada all have grounds for concern about their elementary and secondary schools. Although the performance of these countries in international comparisons, such as the International Adult Literacy Survey (IALS) and the Third International Math and Science Study (TIMSS), has had some bright spots, students from the three are often no better than middle-of-the-pack performers, and some evidence from the latter study suggests that their relative performance deteriorates with more years of schooling.²² Disappointing achievement scores have prompted new efforts to improve school performance, especially in the United States and the United Kingdom, but translating effort and material resources into better knowledge and skills in students is still a daunting challenge, and continued pressure from employers for measurable gains will be a key ingredient in success.

Tertiary education is not, in general, a similar source of concern. Indeed, secondary institutions in all three countries have high international standings, as reflected in the number of students they attract from abroad. But because enrollment rates in higher education have increased and the resources invested in the sector have risen, the need to ensure that the quality of the output is commensurate with the investment has become more acute. Representatives of colleges and universities are justified in arguing that employment-related skills are not their only objective. Employers are, however, equally justified in reminding them that provision of

22 Among the 27 national jurisdictions yielding comparable data for grades 7 and 8 in the TIMSS, the average increase in correct answers between the two grades was 7 percentage points in math and 6 in science. In math, England and Canada matched the average, Scotland improved by 6 points, and the United States by only 5; in contrast, the best performers had improvements of 10. In science, Scotland outpaced the average, with an increase of 7 points, England matched it, Canada trailed at 5, and the United States managed only 4; the best performer had an improvement of 11. (Robitaille, Taylor, and Orpwood 1997.)

those skills inevitably is a key criterion by which the population at large judges their success.

Older Workers as Trainees

For individuals who are already employed, the fast pace of change and the rate at which technology has rendered many jobs obsolete have made the need for life-long learning a familiar cliché. From a business point of view, the recent tendency toward longer job tenure suggests that the economics of in-house training have improved. Employees have become, on average, less likely to take human capital formed on the job to competitors or out of the workforce entirely than they were.

A legitimate question is whether spending incremental training resources on older workers is a good investment. The total time over which to amortize their training costs is obviously less than that of their younger cohorts. Experience may appear to support the adage that you can't teach an old dog new tricks. And media reports of laid-off older workers who were unable to find new positions were common in the 1990s, reinforcing a view that, after about age 40, it is too late for many people to try something new. Unwillingness to offer training to older workers is reported to be a common cause of age-discrimination complaints to the US Equal Employment Opportunity Commission.²³

Yet, as already pointed out, older workers' shorter expected times in the workforce do not translate into shorter expected tenure with a given employer. Job turnover is lower among older workers than younger workers, as documented in all three of the United Kingdom, the United States, and Canada (OECD 1998b, 139; and Worsley 1996, 80–81),²⁴ and data from Canada suggest that the gap

23 William K. Zinke, president of Human Resource Services, quoted in Martin (2001).

24 And, as was pointed out earlier, without various provisions, such as eligibility ages for public transfers, that encourage retirement at or before age 65, the job tenure figures for older workers would be higher.

may be growing. Although the expected duration of the average new job appears to have increased from the range of 35 to 40 months in the 1980s to more than 50 months by the end of the 1990s, the increase was greater for workers ages 55 to 64 than for any other ten-year age group (Picot, Heisz, and Nakamura 2001, 9–10). This phenomenon is familiar to managers; a 2000 Harris poll of 774 corporate human resources directors showed 80 percent agreeing that workers ages 55 and up had less turnover than younger employees (Martin 2001). Days Inn found that hiring older reservation agents tripled its retention rate (Goldberg 2000, 132–133). A particular older worker may provide fewer years over which an employer can amortize the cost of training; another may not.

Unlike old dogs, moreover, older workers are not necessarily slow learners. Anticipating special needs, McDonald's established a "McMasters" program to train older recruits in the 1980s but discontinued it when older workers did just as well as young workers in its regular program (*ibid.*, 127). Similarly, when B&Q, a UK retailer of home improvement products, was preparing to open a store staffed exclusively by people over age 50, it planned an extra two-week period to provide more training in areas such as information technology but then found the extra time was unnecessary and opened on a regular schedule (see Worsley 1996, 29–30; Baker 1999).

Can older workers learn new skills? Seventy-one percent of the human resources directors polled by Harris reported that workers ages 55 and up can do so as well as younger ones (Martin 2001). And, particularly in the United Kingdom and Canada, where educational opportunity became widespread more recently than it did in the United States, this number may grow in the future for the straightforward reason that, with the passage of time, the typical worker's years of formal education are rising (Table 3).²⁵

25 The United States' less advantageous position here is noteworthy because it means that, to a greater extent than in the other two countries, expanding labor force participation will involve drawing in less skilled workers (Ellwood 2001), presenting employers in that country with a sharper challenge and raising the stakes in improving the school system.

Table 3: Educational Attainment of the Labor Force Ages 45–64, Canada, the United Kingdom, and the United States, 1995 and 2015

	Canada	United Kingdom	United States
		<i>(percent)</i>	
1995			
Less than upper secondary	27.7	27.6	12.4
Upper secondary	24.8	51.3	51.0
Tertiary: non-university	29.3	9.9	7.6
Tertiary: university	18.2	11.2	29.0
2015			
Less than upper secondary	14.1	13.0	9.2
Upper secondary	30.1	61.3	51.7
Tertiary: non-university	33.8	9.4	9.5
Tertiary: university	21.9	16.4	29.6

Source: OECD 1998a, 87.

The universalization of elementary and secondary education and the spread of postsecondary education over the past three generations mean that the typical inverse correlations between average age and formal education are getting weaker. People with more education stay in the workforce longer than their less educated counterparts, while changes in earnings after layoff and re-employment show that better educated workers typically suffer less of a setback, suggesting greater adaptability to new environments and responsibilities (Rodriguez and Zavodny 2000; see also Boisjoly, Duncan, and Smeeding 1998). One US study has found that education is the single strongest predictor of high cognitive function in old age (Rowe and Kahn 1998, 133).

