TOWERS PERRIN

HR SERVICES

Planning for Tomorrow's Talent Needs in Today's Competitive Environment

The Business Case for Workers Age 50+

May 2005

Study Overview

- **What is the Business Case for Workers Age 50+?** A comprehensive study completed by AARP on mature workforce issues including
  - The Business Implications of Changing Workforce Demographics
  - The Value Side of the Equation — Advantages of Experience
  - The Cost Side of the Equation — Understanding the Key Drivers
  - The Employee Perspective — What 50+ Workers Are Looking For
  - Managing Opportunities and Challenges — Strategies for the 50+ Workforce
- **What is the source of the information?** AARP engaged Towers Perrin to prepare the business case report; Towers Perrin used information from publicly available data sources, data sources proprietary to Towers Perrin, as well as other third party sources
- **What kinds of organizations are covered by the analysis?** Study is focused on large companies in 4 industries, including energy, financial services, retail: The selection was based on:
  - Ability of large companies to define leading practice
  - Number employed
  - Importance to the economy
  - Need of skilled or customer facing talent

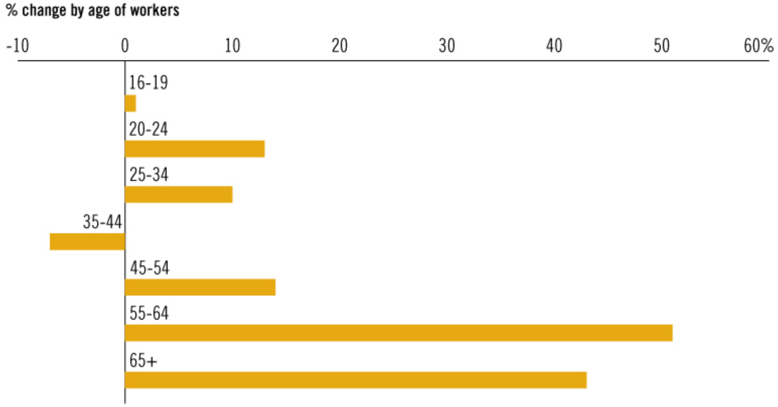
What Are The Key Findings?

- **DEMOGRAPHICS ARE CHANGING**: Many companies cannot afford to have employees retire en masse
- **MOST 50+ EMPLOYEES WANT TO WORK**: AARP research shows more than two-thirds (68%) of today's older workers plan to work in retirement or never retire
- **PRODUCTIVITY CAN BE SUSTAINED OR INCREASE WITH AGE:** While data on productivity is not complete, there is mounting evidence that 50+ workers can sustain productivity, motivation and creativity
- **EVALUATE TOTAL LABOR COST:** To build an effective business case, companies need to evaluate labor cost holistically, including costs of turnover
- **ENHANCING RETENTION OR ATTRACTION HAS ONLY MODEST COSTS**: The business case analysis looks at the impact of retaining more 50+ workers or attracting more 50+ workers, and found that cost differences can be 3% or less for retention and only 1% or less for attraction
- **SOME BRAND NAME COMPANIES ARE LEADING THE WAY**: These companies are demonstrating out of the box thinking to leverage the 50+ workforce including attraction, knowledge management, phased retirement or rehiring retirees strategies.

Business Implications Of Changing Demographics

EXHIBIT I-1

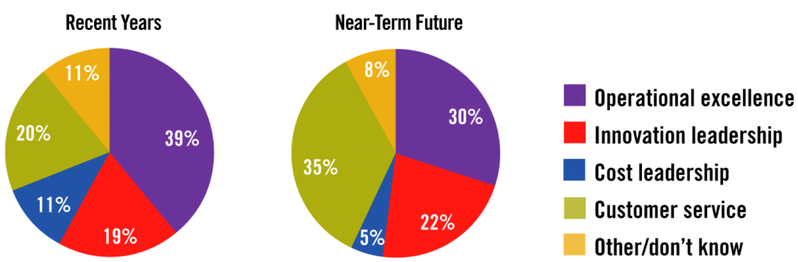
Projected Change in Civilian Labor Force by Age Group, 2002-2012



