

The New Retirement Is Here.  
Is Your Firm Ready?



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# Will the Boomers' retirement create workforce problems – or workplace opportunities?

Note: Throughout this brochure, chart percentages may not total 100% due to rounding.

The “baby boom” that began when World War II ended, created the largest continuous growth in population in U.S. history. The oldest of the “Boomers” (those born in 1946) will turn 60 this year and 65 in 2011 – just five years from now. They and the other members of their generation will dramatically affect the American workforce.

Between 2004 and 2014, the number of civilian jobs in our country is expected to outstrip the number of civilian workers.<sup>1</sup> Estimates of the size of the workforce shortage vary widely, depending on the assumptions used. But significant growth in one segment of the workforce, especially if encouraged by significant changes in the workplace, could help solve the problem.

The number of civilian workers age 55 and older is expected to increase by 49.1 percent between 2004 and 2014.<sup>2</sup> That would still imply a labor shortage of about 2.4 million people in 2014. Attracting and keeping more workers past their normal retirement age could be a boon to employers competing for limited resources.

Fortunately, nearly 80 percent of working Americans say their ideal plan for retirement includes working in some capacity. Among today's retirees who are 70 or younger, 51 percent say they are either working or plan to work in the future. Making changes to give older workers what they want, (greater flexibility and opportunities to do something different), or need (additional retirement income or health care coverage), may be an important way for employers to address potential labor or skill shortages.

Younger workers also like the idea of greater flexibility and may even be willing to trade part of their compensation to get it. Employers who offer part-time work, opportunities to cycle in and out of work, lower pay but better health benefits, and similar options may be better equipped to attract and retain good employees of all ages at a competitive cost.

<sup>1</sup> Bureau of Labor Statistics, employment and workforce projections.

<sup>2</sup> Bureau of Labor Statistics, news release, Dec. 7, 2005.

# The ‘New Retirement’ Readiness Survey

For a number of years, the Retirement Group at Merrill Lynch has conducted an annual survey of Americans to learn more about retirement issues and attitudes. This year, as part of the 2006 New Retirement Study, two surveys were conducted. One focused on individual retirement expectations and experiences. The other focused on employers’ awareness of, concern over, and response to potential labor/skill shortages and the growing demand for a working retirement. This paper focuses on the employer survey.

The 2006 Employer “New Retirement” Readiness Survey included a random, representative sample of for-profit companies with 100 or more employees from across the country. Interviews were conducted by phone, primarily with middle or top-level executives in the human resources and benefits area at each company. In a few cases, finance or treasury employees who manage their company’s retirement plans responded.

## In brief, what we learned is that:

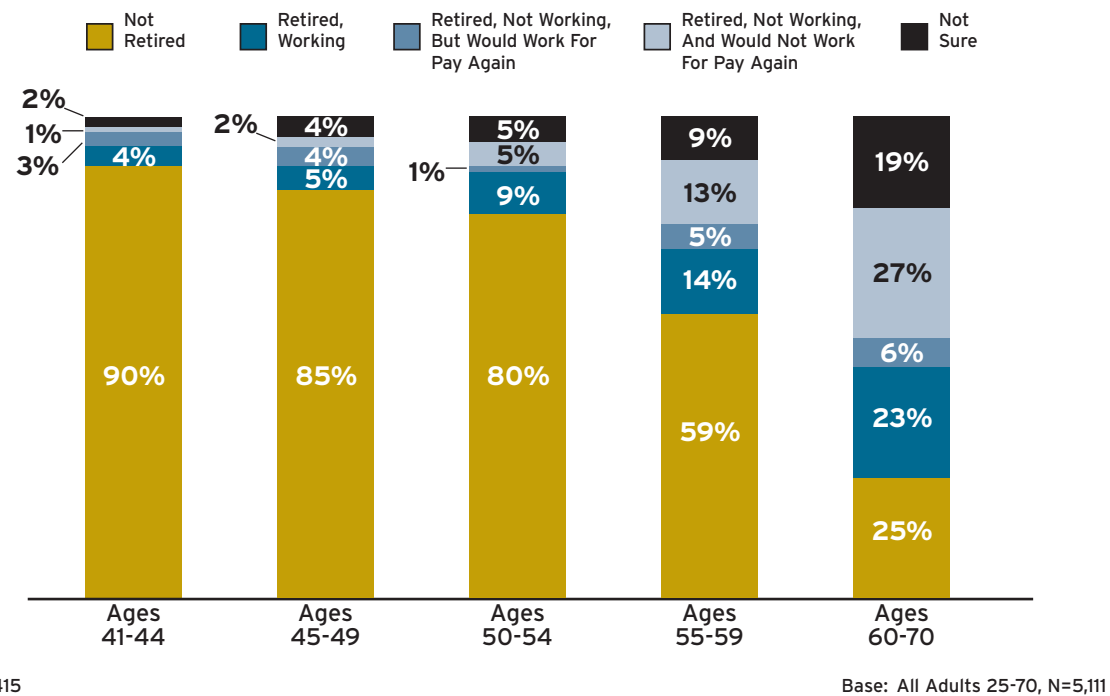
- ▶ The new retirement is here already. A substantial portion of 60 to 70 year olds say they are retired, but a majority of those (retirees) are either working or would work again for pay.
- ▶ Employees want a completely new type of work. (And though employers recognize that individuals want to work in retirement, they may not be aware of the type of work employees want.)
- ▶ Most companies are concerned about Boomer retirements, but only 25 percent are “very concerned.”
- ▶ Employers are focused on benefit costs, younger workers and skilled professionals.
- ▶ Employers are more concerned about losing skilled professionals than other types of employees.
- ▶ For employers, first-hand experience with working retirees or labor and skill shortages leads to concern, which leads to action.
- ▶ “Early Adopters” are more likely to take a wide range of actions.
- ▶ Concern and action vary by company size, industry and the presence of a pension plan.

The rest of this document provides detailed information on the survey results, analysis of the implications for employers, and practical suggestions on how this information might be applied at your company. Even if labor shortages and skill deficits will not affect your firm soon, flexible work arrangements and a more flexible compensation and benefits program might have an immediate and positive effect on your bottom line.

# The new retirement is here.

The “New Retirement” is already well established among 60 to 70 year olds and among older Boomers.

Question: Which of the following best describes you?



Question: How many hours per week do you work, on average?