To the extent that both supply and demand will produce rising workforce participation rates among older people in the future, employers may benefit from a virtuous circle. Data from the IALS show that, although literacy and age are negatively correlated

around the world, the shape of the relationship varies strikingly from one country to the next (OECD 1998a, 86). The tendency for skill levels to tail off around the age of retirement suggests that current employment conditions also affect skill levels (*ibid.*).²⁶

The story of the displaced older worker can be misleading if one looks only at the age distribution of laid-off workers. Though 40- and 50-year-olds constituted a larger share of the total of US workers laid off in the late 1990s than they did in the mid-1980s, the bulk of this shift reflects not a greater likelihood that a given older worker will be displaced but simply the fact that the workforce itself had aged during that period (Rodriguez and Zavodny 2000). After correction for education levels, US displacement rates *decline* with age. It remains true that laid-off older workers tend to remain unemployed longer and suffer larger wage losses than younger workers. But over the past two decades, re-employment rates for the older group have improved by more than those for the younger ones (*ibid.*), suggesting that the characteristics of the older workforce that gave it an unpromising image in the past may be less important in the future.

Indeed, the extent to which businesses are already making sizable investments in training older workers is striking. Surveys of US human resources executives find skill training to be one of the top five approaches to more fully utilizing older employees; 47 percent of the respondents in the AARP/SHRM survey indicated that their companies provided training to upgrade the skills of older workers and 38 percent said they planned to offer such programs in the next five years (Fandray 2000, 32). All three BNAC countries already appear to be relatively active in their training of older workers. Of the ten OECD countries for which the IALS yielded comparable data for the mid-1990s, the proportion of the labor force ages 55 to 64 engaged in employer-paid training was higher

²⁶ Rowe and Kahn (1998, 136–137) discuss experiments on the effectiveness of mental exercise in raising the cognitive performance of older people.

in the United Kingdom (27.2 percent), the United States (25.8 percent), and Canada (23.7 percent) than in the other seven.²⁷

What more can employers do? Training that is targeted specifically at older workers does not, in general, appear necessary or attractive. The BNAC's survey of its own members uncovered no examples of companies that designed their training programs that way, and two-thirds of respondents said they felt that generally available training was suitable for older workers. The experience of companies that instituted and then discontinued such programs has already been noted. Targeted training risks alienating workers, with older ones feeling condescended to and younger ones feeling excluded.²⁸

More useful, then, is ensuring that more general training is available to all and seen to be so. Such an approach has the added advantage of making training a "normal" activity, enhancing workers' skills in step with their advancement into later stages of work, rather than attempting remedial action once gaps have become evident.

Again, public sector and private sector initiatives will interact. The more public policy encourages earlier retirement, shapes income support for senior citizens in ways that discourage work, or mandates the receipt of pension benefits by certain ages, the less sense it will make for employers to provide older workers the training opportunities that would keep them happy and productive. Reforms to pension regulations and the taxes and transfers that encourage later exit from the workforce would make investments in training older workers more attractive.

27 The average for all the countries surveyed was 17.4 percent. When the focus is on all job-related continuing education and training, the three countries retain their preeminence: 36.8 of older US workers and 32.1 and 30.2 percent of their counterparts in the United Kingdom and Canada were engaged in such training. The average among the ten countries was 23.3 percent. Small sample size means that the figures for Canada have unusually high standard errors. (OECD 1998b, 140.)

28 One UK respondent to the BNAC survey noted that antidiscrimination legislation may make targeting training on older workers illegal.

Older Workers as Trainers

With older workers becoming more plentiful and better educated, their skills can be a continuing source of competitive advantage to many firms. As already suggested, they can be an excellent source of trainers for younger workers. Even in a field where technological change is pervasive, telephone company US West has begun using retirees to help staff its training center, teaching new workers how to repair cables, wire phone boxes, and generally upgrade their skills from copper wire to digital technology (Smith 1999). Monsanto is another company that has recently made the news, establishing a "Retiree Resource Corps" with the training of younger workers as an explicit goal (Reingold 1999, 124).

Moving older employees into mentoring and training roles puts them in a position where their experience is self-evidently an asset. Among the 30 percent of respondents to the BNAC survey indicating that they encouraged older workers to take on special duties, mentoring and ensuring the transfer of skills in the organization were far and away the most frequently mentioned examples. When older workers are key recipients of training, matching them with older trainers may provide a good fit.²⁹ Such moves may help keep people in place when the prospect of further work along the lines they were already doing would have moved them out.

Rethinking Compensation and Work Content

The above discussions of flexible hours and phased retirement have already highlighted some ways in which companies that seek to attract older workers and deploy them effectively may adopt work and compensation packages that differ from current practice. These are specific examples of a more general change that may

²⁹ Goldberg (2000, 168-169) discusses GTE Corporation's experience with a retraining program in which veteran employees were both trainers and trainees.

occur in the composition of remuneration as today's norm of progress to ever-greater levels of pay and responsibility becomes less usual.

Pay and Benefits

At the outset of a discussion of compensation issues, it bears repeating that in a world where labor is more scarce, its price will rise to reflect that scarcity.

The tight labor market at the end of the 1990s gave employers some advance warnings about better and worse ways of dealing with what is to come. For example, locking in valuable employees with pay packages weighted heavily toward unvested options or other deferred compensation became very popular, but the practice has tended to promote offsetting strategies — such as signing bonuses — by talent poachers. As recruiting from companies whose employees are less effectively “protected” has become part of the business landscape, new measures, such as deferred signing bonuses, have developed to slow job-hopping.

An aging workforce forces attention to other aspects of compensation plans and may expose defects in common practices. Some employers have found, for example, that large profit-sharing bonuses or options can have unintended effects, allowing employees to “buy more leisure” by retiring early or shifting, formally or informally, to shorter-hours jobs (Capelli 2000, 106). Some final-average-pay pension plans provide early retirees with more in lifetime benefits — effectively subsidizing a corporate brain drain (Coleman 1998, 19). Others, less extremely, accrue no additional benefits past a certain stage, in which case the drop in effective compensation may tip workers into retirement.

For an employer to lose talent that simply disappears from the economy is bad enough. But as the workforce participation rates of older people have risen, firms increasingly have seen a worse phenomenon: older workers who collect their pensions and other postwork benefits and take their now-less-expensive labor to a competitor. The need for employers to design packages that will

keep that advantage for themselves — in part through the pension plan modifications discussed above — rather than handing it to competitors is becoming more pressing.

