Research insight

Managing an ageing workforce
The role of total reward

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Foreword

To help reward and HR practitioners respond to the demographic challenges posed for their organisations by an ageing workforce, the CIPD has worked with Cranfield University to examine how employers are managing older workers under a total reward approach to draw out good practice recommendations.

On the pay front, our surveys and research show that many employers have reviewed their service-related pay progression and benefits as a result of the anti-age discrimination legislation. Some with performance-pay-based progression systems have also used the opportunity to review these to ensure that there is no bias in favour of, or against, mature workers. Due to skill shortages and intense competition for talent, anti-age discrimination legislation and new tax rules regarding pensions, others are now offering employees flexible working, flexible retirement opportunities, flexible benefits and flexible pension arrangements. Some are shifting away from absence management to promoting physical and mental well-being by introducing innovative and holistic health benefits and financial education programmes.

However, while there is a lot of activity, this has been focused on addressing isolated issues. Few appear to be taking a holistic approach (that is, looking across the whole of their financial offerings as well as their non-financial reward offerings) to consider whether these are appealing to mature workers or any other age groups. Despite examining their pay-progression systems, there is no evidence that employers are reviewing the way they structure pay systems to make them sufficiently flexible to meet individual career and life aspirations across all age groups. Neither do employers seem to be asking themselves whether their incentive awards are sufficiently attractive to motivate older as well as younger workers.

Even though it's increasingly recognised that financial rewards are only one part of the engagement picture, employers don't appear to be looking if non-financial rewards – such as the working environment, culture, mission, and learning and development opportunities – are attractive and responsive to the needs and expectations of older workers.

To meet the challenges of creating a high-performance workplace, both reward and HR professionals must look across their organisations at the various employment policies and practices they have and join up the dots between them to create a clear picture of their total reward offering.

After doing this they need to stand back from this bigger picture and ask how attractive it is to all employees, irrespective of their age. Doing this will help them to identify the gaps and where there may be hidden age bias. For example, they need to check if their pay structures and pay progression mechanisms have been overlooked and if they could make their benefit offering more appealing by introducing a voluntary benefits programme. It's also important to check how the contributions of older workers are recognised and appreciated by the organisation.

Finally, reward and HR professionals need to package the total reward offering appropriately to make sure employees know about it and understand it.

While it would be illegal to offer age-related rewards, it is possible and desirable for reward and HR professionals to work together to develop an inclusive total reward offering designed so that all employees – regardless of how old they are – can access this on the basis of what they find most relevant and appealing to their individual circumstances.

Charles Cotton, CIPD Adviser, Reward
Dianah Worman, **OBE,** CIPD Adviser, Diversity
Freda Line, CIPD Adviser, Diversity

Introduction

This Research Insight examines how total rewards can be managed for an age-diverse workforce. It looks in particular at how organisations are using both financial and non-financial rewards to attract, retain and engage older workers. It's based on information obtained from a CIPD-commissioned research project that examines how employers are responding to an ageing workforce, the end of the concept of retirement, and the possible removal of mandatory retirement age in the next few years.

The term 'rewards' refers to the financial pay and benefits offered to employees. However, thinking in the discipline of reward has moved beyond the consideration of only the financial rewards; it now looks at all of the rewards that organisations offer to employees to make working a rewarding experience. For example, other types of reward – such as opportunities for career and professional development, access to work–life balance initiatives, having a supportive line manager and being consulted about the way you do your job – are now embraced in a total rewards approach. CIPD research shows that these offerings are all important in ensuring a successful employment relationship.

The information used in this Research Insight is drawn from four sources:

- existing research and advice in this area
- interviews with experts in the areas of age discrimination and/or total rewards
- a focus group of older workers from Molton Brown, to examine their needs and wishes as employees
- interviews with the individuals responsible for diversity or rewards within our case study organisations. These organisations were: ASDA, BT, First Group, Hertfordshire County Council, RWE npower, Sainsbury's and Shell.

This Research Insight examines:

- the changing demographics of the workforce and the business case for managing an ageing workforce effectively
- the use of total rewards generally and the use of the total rewards package to reward an ageing workforce
- the use of particular aspects of total rewards – financial rewards (including pensions), flexible working, and training and development – for an ageing workforce.

1 The business case

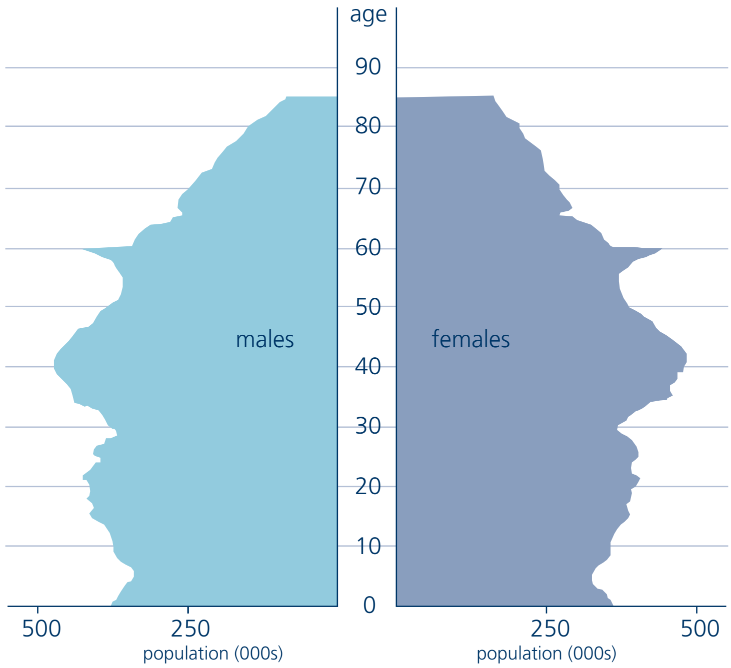
An ageing population, low average birth rate and increasing life expectancy, recent UK legislation on age at work and the potential removal of mandatory retirement ages mean that the workforce of the future is likely to contain a higher proportion of older workers. It's therefore important that employers find effective ways of engaging a more age-diverse workforce and more older workers in order for the organisation to remain competitive.