Source: Mitra Toosi, *Monthly Labor Review*, February 2004

EXHIBIT I-2

Dominant Business Strategy



Source: *Reward and Performance Management Challenges: Linking People and Results,* a 2003 Towers Perrin survey of human resource executives in 1,300 midsize and large organizations in Asia, Europe, North America and Latin America ©2005 Towers Perrin

- **DEMOGRAPHICS ARE CHANGING AND COMPANIES ARE FACING LOSS OF TALENT**
  - 18% of the workforce at a typical large company is retirement eligible and another 30% becoming retirement eligible in the next 5-10 years
  - The "pain" ranges from roles in leadership to sales, technical and professional disciplines and skilled trades
- **BUSINESS STRATEGIES ARE CHANGING:** This loss of talent could hinder implementation of people-intensive strategies focused on innovation and customer service
- **THE ISSUES ARE NOT ONE SIZE FITS ALL:** The impact varies depending on industry, company, job categories and positions

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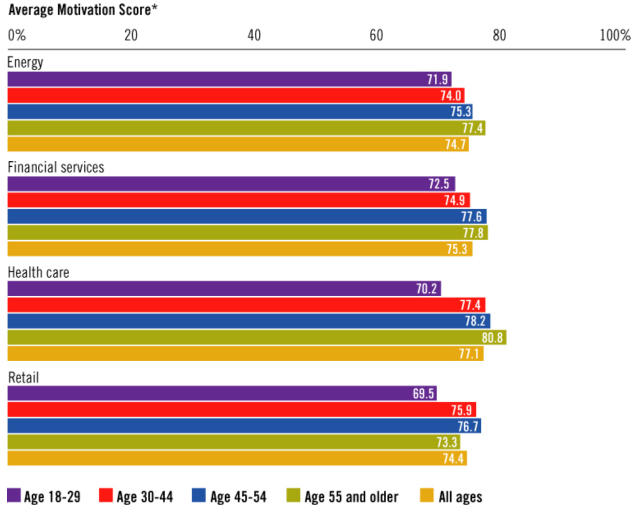
The Value Side Of The Equation

EXHIBIT II-5
Employee Motivation, by Industry and Age



*Towers Perrin's motivation score is based on a 100-point scale.

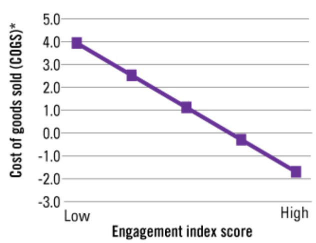
Source: *2003 Towers Perrin Talent Report*, based on a random survey of more than 35,000 employees working for large U.S. companies (i.e., *Fortune* 1000 companies and equivalents), including approximately 1,400 respondents in the energy industry, 3,500 respondents in financial services, 4,600 respondents in health care and 3,200 respondents in the retail industry. ©2005 Towers Perrin

EXHIBIT II-1
Engagement and Revenue Growth[8]

*Incremental percentage point difference between one-year company revenue growth and market sector average

Source: *2003 Towers Perrin Talent Report*, based on a random survey of more than 35,000 employees working for large U.S. companies (i.e., *Fortune* 1000 companies and equivalents) ©2005 Towers Perrin

EXHIBIT II-2
Engagement and Cost of Goods Sold[9]



*Incremental percentage point difference between company COGS as a percent of revenue and market sector average

Source: *2003 Towers Perrin Talent Report*, based on a random survey of more than 35,000 employees working for large U.S. companies (i.e., *Fortune* 1000 companies and equivalents) ©2005 Towers Perrin