Of course, the lower effective wage costs of older workers can be enticing to a potential employer. Public and private pensions are not the only factors that can decrease the effective cost of employing an older worker. Life insurance benefits, for example, are less interesting to older workers who no longer have young dependents to protect. Government coverage of core medical care and drug expenses for older people, especially in the United States, makes these elements of benefit packages less important to older workers, allowing more economical hires.

Alternatively, employers can use this flexibility to top up other forms of compensation that are attractive to older workers. Extended health benefits are one possibility. As the passage of time obliges more people, especially women, to juggle employment and caregiving responsibilities, long-term care benefits are also likely to become a more important part of the compensation package. An aging workforce may become more sophisticated about benefit plans, with issues such as management expenses in defined-contribution pension plans becoming more important for employers who are seeking to design attractive compensation packages.

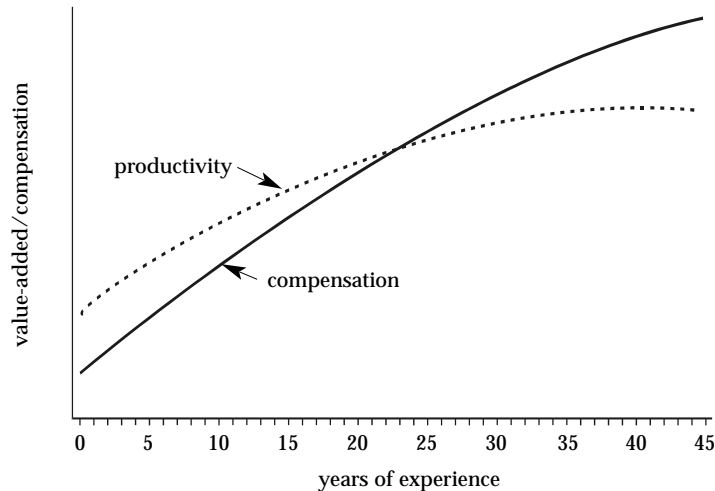
The AARP/SHRM survey found that fewer than one-fifth of US employers offered benefit packages specifically designed to appeal to older workers (Fandray 2000). This area thus appears to offer scope for companies to reap a competitive advantage.

A Reshaped Compensation Curve

A trickier issue, intertwined with the questions of work content and even business structure, is the “peak and out” syndrome — the tendency for compensation to rise throughout a career, with the richest rewards coming at the end.

What makes the issue complicated is that this compensation profile is common despite something of a consensus among researchers that worker-productivity profiles do not follow a simi-

Figure 2: *Productivity and Compensation: Stylized Employee Profile*



lar pattern.³⁰ Careful examination of labor productivity data tends to show that workers' productivity and compensation do not follow identical trajectories over time; young workers seem to be more productive than their earnings suggest, and older workers less productive (Figure 2).

The reason for this pattern may be that younger workers are financing their own acquisition of human capital by forgoing earnings early in their careers. It may be that part of older workers' earnings effectively are returns on their past investments, rather than payment for services rendered at the time. And both employers and employees may find advantages in a labor contract containing a deferred-compensation element that rewards loyalty and encourages workers to invest in firm-specific skills.

Uncertainty about the reasons underlying current practice suggests caution in recommending change. One observation that may

³⁰ See Mulligan and Sala-i-Martin (1999, 34–35) for a quick review of these issues and references to relevant work.

be helpful, however, is that workers at different stages of their careers undoubtedly find different elements of compensation packages more or less desirable. To the extent that flexible work hours and benefit packages tailored to older workers can substitute for traditional remuneration, firms may be able to loosen the constraints imposed by traditional views of a “successful” salary trajectory.³¹ The Dutch chemicals group DSM, for example, responded to an aging workforce that had a predisposition to early retirement by setting aside 2.5 percent of the salary of its shift workers — the group among which attrition was most severe — in individual saving accounts from which they could finance a move to less demanding and less remunerative work schedules later in their careers (Maitland 2001). From the point of view of workers who wish to remain active, the employer’s gain is not necessarily their loss, since the large liabilities associated with workers age 50 and up — big pension accruals, rising benefit costs, and seniority-based wages — have tended to make older workers targets for companies looking at workforce reductions (see OECD 1998b, 130, and the references cited there).

New Models for Pensions

Defined-benefit pension plans that are structured so that their richest accruals occur toward the end of an employee’s career can steepen the slope of the overall compensation curve. Managers now widely recognize the general difficulty of constructing these plans so that they neither subsidize early retirement nor render older employees disproportionately costly. The resulting shift toward defined-contribution plans may have contributed to the

31 Many of the same issues discussed earlier in connection with reduced work hours and phased retirement also apply to this discussion. Collective bargaining agreements may impose constraints. And compensation schemes that contemplate lower earnings in pre-retirement years may require adjustments to defined-benefit pension plans geared to final-salary earnings.

bottoming out of the long-term decline in older people's labor force participation.³²

The shift away from the defined-benefit model has not been universally welcomed. Indeed, the popularity of such pensions reflects, in part, quite reasonable agreements among employers and employees about who should bear different types of risks. One possible type of compromise is cash-balance and pension equity plans, which provide employees with current valuations while employers bear the risk of maintaining sufficient funding to cover their benefits (Wiatrowski 2001, 7). An underexplored alternative is hybrid pension plans, with a core defined-benefit retirement component — perhaps with less heavily back-loaded accruals than have been typical in the past — and defined-contribution add-ons. One can also imagine plans in which many or all features have both defined-benefit and defined-contribution elements.

If handled and timed badly, any such modification to the traditional compensation profile risks being seen as a simple cost-cutting tool for the employer. Properly designed and adeptly timed, however, changes have the potential to reduce the disproportionate exposure of older employees to future cost-cutting.

The pensions context is an appropriate one in which to emphasize the value of attending to this issue before it becomes more pressing. Employers for whom age-compensation issues do not currently loom large are in better shape to modify or provide alternatives to back-loaded compensation plans. Doing so while the workforce is relatively young and pay is less than productivity (to the left of the crossover point in Figure 2) will be considerably less painful than waiting until the reverse is true and then approaching

32 For instance, Purcell (2000, 22-23) cites the shift in the shares of full-time employees (in medium-size and large establishments, as measured in the US Bureau of Labor Statistics' Employee Benefits Survey) who were covered by defined-benefit and defined-contribution plans; coverage moved from 56 and 49 percent, respectively, in 1993 to 50 and 57 percent in 1997. He finds the change a plausible contributor to the rise in older workers' participation rates in the 1990s.

employees with proposals for explicit or implicit rewriting of the employment contract.