The ageing population and workforce

Future changes to the demographics of the UK workforce pose real problems for employers and the UK as a whole. The UK population is ageing due to declines in both the mortality and fertility rate. The population of those aged over 65 has grown by 31% to 9.7 million people (16% of the population) since 1971, while the population of those aged under 16 has fallen by 19% to 11.5 million (19% of the population) (Office for National Statistics 2007). The average age of the UK population rose from 34.1 years in 1971 to 38.6 in 2004 and is projected to rise to 42.9 in 2031. In addition, average life expectancy increased by 30 years in the twentieth century. In 2002, life expectancy at birth was 81 years for women and 76 years for men.

The ageing workforce is made more problematic by the historically low rates of participation in the workforce among men and women aged between 50 and the state pension age (currently 60 for women and 65 for men). These rates are now beginning to rise, from 59% in 1993 for women and 65% for men to 67% and 72% respectively in 2004. However, these rates drop dramatically after state retirement age, with just 8% of men over 65 and 10% of women over 60 remaining in some form of employment.

Figure 1: Age profile of men and women, UK, 2006 (Office for National Statistics 2007)



This issue is not limited to the UK alone. By 2050 the average age of Europe's population will be 49 years and one in three adult Europeans will be retired. In an earlier Change Agenda report, *The Challenge of the Age* (2003), the CIPD explained that 'this means that there will be only two working people to support every pensioner... Either those in work will pay significantly more to support an increasingly numerous dependent population consisting mostly of the old and the very old or organisations, governments and individuals will have to shift dramatically in their ways of thinking about and providing for old age.'

Since this Change Agenda was published, the demographic situation has modified to some extent due to large-scale migration into the UK. The UK population is now expected to rise by 4.4 million by 2016 and by a total of 10.5 million by 2031. In the five years between 2006 and 2011, net migration accounts for 53% of this projected rise, with the rest due to natural change (births minus deaths). If we take into account the fact that migration has also boosted the fertility rate (by 2006 this was at a 16-year high of 1.84 children per woman), we can also say that immigration has had a large impact on the UK birth rate and may account for around two-thirds of the projected rise in population. This influence of migration on the population may reduce the predicted impact of the 'demographic time bomb' even though the current rate of migration may not continue. Nevertheless, the workforce will continue to age, with economically active people aged below 50 forecast to drop from 75% to 69% by 2020, and those over 65 rising by one-third from 580,000 to 775,000. This means that UK employers will have to address the challenges presented by an ageing workforce to recruit, retain and engage talent.

Retirement age

Retirement age is now a core strategic issue. Currently, UK age law allows organisations to compulsorily retire employees aged 65 – the default retirement age – if they follow a due process spelled out in the law itself. Employees can request the right to work beyond the default retirement age or an organisation's normal retirement age (which might be below the default age); organisations are required to consider and respond to such requests.

In December 2007 the default retirement age of 65 was subject to a legal challenge, but a ruling on this is not anticipated until 2009. When the Age Regulations were introduced in 2006, the Government agreed to review the default retirement age in 2011 but it may be that rulings from the European Court of Justice could supersede this.

Leading-edge organisations, such as Hertfordshire County Council and ASDA, have already removed their mandatory retirement ages, while a few, like Nationwide, have increased their mandatory retirement age to 75. The removal of retirement age offers considerable benefits to organisations and individuals. For example, organisations don't then have to invest in the complex retirement process dictated by the 2006 Age Regulations or make difficult decisions around whether an employee can stay on after retirement (Employers Forum on Age 2007). As explained by the HR Manager at ASDA, 'The key to managing an ageing workforce is the removal of retirement age as it means that we don't ever draw attention to somebody's age.' We may see an increase in the number of organisations abandoning the use of a retirement age in the future as more older people want to carry on working in some way and more employers need to open up jobs to older people.

The prospect of an increase in the number of employees in their 60s, 70s and beyond has significant implications in terms of the need for the effective management and reward of these individuals. There are examples of employers employing even older workers. A plumbing firm in Pimlico employs Buster, who, at 101, is the UK's oldest employee. In his spare time he's training for next year's London marathon. Similarly, one of our case study organisations, Hertfordshire County Council, until recently, employed a ballet teacher in her 80s.

Potential skills shortages

Against the background of high employment, the relative shortage of younger people entering the labour market has led to problems for organisations in sourcing the skills they need. Research from Cranfield School of Management (2007) has shown that around 80% of employers continue to experience recruitment difficulties. This situation will get worse as the proportion of younger people in the workforce shrinks. As pointed out by TAEN (2007), 'One in three workers will be over 50 in 15 years' time – companies cannot afford to disregard one-third of the workforce... in future, there will be (proportionately) fewer young people to fill the jobs.'

The existence of these skills shortages, along with the potential removal of mandatory retirement ages means that, if organisations are to continue to be successful in the future, they must find a way of attracting, managing and retaining this ageing workforce effectively. Older workers have skills, knowledge and experience that are vital to organisations, so it's important that employers don't fail to access them.

UK legislation

The Employment Equality (Age) Regulations were introduced in the UK in October 2006. These laws fulfil UK responsibilities set by the European Employment Directive on Equal Treatment. This requires all EU member states to introduce legislation prohibiting discrimination at work on the grounds of a number of factors, including age. To meet the EU requirements, the UK Age Regulations outlaw both direct and indirect forms of discrimination on the grounds of age in both the workplace and vocational training.

Age legislation requires rewards and benefits to be fair on the basis of age. But the increasing diversity in the labour force demands appropriate responses to issues such as individual preferences, motivators, career aspirations, lifestyles and personal responsibilities, such as caring, if employers are to be successful in attracting, retaining and engaging workers both up to and beyond normal retirement age. This poses challenges for employers: in being creative and innovative about reward management, they must make sure they don't introduce unfair age bias.

Shell

Phil Metzler, Vice-President for Rewards at Shell, explains the importance of retaining older workers within Shell.

