

Impact of the Baby Boomer Generation

❖ How important are Boomers to the Texas economy?

Introduction

Americans born between 1946 and 1964 — the Baby Boomers or “Boomers” — have had a significant impact on national and state demographics. History has shown the enormous effect of this generation on social services, education and the labor market. Now, as they ready for retirement, Boomers pose concerns for workforce development and planning, corporate succession planning and the social safety net.

While individual situations will vary and personal finances will influence large numbers of Boomer decisions, demographic actuarial tables have been telling us that growing numbers of this demographic cohort could begin retiring in 2010.

Not surprisingly, recent recessionary economic conditions have played havoc with Boomer retirement. Employers across Texas indicate that their Baby Boomer workers are not retiring — for now. However, employers say they still worry about an impending worker shortage once older workers finally decide to retire. Meanwhile, people in their 30s and 40s have been flooding into the Lone Star State in such huge numbers that the largest generation of workers in Texas is now from Generation X. This is a uniquely Texas phenomenon.

Still, when the Boomer cohort eventually begins large-scale retirement from their primary jobs, the numerical labor shortage is likely to be larger than any experienced during previous generational transitions.



Bill Gates once suggested that the top programmers employed at Microsoft were anywhere from 30 to 300 times more productive than the ones with the fewest skills, least experience and little firm-specific know-how.

