



→ Demographics and Responsible Investing

How companies can address the ageing workforce and gain competitive advantages.
Monash Sustainability Enterprises

Executive summary

In common with other nations in the developed world, the ageing of Australia's population is rapidly gathering momentum. Without sufficient increases in workforce participation and labour productivity, Australia's economic productivity is predicted to decline significantly.

While Government policies such as incentive structures can create the framework for a more sustainable workforce, corporate managers must develop new strategies to address the ageing issue. Increasing skills shortages in a number of industry sectors are adding to the demographic challenges companies face. Differentiation on workforce practices relating to ageing will build as a source of competitive advantage and will therefore impact investment attractiveness.

Effective management of ageing presents opportunities for businesses; measurement of progress on strategies implemented to address ageing issues can provide an indication of organisational readiness and competitive position.

There is a wide range of preparedness on the management of ageing risks across companies and sectors and limited disclosure by listed companies present challenges for analysts in assessing the quality of risk mitigation.

Companies in the finance and professional services sectors are currently leading on policies to attract and retain older workers. A number of examples are included in this paper.

Introduction

This paper explores issues surrounding the ageing workforce, focusing specifically on identification of risks and opportunities for socially responsible investing.

The ageing of Australia's population is well recognised and poses significant challenges for society. Sometimes called the quiet transformation, ageing will accelerate from 2010, as the first of the baby-boom generation begin to retire. **At present about 170,000 new workers enter the workforce each year, but this figure is projected to drop to an average of about 19,000 over the**

decade from 2020–2030¹. This large decline in growth of the working age population is expected to affect economic output significantly without large increases in labour productivity. According to the Productivity Commission, the GDP per capita growth is projected to slump to around 1.25% a year by the mid 2020s — roughly half its rate in 2003–2004 — primarily reflecting the ageing and withdrawal of baby boomers from the workforce².

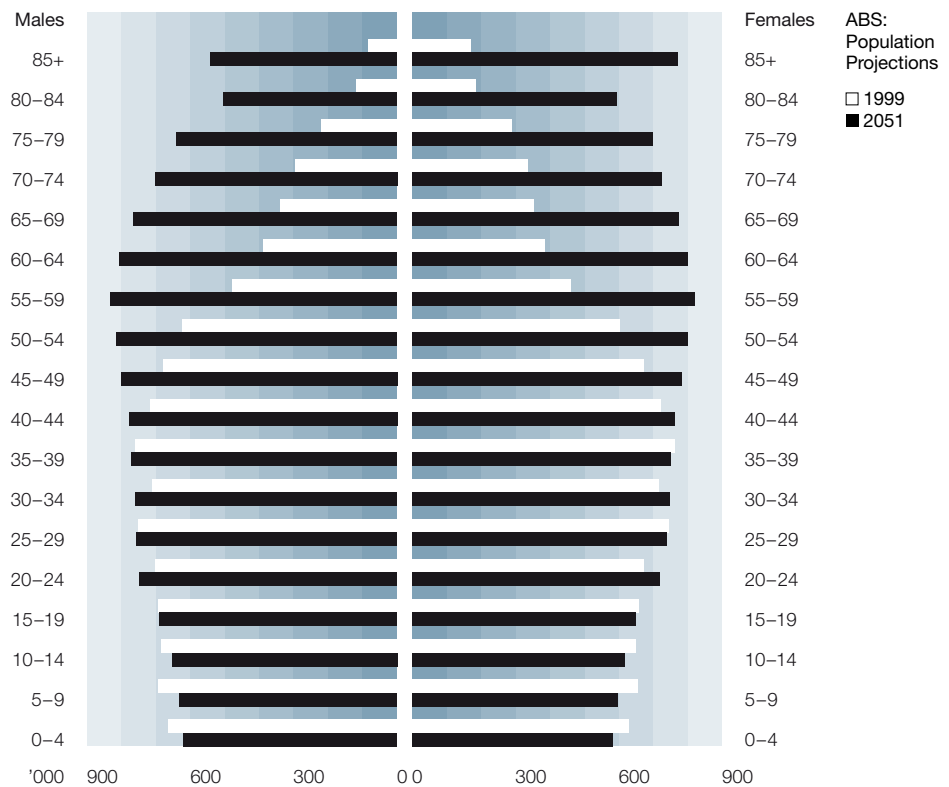
Government policy discussions on the ageing workforce have revolved around the need to increase workforce participation and labour productivity to counteract the possibility of future fiscal deficits, focusing particularly on the adequacy of future government revenues to provide for the aged. A key policy response has been the introduction of incentive structures to boost the retirement age, which in turn will have a significant influence on corporate workforce management policies. Companies will face increasing pressure to retain staff beyond 55 and to maintain the productivity of older employees into later retirement.