'As a general rule, the company believes that having the right staff with the right skills at the right time is critical. The older worker phenomenon is of critical importance to Shell as the more experienced workers have a huge amount of expertise and many are reaching retirement age. Shell is a highly technical organisation. Many of the more experienced workers have a great deal of tacit knowledge that is very important to Shell. The company also realises that if we don't retain skilled individuals ourselves, they may end up working for a competitor.'

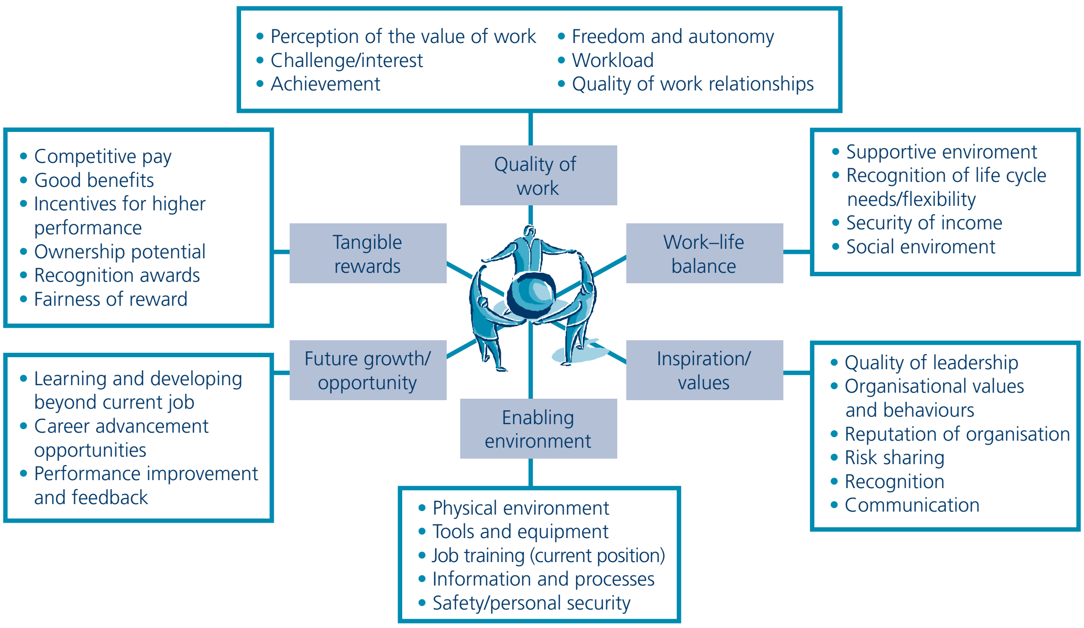
2 The use of total rewards

To explain what is meant by the term 'total rewards', we use an approach adopted by Mercer that provides a summary of those factors they define as total rewards. These are divided into three areas:

- pay:
  - base pay
  - short-term incentives
  - long-term incentives
  - recognition
- benefits:
  - health and group benefits
  - retirement
  - work–life programmes
  - perquisites
- careers:
  - training and development
  - lateral career movement
  - stretch assignments
  - career incentives.

It can be seen from Mercer's description that total rewards may be described as covering a range of ways of managing and rewarding employees. Another consultancy, Hay Group, has provided a similar but more detailed model of total rewards (see Figure 2). It includes a wider range of factors, such as leadership, organisational values and the physical environment, as well as those used by Mercer.

Figure 2: Hay Group model of total rewards



Whichever model of total rewards you choose to use – and there are many others besides Mercer's and Hay Group's – the principle of viewing a range of non-financial factors as part of the rewards package is the same. Many organisations are now looking at the experience they offer in a more holistic manner when deciding how best to attract, retain and engage existing and potential employees.

Our question, in relation to this piece of research, is whether employers are considering the ageing workforce when they're putting together their total rewards packages. The push towards fairness and equal pay may inhibit employers from looking at total rewards for particular groups of the workforce because they feel constrained by the legislation. However, it's possible to work within the legislation to reap the benefits of motivating and retaining older workers.

What do older workers want from their employers?

To successfully manage and reward an ageing workforce it's important to recognise what older workers actually want. Examples drawn from discussions with a group of workers aged 50 and over from the cosmetics company, Molton Brown, are set out below.

Molton Brown the needs of older workers

Molton Brown opened in London in 1973 as a hair salon. Since that time it has grown considerably and is now a world-famous cosmetics company, employing 557 workers. The focus group consisted of six workers aged over 50 from the production department who had been with the company between 5 and 18 years.

Molton Brown was generally seen by the group as a friendly organisation with a good environment to work in. They felt that, despite the recent growth of the company, it has retained its community atmosphere and values. This is helped by the fact that the company holds quarterly communication days that involve the whole organisation. In addition, senior managers have spent time working on the production line to familiarise themselves with the role. This culture was greatly appreciated by the discussion group, as was the fact that management were fairly open and honest and prepared to admit when they had made mistakes. The social aspect of work was very important to this group and some admitted that this was one of the reasons why they had not retired. The company stages a number of social events, such as a fun day and a Christmas party.

There was some feeling among the group that the benefits offered to employees were focused mainly on younger employees, such as maternity and paternity leave and cash benefits for weddings. They felt that there should be equivalent benefits for older workers. The company does, however, provide vouchers for milestone birthdays, flu vaccinations free of charge and financial advice if required. Training and development is open to all but only a minority of the group had recently opted to undertake any training.

The main issue for this group appeared to be that they were not allowed sufficient leave. The group explained that their needs regarding pay and benefits had changed over time so that financial rewards were less of a priority. Financial rewards were less important as they had fewer responsibilities in terms of childcare or mortgages. They would prefer to be allowed to take unpaid leave or to buy more leave, perhaps rather than being paid for overtime. One employee explained that 'time is more valuable than money'. Many of the group would like more flexibility in their working hours, perhaps through annualised hours or a similar scheme. They would also like the opportunity to take sabbaticals or long-term leave.