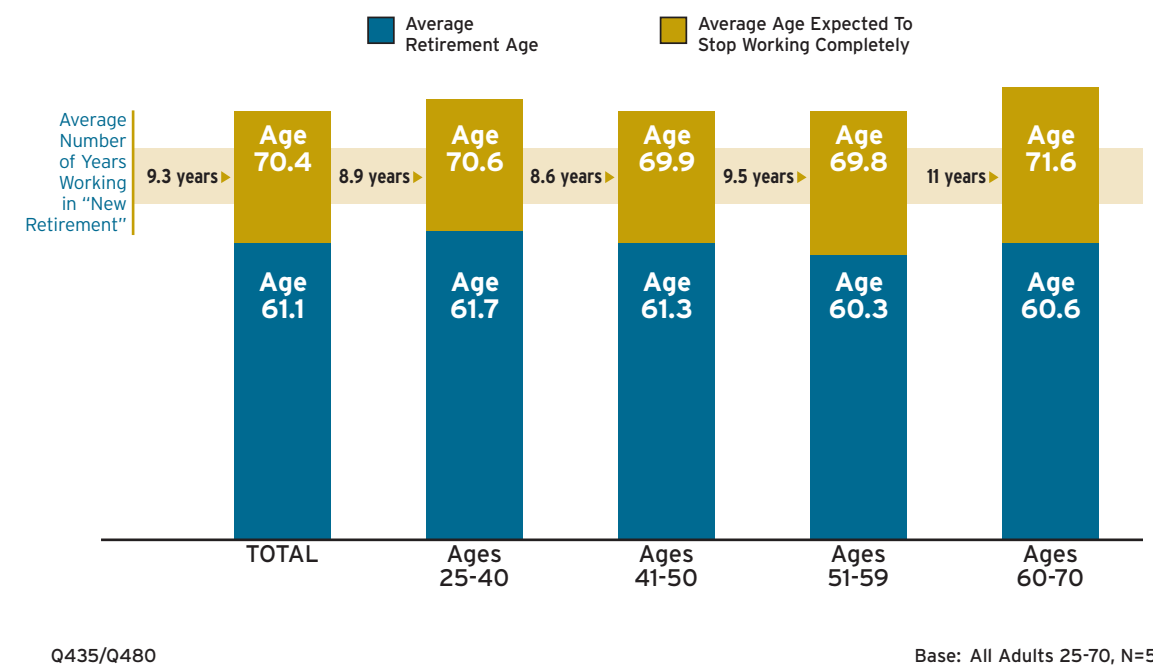
Ages 41-44	23.4 hours per week
Ages 45-49	20.5 hours per week
Ages 50-54	20.8 hours per week
Ages 55-59	20.2 hours per week
Ages 60-70	17.4 hours per week

Q410 Base: Retired and working

Baby Boomers expect to spend a significant portion of their retirement working.

Question: At what age did you already, or do you expect you will retire or move into this turning point, which has historically been a time for the beginning of retirement?

Question: At what age, if any, do you expect to stop working completely?



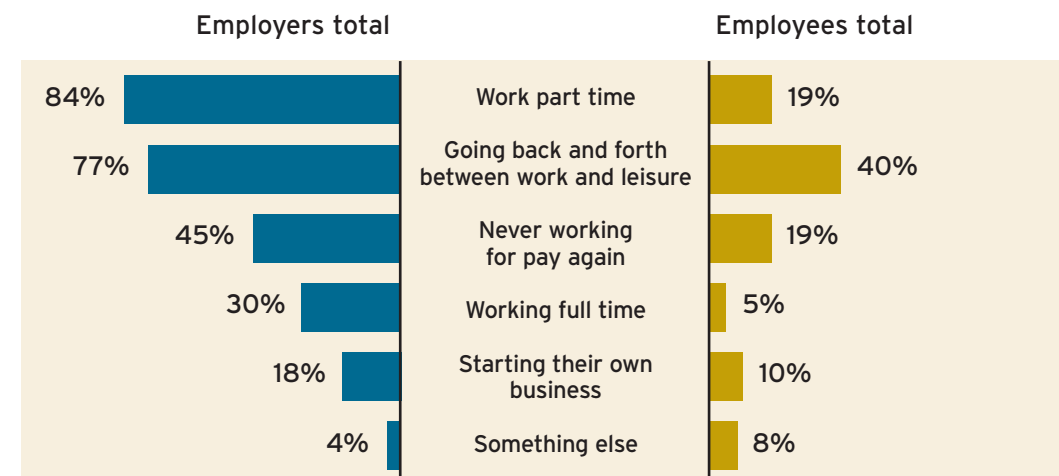
On average, Americans retire well before age 65, but they continue to work past retirement on more flexible schedules, with fewer hours.

# Employers recognize that employees want to work beyond retirement, but may not be aware of the type of work they want.

Employers who are counting on keeping their older workers may lose them to competitors. Two thirds of those who want to work in retirement would like to do so on their *own* schedule, in a *different* line of work. Many are considering a totally new career.

Question: People have different ideas about how they will live in "retirement." Which of the following do you think a substantial proportion of your employees will be interested in? (Select all that apply.)

Question: People have different ideas about how they will live in this phase of life that has traditionally been called "retirement." Please tell us which one of the following best represents your ideal plan for how you would like to live in this stage. (Select one.)

