

Age and Retirement Benchmarks: Key Analytics that Drive Human Capital Management



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Executive Summary

This study provides an analysis of the U.S. workforce to formulate age and retirement benchmarks. Though U.S. averages are derived from all industries, emphasized are industries that represent more than 60% of the nation's workforce: manufacturing, hospitality, education, health services and retail, as well as public administration. The resulting benchmark figures can help companies put their age demographic and retirement data into context and reveal and compare measurements that are essential long-term business strategies.

The analysis is based on the aggregate, anonymous, "real-world" data from approximately 52,000 U.S.-based ADP client organizations comprised of approximately 16 million active workers gathered during the fourth quarter of 2012.

AVERAGE AGE TELLS JUST PART OF THE STORY

The analysis revealed that 24% of this workforce consists of Millennials (under age 30), 45% are Generation X (ages 30 – 50), and 31% are Baby Boomers (age 50+). The average age across all industries studied is 41, but there was variation among the six industries. Employees in public administration were the oldest with an average age of 47. Hospitality employees were the youngest with an average age of 34.

INDIVIDUAL COMPANIES DON'T ALWAYS FOLLOW INDUSTRY PATTERNS

Companies did not necessarily follow the age distribution patterns of their respective industries. For example, in the hospitality sector, although the industry average age was 34, about 54% of the companies had a workforce with an average age lower than the industry average. These companies employed 60% of the workforce. On the other hand, in healthcare and education, a large number of companies had age distributions that closely aligned with the averages for their industries.

There may be a valid reason for a company's average age to differ from that of the industry average. For example, it may be a retail company that caters to young shoppers, so its average age is lower than the norm. However, it could also indicate the company needs to adjust policies and practices to attract and retain employees to better compete in the marketplace.

IN 5 YEARS, 18% OF U.S. WORKFORCE MAY RETIRE

In this research, we assumed the retirement age to be 61, and based on this assumption, nearly 18% of the 2012 workforce will reach retirement age in the next five years. The retirement story followed the aging trend – the higher the industry's average age, the higher its retirement percentage. Public administration can expect the highest retirement rate, with about 28% of the workforce reaching retirement age in the next five years. On the other hand, those in the hospitality industry can expect to experience the lowest retirement rate, with about 9% of the workforce reaching retirement age in the same period.

Retirement data can provide a critical glimpse into the future of a company's workforce. Businesses will want to assess how their own workforces compare to the averages and consider strategies for recruitment and training in order to replace the significant loss of knowledge, experience and company culture that can be expected.

Introduction

Across virtually all industries, business leaders consistently point to the talent of their workers as a key business resource. Human Capital – the sum of competencies, knowledge and personal attributes that create economic value for a company – is often considered a company’s most valued asset. In this fast-moving global economy where companies are driven by talent and knowledge, it has never been more important to carefully manage this asset for performance and cost-effectiveness.

Companies gain tremendous strategic insight when they measure Human Capital Management (HCM) data and then benchmark, or compare, that data to organizations of analogous size within the same or similar industries. These measurements help companies learn to solve real-world problems and understand their own evolving story – in order to meet the demands of today’s business world. If a company doesn’t measure and benchmark, its leaders won’t know how they’re doing, which workforce issues need to be addressed and how effective solutions might work down the road.

To create reliable benchmarks for HCM strategy development and decision-making, companies need data they can trust. Trustworthy data requires large data sets which are objective and accurate. These sets of “big data” enable companies to analyze their workforces in nontraditional ways and either confirm their assumptions or arrive at new and valuable levels of understanding.

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The Importance of “Big Data”

Big data lives up to its name. It is a collection of information that can ultimately be used to tell a richer, more nuanced story that is often not apparent with traditional reporting capabilities. In the early days of human resources (HR) benchmarking, comparisons of Key Performance Indicators (KPIs) were made to a few dozen or, at best, a few hundred similar organizations. Businesses used whatever data they had to react to the latest trends and shifts taking place in the workforce.

Now, technology makes it possible to gather real-time HR data from tens of thousands of organizations to create benchmark comparisons. Big data allows organizations to look at more than what happened in the past. It enables them to analyze why things are happening and, most importantly, look forward to examine what is likely to happen, as well as predict how long those changes will take to occur. Using big data, companies not only can react to changes but also help change the outcomes.

Big data can unlock significant value by making information accessible and apparent. Data may confirm or disprove long-held beliefs related to recruitment, such as which skills, experience and education can best help to predict employee success. It can also assist in succession planning. In short, using big data can substantially improve decision making in all areas of HCM.

Clearly, big data is key to creating effective HCM metrics. However, data based on employee or employer surveys may not be precise. Surveys rely on the natural subjectivity of humans and self-reporting. On the other hand, human resource transactional records present a useful, objective source of data. Analytics based on actual, real-time data are critical to obtaining accurate benchmarking.