In October 2007, the CIPD surveyed 1,000 workers aged 50–64 to ask about what they planned to do when they hit 65: 38.2% planned to carry on working, just over half wanting to do so full-time. Exactly half wanted to carry on working between the ages of 67 and 70, though a further 35.3% were undecided when they would actually retire after 65. Of those wanting to carry on working past 65, the main driver was financial (67.8%), followed by a desire to use existing skills and experience (52.1%) and social interaction (37.7%). However, there are variations by social grade, with the main driver for those being in social group DE (semi-skilled and unskilled) being financial (77.2%), a desire to use their existing skills and experience (45.6%), social interaction (42.1%) and self-esteem (36.8%). For social group AB (professional occupations such as medicine or teaching) the main reasons given are a desire to use their skills and experience (61.2%), followed by financial (58.7%), social interaction (36.4%) and self-esteem (24%). Of those who did not plan to work past 65, 30.8% would change their mind if their employer allowed them to work flexibly, and just 1.5% would be tempted to carry on working past 65 by being offered more money.

The Molton Brown example and the findings from the CIPD survey give a clear message to employers that the needs of workers who are near to or beyond normal retirement age may be different. Certainly pay and financial benefits may not be the only priority for members of this group. Increased flexibility and leave can be important, especially in tempting those who originally did not plan to carry on working beyond 65. What the employees at Molton Brown and those from the CIPD survey are looking for can be summarised as:

- more flexible working arrangements
- the opportunity to use existing skills and experience
- a worthwhile job
- flexible leave arrangements
- financial benefits that they value
- a participative and friendly culture.

Our search for case study organisations suggests that there are very few organisations who have examined their current total rewards approach in light of an ageing workforce. Most have simply taken a compliance approach with regard to the age legislation. The problem with this approach is that while legal experts can tell you what you can and cannot do, they're unable to tell you what you should be doing to maximise the engagement of older workers to create a sustainable high-performing workplace.

Some employers have focused on particular aspects of total rewards, such as flexible working or training and development, but few have taken a coherent approach to total rewards.

Those that do have examined reward offerings in the context of demographic change, as shown below in the case study from Hertfordshire County Council.

Hertfordshire County Council

Hertfordshire County Council (Herts CC) is one of the UK's largest county councils, with approximately 30,000 employees. Two-thirds of these are based in the county's 525 schools. The council also provides a range of other services, including adult care services and fire and rescue.

The HR team feel that having to increase the age diversity of the workforce is already a reality for the organisation, as they find it challenging to recruit younger workers. They employ a high proportion of older workers, especially in particular roles such as school catering staff. Their attention to the management of older workers allows them to address skills shortages in roles such as social workers and engineers, and to reduce absenteeism. This is important as they provide services to the community 24 hours a day and need enough people to deliver them.

(contiinued)

Hertfordshire County Council (continued)

Herts CC launched their equal opportunities policy 'Putting People First' in 1999 and developed this further in 2005 because they felt that legislation and people's expectations had moved on. This strategy covers all aspects of diversity, including age, and consists of a strong diversity brand that represents uniqueness and individual contribution. A focused campaign on age was launched in September 2005. The organisation removed its mandatory retirement age completely in October 2006. It already had a flexible retirement scheme in place so that people could request to work after age 65 but has now removed the retirement age so employees can choose when they want to retire. The organisation uses the local government pension scheme, which places some restrictions on the council's ability to be flexible with pensions. Employees can keep paying into the scheme until they are 70, but in practice people generally prefer to take their pension as soon as they are eligible. The scheme allows people to retire and draw their pension and then be re-employed on a part-time basis.

The removal of retirement age has meant that line managers need to use the council's performance management process to address any performance issues for older workers. The organisation has added guidance on this scheme in relation to age and urged managers not to make assumptions based on age or about when an employee may wish to retire.

The organisation's use of flexible working arrangements is considerable, with a range of available options forming part of 'Lifewise' – which is the organisation's work–life balance strategy. This enables the organisation to meet service demands more effectively and employees to balance work, home and personal priorities. The options available include job-sharing, term-time working, voluntary reduced hours, career breaks, compressed hours, annualised hours and location flexibility. Herts CC has a significant number of part-time workers (60%) and has found that many other workers would like to move to part-time hours when they reach retirement age. (The organisation's policy is to always try to retain and engage talent rather than lose it.) The council allows homeworking and provides support for carers and special equipment for work when necessary.

The organisation has a number of health promotion schemes, such as posture checks, blood pressure checks and 'stop smoking' campaigns. It also offers staff discounts for gym membership, and health and dental insurance as part of a comprehensive voluntary benefits package. The authority organises an annual carers' conference and invites staff to attend as a means of supporting those employees with caring responsibilities. It also runs support groups and the 'Care Well' employee assistance programme. The council is exploring the use of technology to communicate its total reward offering to existing and new employees to aid recruitment and retention.

It's too early to assess the impact of these measures. However, the number of workers over 65 years of age had increased by nearly 100 people between 2006 and 2007. There had also been a reduction in recruitment and training costs as a result of reduced turnover.

While Hertfordshire County Council do not label their approach 'total rewards', they have made changes to most aspects of the total rewards agenda to promote the recruitment and retention of an ageing workforce.

First Group and Shell have also considered a number of aspects of total rewards to manage and retain older workers more effectively. While this report discusses the various components of total rewards, it's important to bear in mind that these should not be used in isolation – only as part of a total package.

3 Financial rewards

UK age legislation doesn't stop employers from considering how total rewards can help them to attract, retain and engage the talented individuals needed to create and sustain high performance. What it does require is that these should not be unfairly age-biased.

Pay structures, rates and progression

The findings of the CIPD research carried out for this report suggest that few employers have yet considered the impact of an ageing workforce on their existing pay structures. And the implications of the changing demographics on market-pricing techniques and job evaluation schemes have still to be taken into account.

The adoption of broader pay bands could be an alternative way of enabling the pay of older workers to be uplifted. At the same time it could help employers recognise the contributions of younger employees without having to wait for vacancies to occur as a result of older workers leaving. However, there are dangers that broadband pay systems can both cause and perpetuate pay inequality if the pay levels and the progression criteria attached to them are age-biased.