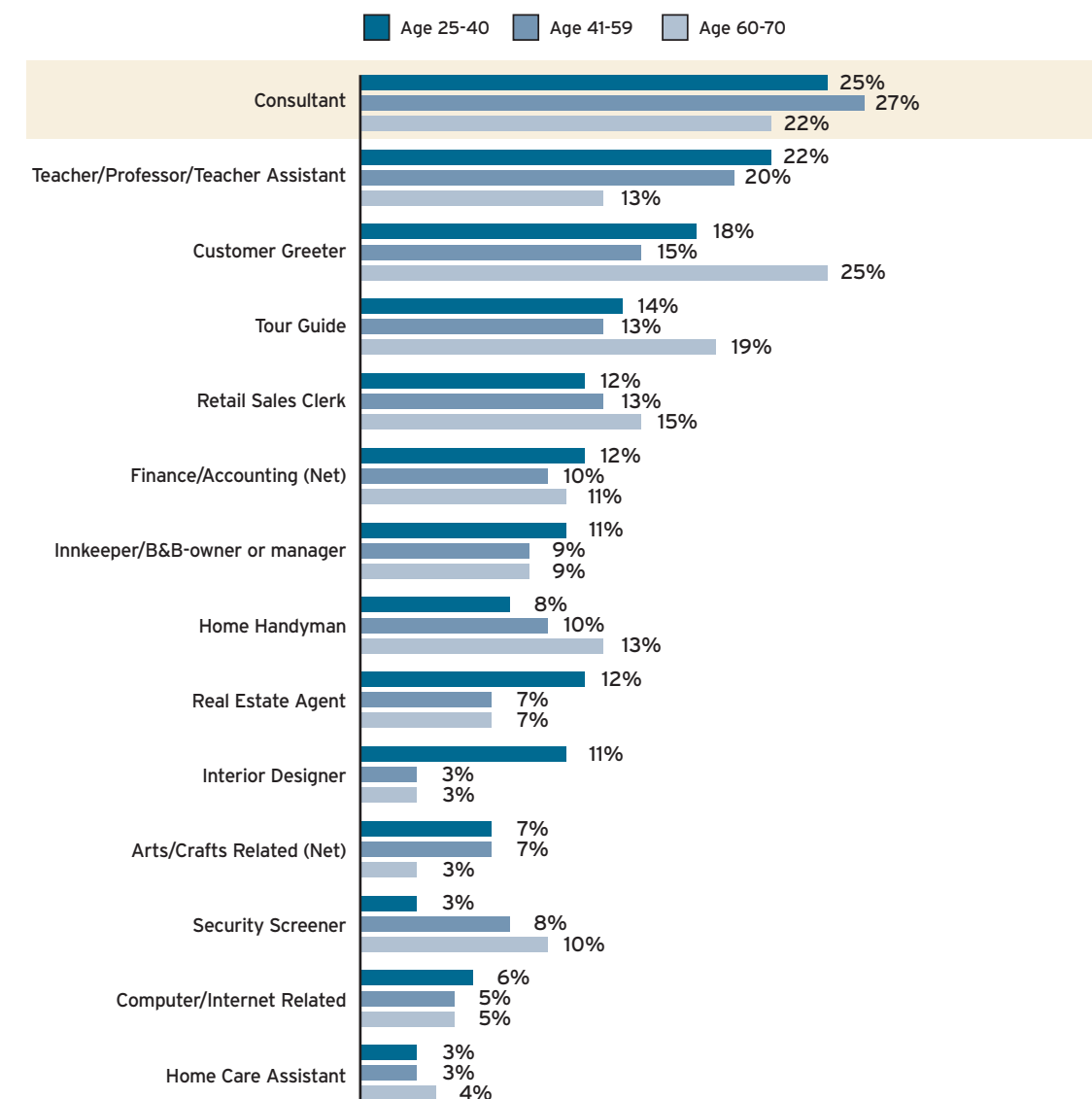


Base: employers. Total, N=1,001

Base: employees. All Adults 25-70, N=5,111

One in four employees envision themselves in a consulting role. These are the types of skilled professionals that companies need to try to attract and retain.

Question: Which of the following types of work would you like to do in retirement?



Q470

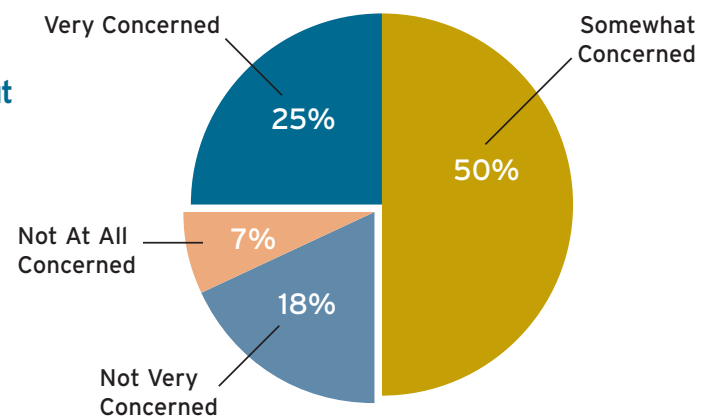
Base: Adults 25-70 who want different work, N=2,273

*"There is more willingness to stay on in an advisory or consulting type capacity." - employer comment*

# Most companies are concerned about Boomer retirements, but only 25% are “very concerned.”

When prompted, 75% of companies said they are at least somewhat concerned about the loss of Baby Boomers to retirement, but only 25 percent are “very concerned.”

**Question: How concerned are you about the large proportion of Baby Boomers reaching retirement age?**

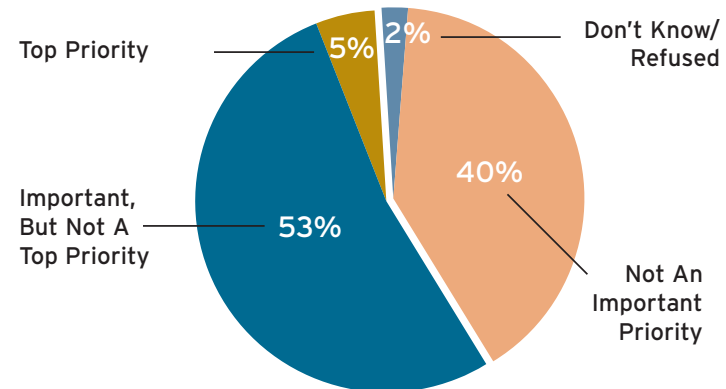


Q300

Base: Total, N=1,001

Boomer retirements are an important priority to 53% of companies and a top priority to 5%.

**Question: How big a priority are the issues around Baby Boomers retiring to your company's HR department?**

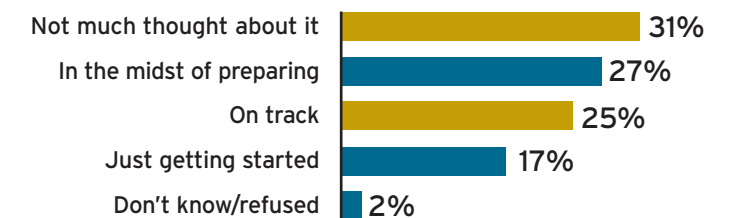


Q630

Base: Total, N=1,001

25% of respondents say their company is “on track” when it comes to preparing for Boomer retirements, but a third say they haven't even thought about it.