- **MEASURING PRODUCTIVITY IS ELUSIVE**
- **EMPLOYEE MOTIVATION TENDS TO INCREASE WITH AGE:**
  - Level of older workers' motivation to exceed expectations increases with age overall and in three of the four industries reviewed (less clear in retail)
  - Motivation is correlated with levels of "engagement" (i.e., higher motivation related to willingness to invest discretionary effort in work)
  - Companies with more highly engaged employees outperform their industry peers on a range of key business and financial measures
- **THE CREATIVITY FACTOR SHOULD NOT BE IGNORED:**
  - Many historic figures achieved prominence in late working years (e.g., Ben Franklin, Frank Lloyd Wright)
  - New research demonstrates that the human brain continues to develop, even with age (Dr. Gene Cohen, director of the Center on Aging, Health and Humanities at George Washington University)

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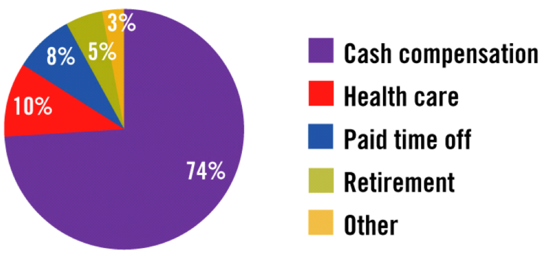
The Cost Side Of The Equation: Understanding The Key Drivers

EXHIBIT II-1

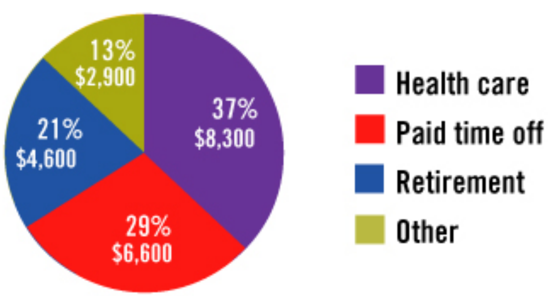
Breakdown of Typical Reward Costs in Large U.S. Companies



Source: Towers Perrin Benval ©2005 Towers Perrin

EXHIBIT III-3

Major Components of Employee Benefit Costs



Source: Towers Perrin Employee Benefit Information Center 2005 data on more than 700 large U.S. employers (i.e., *Fortune* 1000 companies and equivalents) ©2005 Towers Perrin

- **97% OF COST COMES FROM 4 REWARDS:**
  - Cash compensation
  - Health care
  - Paid time off
  - Retirement
- **DRIVERS OF COST VARIATION ARE COMPLEX AND DIFFER BY REWARD TYPE:**
  - Cash compensation: Set using the market median, pay philosophy, or based on gains in skill or competence and responsibility
  - Healthcare: Depends on age, health risk, utilization and plan design
    - — Company-paid claims for employees age 50–65 and their covered dependents are 1.4 to 2.2 times as much as claims for workers in their 30s and 40s
  - Paid time off: Affected by length of service
    - — An employee with 20 years of service is typically double the cost for newly hired workers
  - Retirement: Defined benefit versus defined contribution, and plan formula
- **TURNOVER COSTS ARE EXPENSIVE:**
  - Replacing an experienced worker of any age can cost 50% or more of the individual's annual salary
  - Workforce stability is enhanced with either long service workers or older workers

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The Business Case For Retaining Or Attracting More 50+ Workers

Scenarios

Scenario 1: Increase retention of 50+ workers
Mix A: 80% new hires age 40, 20% retention of employees age 55 with 20 years of service
Mix B: 60% new hires age 40, 40% retention of employees age 55 with 20 years of service

Scenario 2: Increase hiring of 50+ workers
Mix C: 80% new hires age 40, 20% new hires age 55
Mix D: 60% new hires age 40, 40% new hires age 55