UK employers have used service-related pay as a basis of progression. Although now only common in the public sector, the Age Regulations allow employers to continue to use service-related pay progression for periods of time up to five years, without the need for justification. They can also be used for longer periods of up to ten years if they can be shown to be justified in terms of a business advantage by rewarding loyalty, encouraging motivation or recognising experience.

Many private sector companies now use performance-based pay to progress individuals along their pay band. However, research suggests that employers have concerns about the performance management of older workers and that they sometimes 'turn a blind eye' to underachievement. For example, a study for the Department for Work and Pensions by McNair, Flynn and Dutton shows that employers have colluded with employees in marking time until retirement.

Recent evidence from the EFA suggests that some employers are tightening up their performance management, appraisal and development policies and practices. Turning a blind eye to poor performance sends the wrong message to employees – whatever their age – and can negatively impact on attitudes, values, behaviours and performances.

Bonus, incentive and recognition schemes

None of the case studies carried out for this report have checked to see if existing bonus and incentive schemes appeal to older workers. Neither have they examined their recognition and non-cash incentive schemes through the eyes of older workers to see if they are motivational. Similarly, we haven't come across any employer who has reviewed whether the mix of base to variable pay is motivating for older workers. For instance, older employees may be concerned that their bonus payments are not being used to calculate their pensions. To get over this issue, some employers have set up arrangements that allow employees to sacrifice bonus awards into their pension plans.

Many employers have revisited long-service awards – recognising that they're a useful retention tool – but the Age Regulations appear to have caused confusion about their use, resulting in some employers abandoning them or replacing them with 'recognition of contribution' awards.

Service-related benefits

Again, our research indicates that employers have looked at service-related benefits from a compliance perspective, looking at what can go wrong rather than what can go right. However, we believe that in appropriate circumstances, rewarding loyalty and/or experience can be an appropriate way of retaining older workers who have been with an organisation for some time or who have knowledge and experience that is valuable to the organisation.

And we're not alone in this view. As the HR Manager at ASDA explains, 'Recognising and rewarding loyalty is not the same as rewarding people based on age.' ASDA wants to treat their employees fairly rather than rewarding them differently – so they have abolished their under-18 pay rate to ensure that everyone is paid the same rate regardless of age.

ASDA does however reward employees that have long job tenure with additional holiday entitlement and with gift cards at milestone years of service. Employees that have completed 25 years of service are provided with a large package to celebrate their 'big anniversary'. They are given a luncheon event and gift and are entitled to an extra week's holiday for that year. They have justified this scheme as meeting a legitimate aim to retain long-serving employees.

Pensions

The increased appetite for flexible working – and therefore flexible retirement – alongside the Age Regulations and changes in Inland Revenue rules have encouraged employers to review the role of pension schemes and related offerings.

The concept of flexible retirement has been actively promoted by the Government. Joint CIPD/Chartered Management Institute (CMI) research and new CIPD/Ipsos MORI research show there is an appetite for flexible retirement among older employees. This appetite has been responded to by some leading-edge employers, even though there are often administrative challenges in building flexibility into existing schemes.

Flexible retirement can refer to the age at which an employee retires, the length of time that an employee takes to retire and the nature or intensity of work in the lead up to retirement. Research from the Employers Forum on Age (2002) found that policies generally offered:

- either flexibility over the date of retirement
- or flexibility over both the date of retirement and working patterns towards full retirement.

We will talk more about the potential of changing working patterns later on in this report. However, it's worth considering these two options here as they lead us to the potential options for flexible pensions. This flexibility focuses on three main areas: the age at which the pension is drawn (early or late); the ability to draw a pension early or late, irrespective of whether the employee has stopped working; and the ability to draw part of the pension and defer drawing the rest.

Recent relaxation by HMRC of UK tax legislation enables employees to draw their pension, continue to work and contribute to their pension at the same time – providing this is allowed by the pension scheme rules. The options for organisations (outside of the constraints of some public sector schemes) are:

- A person may retire and draw their pension in full, as usual.
- A person may defer the drawing of their pension until some point in the future, and continue to work and contribute.
- A person may draw their pension and continue to work, but not contribute any more to their pension.
- A person may draw their pension and continue to both work and contribute to their pension.
- A person may draw some of their pension and continue to work (usually part-time) but not contribute.
- A person may draw some of their pension and continue to both work and contribute.

The last of these is very rare, as it is very complicated to draw part of a pension while still contributing, and was not offered by any of our case study organisations. However, our case study organisations did offer variations of the other five options. It can be seen that the more of these options that can be offered to employees, the more flexibility they will have over their retirement. This will have a positive effect on retention in that increased flexibility of pensions may encourage employees to stay with an organisation after the normal retirement date.

The interest in flexible pension schemes may increase in response to shortfalls in pension funds. The following case study from First Group shows a flexible approach to pensions.

First Group plc

First Group plc is a UK-based international transport company with revenues of over £5 billion a year. It is Britain's largest bus and rail operator, running more than one in five of all passenger services. It also operates freight rail services in the UK. The company employs 135,000 staff throughout the UK and North America.

First Group plc offers a defined-benefit pension scheme based on career-average earnings. The default retirement age is 65 but the company has promoted flexible retirement since 2003. This combines flexible pension options with flexible working opportunities. The company has found that many people want to stop working or reduce their earnings before they are 65. Pension scheme members over 50 years old can now draw their pension early to offset the reduction in pay if they switch to part-time hours. The company also looks favourably on requests to stay on after 65 and the pension scheme permits members to continue building their pension until as late as age 75. Alternatively, employees can stop building their pension at any time and defer receiving their benefits until they are ready to stop working. The company, and the pension scheme, is very flexible in this matter.

Well-being and risk benefits

Both private medical and critical illness insurance are commonly provided benefits but the cost of provision will probably rise in line with an ageing workforce, putting employers off providing these benefits for older employees. But the Age Regulations don't allow employers to exclude older workers on the basis of cost. As a result some employers have chosen to remove the benefits for all employees, while others have shopped around for better deals and by doing so have been successful in finding appropriate cover.

Employers should be more proactive in the marketplace as there is some evidence that employer pressure can lead to cost-effective offerings. For instance, we know anecdotally of one employer who threatened to go to another provider when their existing insurer refused to offer death-in-service for those aged over 65. Eventually, the organisation was able to get coverage for those aged up to and including 70 and the additional cost was minimal.

