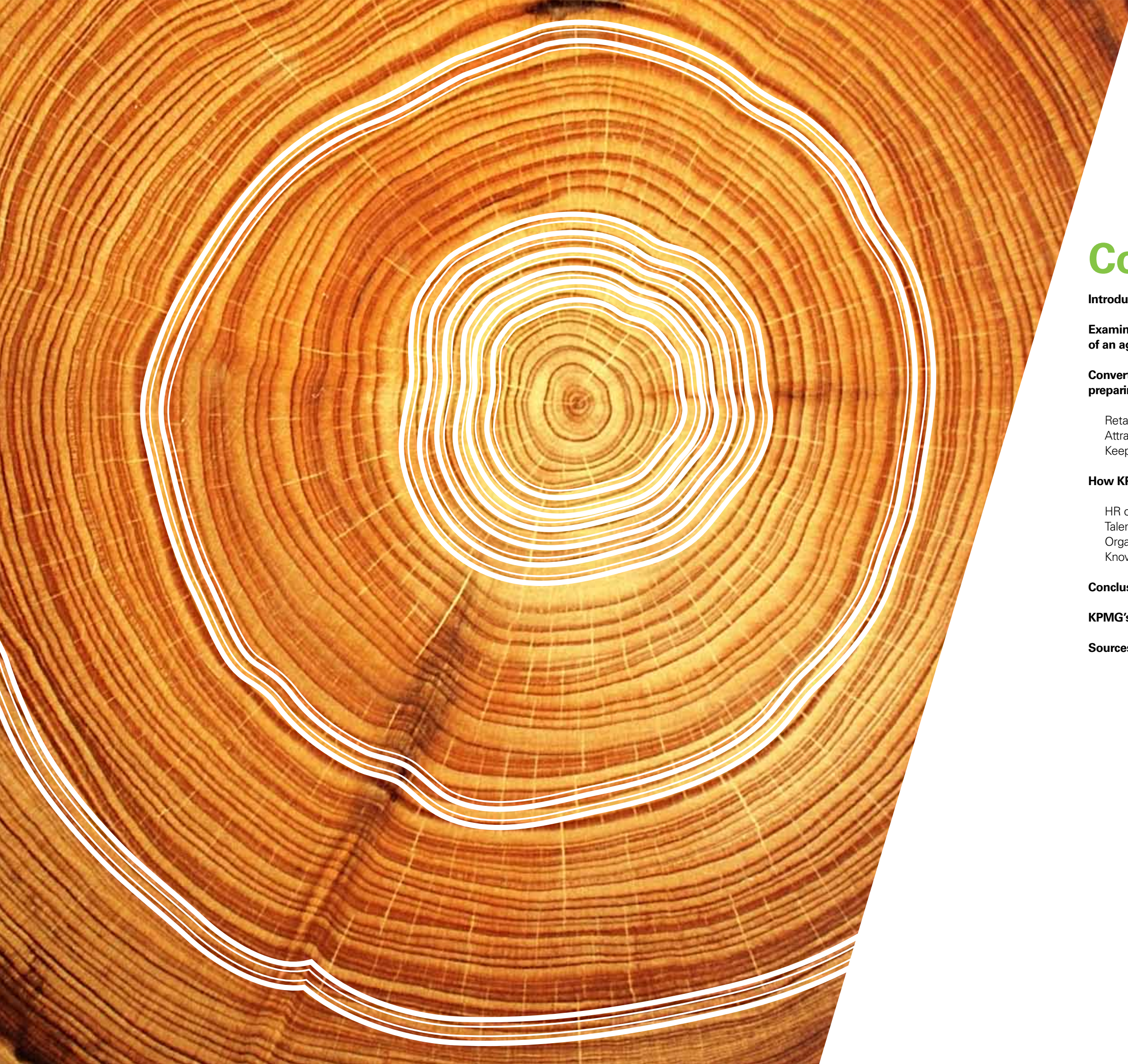


AGEING WORKFORCE CHALLENGE

Turn silver grey into gold

*Empowering companies
and organisations to tackle
the ageing workforce challenge*

kpmg.eu



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Introduction

Good news!

By 2050, the average age of European citizens will be 49¹. Additionally, the current life expectancy at birth of an average European male is around 76 years, while the average European woman is expected to live till about 82². These statistics indicate that people are living **longer and healthier lives**, which is a positive evolution.