**Question: How prepared do you think your company is for the large number of Baby Boomers reaching retirement age in the coming years?**



Q510

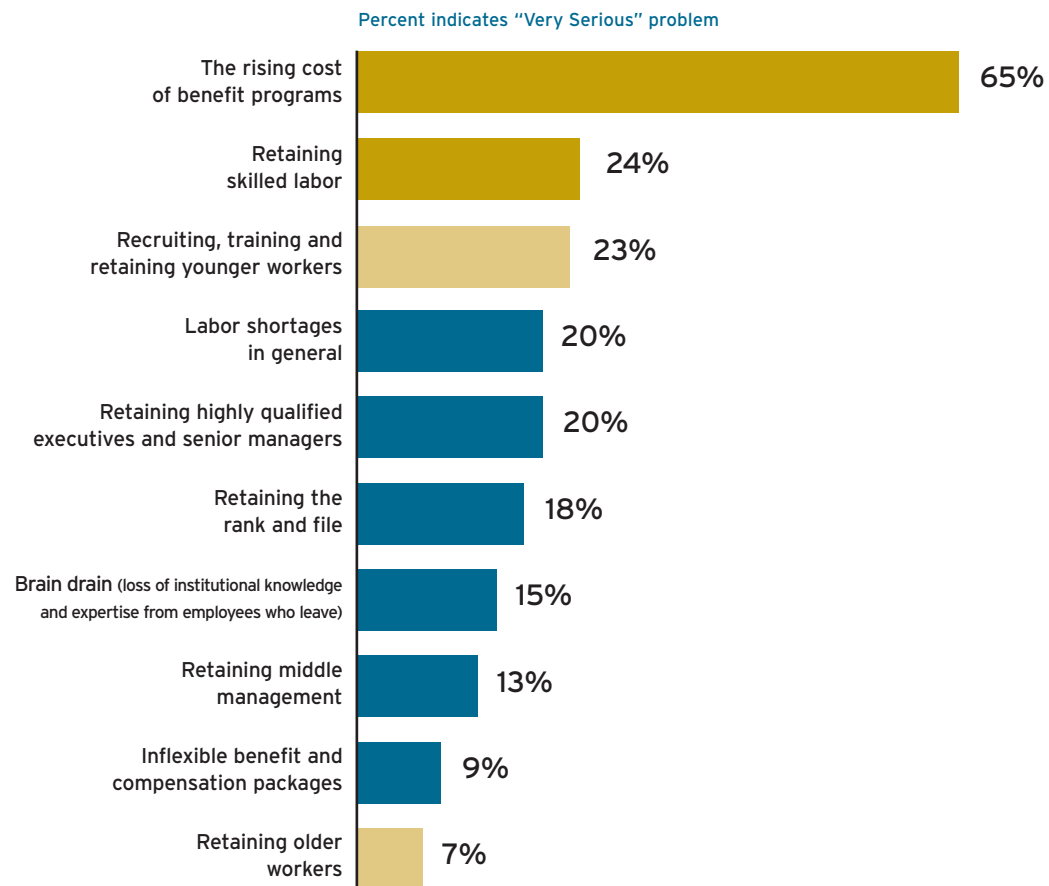
Base: Total, N=1,001

In some cases, employers' lack of concern may indicate that the issue is “not on their radar screen.” In others, however, the potential for a labor shortage at a given company may not be serious or immediate. The danger is that gradual change may go unnoticed, or that analysis, planning and preparations are put off too long.

# Employers are focused on benefit costs, younger workers and skilled professionals.

Employers are three times as likely to see recruiting, training and retaining *younger* workers as a very serious problem, compared to retaining *older* workers.

Question: How serious a problem do you perceive each of the following issues to be for your company?