Measuring What Matters Most

In today's competitive environment, the effective management of Human Capital is critical. For this reason, more corporations are measuring hundreds of HCM metrics or KPIs that can help drive business strategies. With these metrics, companies can track employees across their entire careers – from the moment they are hired until their retirement and their performance in between.

One of the most basic – and useful – metrics is age. Although it is quantitative and easy to measure, it also delivers a wealth of qualitative information. Far more than a simple number, the measurement of age helps companies identify and focus on behavior patterns unique to particular age groups. Age can be related to factors such as education, experience and the choices workers are likely to make.

Similarly, retirement data reveals much more than a simple number. If a business unit has a high percentage of employees nearing retirement age, this data can prompt action that may avert serious performance issues. It gives a company time to replace the education, experience and training levels and maintain the business outcomes of the unit. It may be possible to suppress the retirement rate by adding benefits until new people are trained.



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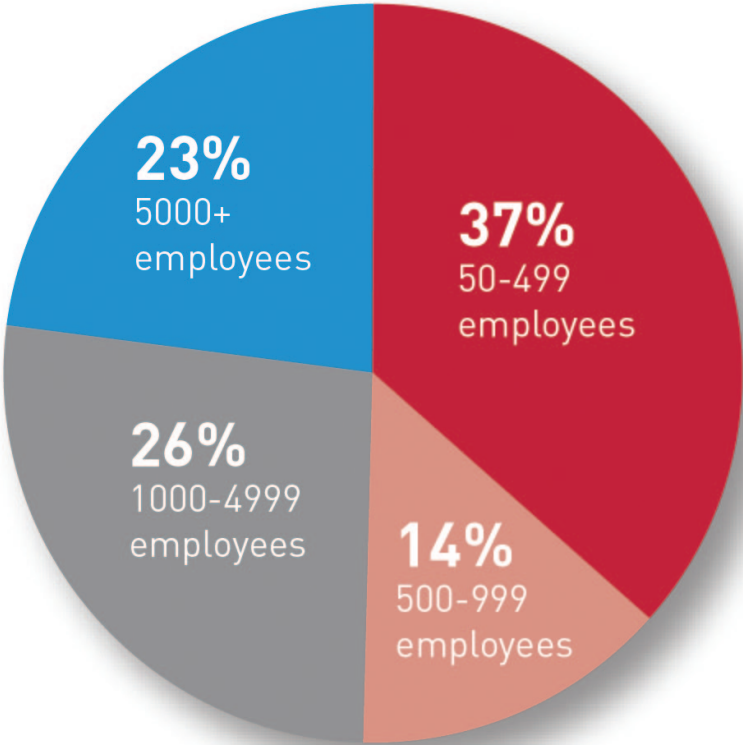
Although there are hundreds of valuable HCM metrics, the focus of this research is on two key measurements: age and retirement. By leveraging actual data representing multiple industries across all 50 states, the report presents a snapshot of the workforce and provides insights that may be applied in each industry.

Data and Methodology

Unlike surveys that employ self-reported information from a select few, this report is based on aggregate – and anonymous – “real-world” data from approximately 52,000 U.S.-based ADP client organizations.

The ADP study captures information from approximately 16 million active employees working for organizations having 50 or more employees in the fourth quarter of 2012. Overall, the data set was almost evenly split between those companies with more than 1,000 employees and those with fewer than 1,000. Specifically, 25% of the companies had more than 5,000 employees; 27% had 1,000-4,999 employees; 14% had 500-999 employees; and 37% had 50-499 employees.

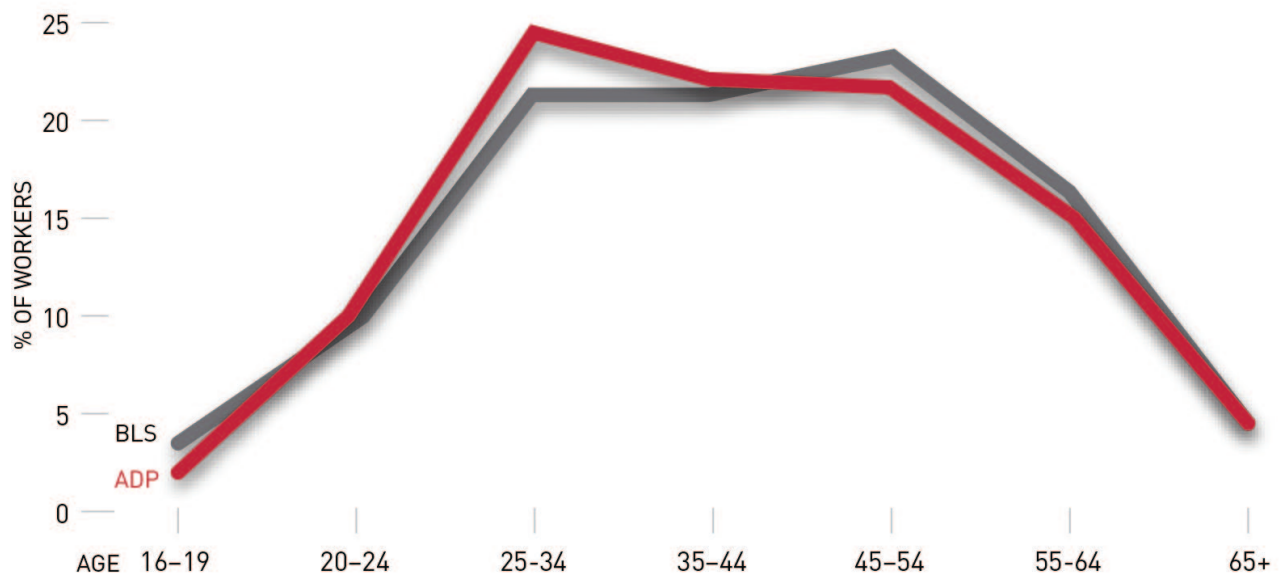
Figure 1
Distribution of Companies by Size