However, better health does not imply that people remain professionally active for a longer period of time. Only 54% of EU citizens between the age of 55 and 64 are still actively employed. Research indicates that employees often leave the labour force early because they feel pressured to, not because they want to stop working. Health issues and an unsatisfactory work-life balance are also important reasons for a premature departure from the labour market³.

The large number of baby boomers (adults born between 1946-1965) approaching retirement age and the declining birth rate in the EU since the 1970s⁴ have triggered a severely skewed age structure in many companies and organisations. More than 40% of the people working in the health care sector, utilities and energy, education and other public sector functions are over 45 years of age. No less than half of them are over 55. This demographic situation causes governments to worry about the declining percentage of the working population that will have to support retirees. In the Netherlands and in the UK, around 15% of the work force is older than 55⁵. For Belgium, Germany and other European countries, over 10% of this cohort is still working. When the group of people aged over 40 is added, this amounts to more than 50%⁶. By 2050, the working population is expected to drop by 48 million (16%) with the retired population going up by 58 million (77%)⁷. The current old-age dependency ratio⁸ is already 25.9%⁹ and the impending massive retirement of baby boomers will reduce the proportion of working-age people to those aged over 65 even further to 2:1 by 2060¹⁰.

It comes as no surprise that **many organisations see the retirement of older employees as a significant challenge**. However, few of them have started to prepare for this challenge, which is not a future concern, but a current reality¹¹. In order to guarantee the funding of pensions, governments are looking to increase the minimum retirement age. In the meantime, what do organisations do in order to prepare themselves for an older workforce?

KPMG is confident that private and public organisations can prepare and adapt to the new circumstances and any future eventualities. Let's turn the challenges of an ageing workforce into opportunities!

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Examining the challenges and opportunities of an ageing workforce

The following pertinent questions reflect the challenges organisations are confronted with today:



How to retain the knowledge of key employees who are about to retire?

Knowledge is one of the key elements that enable a company to grow and survive in an increasingly competitive business environment. The information and experience employees gain over the years are of vital importance and need to be secured and stored adequately, especially with the impending retirement of baby boomers. Although more and more companies recognize the high value of older workers' knowledge and skills, we observe that organisations find it difficult and lack the tools to **store knowledge**. An even greater challenge is ensuring that knowledge is being **transferred effectively** to other employees, in order to guarantee a sustained knowledge level in the organisation. This appears to be a major point of concern for both private and public companies.

How to attract the best talent?

Not every employee that retires can be replaced in the current economic context. The challenge of **'doing more with less'** forces organisations to rethink their sourcing strategy. In the first instance, companies need to look for ways to put their current employees to use in the most efficient manner. When looking to fill remaining vacancies, it is important to bear in mind that the available **talent pool is shrinking** because young potential applicants extend their studies and enter the labour market at a later age than previous generations or take a sabbatical year and that young **generation Y** high potentials feel less affinity with traditional recruitment channels.

How to keep talent (motivated) in the organisation?

Companies are struggling to meet the needs of both younger and older employees. Few organisations are effective in providing flexible benefit packages that reflect the needs of employees at different stages of their careers.

We see that **OLDER EMPLOYEES** retire before the pensionable age, not only because retirement programs assist them in doing so, but also because they have lost their motivation due to unfavourable **working conditions**, an inadequate **work-life balance** and a lack of support to cope with new **technologies** and methodologies.

Concerning the motivation of **YOUNGER EMPLOYEES**, there are several issues to consider. To start, employers need to understand that the so-called generation Y is eager to learn and attaches high value to **career progression**.

Given that baby boomers are numerous and tend to occupy senior positions, younger employees find it difficult to get promoted. This phenomenon is referred to as the **grey ceiling**. Research also shows that young managers find it hard to guide older workers. Compounded by the fact that the massive retirement of baby boomers will soon leave a lot of vacant high-level positions, employers need to make sure that the next generation is prepared to quickly take on management tasks.

Converting a challenging necessity into success: preparing for tomorrow and planning for the future

Ready-made solutions that guarantee success in all organisations and provide an answer to all of the pertinent questions an ageing workforce raises are a myth. Therefore, we feel it is important to prompt organisations to develop a clear insight into their workforce and to guide them in detecting current and future problems and opportunities. With these insights, a customised approach to tackle the upcoming challenges can be developed.