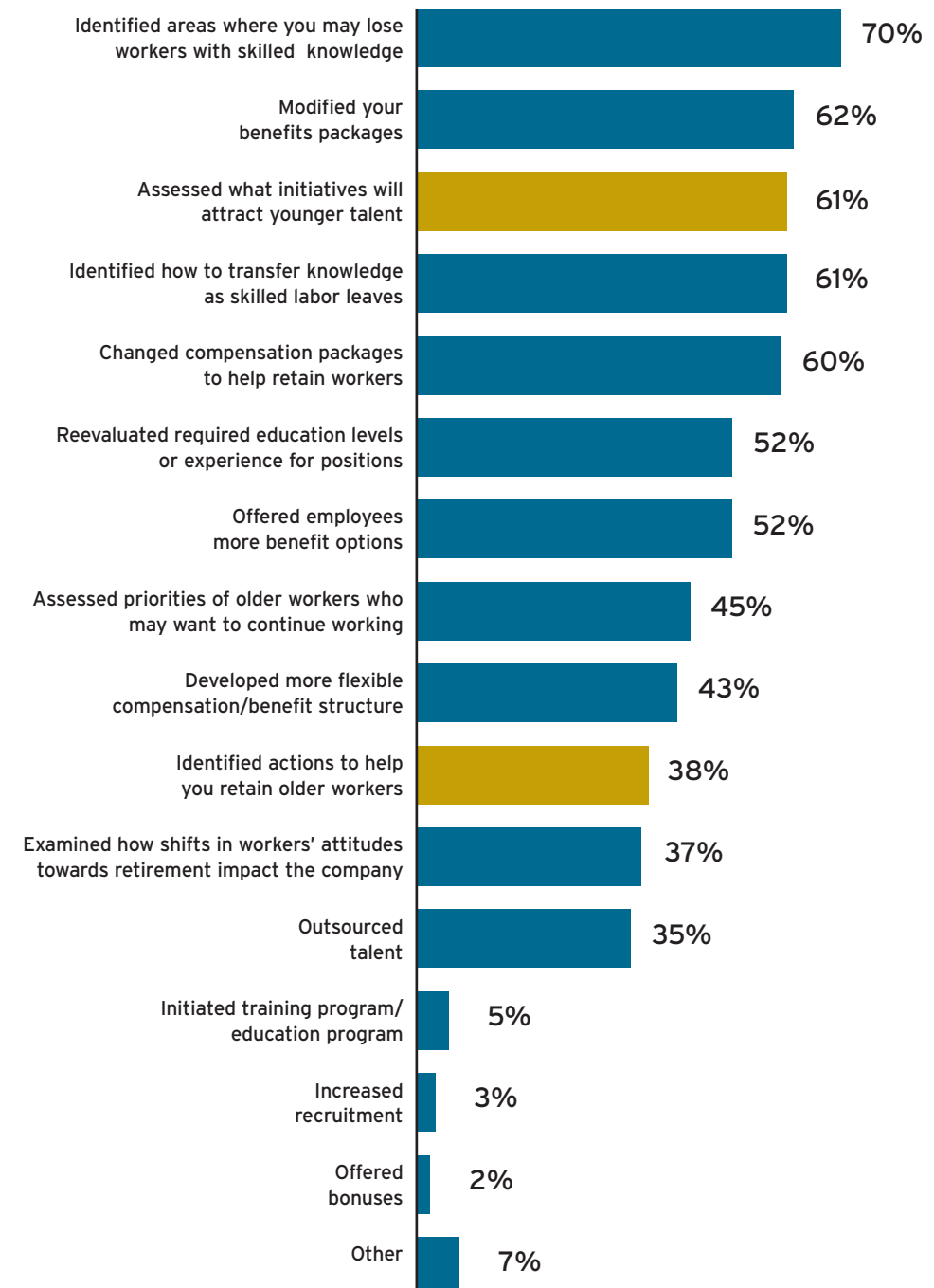


Q505

Base: 1,000+ employees, N=545. 100-999 employees, N=456

Though older workers may include the "skilled professionals" employers say they are most concerned about, companies are more focused on other employee groups and strategies.

Question: Has your company done any of the following to help attract and retain skilled labor?



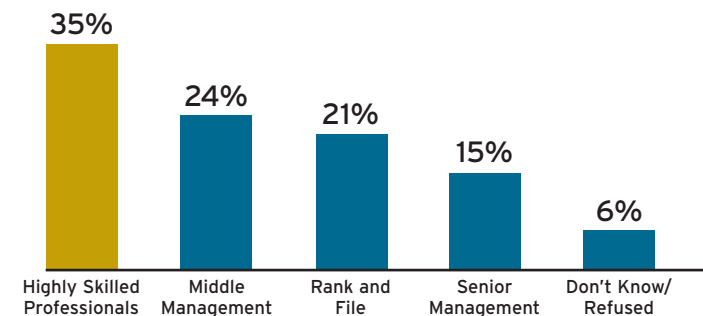
Q525

Base: Total, N=1,001

# Employers are more concerned over losing “skilled professionals” than other types of employees.

Overall, concern over losing “highly skilled professionals” is more pronounced than for any other group of employees.

Question: Among which class of employees do you think you will feel the impact of labor shortages and brain drain the most as a result of employees retiring?



Q540

Base: Total, N=1,001

Meanwhile, losing “rank and file” employees is of concern to *certain* industries.

Question: Among which classes of employees do you think you will feel the impact of labor shortages and brain drain the most as a result of employees retiring?

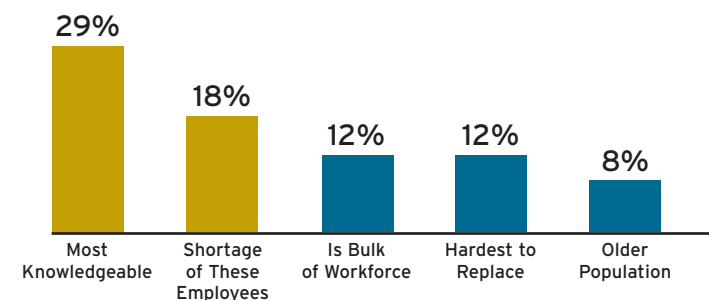
Employee Classes	TOTAL	Industry				
		Mfg	Whole/Retail	Services	Fin/Ins/RE	Other
Highly Skilled Professionals	35%	37%	18%	45%	23%	33%
Middle Management	24%	31%	31%	18%	19%	22%
Rank & File	21%	16%	30%	15%	30%	31%
Senior Management	15%	12%	15%	17%	21%	9%
Don't Know/Refused	6%	4%	7%	6%	7%	5%

Q540

Base: Total, N=1,001

Losing skilled professionals causes the most concern because these employees are the most knowledgeable and least available.

Question: Why do you say that you will feel the labor impact mostly from the loss of Highly Skilled Professionals?



Q545-Coded Open End Responses

Reduced Base: Those who mentioned “Highly skilled professionals,” N=315

Outsourcing is not expected to be used to a great extent to solve labor shortages—even among manufacturing companies.

Question: To what extent will your company be able to deal with looming staff and labor shortages by outsourcing work overseas?

	TOTAL	Industry				
		Mfg	Whole/Retail	Services	Fin/Ins/RE	Other
A Great Extent	5%	13%	2%	4%	4%	0%
Somewhat	9%	18%	7%	4%	14%	7%
A Little	14%	17%	17%	11%	14%	14%
Not At All	70%	51%	73%	78%	64%	76%
Don't Know/Refused	2%	2%	2%	3%	4%	2%

Q620

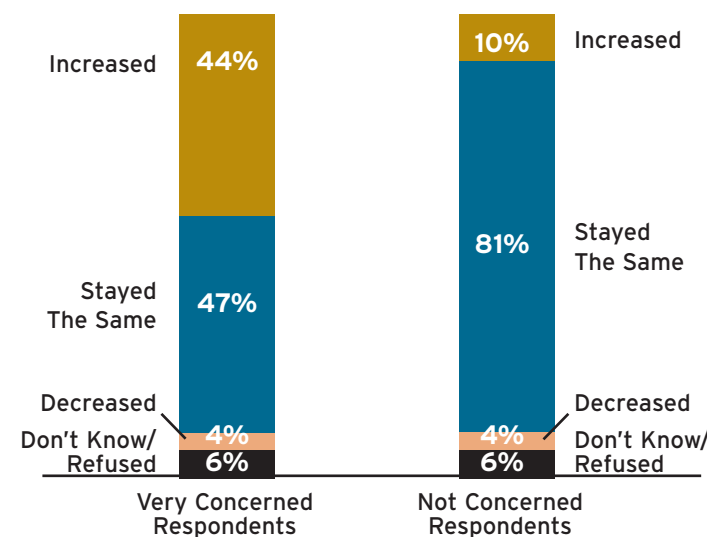
Base: Total, N=1,001. Mfg, N=200. Whole/Retail, N=193. Services, N=284. Fin/Ins/RE, N=218. Other, N=106.