The discussion of pensions above prefigured the need to inform policymakers of emerging needs in this area and encourage an accommodative legal environment. Also helpful would be employers' regularly reminding policymakers about the difficulties created by the combination of current and deferred compensation that prevails in the public sector. Some of the earliest and most severe labor shortages will occur in areas dominated by that sector, such as teaching and nursing.

Key contributors to this problem are compensation provisions in the public sector and the way they are accounted for. Generous early retirement provisions encourage older employees to leave, while separate accounting for current wage costs and pension liabilities can create a short-term incentive for administrators to let them go and make government budgets look better. As a result, earlier retirement and looming labor shortages are particularly important in the public sector.³³ Just as they do in the private sector, moreover, practices that encourage early departures discourage the effective deployment of older workers. Why train or promote people in their late fifties, for example, when you know they will shortly be gone? Reforming compensation so that its profile better matches productivity and so that its full costs and benefits are properly accounted for is just as sensible in government as outside it.

Redefined Responsibilities

What about the flip side of compensation: work responsibilities? The prevailing model in which employees work full-bore up until

33 Canadian data illustrate the problem. At the end of the 1970s, the median age of retirement was almost exactly the same (65) for the self-employed, private sector employees, and public sector employees. In 1999, the median age had scarcely changed for the self-employed, but for private sector employees, it had fallen by about three and a half years, and for public sector employees, by seven years (Sunter 2001, 13).

the day they disappear means that many employers may not contemplate trying to keep them longer by offering them less demanding schedules. Slightly fewer than one-third of respondents to the AARP/SHRM survey of US employers said they offer older workers this type of option (Fandray 2000, 30). But advocates for new work/life arrangements for older workers claim that many would take the opportunity to reduce their pay and responsibilities if it were offered.³⁴ The implication is that employers may be missing chances to keep valued knowledge and skills in their organizations longer by offering older employees some of the reduced stress and the pursuit of leisure that would otherwise induce them to retire outright.

Redesigning jobs in line with the wishes and abilities of older workers presents several challenges. In general, physical and cognitive functions do decline with age. But changes in the population's health status are altering the associations between age and ability, while the nature of these associations differs from function to function. Multi-tasking, dealing with distraction, and working under time pressure, for example, are capabilities likelier to decline with age than are accuracy in calculation and the recall of learned routines (Powell 1998; see also Rowe and Kahn 1998, 125–132). Evidence from the United States suggests that the rate of physical disability among the older population is declining (Rowe and Kahn 1998, 125–132).³⁵ The impact of advancing years varies greatly, moreover, from one individual to the next; many older workers compare favorably to colleagues in their forties.

Group medical practices in the United States provide an interesting case study in navigating this minefield. Doctors provide

34 Rowe and Kahn (1998, 35) report that older workers widely desire changes in work content, but the vast majority perceive employers to be unwilling to accommodate these wishes.

35 But see Lakdawalla, Goldman, and Bhattacharya (2001) for a discussion of the possibility that rising rates of disabilities, such as asthma and diabetes, among the young in the United States may herald a less healthy generation of seniors in the future.

high-stakes services. And group practices need to plan ahead because sudden departures of disgruntled older doctors can leave serious holes in a group's coverage of its patients. Since keeping older doctors on call nights and weekends is unattractive both to them and to the group as a whole, many group practices have responded by adopting thresholds based on age or age-plus-years-of-service that determine when a member scales back his or her hours of practice. The same thresholds may also determine when a doctor becomes a regular employee rather than a shareholder (Lowes 1998).

Other professions have also set noteworthy precedents in this area. The trigger for establishing Deloitte Consulting's often-cited "Senior Leaders" program was one star partner's decision that he was ready to leave although he was barely 50 years old. With more than 200 of its 850 partners age 50 or older and most of them wealthy enough to leave whenever they chose, Deloitte decided it needed to offer a "second career" within the firm. The high-flyer went on a three-day week, and the company established more flexible arrangements for others who might someday be in the same position (Reingold 1999; Sherrid 2000). Investment banking is another industry where it is becoming common to find internal consulting budgets that cover the cost of older employees' and partners' working with individual companies and clients. In fields where personal contacts and institution-specific knowledge are particularly important, scaling back an employee's duties to focus on a limited number of objectives can be practical and rewarding.

Having such frameworks for career development in place (and known to be in place) in advance offers several advantages. One, as noted already in the discussion of flexible hours, is a reduced burden on managers, for whom individual judgments of this sort are often difficult and give rise to concerns about the legal consequences of treatment that is perceived to be unequal (United Kingdom 1999, 9). For younger workers, advance knowledge of such programs can alleviate suspicion that accommodations for their older colleagues are coming at their expense. And for older workers, a second career within the firm may be more welcome and

rewarding if it is something expected — possibly aspired to — throughout their tenure.

Another approach that often fits well with the evolving aspirations of older employees is to encourage their involvement in non-profit organizations. Morgan Stanley inventories opportunities, such as library or hospital directorships, for senior employees to wear other hats in addition to the company's own. In the United Kingdom, IBM has set up an electronic database, Volbase, to match company volunteers with not-for-profit groups (Worsley 1996, 120–121). Especially when such volunteer and community activities are related to the company's line of work, the widely cited benefits of such involvement include feedback about the health and effectiveness of organizations that receive financial support from the company, deeper community links, and good public relations, as well as enriched opportunities and experiences for the employees themselves (Paton 2000).

These “softer aspects” of employee responsibilities and rewards are inherently challenging for managers, and employee motivation is a subject with a reputation for fads and enthusiastic endorsement of untested practices. But employers will face fierce future competition for a more limited supply of workers who, being older, will on average be more financially secure and have options that younger workers do not. Management that is imaginative and flexible in motivating and inspiring loyalty in workers is likely to provide a more decisive competitive edge in the years ahead.