Source: ADP Research Institute® 2013

Although different methodologies were used, findings from ADP's data set appeared to be well synchronized with that of the U.S. Bureau of Labor Statistics (BLS), which is a unit of the U.S. Department of Labor. The data pertaining to age is closely aligned with the BLS data, as shown in the chart below.

Figure 2
ADP vs. BLS Workforce Age



Source: ADP Research Institute® 2013, U.S. Bureau of Labor Statistics

This report focuses on six industries: manufacturing, hospitality, education, health services, retail and public administration. These industries represent more than 60% of the U.S. workforce.

Age Data Unveils Nature of Workforce

With age data, HCM professionals can better manage a workforce that is increasingly becoming multi-generational. In the United States, generations are often classified using the terms Millennials (under age 30), Generation X (ages 30-49) and Baby Boomers (age 50 and older). This research uses these terms as well.

Figure 3
Generation Classifications



Although certainly not universal, age groups tend to reflect certain values, behaviors and world views. There are well-documented generational differences in employee motivations, attitudes about work and opinions about the most valuable work benefits. An awareness of these differences can support better employee retention and recruitment efforts. A Baby Boomer manager may find it helpful to understand where pockets of Millennials exist and the challenges they might present. A Generation X founder may benefit from better understanding the Baby Boomers working in key areas.

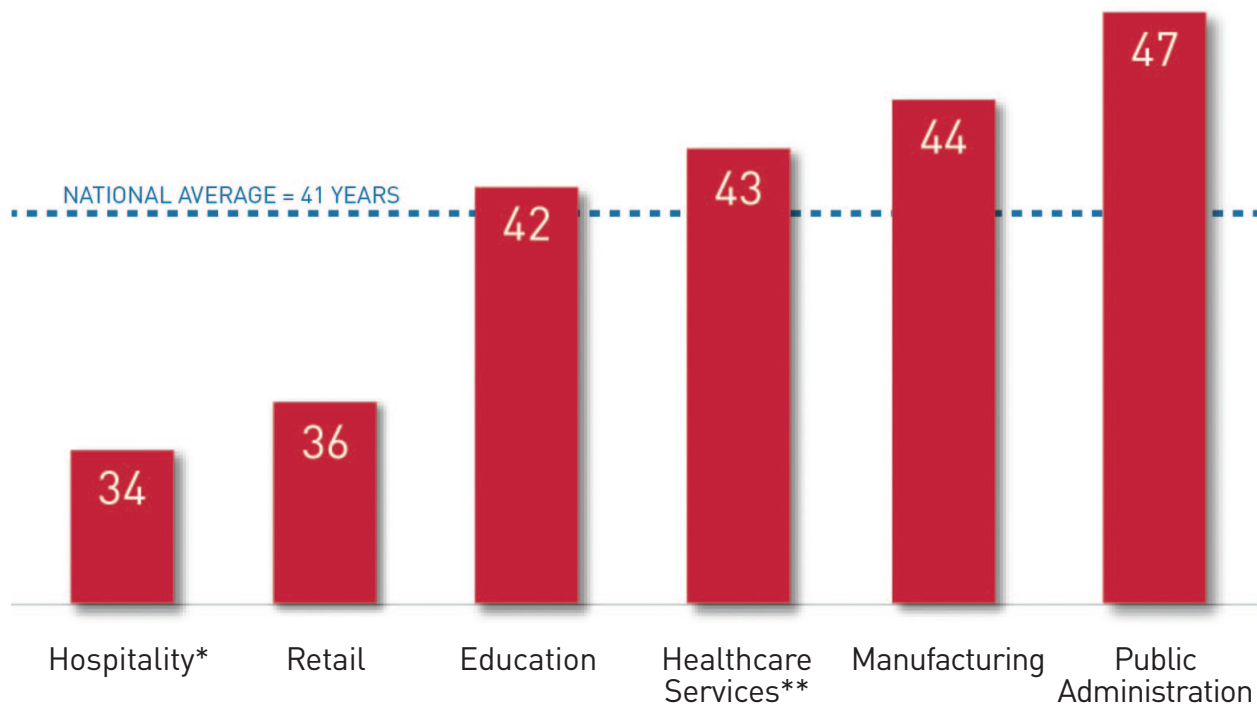
Age often correlates with corporate knowledge, skills and experience, and it may be an indicator of whether the company has the capability and talent to execute its strategy. An older worker may have valuable experience, but needs to update technical skills. A younger worker may have technical skills, but might be lacking in the experience needed.