Worker Demographics in Texas, by Age Group

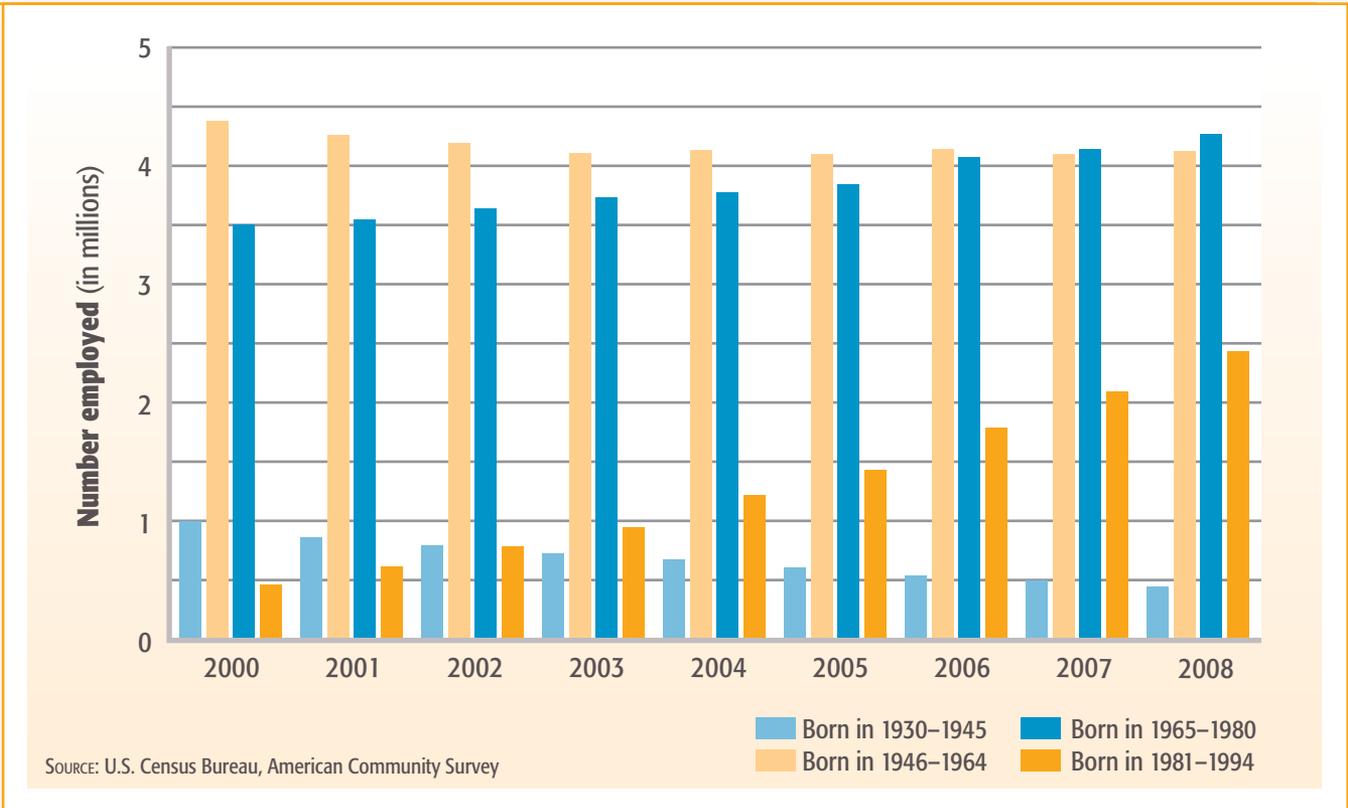


Figure 1.1

What's Happening

The record number of births after World War II and the increased life expectancy as a result of medical advances have resulted in a disproportionately high percentage of older workers in today's workforce. These workers will soon retire in record numbers. In lower skill occupations, no significant reduction in output is anticipated when less-experienced workers replace retiring Boomers. Job openings at the low end of the skill spectrum won't stay vacant very long because there is no shortage of people who meet the minimum requirements for these jobs, which demand routine manual tasks and little cognitive knowledge. New hires shouldn't take long to become proficient at these jobs because the required tasks can be mastered after a short demonstration, and the pace of work and the work activities are set for them by workflow design (e.g., customer-initiated orders at fast-food establishments).

However, when workers at the high

end of the skills-based occupational employment hierarchy retire, they will be harder to replace. Occupations involving complex nonroutine cognitive knowledge, abstract thinking, independent judgment or intricate and nonroutine manual skills (e.g., surgeons, systems analysts) are more at risk of shortages. The supply of persons with the requisite education, training, know-how, and proficiencies is far smaller. While employers may treat turnover (due to retirement or other causes) in low-skill occupations as a trivial matter, they are likely to want to retain the services of their hard-to-replace senior knowledge workers who add significant value.

On the flip side of this argument, age and tenure are not necessarily the determining factors in productivity among knowledge workers, so it's rational for employers to let some of their older knowledge workers retire, even if they are somewhat more productive than the companywide or industry average. That they may generate more output or add more value than their younger co-workers

may be offset by seniority- or longevity-based wage premiums, the higher cost of providing “senior” health care coverage, or their disruptive effects on the productivity of others (e.g., presumed resistance to change, technophobia, personality clashes with younger workers, resentment from having to report to younger supervisors).

For now, Census Bureau analysis of the workers in the Lone Star State from 2008 shows that Texas has a unique situation with four generations in the workforce at the same time:

- **Silent Generation** (born 1930 to 1945 and making up 4% of Texas workers)
- **Baby Boomers** (born 1946 to 1964 and making up 36% of Texas workers)
- **Generation X** (born 1965 to 1980 and making up 38% of Texas workers)
- **Generation Y or Millennials** (born 1981 to 1994 and making up 22% of Texas workers)

A national survey by the Pew Research Center found that Baby Boomers say they are opting to delay their retirement by several years. If Baby Boomers and even Silent Generation workers delay their retirement by about five years, then the Texas workforce that is already congested with four generations working together could become more congested this decade.

Meanwhile, a unique situation unfolded in 2008 as Generation X surpassed the Baby Boomer generation for the largest number of workers in Texas, according to the Census Bureau (see **Figure 1.1**).

“You’re experiencing something so different from the rest of the country, Texas is really an anomaly,” said Rebecca Ryan, economist and generations expert with Next Generation Consulting in Madison, Wisconsin. She said the most likely immediate result within the Texas work environment is “stagnation” at work — where older workers hold on to their jobs and younger workers in Generation X and the Millennial generation (those born 1981 to 1994, also called Generation Y) become frustrated as their careers stall due to congestion of upper level jobs with older workers.

“Boomers are scared as their retirement plans are in flux. Generation X and Millennials are seeing their career plans on hold because those positions ahead of them are not opening up because people aren’t moving on,” Ryan said. “While the average age of workers in other states has been drifting up, Texas seems to be getting younger. This will probably mitigate some of the worker shortage in Texas when older workers retire.”

| The Data

Texas is generally regarded as a young state, a perception buoyed by the median age of the population, which is 33.2 years, or 3.5 years younger than the nation as a whole, according to the Census Bureau. Almost 28% of the Texas population is younger than 18, which is more than 3

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years younger than the national average. A younger and growing population is largely viewed as a positive sign for future economic prosperity.