	Average Per-Employee Costs* for Alternative Staffing Scenarios			
	Scenario 1		Scenario 2	
	Mix A	Mix B	Mix C	Mix D
Cash	$ 82,300	$ 82,300	$ 82,300	$ 82,300
Average company-paid health care claims (assumes the employer is self insured; actual costs will be higher or lower)	6,600	7,200	6,600	7,200
Paid time off	6,900	7,600	6,300	6,300
Retirement	7,600	8,900	6,900	7,400
Total average annual cost per employee	103,400	106,000	102,100	103,200
Dollar difference per average employee		2,600		1,100
Percent difference per average employee		3%		1%
One-time cost of replacement: $38,700				

*Data shown in each scenario is based on assumed average annual cash compensation of $82,300 regardless of age and service; average annual company-paid health care claim costs of $6,000 at age 40 and $8,900 at age 55; average annual paid time off costs of $6,300 for new hires and $9,500 for employees with 20 years of service; and average annual retirement plan costs of $6,400 for new hires at age 40, $8,800 for new hires at age 55 and $12,600 for employees at age 55 with 20 years of service

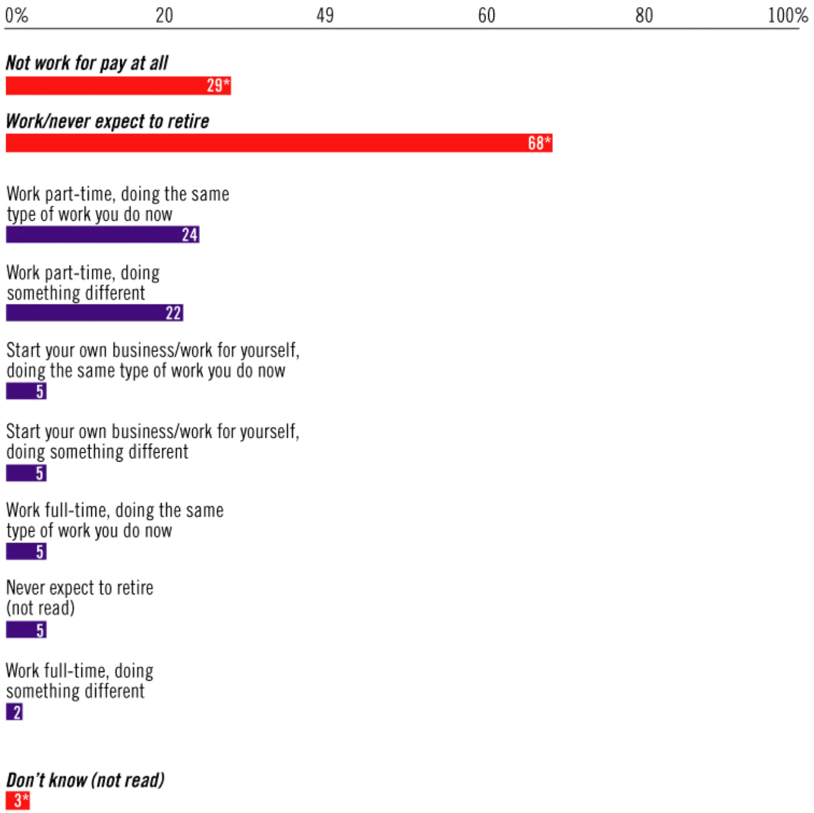
Source: 2005 Towers Perrin benchmarking data for 102 companies in the energy industry and Towers Perrin Employee Benefit Information Center 2005 data on 75 large U.S. energy companies (i.e., *Fortune* 1000 companies and equivalents); one-time costs based on Towers Perrin estimates and analysis of Saratoga Institute data on average costs by industry

- **STUDY TESTS INCREMENTAL RETENTION AND ATTRACTION FOR 4 POSITIONS IN VARIOUS INDUSTRIES:**
  - Double retention of 55 year old workers from 20% (happening via natural retirements) to 40%
  - Double the number of 55 year old new hires from 20% to 40% via outreach
- **KEY RESULTS OF THESE COMPARISONS SHOW THAT DIFFERENCES CAN BE MODEST:**
  - Long tenured worker has incremental retirement and paid time off costs
  - Offset by significant replacement costs
  - Turnover costs would be greater if new hire departs soon after being hired
- **ATTRACTION IS NOT THE SAME AS RETENTION:**
  - Service based differences in rewards change the comparisons
  - Would depend on structure of rewards programs, and the mix of benefits versus compensation