The purpose of this research was to provide benchmarks that would enable companies to compare their age demographic data with other companies according to their industry, size range and region.

STACKING UP TO THE AVERAGE AGE

According to data presented in this ADP study, the average age of the U.S. workforce was 41. The following chart compares selected industry to this average age. The public administration workforce was older than any other group with an average age of 47. In stark contrast, the average age in the hospitality industry was 34 and in retail it was 36.

Figure 4
Average Age by Industry



*Hospitality: Accommodation and Food Services

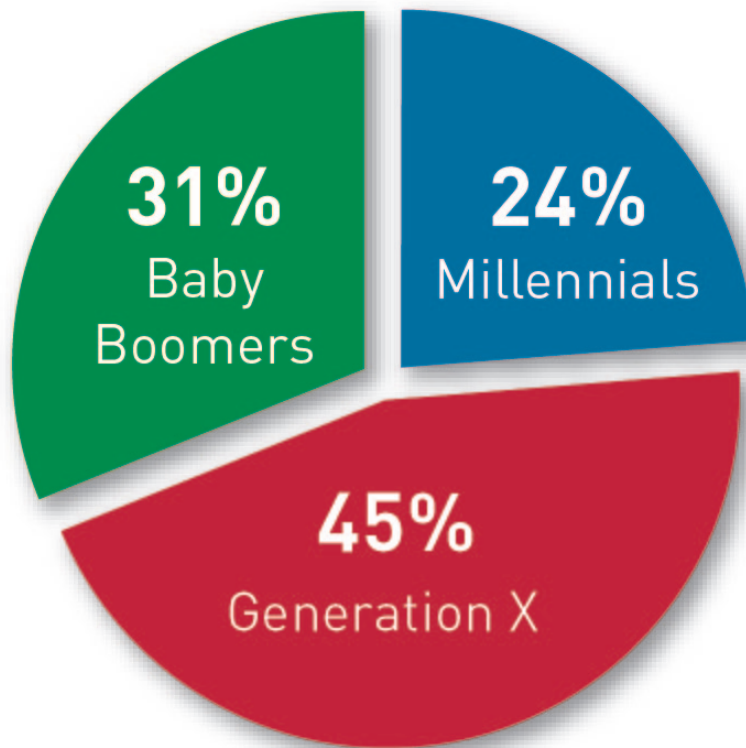
**Healthcare Services: Healthcare and Social Services

Source: ADP Research Institute® 2013

A BALANCED GENERATION NATION

Our study showed that among U.S. workers, 24% were Millennials, 45% were Generation X and 31% were Baby Boomers. As expected, the youngest and oldest workers comprised the smallest proportion. Those in age group 30-34 comprised a full 12% of the workforce.