Public Policies Affecting Responsibilities and Compensation

Employers and employees seeking attractive balances of work responsibilities and compensation packages for older workers will benefit, as in other areas, from accommodative public policies. Regulations and codes of practice that create formal equality of opportunity for various arrangements can promote environments in which workers of all ages feel well served. Measures focusing on equality of result, on the other hand, may pre-empt attractive

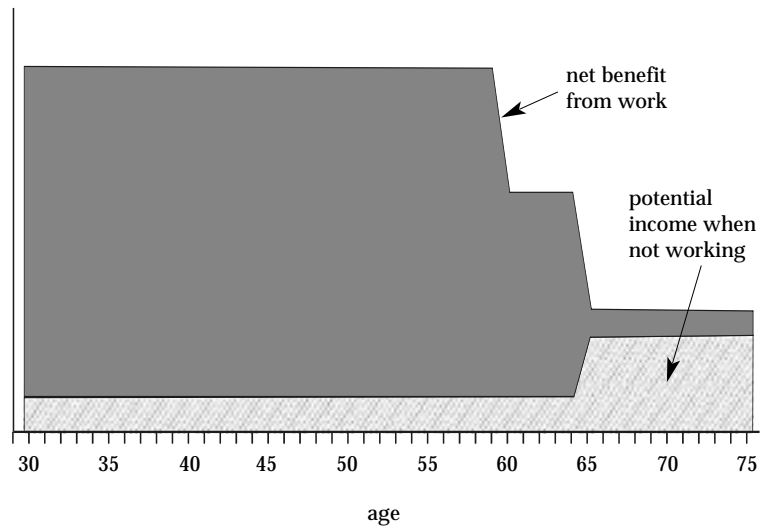
arrangements. Legislators, regulators, and adjudicators need to be reminded that the results of age are not set characteristics, like sex or skin color, and that different arrangements for people at different stages of life do not necessarily constitute unfair discrimination.

No discussion of work content and compensation would be complete without a note on the influence of government tax and transfer policies. Current fiscal trends point to trouble ahead. Over time, pay-as-you-go funding of programs such as transfer payments to seniors, health services, disability and unemployment benefits, and long-term care will raise their costs to the taxpayers of the day. But with the population aging in future decade, relatively fewer workers will be generating the labor income that makes up the bulk of today's tax base. An obvious response would be to raise tax rates. But doing so would narrow the margin between the take-home pay available to workers and the alternative income sources available to nonworkers. The prospect, then, is that these cross-cutting forces will thicken the tax wedge between what a business pays its employees and the net benefit those employees take home.

Although the United States, the United Kingdom, and Canada are in better positions than many countries in this regard, their current tax-transfer systems already tend to impose high effective tax rates on labor income, and these effects appear to influence the labor supply decisions of older workers. Figure 3 illustrates, in stylized form, the impact of declining benefit accruals combined with that of the increased transfers available from not working as the welfare and unemployment insurance benefits available to younger workers give way to old age pensions. The overall effect of current systems is to strongly squeeze out the net benefit from another year's work as people age.

Calculations by OECD researchers in the mid-1990s suggested that moving to more actuarially neutral pension systems would raise participation rates of older males by 2.9 percentage points in the United States, 1.5 points in Canada, and 1.2 points in the United Kingdom, and that reforms to the unemployment benefits system could boost the UK gain to 3.0 percentage points (Blondel and

Figure 3: *Taxes, Transfers, and Work Incentives: Stylized Age Profile*



Scarpetta 1998, 39–41, 63, 77, 88). The continuing increase in the actuarial adjustment for later receipts of social security pensions in the United States illustrates the sort of changes that would help in this area.³⁶

More generally, businesses need to keep reminding governments of the advantages of prefunding their social insurance programs and the variety of options for doing it. Some economic models predict that the advantages of prefunding will shrink as a workforce growing more slowly reduces the demand for investment and lowers financial rates of return. Alternative predictions, in which slower growth and higher taxes reduce saving and push

³⁶ The US legislation that is increasing the eligibility age for full benefits will, as of 2005, have moved the adjustment factor for each year of work beyond the standard age from 3 to 8 percent. The lowering of accrual rates in the UK Second State Pension system is also helpful; although it means less benefit for each additional year of work for individuals below the maximum replacement rate, it also lengthens the period until the maximum is hit. Recent reforms to the Canada Pension Plan had no significant impact on these incentives.

up financial rates of return are, however, at least as plausible (see, for example, Kotlikoff, Smetters, and Walliser 2001). Where the institutional design of social insurance programs themselves offers no scope for prefunding through dedicated accounts, governments can prefund indirectly by running budget surpluses that pay down public debt and reduce the impact of interest payments on future tax loads. Forecast horizons that are longer than is usual in public sector budgeting, actuarial estimation of future pension, health and long-term care liabilities, and the accrual of those costs in government financial statements are all steps that employers should be urging on policymakers.

Revamping Business Structures

The prospect of changes in compensation and responsibilities raises further questions about succession planning and the overall structure of business operations.

Succession Planning

To start with a straightforward point, no matter how successful a company is in retaining veteran employees, an older workforce is going to be one in which many exits are into retirement. Workforce aging may not have prompted significant revamping of company practices to date — only one in seven respondents to the BNAC's survey indicated that workforce aging had yet prompted such changes³⁷ — but among those who said it had, the most frequently mentioned response was new attention to succession planning.

Especially those organizations that have a substantial cohort of early baby boomers who will be moving into retirement soon and more or less simultaneously would be well advised to give extra attention to identifying future leaders from generation X, an age

³⁷ Several respondents indicated that they were investing in new human resources software that might alter their practices in the future.

cohort that may previously have appeared still several steps away from the top jobs. Early enrichment of the jobs of potential future leaders could prevent their seeing a gray ceiling above them and trying their fortunes elsewhere.

Pyramid-Shaped Companies in Rectangular Populations

As Figure 1 illustrates, the traditional pyramid of demographic analysis, with a wide base of young people and a progressive narrowing through the oldest people at the peak, is no longer applicable to the United States, the United Kingdom, and Canada. The age profile of their populations is now more pagoda-shaped and will over time become more rectangular.