“It’s hard to find good help, people who are educated and people who are experienced and capable.” - employer comment

# First-hand experience leads to concern, which leads to action.

“Very concerned” companies are more than four times as likely as “not concerned” companies to have seen an increase in employees working past retirement.

Question: Has the proportion of your employees who have reached retirement age and continued working...

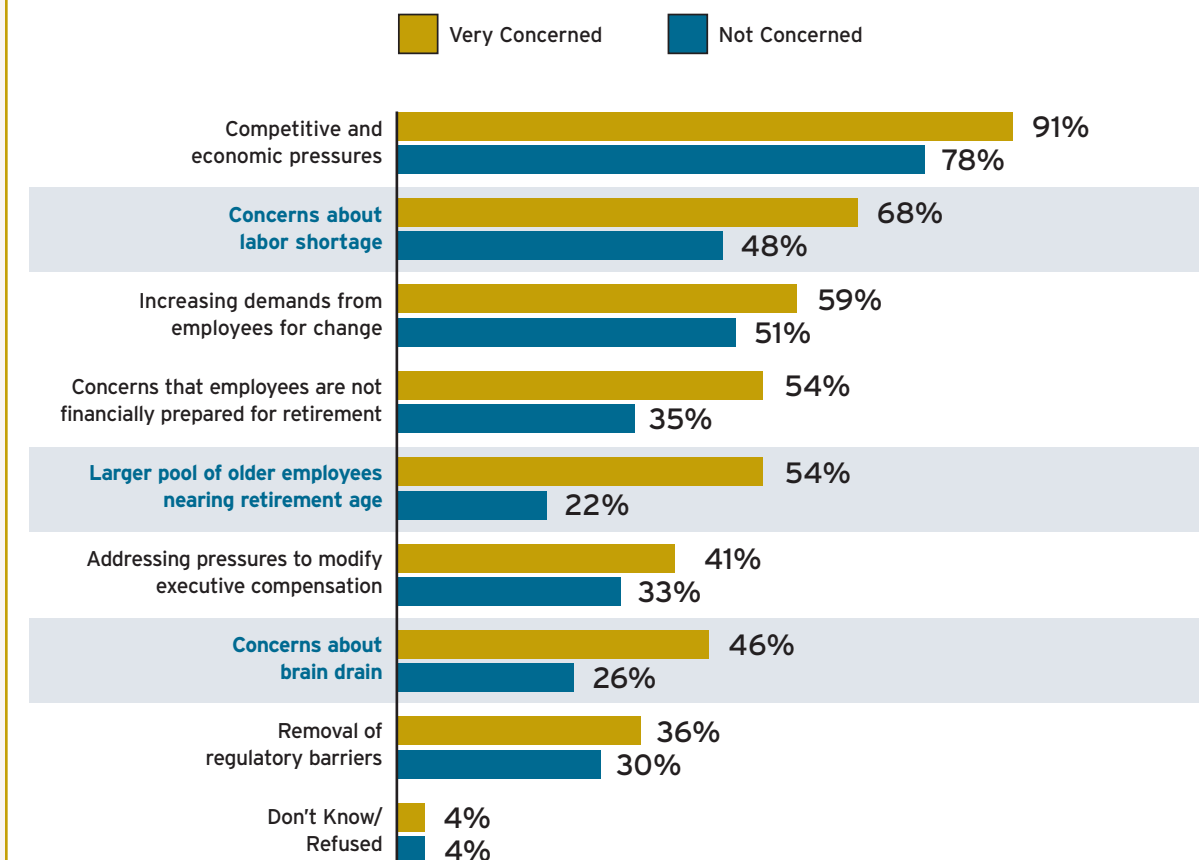


Q310

Base: Total, N=1,001. Those very concerned, N=232. Not concerned, N=283.

Employers who are “very concerned” about Boomers retiring are also more likely than all those who are “not concerned” to overhaul their compensation and benefits program in response to labor and skill shortages.

Question: Which of the following factors is most likely to cause your company to restructure or overhaul its compensation and benefits packages?



Q615

Base: Total, N=1,001. Those very concerned, N=232. Not concerned, N=283.

Companies who say they are preparing for Boomers' retirement are also:

- ▶ Larger companies
- ▶ Taking active steps to retain older talent
- ▶ Offering a variety of benefits to all employees
- ▶ Conducting annual employee satisfaction surveys that alert senior management to changing trends
- ▶ Viewing Boomer retirement as an important priority within their HR departments