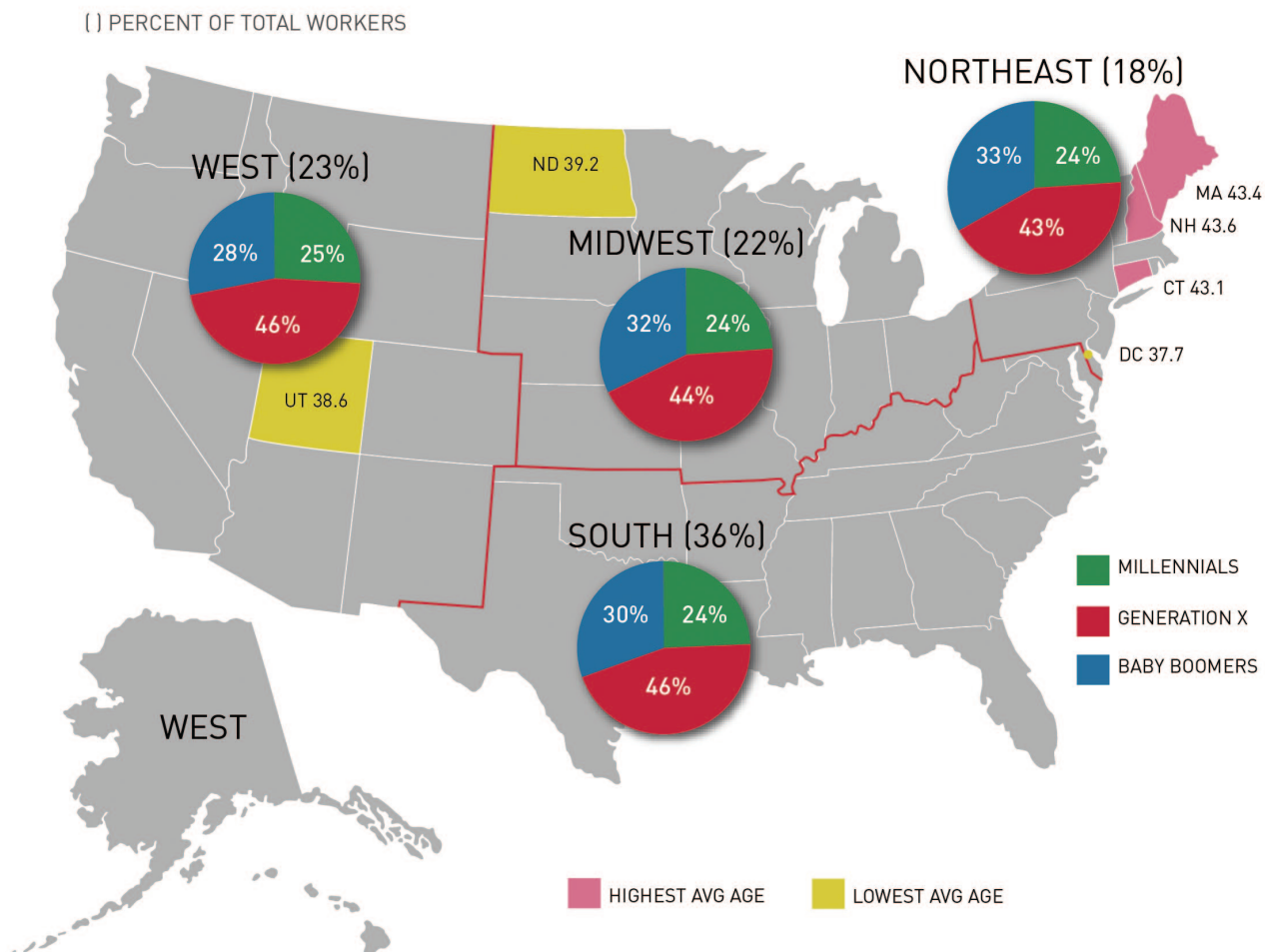
Figure 5
U.S. Workforce by Generation



Source: ADP Research Institute® 2013

Although industries tend to cluster in certain regions, the generational distribution did not vary significantly from region to region. The following graphic shows the proportions within each region and how workers were distributed across the country. Consistent with the BLS published data, the South was home to the largest number of employed people. The region with the largest percentage of Baby Boomers was the Northeast. The District of Columbia had a younger average age (37.7) than any state. The states with the youngest average age were Utah and North Dakota. The states with the oldest average age were Connecticut, Maine and New Hampshire.

Figure 6
Generational distribution by region



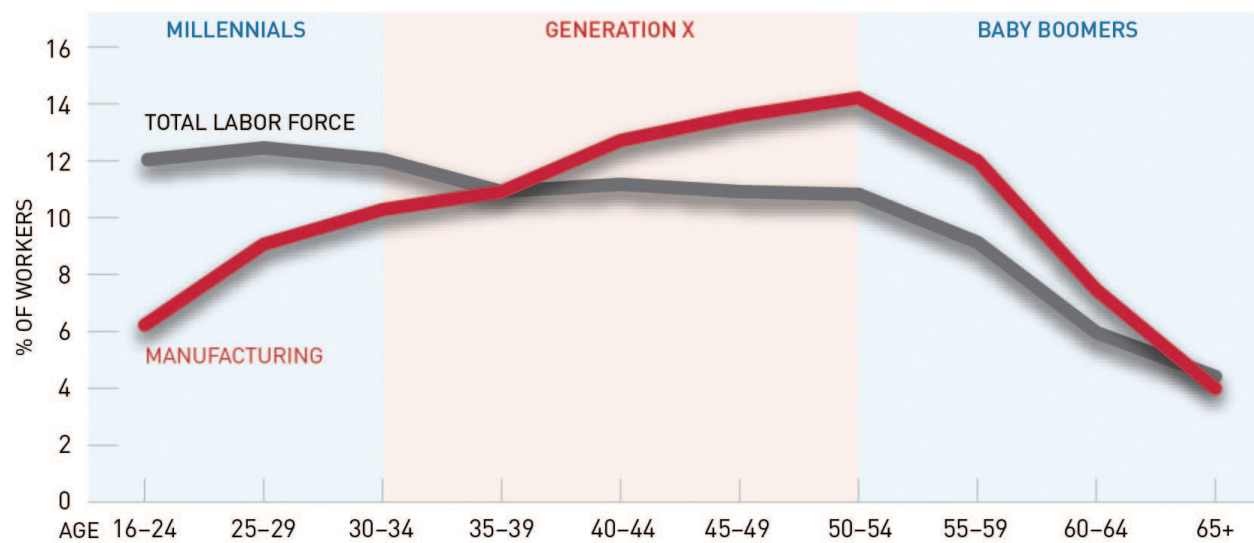
Source: ADP Research Institute® 2013, U.S. Bureau of Labor Statistics

IN EACH INDUSTRY, A DIFFERENT AGE PICTURE

Although the average age of the U.S. workforce in the ADP study was 41, the age makeup of the workforce varied significantly within each industry. The following charts provide a snapshot of how the ages of workers in each industry compared to the total labor force for all industries combined in the study.