Skills shortages are already impacting output and growth in some industry sectors, therefore the added impact of ageing will require close attention by corporate managers. These impacts will vary depending on individual company exposures to ageing and actions taken to mitigate the affects of possible labour shortages. **Differentiation on workforce practices addressing ageing will therefore build as a source of competitive advantage.**

Changing age structure in Australia

The ageing of Australia’s population has been occurring as societies have acquired influence over fertility and mortality. This phenomenon is not unique to Australia, but is also occurring in other developed nations with increased access to birth control, advanced medical technologies, improved sanitation, and other complex lifestyle issues. The age structure has shifted profoundly as a consequence of these factors. In 1900, less than one in 25 people were aged 65 or more. In 2005, the proportion above 65 was one in eight people. By 2044, almost one in four will be aged 65 and over³. Australia will therefore experience an unprecedented ageing of the population in the first half of the 21st century. This changing age distribution is shown below.

Figure 1 — Age distribution projections 1999–2051

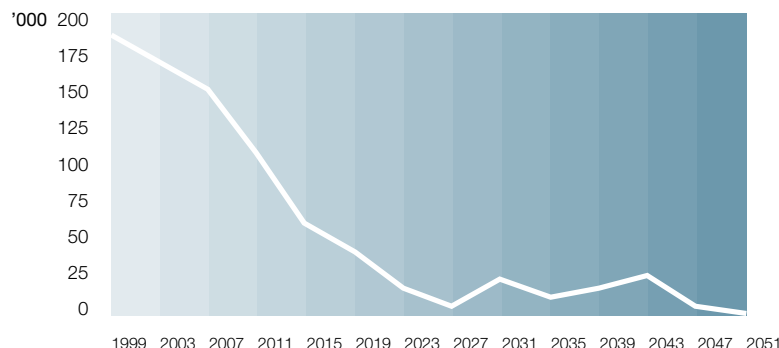


Source: ABS population projections.

1_ 'Population Ageing and the Economy', Access Economics, 2001.
 2_ 'Economic Implications of an Ageing Australia', Australian Government Productivity Commission, Productivity Commission Research Report, 24 March 2005.
 3_ Productivity Commission, 2005.

The age structure of the population — the ratio of the old to other ages — is critical to fiscal strategy, as Australia’s ageing society means that there will be fewer people of workforce age (15–65) to support the needs of the old. This ‘dependency ratio’ will alter significantly from about 2010. Population ageing will reduce the growth in Australia’s working age population, particularly over the next 5–15 years. ABS projections on working age population growth rates are shown below.

Figure 2 — Growth in Australian working age population



Source: Access Economics ABS 2005.

Labour participation currently falls significantly for those over 55 years and is negligible after the age of 70 years. As more people move into these older groups, outflows from the labour force are likely to accelerate, significantly reducing the overall labour participation rate. This ageing effect is only partly offset by new young workers, since lower past fertility rates have reduced their numbers. The increasing participation of women in the workforce will offset declining participation rates to some extent — but this trend must abate at some point. Increased migration may also offset the impact on participation rates to some degree, but this is generally expected to have a small impact on growth of the working age population¹.

Workforce ageing is one of a range of factors impacting skills shortages, but is becoming more prominent as baby boomers near retirement. Between 1984 and 2004, the average age of employed persons increased by about three years from 35.8 years to 38.6 years². However, ageing of the workforce is not uniformly distributed across industry sectors (Table 1), thus the magnitude and timing of looming skills shortages will not impact all industries equally. This variation in ageing is related to a number of complex factors, including industry cycles, training and education policies, and generational shifts in employment choices and expectations.