The Employee Perspective: What 50+ Workers Are Looking For

EXHIBIT 1V-1

Plans for Retirement Among Workers Ages 50-70



*Red values = 100% (purple bars make up the 68% who plan to continue working)

Source: *Staying Ahead of the Curve 2003: The AARP Working in Retirement Study*, a nationally representative telephone survey of 2,001 workers ages 50-70 (data shown here is based on how the 1,637 respondents who have never retired from a job responded to the question, "Which of the following, if any, best represents what you plan to do during your retirement?"; "not read" indicates that the response was volunteered by the respondent and was not part of the survey script), AARP, 2003

- **TREND TOWARDS EARLY RETIREMENT SEEMS TO BE REVERSING:**
  - AARP research shows more than two-thirds (68%) of workers age 50-70 said that they plan to work in retirement or never retire
  - Towers Perrin research shows 50+ workers at large companies do not expect to stop working altogether until age 67½ and 69% want to continue working part time either in their own job or at another

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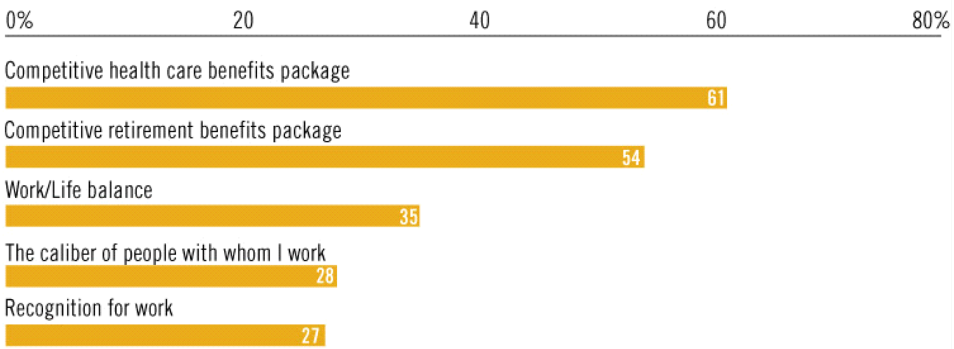
The Employee Perspective: What 50+ Workers Are Looking For

EXHIBIT IV-8

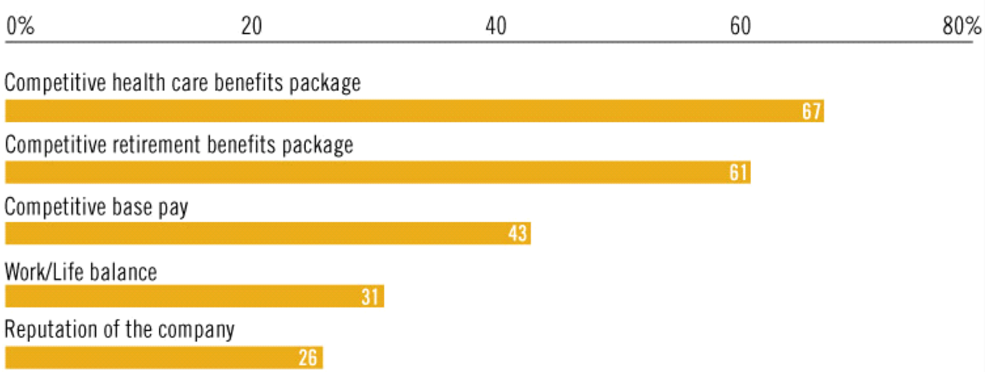
Top Five Factors Employees 50+ in Large Companies Consider in Deciding to Stay With a Company