But Texas is also home to 5.2 million Baby Boomers, roughly 29.1% of the 16-and-older population, who comprise about one third of the state's civilian labor force. Though that percentage is lower than the national average (78.2 million Baby Boomers nationwide comprise 31.7% of the noninstitutionalized 16-and-older population, or labor force eligible), it represents an entire generation of Texas workers about to retire.

These numbers do not tell the whole story. In 1964, Boomers represented nearly 40% of the U.S. population and about 35.9% of the national civilian labor force. To visualize their enormous demographic impact, imagine the noticeable bulge of a pig passing through a python that swallowed it whole.

The numerical effects of Boomer retirement are compounded when compared with skill shortages. "Baby Boomers are going to be retiring in droves starting with the end of this decade," said Arlene Dohm, an economist with the Bureau of Labor Statistics in Washington, D.C. "There are certain industries and professions that are going to be hit very hard."

As they moved from infancy into adulthood, Boomers in sequence strained the capacity of public education, postsecondary education, the labor market, and the housing market. Today, they are the largest cohort in the labor force. As Boomers exit the workforce, they will strain the Social Security system. Meanwhile, the economy will lose their productivity and the value Boomers add to goods and services by virtue of both their formal training and the tacit knowledge

(know-how) they've accumulated over so many years on the job. More than 29% of Boomers have a Bachelor's degree or higher, making them the most highly educated cohort in American history. White men, who comprise the largest group of retiring Boomers, attained more education than most groups in the replacement pool of workers. Older white men also accumulated vast amounts of tacit knowledge acquired through many years of on-the-job learning.

Employers say that replacing Baby Boomers is already proving to be a problem. Multiple surveys of human resources managers show that newer workers often lack the specialized education or appropriate college degrees and even lack adeptness with "workplace fundamentals." The characteristics of the younger Generation X and Generation Y further concern employers. These younger generations include more female workforce members. Though these women have high rates of college degrees, they lack degrees in scientific and engineering fields. The younger generations also have high proportions of Hispanic and African-Americans populations, which in the past have had below average graduation rates for high school and college. These patterns provided much of the impetus for the Texas "Closing the Gaps" initiative, which encourages more young Texans to attend college.

In the wake of an increasingly competitive global economy, companies' focus on the bottom line also affects the future of the talent pool. After years of downsizing through layoffs of middle managers and technical and professional workers, employers are growing anxious to find appropriate successors. Worker talent — or bench strength — has been further winnowed by recession-inspired

"Adding willing hands to the economy is not the same as adding trained brains."