Yet another alternative some organisations have chosen – Herts CC is an example here – is to offer employees access to discounted rates on private health and medical insurance through a voluntary benefit package, rather than providing these benefits directly.

A good-practice approach would be for employers to focus on what they can do, rather than what they can't do.

Our case study organisations offered a number of well-being benefits that may be attractive to older workers. For instance, Herts County Council offers free flu injections, posture and blood pressure checks and discounted gym membership, while First Group offers on-site gym facilities and access to optical, dental and chiropractic treatment. First Group also provide employee share schemes and facilitates access to credit unions to encourage workers to learn the habit of saving regularly.

The CIPD has recommended that employers invest more in financial education for employees. This benefits all employees – not just those nearing retirement. For instance, younger workers may need support in handling student debt and accommodation costs, while older workers may need to make informed choices about financial provisions in retirement. And this need for financial education increases as employers adopt more sophisticated reward options, such as defined-contribution pension schemes and voluntary and flexible benefits.

Flexible benefits

Organisations, such as Nationwide, allow employees to choose the benefits that they receive within tightly defined budgetary guidelines. This practice is known as 'flexible benefits' and means that employees can choose to receive the benefits that are most useful and attractive to them at any particular time. Although flexible benefits may be more resource-intensive to administer without appropriate technology, nevertheless they enable employers to effectively respond to the needs of a diverse workforce.

While most of the employers we talked to were interested in flexible benefits as a way of meeting the different needs of younger and older workers, most had put their introduction in the 'to do' pile.

Voluntary benefits are those products and services that are available through an employer for purchase by employees, usually at a discount, out of their own taxable income or sometimes via salary sacrifice arrangements. Under such arrangements, the employer does not pay for the benefits provided although some costs may be incurred, for example in respect of the time spent researching suppliers of services or for administration fees. The employer simply arranges provision of the products or services, often using its size as a leverage to negotiate discounted rates, and employees choose to pay for them if they so wish. This can be a cost-effective way of providing benefits that meet the needs of a diverse workforce at minimal cost to the organisation.

Summary

It's clear that employers have a number of options open to them to address the different needs and preferences of older workers. The use of flexible retirement and flexible pension options in particular may provide an effective way of approaching the management of an ageing workforce.

On the pay front, employers need to examine pay structures, pay progression, pay levels and variable pay components to make sure these help the organisation to attract, motivate and retain talent, irrespective of age, and sustain high-performance working. It's important to look at the pay mix between fixed and variable pay as well as between individual and collective reward.

On the benefits front, the trick is to offer and communicate a range of benefits to all employees, appreciating that some may have more resonance with certain age groups than others.

However, having great financial rewards will only get employers so far in being a great place to work – they also need to consider the appeal of their non-financial rewards within their total rewards framework.

4 Working patterns and work–life balance

Our focus group with older workers and our survey of 1,000 employees aged 50–64 suggest that the use of non-financial rewards – such as initiatives to promote work–life balance – can be an effective way of promoting the attraction and engagement of an ageing workforce. As shown by the case studies, organisations that have introduced flexible working arrangements have found these to be particularly popular among older members of the workforce. Many older workers, while wanting to continue working, may want to work part-time or from home and many would like to take sabbaticals and long holidays. An inclusive approach to flexible working beyond legal requirements is an effective way to demonstrate the value placed on older workers and promotes motivation and commitment within the organisation.

Older workers' needs for flexible working arrangements should not be presumed to be the same as the needs of, say, women returning to the workforce after having children. Workers nearing retirement may want to work fewer hours or start work later to avoid the rush hour and take advantage of concessionary travel rates. They may wish to continue working in a less stressful environment or with less responsibility. Individuals in their 50s and 60s may having caring responsibilities for both grandchildren and very elderly parents so may require flexibility to accommodate this, which may include working remotely or from home. People who are nearing retirement also often want to spend time pursuing other interests or doing community work. This may require long-term leave or sabbaticals to accommodate this.

BT has introduced a range of flexible working arrangements that, while available to everyone, are aimed particularly at those workers who are approaching retirement age.

Flexible working in BT

BT is one of the world's leading providers of communications solutions and services, operating in 170 countries. Their principal activities include networked IT services, local, national and Internet products and services. BT currently has about 109,000 employees.

BT has used flexible working generally for at least 20 years so has a long heritage that is ingrained in the way that they work. In 2001, BT had a retirement age of 60 years but the provision of an attractive package for early retirement meant that many employees retired at around age 52. This trend was having a negative effect on the age profile of the workforce. It was therefore necessary to take steps to encourage workers to stay with the company for longer to create an age-diverse workforce that reflected the market that BT operated in.

(continued)

Flexible working in BT (continued)

In 2001, BT introduced a series of flexible working initiatives that, while open to the whole workforce, were designed to encourage older employees to stay with the business and to ease the transition from employment to retirement so that employees stayed committed, engaged and motivated. These arrangements were:

- Wind down: This is effectively part-time working in the later stages of an employee's career.
- Time out: Employees are offered extended leave or sabbaticals to explore opportunities outside of BT for their retirement.
- Ease down: Employees reduce their working commitments or working time during the run up to retirement. This arrangement works particularly well for engineers, who work with apprentices so that the apprentice takes over more work as they become experienced. Alternatively, managers may use this scheme to gradually reduce the level of responsibility that they have.
- Helping hands: Employees are offered the opportunity to take time out to go and work for another organisation, such as a charity or government body. This allows employees who have spent their lives working for BT to 'give something back'.
- Step down: This is aimed at employees at senior levels who may want to continue working but with less responsibility.

The introduction of these flexible working arrangements has been relatively successful. Anecdotal evidence suggests that employees review their working arrangements and often adopt one of these working practices when they reach the age of 60, when they can draw their pension. BT has now removed its retirement age entirely. The use of these flexible working practices has had a significant impact on the age profile of the workforce within BT. In 2001, 13% of the workforce was over 50, whereas in 2007 26% were over 50. In addition, 1.6% of the workforce in 2007 was over 60, whereas virtually no workers were over 60 in 2001.