To effectively address the ageing workforce challenge, an organisation must

understand the extent of the potential problems it is facing and what might be causing them. KPMG has developed an **HR data analysis** tool that quickly feeds data to the screening personnel in a short period of time. Encompassing interviews with key stakeholders, workshops and focus groups, this tool offers the total quantitative and qualitative personnel picture needed to detect problems, threats, challenges and opportunities. **KPMG's diagnostic** can help you identify current and future talent needs and find answers to key questions.

- Which employees are eligible for retirement in the next two to ten years?
- Which core skills do you need to execute the business strategy?
Do the workers who will retire in the near future possess these key skills?
- Which jobs and skill sets will be impacted?
- How will you replace these skills once these employees retire?
- What are the key skills for the future that will need to be recruited or developed?

Thorough insight into your personnel data allows you to address the issues an ageing workforce entails. Let's have a closer look at **three major challenges** and define which **key questions and critical success factors** need to be taken into account. Let's think about how you can turn silver grey into gold.



Retain and transfer knowledge

- Which knowledge and expertise are crucial to your organisation?
- Which key players are about to leave the company?
- Are you able to capture knowledge and skills systematically and efficiently?
- Do you have processes in place to mutually share and transfer knowledge?

Experienced key players who leave the company might take a lot of crucial knowledge and skills with them. KPMG has defined attention points to avoid the serious threat of knowledge loss:

Define your key players and core skills

Immediate attention has to be focused on defined critical profiles that are on the verge of retirement. KPMG has defined specific **criteria for selecting eligible profiles to transfer knowledge**; the person who is about to retire:

IS AN EXCELLENT PERFORMER	OR/AND	HAS A POSITION IN THE ORGANI- SATION THAT IS CRITICAL FOR BUSINESS CONTINUITY OR WHOM NO OTHER EMPLOYEE CAN BACK UP	OR/AND	HAS A STRONG NETWORK INSIDE AND OUTSIDE OF THE ORGANISATION	OR/AND	IS CONSIDERED A GO-TO PERSON DURING DIFFICULT SITUATIONS.
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Disclose, capture and transfer knowledge

Efficiently and systematically documenting key processes can save your company time and money when key people leave the organisation. Technology can help to **STORE KNOWLEDGE** on a permanent basis and pass it on throughout the organisation.

Implicit knowledge, the underlying reasoning and human touch, is more difficult to collect, yet no less important. You can bring this valuable expertise to the surface through, for example, **storytelling**.

Capturing knowledge is a promising start, but make sure you **PASS IT ON** to the right people in your organisation! KPMG has valuable experience with **communities of practice** and debriefing sessions or after-action reviews. This contact causes people to share, to ask questions and to contribute to a learning organisation. Technology tools and concepts, like SharePoint and **e-learning**, aid in transferring documentation. You can transfer knowledge and skills by connecting people!

Deploy and develop through mutual contact

Knowledge sharing does not flow in one direction only, it is a **two-way street**: receiving and giving. Mutual coaching or mentoring enables effective exchanges. Older employees have learned a lot through experience, which can be passed on to their younger fellow workers, and they, in turn, can learn new technologies and insights from younger colleagues. The mutual exchange of ideas, experiences, etc. enables knowledge transfer, increases employability and helps **reduce the gap between generations**. By collaborating, people of different age groups learn to respect one another. This can have a positive effect on motivation and, eventually, team productivity.



Attract the best talent

- Are the current recruiting processes feasible to quickly hire resources with key skills you face losing due to retirement?
- How well is your organisation positioned (employer brand)?
- Do you stay in touch with former employees?

The pool of new recruits is declining and organisations are battling to attract the best high potentials. KPMG has defined points of attention when replacing retired employees:

Understand your talent needs

Before you start replacing retired employees by setting up recruitment activities, make sure you know the time, the number and the type of talent you need to safeguard the continuity of your business. This exercise has to be done by HR in partnership with the business. With the help of **scenario modeling**, forecasts can be created that incorporate multiple what-if scenarios (unchanged policy: no recruitment, redeployment actions, stable retention rate, retirement at 60, at 65). These forecasts are the basis for implementing a strategic workforce plan and carrying out a business strategy and the objectives, as they take into account the limited pool of high potentials and restrained personnel budgets.

new generations, organizations need convincing career messages to send out. In the fast paced environment of social networking, we do not always control the impact of messages we send. Make sure that what you say is what you stand for. By including potential employees with diverse backgrounds and skills in your scope, it will be easier to replace imminent retirees' wide expertise.