Source: 2005 Towers Perrin online survey of approximately 1,500 randomly selected employees age 50+ working for large U.S. companies (i.e., *Fortune* 1000 companies and equivalents) ©2005 Towers Perrin

EXHIBIT IV-7

Top Five Factors Employees 50+ in Large Companies Consider in Deciding to Join a Company



Source: 2005 Towers Perrin online survey of approximately 1,500 randomly selected employees age 50+ working for large U.S. companies (i.e., *Fortune* 1000 companies and equivalents) ©2005 Towers Perrin

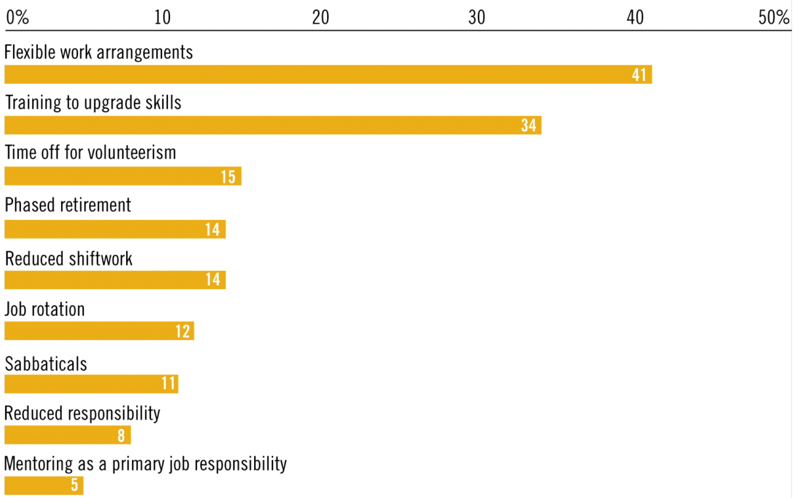
- **TO ATTRACT AND RETAIN 50+ TALENT COMPANIES NEED TO DEFINE THE RIGHT REWARDS**
  - Healthcare is a key driver for all US workers, including 50+
  - 50+ workers are more focused on understanding the retirement package
  - Non-financial rewards are also key drivers

Managing Opportunities and Challenges: Strategies for the 50+ Workforce

EXHIBIT V-2

Incentives Offered by Employers to Help Retain Workers 50+

% of respondents



Source: *Valuing Experience: How to Motivate and Retain Mature Workers,* based on a 2002 survey of 150 senior human resource executives, The Conference Board, 2003

- **TRY TO EXPAND THE 50+ WORKFORCE AS PART OF YOUR LABOR MIX:**
  - Use a variety of programs to recruit and retain from the 50+ segment
  - Conference Board data show various approaches and their prevalence
- **REBUILD AND TRANSFER KNOWLEDGE:**
  - Hiring
  - Succession planning
  - Mentoring and knowledge management
- **CONSIDER PHASED RETIREMENT ARRANGEMENTS:**
  - 38% of workers would be interested in the concept, according to AARP research
  - 78% said that if companies had a policy it would encourage delayed retirement
- **MAKE TRAINING AND FLEXIBLE WORK ARRANGEMENTS PART OF THE DEAL**

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Examples Of Large U.S. Companies That Are Using 50+ Talent To Enhance Their Business Performance

Borders	Bon Secours
▪ Suzann Trevisan (specialty recruiting and retention): Following the release of 2000 U.S. Census data, "we made a strong business case for this effort because we took a hard look at the shifting demographics and concluded that we needed to get out in front of this curve."	▪ Jennifer Anderson (VP compensation): "One of our key concerns is trying to keep our current nurses as long as possible." Clearly, the senior nursing staff is highly valued — and valuable. "They're experienced, cool under pressure, they've seen it all and their ability to empathize with patients is amazing."
Home Depot	**Mitre**
▪ Gretchen Lumsden (Staffing manager for national hiring partnerships) ▪ Workers 50+ are prized because "they have lower turnover, more maturity, excellent skills and knowledge, they show up on time and have a great work ethic." What's more, the 50+ group tends to perform higher than other age groups on the company's online pre-employment tests, which all candidates are required to complete.	Offers a range of creative programs including: ▪ A formal phased retirement program ▪ A formal reemployment program ("Reserves at the Ready") ▪ Company-supported retiree associations ▪ Continuing education opportunities ▪ Highly flexible work schedules ▪ Extensive wellness programs