BT is a good example of how flexible working arrangements can be tailored to be of particular interest to older workers. BT is also a good example of the impact that these types of practices can have on the profile of the workforce. Hertfordshire County Council offers a number of flexible working arrangements that are popular among workers around normal retirement age. And First Group also promotes flexible working arrangements.

ASDA have taken a similar approach to BT by providing a number of flexible working arrangements that, while available to all, are particularly attractive to older workers. These are designed to give people options in the way they work, regardless of age. For instance, the company allows a week of 'grandparents leave' when grandchildren are born. ASDA also offers 'Benidorm leave', which allows employees to take up to three months extended leave between January and March so that they can spend winter in a hotter country if they wish. The company also offers seasonal work of ten weeks per year that is equally attractive to students or post-retirees who may want to earn extra money in the run up to Christmas, for example.

Working environment and culture

While it is not commonly a factor that organisations consider as a way of accommodating an ageing workforce, it's worth noting the potential impact of the working environment and culture on the retention of older workers. Creating an open workplace culture is an important aspect of good diversity management.

Members of the focus group set up for the research carried out for this report admitted that one of the reasons that they stay at Molton Brown is because of the open and friendly atmosphere and the emphasis on social activities.

Social interaction was one of the key drivers for working after 65, found among our survey of 1,000 workers aged between 50 and 64. These are characteristics of a workplace that may be appealing to employees of all ages, and may be particularly attractive to those older workers who are no longer interested in career and pay advancement.

It's also important to realise that an ageing workforce may lead to an increase in employee needs regarding the physical working environment. Good ergonomic design – such as efficient and effective lighting, careful attention to health and safety requirements and good access – while important for all employees, may become even more important for older employees. Paying attention to the health and well-being needs of all employees is vital, but provisions may need to be customised for older employees to make them easily accessible, for example the provision of on-site medicals, eyesight checks and flu jabs. First Group have noticed that certain medical conditions are common in individuals who have worked as bus drivers for some time, so chiropractic and eyesight checks are provided to address these conditions.

Summary

The provision of flexible working arrangements helps to create a participative and friendly working atmosphere, and appropriately designed physical working environments are key to engage and retain an ageing workforce.

5 Training and career development

The 2006 Age Regulations make training-related decisions based on age illegal unless they can be objectively justified. Some employers have historically been reluctant to provide training to employees who are near to retirement age because of negative perceptions about returns on training investment costs. Evidence shows that older workers take part in training less than their younger colleagues and also have more limited chances of further career progression (CIPD 2005). But the development and advancement of employees who are near to or beyond normal retirement age should not be neglected, as this age group will become an increasingly important part of the labour market. Many older workers still have a great deal to offer organisations and will be able to offer even more valuable contributions by being encouraged to keep their skills and knowledge up to date, for example in connection with technology.

The UK age legislation allows positive action to be taken by employers to address the needs of particular groups of workers where there is evidence that they're underrepresented in the workforce. This allows employers to target development and training programmes at older employees. It makes sense for employers to invest in their skills and, as shown by joint CIPD/CMI research (CIPD 2005), employers now recognise the importance of investing in the skills and development of older employees and see this as worthwhile rather than a financial burden. Specific CIPD research is being carried out to explore what employers can do to encourage older people to take more part in training; this should be published later in 2008.

Despite being near to retirement, many older employees want to carry on making contributions at work even if some are less interested in further career progression. When in the later stages of their careers, older employees may want different roles and opportunities to use their knowledge and experience effectively and make contributions that add value to business performance. Many employers use older employees in mentoring and coaching roles, as shown in the CIPD/CMI research. Appropriate training and development may help them to add greater value in these roles.

As the size of the older workforce increases, it will be in the best interests of employers – especially in terms of knowledge management and maintaining and developing the skill levels in their organisations – to make sure that older employees are fully engaged in training so that all talent is nurtured, not wasted.

This includes opportunities for apprenticeships for older workers. Apprenticeships are traditionally offered to younger people aged 16–25, and government funding for these schemes is limited to this age group. But some organisations, such as Sainsbury's, have recognised the value of attracting workers outside of this age bracket onto apprenticeship schemes to address skills shortages and provide older people with the career changes they may be interested in.

Sainsbury's have opened their apprenticeship scheme to workers outside of the normal age bracket for apprenticeships to suit the ethos of the organisation and to satisfy a clear business need. As the UK workforce ages, companies may find it more and more difficult to recruit younger workers into training courses of this type, so more will open them up to older individuals. With the potential removal of mandatory retirement ages, it must be questioned as to whether these limits for training remain justified, given that employees well outside of this age bracket will still have a considerable amount of time left in front of them to develop a new career.

The apprenticeship scheme at Sainsbury's

J Sainsbury plc is a leading UK food retailer with interests in financial services. It consists of Sainsbury's Supermarkets, Sainsbury's Local, Bells Stores, Jackson's Stores and JB Beaumont, Sainsbury's Online and Sainsbury's Bank. The company employs 150,000 people.

Sainsbury's introduced their first pilot apprenticeship scheme in 2006. The company has introduced apprenticeships across a range of craft-based careers, including bakers and meat and fish. The scheme was originally limited to people aged 16–25, in line with government funding requirements for apprenticeships. As a company with a strong corporate social responsibility (CSR) agenda, this limit was not in keeping with the ethos of the company, so was removed for the second cohort of apprentices. There is now no age limit for entry into the scheme.

The company was also having difficulty recruiting bakers due to a national shortage in the labour market. The bakery is a key part of the business, so it was important to have high-quality employees in this area. The removal of the age limits from apprenticeship schemes for bakers therefore also addressed this business need.

The cost implications of removing age limits from apprenticeships was significant as government funding is not provided to those outside the 16–25 age bracket. Sainsbury's felt that the benefits of removing the age limits outweighed the costs. It's important to the company that their practices should be fit for business rather than driven by government funding.

The impact of removing the age limit for apprenticeships can already be seen, as the current programme has three apprentices over 25, with one in his 40s. The scheme allows people who have worked for Sainsbury's in another capacity to change career at any stage in their lives.