Stay in touch with former employees

People that retire do not necessarily leave the company for good. Rehires can be of great value to the firm, as they bring (back) relevant knowledge and have realistic expectations about the organisation. The experience that employees returning from retirement bring can be of significant value. Put their knowledge to good use in the organisation. You should not simply use rehires to work on daily chores. Instead, you should **mobilize them to transfer knowledge**¹², to **coach less experienced employees** and to add strategic insights. Additionally, a former or retired employee that chooses to come back to your company contributes to your image as an attractive employer.

Diversify your recruitment tools and scope

Potential recruits belonging to generation Y and beyond have different ways of communicating to older generations. To attract new talent, KPMG advises using **new recruitment channels** (for instance social networking sites) and to make use of technology during the recruitment and selection process. Once connected with the

- 
- Why do people leave your organisation? What makes people stay?
 - Do benefit packages reflect the need of employees at different career stages?
 - Do you provide an attractive career path for employees of all ages?
 - Is there potential for introducing mentoring and/or coaching roles in your team?

Keep your talent motivated

Early retirement is quite common and those with many years in a company seem to be declining in number. Organisations need to ask themselves how they can keep both younger and older employees motivated. KPMG has defined tactics for improving retention.

Know what is important to your people

Creating a solid retention strategy starts with **knowing what drives your people** to stay or to leave the company. Many organisations already know the answer to these questions thanks to employee satisfaction surveys and exit interviews. Unfortunately, this information is seldom put to use. KPMG can help you define the strengths and weaknesses of your organisation and understand what motivates both younger and older employees, based on the insights you have already gained and through complementary interviews and workshops. After defining these effective and ineffective features of your organization, the next step consists of matching the practices your organisation has in place to the needs and expectations of your employees. Following this analysis you are in a better position to develop a successful retention policy.

Motivate your people through current and future challenges

We found that job satisfaction strongly increases when opportunities are created for people to take on a **new challenge** within the organisation. The kind of challenge they look for is often related to their length of service in the company and where they are in their career.

An **EXPERIENCED EMPLOYEE**, who is contemplating retirement, might be happy to take on a mentoring role as a new challenge¹³. This new **coaching function** will renew and extend his skills. By providing this stimulating yet physically less demanding option in career paths, the organisation acknowledges the value of older employees' skills and enhances commitment. Meanwhile, knowledge is transferred and younger employees build up crucial know-how. It is a win-win situation.

YOUNGER EMPLOYEES feel the need to grow, learn and progress in their career. Keep them motivated and challenged by providing them the opportunity to accumulate experience in different areas of expertise through **job rotation** and **temporary assignments** and by offering them attractive career paths that facilitate vertical and horizontal mobility.

Provide flexible working conditions

People's needs change at different stages in their career. Young employees might want to work around the clock in order to gain experience and to compile overtime for a trip around the world or to take care of their children's future, while older employees might value more time at home with their partner or grandchildren.

Flexible time schedules (e.g. from fulltime to part-time, from 9 to 5 to flexible start and end times, working from home, etc.) enable companies and employees to smooth the path towards retirement.

Flexibility will also be the key in rewarding people. **Flexible benefit packages** allow employers to personalise and manage their own compensation packages. This means that along with the fixed and variable salary (that still counts for 80 to 85 percent of the reward package) the employer offers benefits that are not only gratifying in terms of taxes, but also in terms of raising the level of employee commitment and motivation by allowing them to choose the package that is most advantageous for them. There is a wide range of benefits you can offer your employees to choose from such as: work life benefits (days off, reduced working time, etc.), special service benefits (ironing, laundry services, sport facilities, etc.), non-recurrent bonuses, mobility packages (company car, full reimbursement of public transport expenses, etc.), insurance packages, etc.

How KPMG helped

HR optimisation & metrics: HR Data Analysis Tool

KPMG has performed an HR data analysis of the age structure by function and department in an educational establishment.