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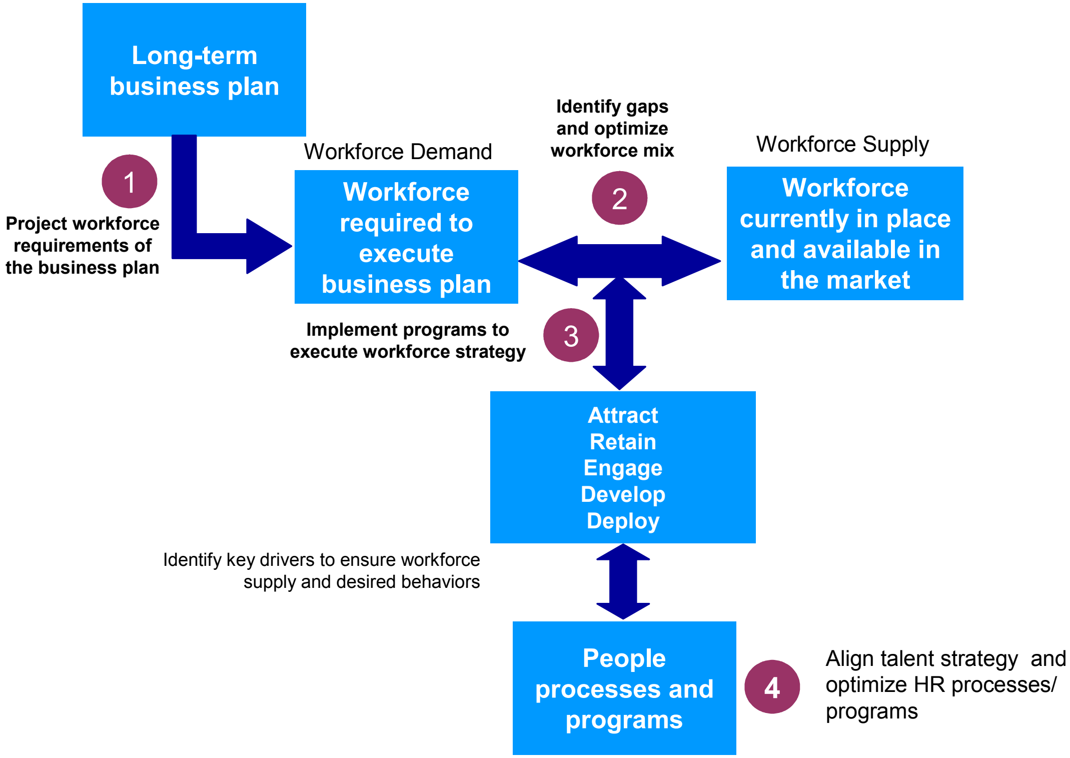
Preparing For The Future



- **TOWERS PERRIN IS WORKING WITH COMPANIES TO PROVIDE DATA, TOOLS AND CONSULTING APPROACHES**
  - Workforce planning
  - Total rewards optimization
  - Career paths
  - Rewards design
- **AARP IS PROVIDING RESOURCES TODAY AND WILL CONTINUE TO HELP DEVELOP NEXT PRACTICE FOR 50+ WORKERS**
  - *AARP Best Employers for Workers Over 50:* recognition and publication of leading edge practices
  - *Featured Employers Program:* connecting 50+ employees with job opportunities for featured employees

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Questions?

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