— from *"The Search for Talent,"* The Economist, October 2006

Population Pyramids of Texas

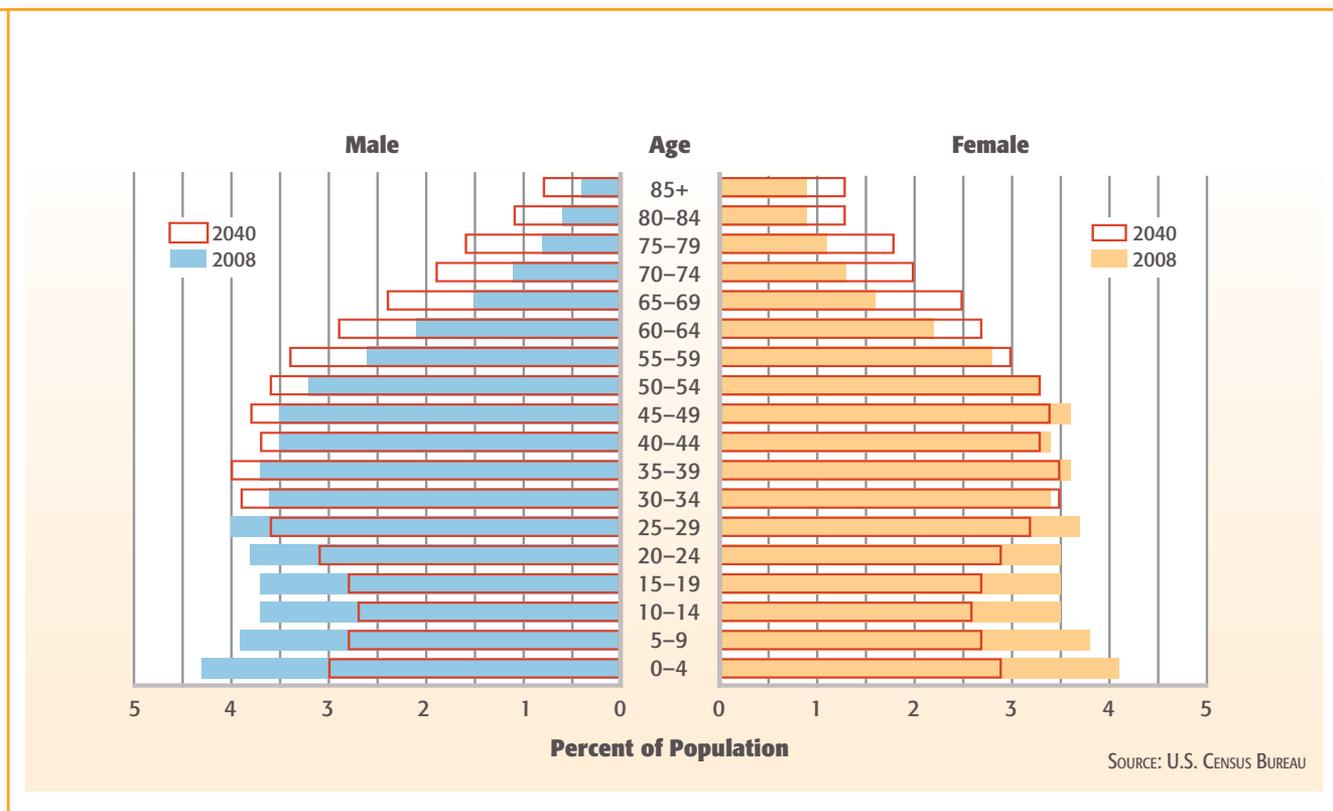


Figure 1.2

layoffs. Anecdotal evidence gathered from surveys of human resources professionals shows large increases in the average time needed to fill the high-skill, upper level jobs vacated by early retiring Boomers. They also report the increased likelihood of filling those vacancies with younger, less-qualified applicants.

Some general trends should also be noted regarding workers of the Baby Boom generation. Although the concentration of older workers varies from region to region, older Americans tend to live in rural areas. In Texas, for example, rural communities have a higher percentage of older workers than do urban communities. Industry attachment of older adults also varies. Senior workers, more than younger workers, also tend to work in “legacy” industries, such as agriculture, petroleum, manufacturing, government and education, which were thriving when older Americans came of age in the 1960s and 1970s. As employment opportunities diminish in these sectors and more job growth occurs

in service-related industries, older workers who want to continue working will have more difficulty retaining jobs or finding new work that uses their existing skill sets. Older workers also tend to hold more senior positions than do younger workers, a typical result of Baby Boomers’ accumulated formal education, work experience and tenure.

The population pyramids for the United States show the prominence of the Baby Boom cohort (see **Figure 1.2**). Men and women are depicted on separate sides of the age key in the middle. Though this chart shows only population (not workforce) statistics, economists and demographers extract the gender breakouts because men and women tend to have different labor force participation rates. Their average educational attainment also differs, as do their concentrations by fields of study, occupational and industrial employment, average life expectancy and average age at retirement.

“American businesses lost their ‘bench strength’ during the 1980s and 1990s.”

– John Sullivan,
San Francisco State
University



| So What?

The eventual retirement of older workers will result in a host of economic effects, including a strain on the Social Security system, lost productivity of older workers, and lost added value to goods and services through Boomers’ formal training and know-how.

To make matters worse, middle managers and technical and professional workers took the biggest hit in the middle of their careers when companies reengineered production lines and downsized to reduce labor costs. Workers who found their career progressions truncated during this organizational “flattening” were part of the lower tail of the Baby Boom generation or the upper tail of Generation X. Thus, the feeder cohorts comprising the talent pool to replace the first wave of retiring Boomers suffered collateral damage when downsizing and reengineering “cut the muscle along with the fat.” Today, many companies facing impending Boomer retirements obsess over short-term, bottom-line issues and fail to devote enough attention to succession planning and within-firm skills-gap analysis.