Context

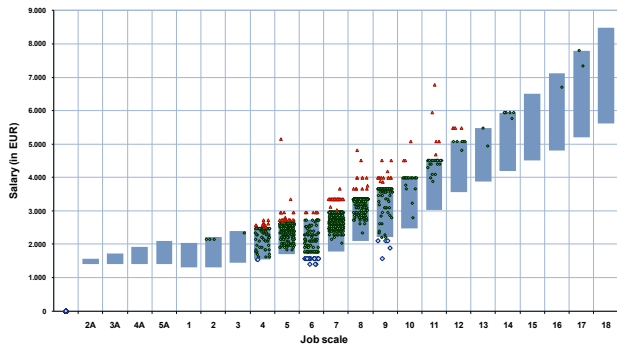
Facing an ageing workforce, the client addressed KPMG to provide clear insight into its personnel structure and the developing consequences for the near and distant future (scenario modelling). The insights that were obtained formed the basis of a new HR policy adapted to the client's needs.

How KPMG helped

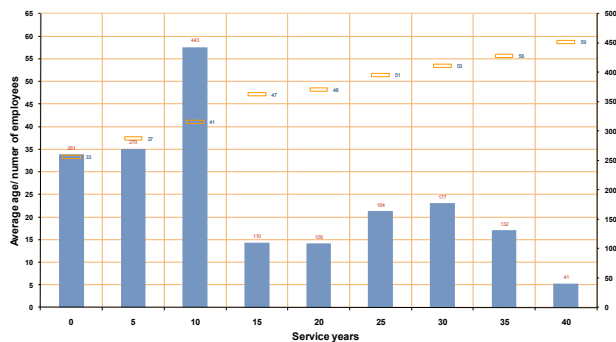
KPMG has developed an HR data analysis tool that allows screening personnel data in a short period of time. The HR data analysis that was completed by interviews with key stakeholders, workshops and focus groups showed that the overall average age in the organisation was 46. However, in certain departments the average age rose to 56 and in some functions, to 59 years. These results implied that in a few years time a relatively big share of employees would retire and leave the organisation, leading to a loss of a lot of valuable knowledge in a relatively short period of time. KPMG also discovered a certain relation between labour cost, productivity and age.

Achieved

KPMG offered the total quantitative and qualitative personnel picture needed to detect problems, threats, challenges and opportunities. The insights obtained through the analysis KPMG performed, have led the organisation to adapt its strategic HR policy and to undertake actions regarding its hiring policy, strategic workforce planning, knowledge retention and knowledge sharing. In this case the analysis has been a good starting point for implementing strategic personnel planning.



Graph 1 shows the salary employees receive in comparison with the salary scale they belong to. The red bullets reflect employees receiving a salary above their salary scale, while the blue bullets represent staff members that are underpaid with regard to the salary scale in question. Green bullets show employees that receive a salary according to the scale they belong to.



Graph 2 shows the number of employees by age category and number of years in service.

Talent Management: Professional Capability Framework

KPMG has supported a global pharmaceutical organisation in developing a strategic approach to the management and development of talent.

Context

Driven by a period of change and restructuring, facing increasingly challenging market conditions and the growing stake in older employees, the client needed to retain and develop business critical skills in order to achieve its strategic goals.

How KPMG helped

KPMG was asked to work with the organisation to target three key professional groups: Business Development, HR and Finance. Working in collaboration with the business, KPMG developed a Professional Skills Capability framework for each functional group. This framework defined the core knowledge and expertise required to be successful in each function. KPMG worked with the client to 'future proof' the frameworks, ensuring they reflected those skills that would become increasingly important in achieving the future business strategy in light of changing market conditions and an ageing workforce.

Achieved

The capability framework provided a strong foundation from which to implement talent management activities designed to develop and retain professional skills which the organisation may lose due to retirement, as well as broader leadership and behavioural competencies. For example, KPMG developed a revised Finance Academy and Career Pathways for the Finance community in order to help Finance professionals grow core capabilities required in the future operating model.



Organisation redesign: Workforce redeployment

KPMG has worked with a global provider of telecommunications services that faced significant pressure to reduce costs and redeploy its people in order to improve its financial performance.