Table 1 — Average age of employed persons by industry

Industry sector	Avg age in years Nov 04	Industry sector	Avg age in years Nov 04
Agriculture, forestry and fishing	42.5	Finance and insurance	37.7
Mining	40.3	Property and business services	39.0
Manufacturing	39.2	Government administration and defence	41.7
Electricity, gas and water supply	41.9	Education	43.4
Construction	38.1	Health and community services	41.7
Wholesale trade	40.0	Cultural and recreational services	36.1
Retail trade	32.8	Personal and other services	39.3
Accommodation, cafes and restaurants	33.4	Total	38.6
Transport and storage	41.3		
Communication services	38.5		

Source: ABS Labour Force Survey (electronic data).

1_Productivity Commission, 2005.
2_ABS Labour Force Survey.

Average workforce age provides one indication of potential vulnerability to ageing at the sector level, particularly where the industry sector is experiencing rapid growth. Of particular note, the health and community services sector, which will itself play a key role in servicing the needs of an ageing population, features among the most aged workforces in Australia.

Age discrimination and workforce conditions

Long-standing attitudes toward ageing and its relationship to productivity underpin corporate practices that favour recruitment of younger workers, as well as incentive structures that encourage early retirement. Corporate policies favouring employment of younger workers are less tenable however as the ageing of the workforce accelerates, and growth in the pool of younger workers available to replace early age retirees — the condition that has enabled such practices to exist — rapidly declines.

Some employers raise concerns about the potential risks and financial costs of retaining or recruiting older workers!¹ These perceptions underpin the decisions of employers and managers, and consequently, discrimination against older workers is still widely practiced.

Age discrimination manifests in a variety of forms. At the recruitment stage, age can be used as an initial screen for applicants, both explicitly and implicitly. Recruiters, whether internal or external, frequently assume that employers prefer younger applicants when this may not in fact be the case, hence older applicants are filtered out at an early stage. Additionally, selection criteria in particular industries such as engineering and information technology can favour young recent graduates with current skills and education?²

Older workers can be perceived as 'old economy' effectively marginalising them in new economy organisations. Where companies are downsizing or re-engineering to new technologies, age can act as a proxy for retrenchments and workforce selection decisions.

Age discrimination is also apparent with regard to access to training opportunities. Employers may receive government incentives to provide training to younger workers in some instances, and cultural barriers also limit access of older workers to on-going career development. Negative perceptions that older workers lack adaptability, or lack currency of desirable skill sets, can limit provision of training in new technologies. Consequently, employers frequently adopt the view that it is more cost effective to hire younger employees rather than retraining older workers.

The decisions made by individual employees to remain or leave the workforce, and their performance in the workforce as they age are complex. In addition to incentive structures, retention and productivity relate to satisfaction in the workplace and motivation issues.

While incentive structures may lead to early retirement, it is also apparent that retention and motivation of older workers appears to be related, in part, to the absence of conditions in the workplace appropriate to later life stages. A 2006 survey of 1,100 knowledge workers undertaken in Australia over 40 has found that close to 70% would stay with their employer if offered a bundle of better conditions. In order of importance, the key concerns of older workers include commuting time, remuneration, friendly work environments, lack of new challenges, recognition, flexible hours, and the ability to work from home.³ **Of significant interest to companies seeking to maintain their workforce, only 12% expressed a preference to stay with their existing employer if conditions relevant to mature aged workers do not improve.**

These findings highlight risks for businesses faced with the prospect of skills shortages, and suggest that vulnerable industries will need to act before mature age workers take decisions to either leave or remain in the workforce. Moreover, it is apparent that a significant gap exists between the typical

1_ 'Australia's Demographic Challenges', Australian Government, 2004.

2_ 'Age Limits: Age-related discrimination in employment affecting workers over 45', The Victorian, south Australian and Western Australian Equal Opportunity commissions and the Australian Employers Convention, March 2001.

3_ 'The Evolving Workplace: The seven key drivers of Mature-aged Workers', Hudson, July 2006.

conditions prevalent in most workplaces and the conditions that would need to be in place to increase retention of mature age workers.

The risks to individual businesses will vary, and be influenced by specific labour market factors, government policy responses, and other issues. In occupations involving high levels of physical labour for example, increased exposure to injury claims as workers age may impact costs and productivity, creating disincentives to retain mature-age workers. Where these exposures are high, businesses may need to implement strategies to redeploy older workers into less physically demanding roles.

Differentiating corporate practices on ageing

Supporting the ongoing participation of older workers will require that entrenched attitudes and organisational cultures be confronted across the business community. While federal government policy is already shifting to provide greater incentives for ageing workers to delay retirement, business practices have not adjusted to the extent required to accommodate an older workforce.