As the population from which companies draw labor changes shape, their age profiles will also become less pyramidal and more uniform. Since age is typically correlated with advancement through a hierarchy with decreasing numbers at each level, this transformation threatens to create problems: more jostling high up, seniority rights in collective bargaining agreements that congest the system, and frustrated young employees — potential leaders or simply good line workers — who seek opportunities elsewhere.

Some of the flexible work arrangements already discussed may alleviate these problems. Older workers who take on more special projects and outside work will reduce potential congestion at the top, opening advancement opportunities for promising younger workers. In some companies, more conscious efforts to promote from within may also be appropriate. One executive recruiter reports encountering forces — such as a “grass is greener” syndrome, scars from past internal battles, and a desire to deflect after-the-fact criticism of a bad decision onto an outside recruiter — that can bias executives in favor of hiring from outside to fill senior slots (Stern 2000). Such prejudices carry obvious risks of passing over good insiders and frustrating employees who are hoping for advancement within the company.

Rectangular Companies

Adept moves to keep blood flowing through an organization will, however, only mitigate, not eliminate, the challenge of keeping workers engaged when traditional advancement opportunities are more limited. Some human resources specialists urge managers to become more adept at matching employee responsibilities with life interests. Many firms lose talented employees who realize in mid-career that the money and prestige they have achieved provide less satisfaction than they expected; if employee performance reviews more frequently solicited personal views of career satisfaction, the argument goes, businesses would often find it possible to retain people by appealing to their interests (Butlet and Waldroop 1999).

Another frequent theme in the literature on moving to less pyramidal workplaces is the need to motivate employees of all ages less through formal advancement and more through development of competencies³⁸ and acknowledgment of contributions. No one knows the extent to which such measures can replace traditional pay and benefit packages and measures of prestige, but an older, more rectangular workforce will clearly require managers to be more imaginative in providing one-time financial rewards and recognition of achievement by peers and senior executives.

A further approach often advocated for getting away from pyramidal structures is the greater use of teams. Where job sharing is an element of flexible work schedules, team-oriented production may be a complement. Moreover, if older employees take on training or mentoring roles, team approaches can help to avoid pitfalls — older employees may be less likely to see younger team members as a threat, and younger workers may be less likely to feel patronized (Fandray 2000, 12). Where retention is an issue, teams

38 A Hay Group survey of commitment to employers among US workers found that 61 percent of those who intended to stay with their current employers for at least five years were satisfied with the opportunities they had to learn new skills; only 25 percent of those planning to leave within a year said the same (Wah 1998, 9).

may help, simply because loyalty to colleagues is always more intense than loyalty to an organization. An older workforce may lead companies to place renewed emphasis on programs, such as sports and arts-oriented activities, that create a social community in the workplace (Capelli 2000, 108).

Changing Workplaces

Finally, demographic changes are also likely to bring about changes in the nature and location of work — changes that offer challenges and opportunities to employers.

Technology and Ergonomics

From an economy-wide perspective, scarce labor will do more than drive up wages; it will also increase capital investment, as firms supplement the dwindling supply of humans with a more plentiful supply of machines. This prospect raises some interesting points.

A common vision of a more capital-intensive workplace is that it is hostile to older workers. As computer use has increased, one story goes, the firm-specific human capital that shielded older, more experienced workers may have become less valuable. Another frequent fear is that training in new technologies is more expensive for older workers than for younger workers. And in some work environments, older, less physically acute workers may present safety concerns.

These appraisals contain some truth, and for many employees and employers, they will be major preoccupations in the years ahead. It is not Pollyannaish, however, to point out that the capital investments occurring today and the advances in technology they embody are similar in many ways to the investments of the nineteenth and mid-twentieth centuries. The common feature of those advances was that they de-emphasized workers' physical capabilities in favor of knowledge, skills, and aptitudes. This trend is continuing.

One notable aspect of recent advances in electrical and electronic technologies, for example, has been the way they have lowered barriers to people with various mobility-related and sensory disabilities. More accessible workplaces, computer monitors that accommodate less acute eyesight, communications technology that overcomes impaired hearing — all are developments that bode well for the safety, comfort, and productivity of an older workforce. Several respondents to the BNAC's survey of its members commented that their efforts to make their workplaces friendlier to people with disabilities simultaneously rendered them friendlier to older workers.

Office jobs are not the only ones where technological advances are creating such opportunities. Observers of Toyota's plant in Georgetown, Kentucky, are struck by its management's emphasis on ergonomics as a determinant of additions to fixed capital. This focus is not the result of cultural differences; Toyota's operations in Japan, where the staff is overwhelmingly male, resemble the operations of other US automobile manufacturers more than does Georgetown, whose distinctive feature is the large share of women in its workforce (Gordon 2000, 29). Such facilities provide a glimpse of the workplace of the future in which an older and more female workforce will thrive.

Much of what is involved in accommodating workplaces to the needs of older workers is straightforward common sense (Worsley 1996, 66–67; Albrecht 2001b, 62). Older workers typically have lessened muscle strength and flexibility, so reducing the need to lift or carry over distances will help in manual jobs, as will measures, such as rotating tasks, that can reduce the strain of repetitive actions. Ergonomic work spaces can reduce standing time and give less flexible workers more room. Insulation from excessive noise can help workers whose hearing is less than acute or who find it harder to cope with distractions than do younger colleagues. In office jobs, adjustable chairs and work surfaces, large video displays, and hands-free, volume-adjustable telephone equipment are among the items that can make older workers (and their juniors) more comfortable and productive.

For some companies, more outreach programs related to the safety and health of older workers may make sense. Information, diagnostic, and training programs can help to prevent conditions such as carpal tunnel syndrome, tendinitis, and back strain. Moreover, an aging population will increase research in and attract more students to gerontology and related fields, expanding the opportunity for visiting experts to inform workers about specific health problems as well as more general subjects, such as the benefits of exercise in forestalling age-related disabilities. And as health benefit plans begin to focus more on the needs and wishes of older workers, advice on avoiding common problems of the elderly, such as drug interactions, will become increasingly cost-effective parts of the package.

This area is, again, one in which employers need to alert policymakers to possible unintended consequences of actions intended to improve the lot of older workers. If mandated accommodations become too expensive or intrusive, they may discourage the employment of older workers or reduce the number of available jobs altogether. Tax laws that permit expensing of investments in a safer, more ergonomic workplace are a superior way of encouraging such accommodations and have the added virtue of putting those investments on a footing similar to wage costs, providing more flexibility in balancing the various compensation and work-environment elements of the total compensation package.