Context

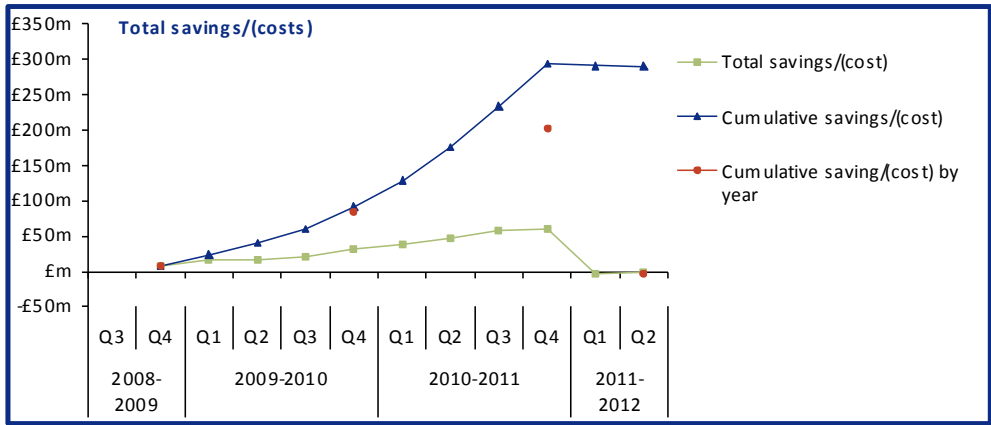
The client was compelled to reduce its workforce by 15%, while continuing to deliver high quality services. KPMG was asked to support the company in achieving this target and estimating the impact of workforce reduction proposals and the costs associated with shutting down offices in different countries. Redeployment and careful workforce planning were necessary to secure the quality of the services delivered by the company.

How KPMG helped

KPMG worked with the HR and Finance teams in order to understand current resourcing, existing workforce reduction plans and costs of termination by territory together with contractual and operational constraints in reducing the workforce over the anticipated time period. KPMG developed an analytical model to quantify the costs and savings for the company and illustrate the financial impact of taking different approaches for workforce reduction. KPMG also advised the client about the practical issues associated with redundancy and redeployment.

Achieved

Using the KPMG model, KPMG was able to demonstrate to the client the estimated costs and savings of the plans they had elaborated and illustrate the additional savings potential under different scenarios, such as increased termination of staff under contract and redeployment of surplus staff.



Graph 3 shows the total savings the company could achieve on yearly basis.

Knowledge management: Storytelling and technology

KPMG has supported an international oil and gas company in capturing and transferring essential knowledge and in enhancing motivation and commitment in the process.

Context

Ten key employees were about to leave the company, and the continuity of the organization was threatened by a severe loss of knowledge (technical profiles) and the potential loss of contacts with important clients, the so called 'company's address book' (commercial profiles). Additionally, KPMG identified low motivation and commitment among imminent retirees and therefore little effort on their part to pass on knowledge.

How KPMG helped

KPMG organized individual interviews with all key players on the verge of retirement to understand and document their tasks and network. All areas were covered thanks to the comprehensive questionnaire elaborated by KPMG. Next, storytelling was introduced on plant or department level, creating the opportunity to share and to pass on knowledge and experience. KPMG videotaped all sessions and wrote manuals based on the acquired information. Both dvds and manuals were distributed and stored in all departments in the country. Further, KPMG developed a customized development plan for each successor and coached them in order to facilitate the transition towards their new job. KPMG also ensured strong ties with retirees were being maintained, so that successors and former colleagues could turn to them in the future.

Achieved

Thanks to purposeful storytelling, transition coaching and technology, KPMG safeguarded essential knowledge and durable contacts with key clients. The approach that they used enabled increased commitment and motivation among people that were about to leave the company, as they now felt they were properly acknowledged by the firm. The same tendency was perceived among younger colleagues who saw that the organization recognizes the skills and experience of its people.



Conclusion

Based on our research and client experience, KPMG understands how important it is for companies to begin preparing today for the challenge of an ageing workforce. In fact, we believe that this challenge is **an open invitation to improve and optimize your HR strategy**. A sensible re-evaluation of the ways you attract and retain talent and transfer knowledge is urgent as changes in the labour market are knocking on the door and can no longer be ignored.

From our professional point of view, **organisations, which are actively engaged in dealing with their ageing workforce, will achieve their strategic goals faster and more comprehensively**. They will become best in class and enjoy a strong competitive position!

Now, it is time to take action!



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