First Group have taken a more altruistic approach to providing training to its employees, and have chosen to provide opportunities for its employees to develop a range of 'life skills'. The company recognises that many of its employees, particularly bus drivers, have not always had an opportunity to develop basic skills before starting work and have therefore set up learning centres in a joint initiative with their trade unions. These centres teach skills such as reading and writing, financial literacy and computer skills and are funded jointly by First Group and the trade unions.

First Group and Sainsbury's demonstrate two very different ways in which organisations can provide development opportunities that may appeal to older workers. Different approaches will suit different organisations but these two companies show how training older workers can provide advantages for both the organisation and the employee. The lesson here is that workers who are approaching retirement may still be interested in development and contributing to the organisation, but that their needs may have changed and be different to those workers who are earlier in their careers. These case study examples show that it's important that these older employees should be appraised effectively and their needs identified so that their skills, knowledge and experience can be effectively deployed.

It's also important that employees are made to feel valued for what they do, whatever their age, as this makes them feel more committed to an organisation. Roles as coaches and mentors have the dual effect of developing less experienced workers and maintaining the self-esteem and motivation of the coach or mentor.

Performance management

It's important that performance management does not slacken where the retirement age has been removed or where employees are allowed to carry on working beyond normal retirement age. It's only when the performance of employees is assessed and managed effectively that employers can be sure that employees are in positions that are best suited to their capabilities and that they contribute to sustaining business performance. But the performance management of older workers has caused some concerns for employers.

These concerns are apparent in one of the case study organisations. This organisation had some concerns around performance management when the Age Discrimination Regulations were first introduced. There were some fears that older workers would not be allowed to retire with dignity, as they would have to be performance-managed right up to their retirement date. The concerns were more about length of service and loyalty than age. While the organisation did not make any changes to the performance management system, issues were discussed with managers to re-emphasise the need for effective performance management for all workers.

RWE npower emphasise the need for effective performance management to justify their responses to requests for workers to stay on after retirement age. There has been some concern at RWE npower about putting older workers who show performance shortcomings into capability schemes, as this can be seen as harsh, particularly for long-term, loyal employees. This tension about performance management may be one of the biggest challenges for employers in light of the ageing workforce. Many organisations may have to tighten up the way their schemes are used in the light of the age legislation and retrain managers in how to use them fairly.

Summary

Training, career development and performance management have traditionally been neglected by employers in relation to older workers. The recent UK legislation on age, the ageing workforce and potential removal of mandatory retirement ages mean that this lack of attention will have to stop. Performance management, appraisal and development systems will have to be improved so that the capabilities, ambitions and learning needs of these workers are taken into account.

6 Key issues

The aim of this Research Insight is to examine the ways in which employers are using their total rewards package – or parts of it – to manage, reward and retain an ageing workforce. Recent UK legislation on age, population demographics and the potential for removing mandatory retirement ages make it essential that organisations consider the needs of those employees that are near to or beyond retirement age. This report looks at the use of total rewards for an ageing workforce and focuses specifically on financial rewards (including pensions), working patterns and work–life balance, and training and career development.

Recommendations

- Skill shortages, the ageing population and increasing life expectancy are likely to lead to a demand for employees to work longer. UK legislation on age discrimination means that employees now have the right to ask to work for longer than an organisation's normal retirement age. And there are sound business reasons for organisations to remove retirement ages entirely. Evidence shows that many organisations have already done this.
- Employers should look at their total rewards packages holistically to find out how their offerings meet the different needs and preferences of employees of all ages, understand what these different needs and preferences are, and align their total reward strategies to them. For example, some older workers may be less interested in financial rewards and more interested in flexible working, extended leave arrangements and an open organisational culture.
- Law does not stop employers from offering financial benefits that appeal to an ageing workforce, providing this is done fairly and without age bias. For instance, service-related rewards may be a suitable way of rewarding loyalty or experience as long as it can be objectively justified. Flexible retirement options and flexible pensions can be effective ways of retaining experienced workers. To meet the diverse needs of their employees, employers should examine whether they offer a range of benefits that are attractive to workers of all ages and consider the use of flexible benefits as a way to ensure that employees receive benefits that are tailored to their individual needs.
- Employers need to examine their base and variable pay practices. For instance, they should consider whether the way that they manage reward structures, attach salaries to such structures and progress individuals through salary bands is appropriately flexible and not unfairly age-biased. Also, the rewards and recognition on offer under bonus and incentive schemes need to appeal to employees of different ages.
- Employers should examine their non-financial benefits. Flexible working initiatives may be effective in managing and retaining workers who are near to or past the organisation's normal retirement age. Organisations should consider whether the workplace culture is open and appealing to workers of all ages and should not presume that older workers are not interested in training or career development opportunities.
- Effective performance management for all workers is essential, particularly in organisations without a retirement age or with flexible retirement options.
- Employers should make sure they pay proper attention to job design, health and safety requirements and ergonomics so that these meet the needs of an age-diverse workforce.

Conclusion

After more than 18 months of age discrimination legislation the signs are that employers still have a long way to go in connection with making their approaches to total rewards coherent. They need to do this by age-proofing practices to make them capable of contributing to good talent management and sustaining high performance. Surprisingly, organisations don't generally seem to be examining their total rewards packages in a joined-up sense. Even though the organisations studied for this report have focused on parts of their total rewards packages, such as working patterns, only organisations at the leading edge of good practice have looked at their total offerings to employees in relation to the needs of the ageing workforce. This suggests that many organisations are missing opportunities to add better value to business performance through good total reward management.

Employers need to look holistically at their total rewards packages and examine how they could be tailored to meet the diverse needs of their workforce. Doing this could not only help organisations to improve their recruitment and retention rates, but also stimulate improved job performance by the better engagement and involvement of employees in what they do, no matter how old they are.

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Chartered Institute of Personnel and Development
151 The Broadway London SW19 1JQ
Tel: 020 8612 6200 Fax: 020 8612 6201
Email: cipd@cipd.co.uk Website: www.cipd.co.uk