Telecommuting and Working Closer to Home

Falling communications costs are allowing employers to relocate workplaces so as better to suit employees. In part, relocation is simply a matter of reducing the time and inconvenience of commuting.

Although only one respondent to the BNAC survey reported adopting such arrangements in response to the requirements of older workers specifically, the Conference Board of Canada survey found that the share of employers making use of telework and

work-at-home arrangements rose from 11 percent in 1989 to 50 percent in 1999 (Bachmann 2000, 4). One of the key drawbacks of remote work arrangements — the inability to monitor employees closely — is probably less acute with older employees; the companies that deliberately seek them out widely regard them as more reliable than younger workers.

More positively, locating functions closer to communities of older people may encourage employees to put down deeper roots and insulate them from the recruitment efforts of competitors. To overcome the feelings of isolation that may make telecommuting less attractive to older workers, companies can follow leads such as that of Leisure Co./America West, which holds potluck dinners to keep its teams in touch with each other (Torgesen 1998).

Other Arrangements

As the amount of innovation increases in response to the challenges of an older actual or potential workforce, employers will do well simply to monitor the efforts of their competitors and peers in other industries. A diverse economy and a diverse workforce will constantly produce surprises.

For example, many commentators on the demographic challenge stress the benefits of combining older and younger workers in teams. (Some of these experiences have been mentioned in this paper.) Yet when US cosmetics maker Bonne Bell began a seniors-only recruiting program in 1997, it segregated older workers from younger ones, even giving the former their own restroom facilities and parking area. In the company's view, the separate spaces encourage older workers to develop camaraderie and boost morale by lessening concern about competing with younger workers. The result: the program is profitable for the company and popular enough to have a waiting list for job openings (Hickins 1999, 15; Laurence 2001, B3) — one more example of a virtuous circle created by a reputation as an employer for whom older people like to work.

Concluding Comments

Although it is common knowledge that demographic forces are changing the workforces of the United Kingdom, the United States, and Canada, perceptions of the challenges that this transformation poses for employers are still patchy, and reactions to it are uneven. A striking finding of Watson Wyatt's widely cited US survey (1999, 11), for example, was that 70 percent of employers without phased retirement programs cited the simple fact that they had never considered them — not concerns about employment costs, productivity, and pension obligations — as a reason for not offering them. Many respondents to the BNAC survey also indicated that they had not considered specific measures to accommodate older workers; the lack of consideration may reflect lack of meaningful opportunity for some, but others said that filling out the survey had been a useful prod to re-examination of current practice. For some employers and employees, a fresh look at the challenges of an aging workforce is likely to reveal unsuspected opportunities.

The wheels of demographic change grind slowly, but even slow-moving changes can surprise with the size of their impact. The tight labor market of the late 1990s provided a foretaste of the crunch to come. More recently, a cyclical slowdown has cooled demand for workers, and declining share prices have depleted the nest eggs that were financing the rapid departures of many older people from the workforce. But the need for advance planning and encouragement of good public policy is no less pressing. When the economy and financial equity markets improve, the demographic trends prefigured here will become more than lines on a page. For many employers, they will be little less than a crisis.

Some of the measures to adapt to a world of scarcer, older workers resemble practices that far-sighted employers are undertaking anyway. Faced with the reality of more aggressive poaching of talent, some companies have adopted planning models that project requirements and make explicit allowance for different attrition rates in different functions. Rather than trying to retain people across the board, such plans prioritize, distinguishing

among employees for whom indefinite retention is both attractive and possible, those whose talents will be needed and may be available only for shorter periods, and those whose jobs will be easy to fill or whose skills are not much in demand elsewhere (Capelli 2000, 105).³⁹

At the end of the day, scarcer labor will simply put more of a premium on practices that already make good business sense: attracting and retaining people with key knowledge, skills, and aptitudes and ensuring that valuable prospective or current employees are not screened out by the use of inappropriate markers, such as age. Innovative hiring and contracting, flexible work schedules, training, imaginative compensation and business structures, new workplace technologies — all are key tools for building and retaining talent. Employers who do not adapt to a changing workforce will lose their edge in recruiting, and find frustrated younger workers and pensioned older workers leaving for competitors. Governments whose policies frustrate these adaptations will hurt their citizens' living standards. Employers and governments that respond early and energetically to the challenge will, by contrast, garner a key competitive advantage.

³⁹ Dohm (2000) provides a useful survey of the age profile of the US workforce by occupation, including projections of the areas most likely to be affected by baby-boomer retirements.

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Appendix: Survey of BNAC-Affiliated Organizations

This appendix reproduces the questions in the BNAC's survey of organizations with which its members are affiliated, along with quantitative summaries of the answers for which such measures are possible.

1. Please rate the importance of the following issues with respect to the management of human resources in your organization, using a scale from 0 to 5, where 0 is "not applicable at all", 1 is "not important", 2 is "somewhat important", 3 is "important", 4 is "very important", and 5 is "crucial".

	<u>Average</u>
• reducing labor costs	3.2
• increasing employee skills	4.1
• increasing workforce flexibility	3.2
• redesigning work processes	3.0
• recruiting able employees	4.3
• retaining able employees	4.3
• enhancing labor-management cooperation	2.6
• decentralizing decision-making	2.5
• increasing the diversity of the workforce	3.2
• managing workforce aging	2.5

2. Does your organization monitor the age-profile of its workforce?

Yes: 52% No: 46% No Response: 3%

If your answer was "yes," please indicate how, if at all, this information affects recruitment and retention practices.

3. Does your organization actively recruit members of specific demographic groups?

Yes: 35% No: 65% No Response: 0%

If your answer was “yes”, does your organization actively recruit older workers?