In **manufacturing**, more than half of workers (52%) were in the 40-59 age range. The number of workers dropped significantly in the 60-64 age range, probably because many of these workers have traditional retirement benefits.

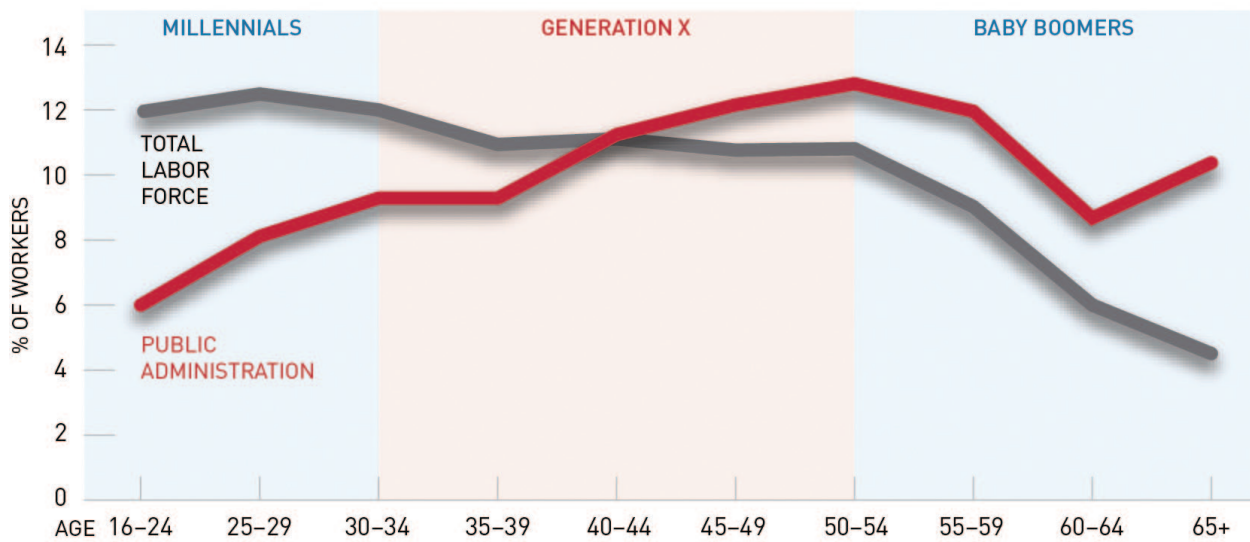
Figure 7
Distribution of Employees by Age:
Manufacturing vs. All Industries



Source: ADP Research Institute® 2013

Workers in the **public administration** sector also tended to be older than the average, with the largest proportion (48%) clustered between the ages of 40 and 59. Like the manufacturing sector, their numbers declined at the 60-64 age range. Unlike manufacturing, their numbers rose again at age 65. Approximately 10% of this sector's workforce was over age 65, well above the national average of 5%*. Some public administration agencies recruit workers who have retired from their own agencies or who have retired from positions in other industries. Strong health benefits packages, opportunities for flexible work arrangements and inclusive workplace cultures may be behind the relatively large proportion of workers 65 and older.

Figure 8
Distribution of Employees by Age:
Public Administration vs. All Industries