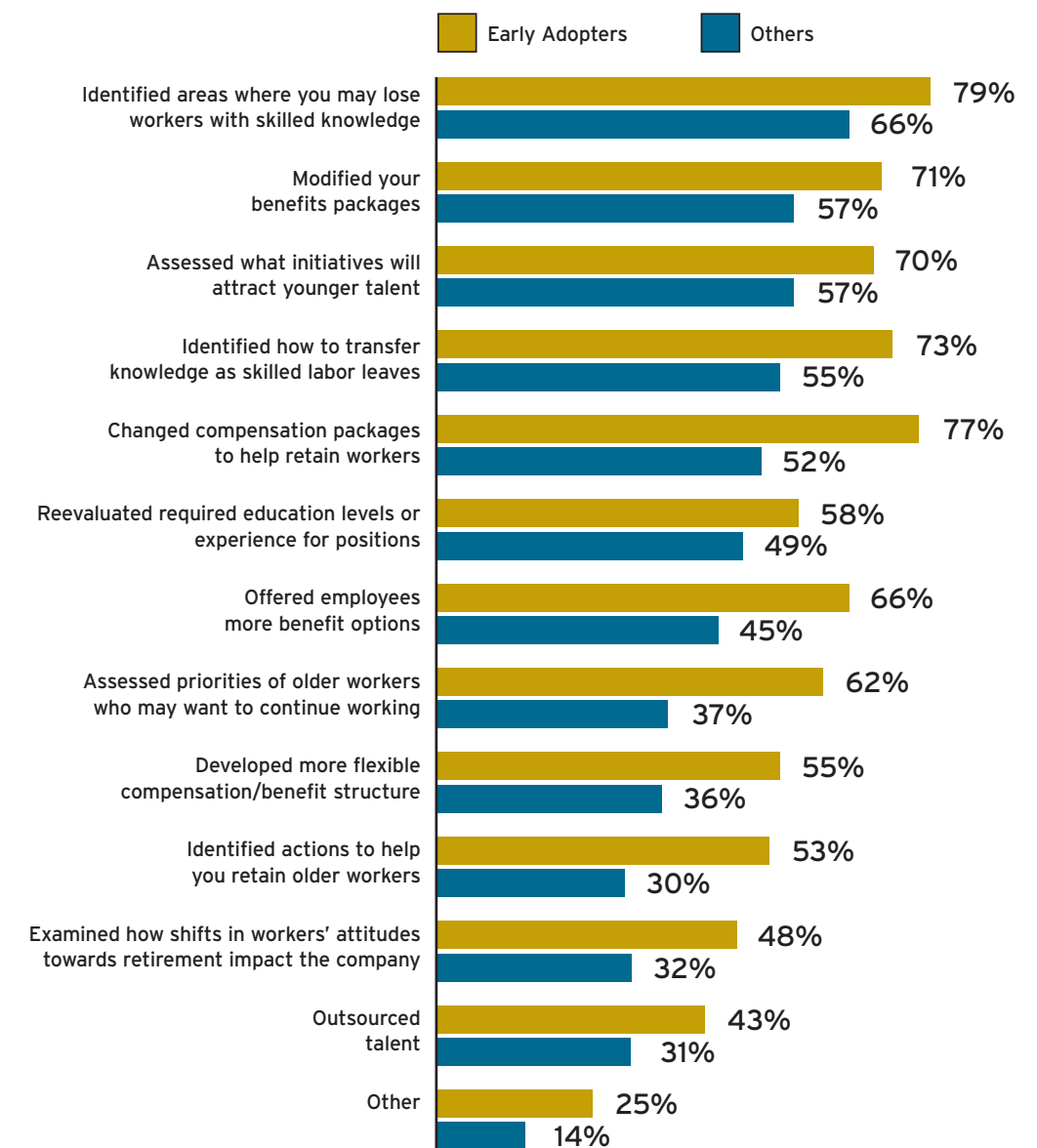
# “Early adopters” are more likely to take a wide range of actions.

To identify companies who are taking action already, we designated firms who are currently offering at least two of the following as “Early Adopters.”

- ▶ New technology to accommodate workers working remotely
- ▶ Allowing older workers coaching and mentoring opportunities
- ▶ More healthcare coverage for part-time or seasonal workers
- ▶ Different assignments
- ▶ Opportunities to transfer jobs with reduced pay/hours
- ▶ Phased-in retirement programs
- ▶ Different balances between compensation vs. other benefits

Early Adopters are leading the pack when it comes to taking steps to attract and retain skilled labor.

Question: Has your company done any of the following to help attract and retain skilled labor?



Q525

Base: Early Adopters, N=314. Others, N=687

# Concern and action vary by company size, industry and the presence of a pension plan.

Certain employers are more concerned about the loss of skilled labor than others.

Question: Among which classes of employees do you think you will feel the impact of labor shortages and brain drain the most as a result of employees retiring?

Employee Classes	Benefits Offered		Company Size		Industry				
	DB Plan	Other	1000+ Empl.	100-999 Empl.	Mfg	Whole/Retail	Services	Fin/Ins/RE	Other
Highly Skilled Professionals	48%	25%	38%	26%	37%	18%	45%	23%	33%
Middle Management	20%	27%	25%	20%	31%	31%	18%	19%	22%
Rank & File	17%	24%	19%	26%	16%	30%	15%	30%	31%
Senior Management	11%	18%	13%	21%	12%	15%	17%	21%	9%
Don't Know/Refused	5%	6%	5%	7%	4%	7%	6%	7%	5%