Yes: 15% No: 85% No Response: 0%

a) If your organization does actively recruit older workers, please indicate:

- the principal age group(s) it targets (e.g., 55–65, 65+)
- the main reasons for doing so (e.g., lack of younger workers, specific skills, better match with demographics of customers)
- the principal method(s) used and, if applicable, the method(s) that appear most effective and/or promising.

b) If it does not, please indicate with check marks which of the following reasons for not recruiting older workers applies:

- no compelling business purpose 64%
- more pressing need for young blood 46%
- greater affordability of younger workers 9%
- abundant supply of workers under current arrangements 18%
- actual and/or anticipated opposition from workers and/or managers 0%
- legal obstacles 0%
- have not considered it 18%

c) What legal, regulatory, or other public policy changes, if any, would allow a better match of business and employee needs in this area?

4. Does your organization have policies the main goal of which is employee retention?

Yes: 81% No: 19% No response: 0%

If your answer was “yes”, are any of these policies specifically targeted at retaining older workers?

Yes: 17% No: 83% No response: 0%

-
- a) If your organization does have policies specifically targeted at retaining older workers, please:
- indicate which age range (e.g., 45–54, 45+, 65+) is their principal target
 - list the main reasons for doing so (e.g., retention of skills, maintenance of relations with customers)
 - outline the principal method(s) used and, if applicable, the method(s) that appear most effective and/or promising
- b) If it does not, please indicate with check marks which of the following reasons for not targeting older workers for retention applies:
- | | |
|---------------------------------------------------------------------|-----|
| • no compelling business purpose | 52% |
| • retention of all workers is of equal importance | 60% |
| • more pressing need for young blood | 44% |
| • greater affordability of younger workers | 4% |
| • abundant supply of workers under current arrangements | 12% |
| • actual and/or anticipated opposition from workers and/or managers | 4% |
| • legal obstacles | 8% |
| • have not considered it | 20% |
- c) What legal, regulatory, or other public policy changes, if any, would allow a better match of business and employee needs in this area?
5. Does your organization have flexible hours provisions?
 Yes: 76% No: 22% No response: 3%
- a) If your answer was “yes”, are any of these provisions specifically designed to accommodate older workers?
 Yes: 4% No: 86% No response: 11%
- If “yes,” at what age do the provisions become available?
-

-
- Please indicate the types of workers (e.g., production, clerical, management) to which these provisions apply.
 - Please describe the relevant provisions and, if applicable, those that appear most effective and/or most promising.
- b) If none of these provisions is specifically designed to accommodate older workers, please indicate with check marks which of the following reasons for not designing such provisions applies:
- | | |
|---------------------------------------------------------------------|-----|
| • no compelling business purpose | 58% |
| • general provisions are suitable for older workers | 67% |
| • no demand from employees | 42% |
| • actual and/or anticipated opposition from workers and/or managers | 4% |
| • legal obstacles | 17% |
| • have not considered it | 21% |
- c) What legal, regulatory, or other public policy changes, if any, would allow a better match of business and employee needs in this area?
6. Does your organization have flexible retirement plans (e.g., part-time for a specified period before normal retirement age; part-time after normal retirement age)?
- Yes: 35% No: 62% No response: 3%
- a) If your answer was “yes”, please:
- indicate the categories of workers for which such plans are available
 - describe the relevant provisions and, if applicable, those that appear effective and/or most promising.
- b) If your answer was “no”, please indicate with check marks which of the following reasons for not having such programs applies:
- | | |
|----------------------------------|-----|
| • no compelling business purpose | 70% |
|----------------------------------|-----|
-

-
- no demand from employees 48%
 - actual and/or anticipated opposition from workers and/or managers 4%
 - legal obstacles 9%
 - have not considered it 44%
- c) What legal, regulatory, or other public policy changes, if any, would allow a better match of business and employee needs in this area?
7. Does your organization provide training specifically targeted at older workers?
- Yes: 0% No: 100% No response: 0%
- a) If your answer was “yes”, please
- indicate which age range (e.g., 45–54, 45+, 65+) is its principal focus
 - indicate the types of workers (e.g., production, clerical, management) to which such training is available
 - describe the relevant provisions and, if applicable, those that appear most effective and/or most promising.
- b) If your answer was “no”, please indicate with check marks which of the following reasons for not providing such specifically targeted training applies:
- no compelling business purpose 70%
 - generally available training is suitable for older workers 68%
 - no demand from employees 27%
 - actual or anticipated opposition from workers and/or managers 0%
 - legal obstacles 5%
 - have not considered it 22%
- c) What legal, regulatory, or other public policy changes, if any, would allow a better match of business and employee needs in this area?
-

8. Has workforce aging prompted your organization to alter its compensation and promotion practices?

Yes: 14% No: 86% No response: 0%

a) If your answer was “yes”, please indicate what alterations were made.

b) If your answer was “no”, please indicate with check marks which of the following reasons for not having such programs applies:

- no compelling business purpose 81%
- no demand from employees 34%
- actual or anticipated opposition from workers and/or managers 3%
- legal obstacles 6%
- have not considered it 38%

c) What legal, regulatory, or other public policy changes, if any, would allow a better match of business and employee needs in this area?

9. Does your organization encourage older workers to take on special duties (e.g., consulting, mentoring, participation in not-for-profit activities)?

Yes: 30% No: 70% No response: 0%

a) If your answer was “yes”, please provide examples of such duties.

b) If your answer was “no”, is this something you have contemplated doing?

Yes: 8% No: 73% No response: 19%

10. Has your organization adapted its workplace to facilitate the performance of duties by older workers (e.g., safety procedures, ergonomic equipment)?

Yes: 14% No: 87% No response: 0%

-
- a) If your answer was “yes”, please provide examples of such adaptations.
 - b) If your answer was “no”, is this something you have contemplated doing?

Yes: 6% No: 84% No response: 9%

- 11. Has your organization changed the organization and/or location of work in response to the requirements of older workers (e.g., telecommuting or locating operations closer to workers’ residences)?

Yes: 3% No: 97% No response: 0%

- a) If your answer was “yes”, please provide examples of such changes.
- b) If your answer was “no”, is this something you have contemplated doing?

Yes: 5% No: 86% No response: 8%

- 12. With regard to your operations in the United States:

- a) What measures did the abolition of mandatory retirement require your organization to take?
- b) On a scale of 0 to 5, where 0 represents “strongly negative” and 5 represents “strongly positive”, what was the combined impact of mandatory retirement’s abolition and your organization’s response to it on the efficiency and (if applicable) profitability of your U.S. operations? 3.0

- 13. Do you have any additional comments or information?
-

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