Quantifying the coming skills shortage has been problematic because many Boomers say they are delaying retirement. However, a great deal of anecdotal evidence supports its significance. In

responding to recent surveys, human resource managers reported the following observations:

- **Large increases** in the time to fill high-skill, senior-level jobs being vacated by early-retiring Boomers
- **Notable decreases** in the qualifications of younger applicants for high-level, senior positions, especially in engineering, skilled trades and precision manufacturing
- **Increased instances** of filling high-level vacancies with less than fully qualified younger replacements (and, thereafter, experiencing sharp declines in overall firm productivity)
- **Increases in salary** and benefits demands by younger applicants who are well qualified because they have a good sense of their market value when high skills are in short supply

Many economists predict that the United States is headed for an economic contraction when Boomers retire. Americans of usual working age may expect to shoulder larger tax burdens to fund government services, if they continue at current levels. Therefore, workers may have fewer after-tax dollars to fuel consumption. Without increased consumption demand to drive it, total domestic output likely will not match its average annual growth rate (around 3% per year), which economists historically have considered healthy enough to sustain prosperity.

Chapter 1 | Suggested Strategies



Think Globally, Plan Regionally

Some of the anticipated labor shortage could be filled in the following ways:

- Increased labor force participation of women
- Postponed retirement, especially of male Baby Boomers
- Increased labor force participation of African-Americans and Hispanics
- Recruitment of foreign-born workers to fill the void

Even then, the raw numbers do not tell the whole story. For example, women have relatively high levels of postsecondary education, but few have specialized scientific and technical degrees that underpin the new economy. In addition, African-Americans and Hispanics may not be as likely to fill the employment voids unless postsecondary educational attainment rates increase, and highly skilled international workers are having more trouble entering the United States and obtaining work visas since September 11th, 2001. Qualified foreign workers are increasingly tempted to work in their homelands as their native countries' economies grow and offer more job opportunities.

The effects of the numerical labor shortage will be compounded by more significant skill shortages. White men, who comprise the largest group of retiring Boomers, have on average attained more postsecondary education than most groups in their younger replacement pool. Moreover, the high-skill professional, managerial and technical workers who are about to retire have accumulated indispensable tacit knowledge, specialized degrees and skill sets.

No single policy or action will prevent an economic contraction when Baby Boomers retire. Still, Texas policymakers, business leaders and workforce intermediaries can capitalize on several strengths of the Texas economy to mitigate this phenomenon:

- Provide incentives and establish procedures that entice Boomers to postpone their retirement.
- Identify, retain and groom young in-house talent to replace retiring Boomers.

- Become an “employer of choice” to outdo competitors in recruiting talent and retaining skilled workers.
- Effectively deploy state-of-the-art information technology, implement human resource management best practices and deliver productivity-enhancing training.
- Structure opportunities for retirees to return to work as independent contractors to complete unfinished projects or as training consultants to mentor replacement workers.
- Allow older workers to stay on the job without jeopardizing their own Social Security and private pension benefits.
- Conduct thorough internal skills inventories and develop rational succession plans.
- Develop internal career progressions to retain young talent.
- Embrace new leadership styles to engage and retain the next generation of workers while managing intergenerational conflict as retiring Boomers relinquish the reins of leadership in the workplace.
- Broker arrangements for local firms to use Texas Skill Development Fund dollars for customized training at community colleges, particularly for workers who will replace retiring Boomers.
- Pool resources and expertise with firms in the same industry to establish a training consortium and develop a core training curriculum for incumbent workers and new hires of the consortium's member firms.
- Provide training services that increase worker productivity as an integral aspect of regional economic development.
- As work shifts to the upcoming generations, demonstrate a collective commitment to retaining and growing legacy businesses within a community.
- Adjust for more part-time positions to allow older workers to ease into retirement while opening new roles for younger workers.

**Getting Boomers to postpone retirement is only a stopgap measure.
At some point, they will leave their jobs and they all will have to be replaced.**