The ability to attract and retain mature age workers, and maintain the productivity of older employees will increasingly influence competitiveness, and therefore investment attractiveness. Moreover, while the impact of baby boomer retirements won't be felt fully until early next decade, the pervasiveness of age discrimination across all levels of business presents significant challenges, and will take time to address. Hence cultural change should be addressed now to mitigate potential labour shortages over the next decade.

Where skill shortage risks are high and retention of mature-aged workers is critical, wide-ranging adjustments to business policies and practices are necessary to maximise retention of older workers. In some industry sectors, shortages in several key professions are already impacting business growth, for example in accounting, engineering and skilled trades.

The Business Council of Australia suggests that the commitment to such a shift in attitudes must come from the top and be embraced throughout all levels of the organisation, including CEOs, Human Resource (HR) departments and line managers. Changing policies, strategies, and expectations on ageing without a commitment to tackling entrenched stereotypes and negative attitudes towards them will not achieve desired outcomes.

The strategies adopted by individual businesses to address ageing issues will be specific to their circumstances, but should be addressed with the same rigour applied to management of other business risks. In general, management of ageing issues requires data to provide a basis for understanding the impact of ageing on individual workplaces, strategy and policy development, and implementation of initiatives to mitigate the impact of ageing issues. Knowledge transfer also presents challenges as the workforce ages. While not a new issue for business, **the need for forward planning is more urgent given the scale and extent of knowledge to be passed on by the growing numbers of staff approaching retirement.**

Effective management of ageing is therefore a risk for business. Measurement of progress on implementation of ageing strategies can provide an indication of organisational readiness and competitive position. Management initiatives and potential indicators of progress toward implementation of strategies to ageing are listed below. Comparative analysis of company actions on these elements provides a basis for differentiating company management of ageing risks and the diligence applied to workforce planning.

- **Monitoring the age profile of the workforce** across the business as a whole and across functions. Age profiling can provide a basis for determining whether discrimination, overt or otherwise, is occurring. It can also provide a basis for comparing age profile of the workforce to the broader population. Age profiling

should also extend to applicants and new recruits. Data is necessary to determine what the workforce will look like in the future, particularly as competition for labour increases.

- **Collecting information on the retirement intentions of mature-age workers.** Understanding the retirement intentions of workers assists succession planning and can help companies to develop strategies to ensure the smooth and effective transfer of knowledge and skills from retiring mature-age workers.
- **Ensuring recruitment procedures do not discriminate against the aged.** While age discrimination is illegal, recruitment practices may implicitly favour younger workers, whether undertaken internally or by external recruitment agencies.
- **Integrating ageing into diversity policies, strategies, and training.** This requires multi-level actions to target subtle forms of age discrimination. Communication of age diversity policies and strategies, both internally and externally, is critical to achieving age diversity objectives.
- **Monitoring the skills and qualifications of mature-age workers and determining training needs.** This should also include training take-up and completion rates among mature-age workers.
- **Retirement planning and transitioning.** Assisting employees to plan their retirement, including financial planning and lifestyle choices. As employees near retirement, job rotation can be introduced to improve motivation. Additionally, phased retirement, where employees nearing retirement are offered the option of reduced hours, can improve retention and facilitate transfer of skills to younger workers.
- **Assessing the impact of ageing on the company's products and services.** Markets for products and services in some industries will be impacted by ageing. Direct impacts are anticipated in Health Care and Property, but other sectors may be impacted indirectly due to modified spending patterns as the general population ages¹

An overview of current practices addressing ageing risks suggests wide variation in preparedness, implying that specific companies and sectors will be impacted to greater or lesser degrees. Disclosure by ASX companies on management of ageing risks is generally poor however, presenting challenges for analysts seeking to better understand specific company exposures to workforce and labour supply risks, and the quality of management actions to mitigate these risks.

Best practice examples

The following examples set out initiatives implemented by a selection of companies to address ageing issues. Companies in the finance and professional services sectors are currently leading on policies to attract and retain older workers, although examples from other sectors are emerging.

ANZ has initiated a company-wide communication program to dispel the idea of a traditional retirement age and to explore ways to improve the opportunities provided to mature-aged workers. Specific programs implemented include:

- the Career Extension Program which promotes retraining for older workers, and diversity awareness training, particularly for managers and recruiters
- flexible work options including 'lifestyle leave' that allows employees access to an additional four weeks of unpaid leave per year
- flexibility in accessing long service leave
- flexible hours of work and facilitation of role changes
- active hiring of new mature-aged staff.