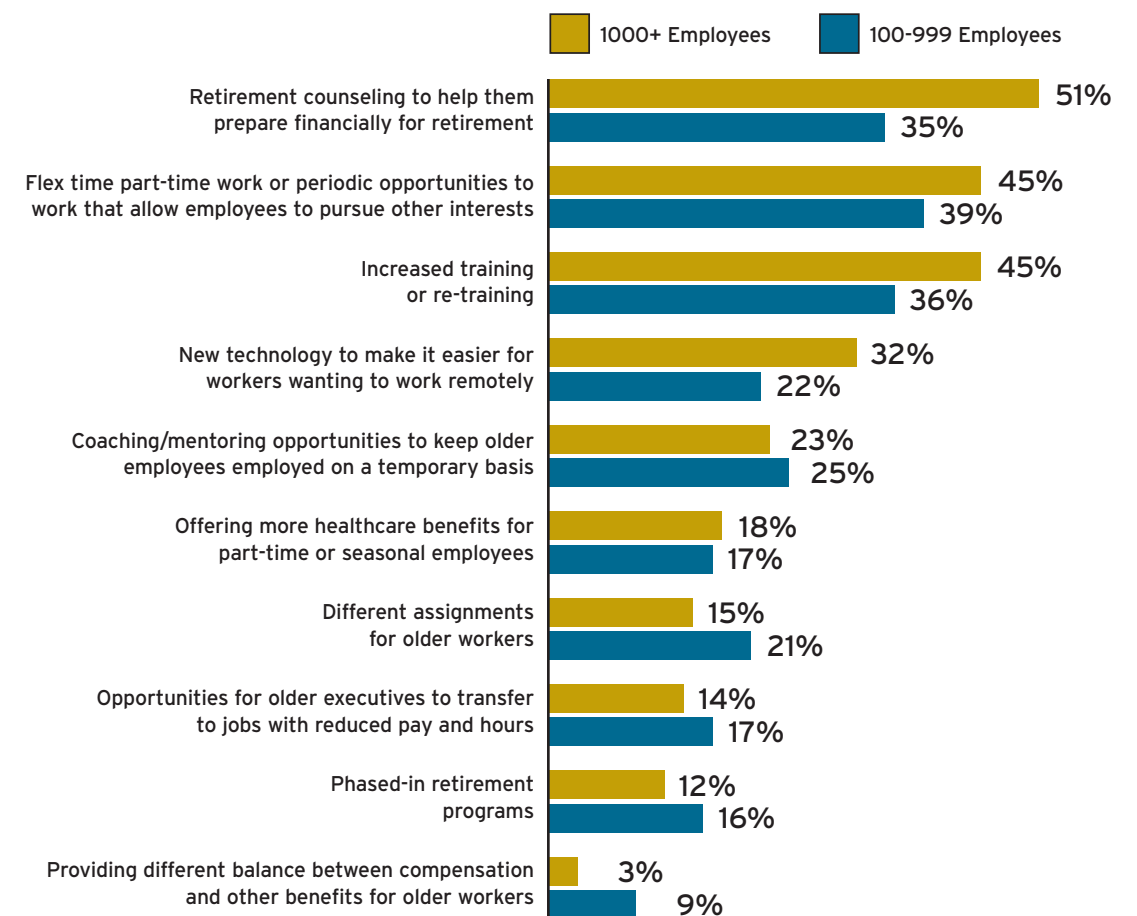
Q540

Base: Total, N=1,001

Losing skilled professionals is seen as a greater threat by companies which have a defined benefit plan, which are large rather than small, or are in the “services” business, compared to other industries. Large companies do “more” to attract and retain older workers, but small companies are more likely to offer the programs older workers want.

While larger firms tend to do more to try to attract and retain older employees, smaller companies tend to be more innovative in their approach.

Question: Which of the following benefits are you currently offering or considering offering to attract and retain older talent?



Q610

Base: 1000+ Employees, N=545. 100-999 Employees, N=456

# What does this mean for my company?

With millions of Boomers retiring over the next few years, why aren't more firms preparing right now for the labor shortages many experts are predicting? And if Boomers want to continue working in retirement anyway, why aren't companies just keeping them on the job to help solve any labor or skill shortage that may arise?

Actually, there are several factors which may either mitigate...or mask...the effects of Boomer retirements. The hard part is knowing which ones truly help and which ones merely hide the problem.

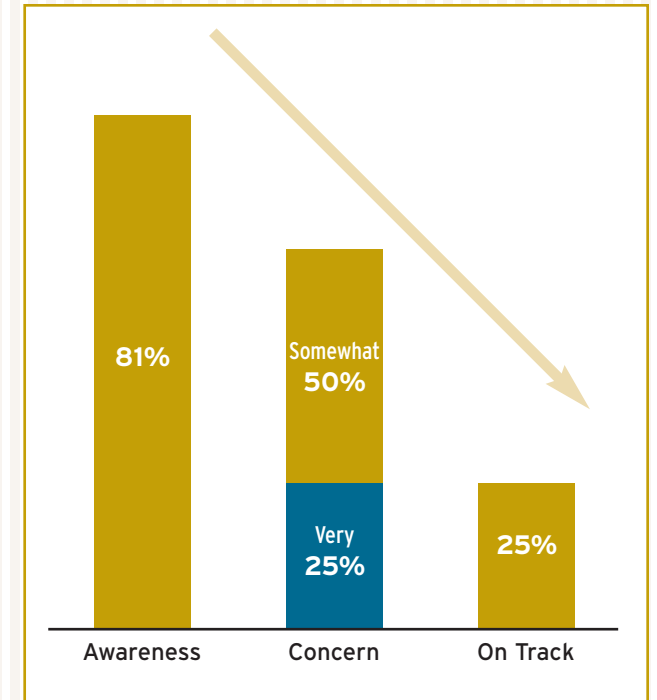
Young employees may help, but there will be a lot fewer of them relative to the workforce than there were when Boomers began working. Getting enough new employees, especially those with the right skills, may become much more difficult. In other words, much more *expensive*.

Keeping older workers in the same job, at the same company, may also become more difficult. As our survey indicates, "skilled professionals" may prefer to strike out on their own as consultants. Others might rather try a different job or a different company because it's new, because it's more challenging, because it's less stressful, or simply because it's more flexible.

## Pathway to Action

Employers who say they are "on track" in their preparation for an exodus of older employees must first be aware of the problem and secondly be concerned about the effect on their company.

Most companies are aware that there may be a problem. Not all firms who are aware of the issue are concerned about it, however, and a much smaller percentage are "very concerned." The "very concerned" companies are those most likely to say they are "on track" in preparing for the retirement of the Boomers.



This does not mean all employers should be concerned, or that all employers should be addressing a "problem" that may not have an immediate effect on their company. Some firms have good reason not to be concerned and some can afford to wait and take action later. The risk is in waiting too long because:

- Boomers won't be leaving the work force all at once, but over a period of at least 20 years. Without careful planning, some employers may underestimate the effect on their firm.
- Labor and skill shortages will affect different industries, in different ways, and at different times. Some who see the problem as "not in my back yard" yet, may not take action in time to prevent it.
- Some companies choose not to be "out front" with their compensation and benefit policies, waiting, instead, for others to break new ground and make the pathway easier. Waiting even to start planning may put your firm at a serious competitive disadvantage, however.

## The Rewards of Planning Ahead

A key element of good management is planning ahead. The cost of analyzing your company's needs is likely to be small, especially if you compare it to the cost of a "potential" labor or skill shortage. The results may show no action is needed in the near future, but may also provide insights into when and how to address changing demographics and employee needs.

Some employees are *already* living what Merrill Lynch has called, "The New Retirement"—working past their normal retirement age for personal satisfaction and financial security. The number of people seeking this option, and the number of employers offering it, are growing. Employers who offer "New Retirement" options, whether or not they foresee a labor or skill shortage on the horizon, may be better able to attract and retain good employees of all ages.

### Three Reasons to Offer New Retirement Benefits

- ▶ Retain older workers to mitigate potential labor or skill shortages.
- ▶ Attract older workers from other companies or from retirement—a source of labor and experience not often pursued.
- ▶ Attract and retain workers of all ages, since all ages are interested in workplace flexibility. All age groups have also indicated an interest in choosing between compensation, workplace flexibility, and other types of benefits.

## What Can I Do?

To help you explore the issues and opportunities that may affect your company, we've prepared the high-level checklist included at the back of this paper. We encourage you to tailor the process to your firm's own needs and norms.

### Merrill Lynch's Commitment

The Retirement Group at Merrill Lynch is committed to providing its clients with leading-edge information, research and analysis on issues and trends related to retirement. We are also committed to helping our clients address their needs with innovative products, services and consultation.

For more information on the research cited here, or any of our other offerings, please contact your Merrill Lynch representative.