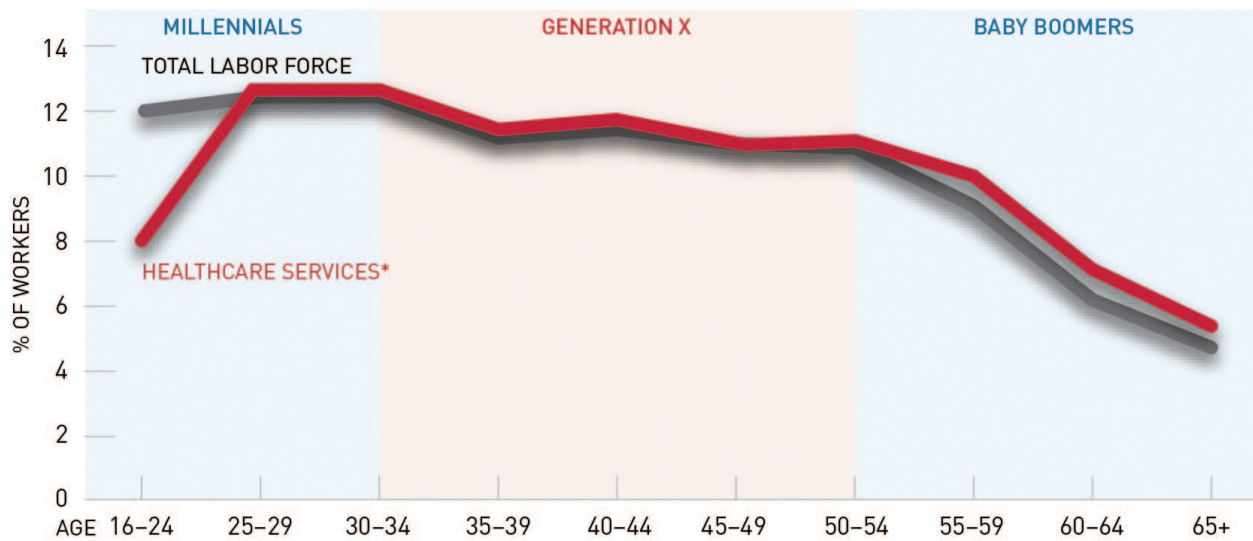


*Source: ADP and U.S. Bureau of Labor Statistics (BLS)

Source: ADP Research Institute® 2013

The age distribution of workers in the **healthcare services** sector closely followed the national trend. The only marked difference was the smaller percentage of workers in the 16-24 age segment. Work in the health services field often requires advanced training that would delay entry into the workforce until around age 25. At 25 and older, the age distribution was nearly a mirror image of the national numbers.

Figure 9
Distribution of Employees by Age:
Healthcare Services vs. All Industries

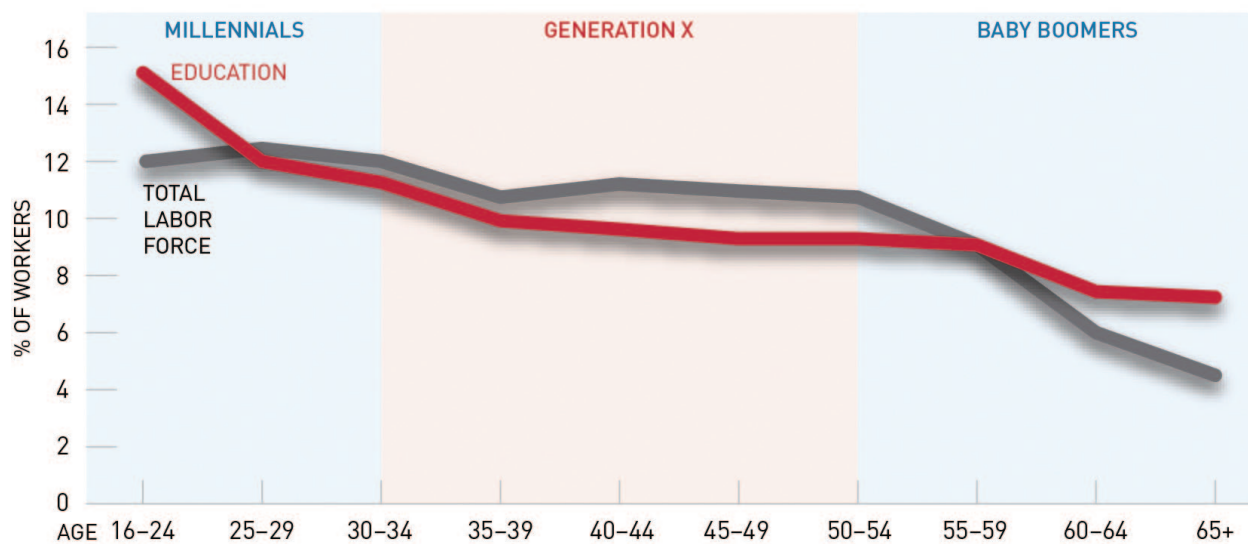


*Healthcare Services: Healthcare and Social Services

Source: ADP Research Institute® 2013

Workers in the **education** industry showed variation from the total labor force trend at the two ends of the age distribution spectrum. Between ages 25 and 60, the distribution followed the national trend.