IAG frames its ageing workforce policies in a wider community context, stating that by 'increasing the participation rate of mature age workers, then the nation will have a more sustainable workforce into the future and alleviate the growing burden on our health, aged care and pension systems.' IAG's age management plan seeks to:

- retain employees with extensive corporate experience and learning
- create a workforce that better mirrors the demographics of our communities and customers, and
- increase community perceptions of IAG as a 'Mature Age Worker' Employer of Choice.

IAG's overall aim is to obtain a better balance across the different age segments in its workforce. To this end, IAG tracks the age bracket with the greatest disconnect between its workforce and the Australian Labour Force – the 25–34 age group.

IBM Australia established an Executive Taskforce to identify the needs of its mature-age workers in 2003, leading to the development of an Intergenerational Strategy focused on enabling mature-age workers to 'contribute to its business success'. The resulting strategy seeks to:

- develop processes and tools to retain and develop the careers of IBM's mature workforce
- develop processes and tools to assist managers and employees to plan for skill and knowledge transfer of IBM's mature employees
- develop strategies and programs to broaden IBM's recruitment channel to include mature candidates in the marketplace and post retirement IBM candidates
- promote IBM as an 'employer of choice' in industry for inclusion of mature employees.

IBM has also developed specific metrics to track its performance on ageing (Table 2 below).

Table 2 — IBM Australia performance on ageing

Metric	2004	2005	% change	2006 target
Representation of workforce over 45	29.43% of total workforce	31.5% of total workforce	2.07% points	n/a
Representation of workforce over 65	0.18% (65+) of total workforce	0.27% (65+) of total workforce	0.09% points	n/a
% of part-time workers over 45?	20.83% of part time workforce 3.92% of 45+ workforce	22.13% of part time workforce 4.14% of 45+ workforce	1.3% points (PT) 0.23% points (45+)	n/a
% of part-time workers over 56?	0.44% (65+) of part time workforce 13.04% of 65+ workforce	0.83% (65+) of part time workforce 18.18% of 65+ workforce	0.39% points (PT) 5.14% points (65+)	n/a
Self-funded leave usage	n/a	51% of users in 2005 were 40yrs plus and 12% aged 50 years plus		n/a

Telstra introduced a staged retirement program in 2004/05 offering employees the opportunity to gradually transition to retirement. Under this initiative, employees are offered the choice to adopt work arrangements that provide flexibility based on their current work/life situation. This may include, for example, moving to a part time arrangement that enables them to continue to earn an income, while scaling back the hours they are working to pursue extra-curricular interests.

Telstra is rolling out a career extension program for mature age workers coupled with seminars and intranet information to ensure mature-age employees transition from work to retirement appropriately.

Ramsay Healthcare, like other operators in the private hospital sector, is highly exposed to ageing workforce risks, due in particular, to the ageing nursing profession. Ramsay analysed the demographic characteristics of its workforce, finding that one third of its employees would be retiring in the next 3–5 years. Ramsay has been progressively introducing a range of work-life balance initiatives over a number of years to address skills shortages more generally, and these have been given added impetus by the ageing issue. These initiatives aim both to increase retention of existing employees, and to lure professionals who had left the industry back into healthcare. Programs particularly relevant to mature-age staff at Ramsay include:

- more options for staff to work part-time
- a self-rostering system to provide greater flexibility for individual employees to select preferred working hours
- increased access to job sharing options
- work from home options.

Comalco New Zealand, a subsidiary of the Rio Tinto group, has introduced a well-being program for employees over 50 to both prepare employees for retirement, and to retain those employees that may wish to remain in the workforce. Comalco introduced a role sharing scheme targeting employees particularly in operational roles, which may be physically demanding or involve shift work. The program also includes education programs to encourage a healthy lifestyle, hence improving the capacity of mature-age employees to continue working if they wish to remain in the workforce.

Summary

The adverse impact of demographic shifts on Australia's economy will accelerate over the next two decades without significant changes to workforce participation and labour productivity. Effective risk management of ageing issues is critical if companies are to sustain their output and remain competitive. Companies that address cultural change and adopt rigorous programs to address the ageing challenge will positively influence their competitiveness and investment attractiveness.



For more information

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