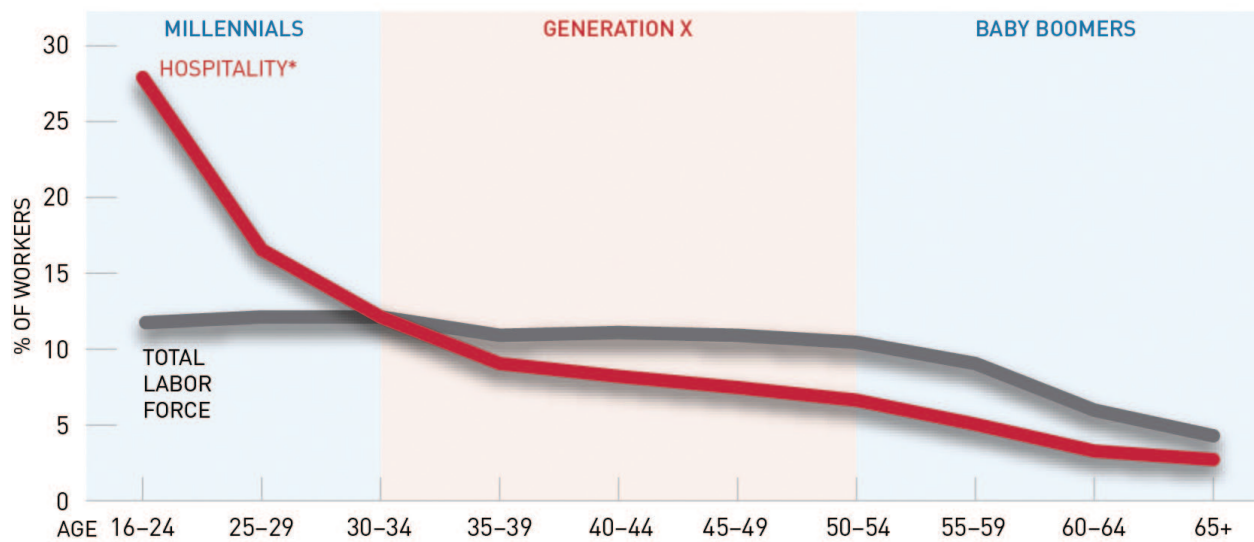
Figure 10
Distribution of Employees by Age:
Education vs. All Industries



Source: ADP Research Institute® 2013

In the **hospitality** sector, the proportion of younger workers was dramatically higher than in the workforce as a whole. Nearly 30% were in the 16-24 age range. Large numbers of workers in this sector are employed in positions that require little or no advanced training. Their positions range from office staff to housekeepers, as well as restaurant and daycare workers. The proportion of workers over age 35 was significantly below the national trend.

Figure 11
Distribution of Employees by Age:
Hospitality vs. All Industries

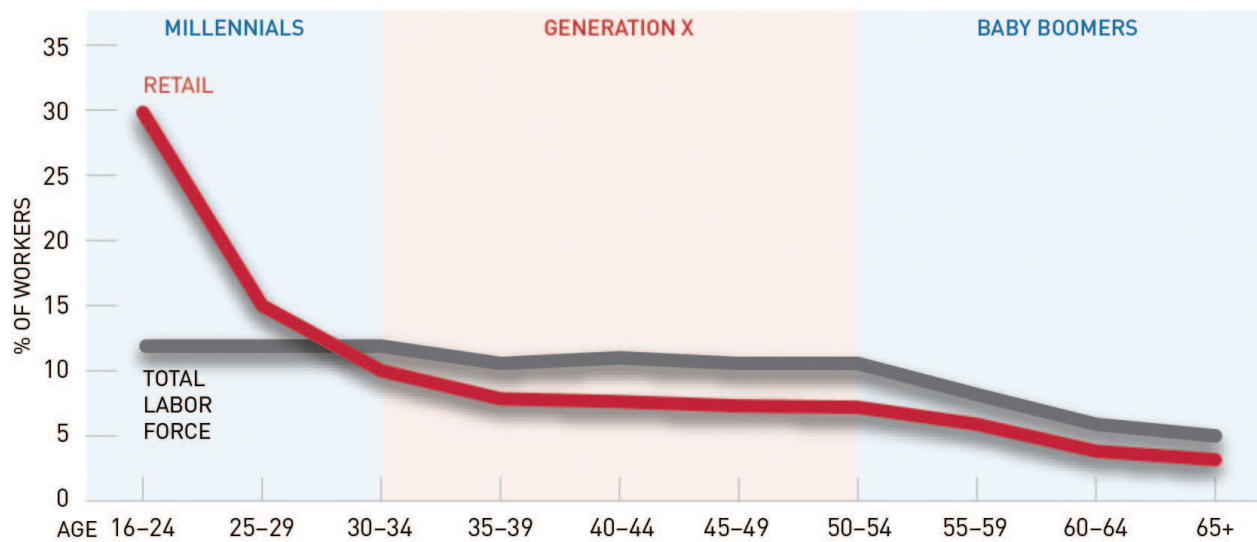


*Hospitality: Accommodation and Food Services

Source: ADP Research Institute® 2013

As in the hospitality sector, the proportion of younger workers in the **retail** industry was notably higher than the national average. While just 12% of the total workforce was in the 16-24 age range, a full 30% of workers in this sector were ages 16-24. Many young workers who are just starting their careers or working while in school turn to the retail industry for their first jobs. As these workers gain experience and education, they often leave for more profitable positions. The percentage of workforce dropped below the national level beginning at the 30-34 age bracket.

Figure 12
Distribution of Employees by Age:
Retail vs. All Industries



Source: ADP Research Institute® 2013

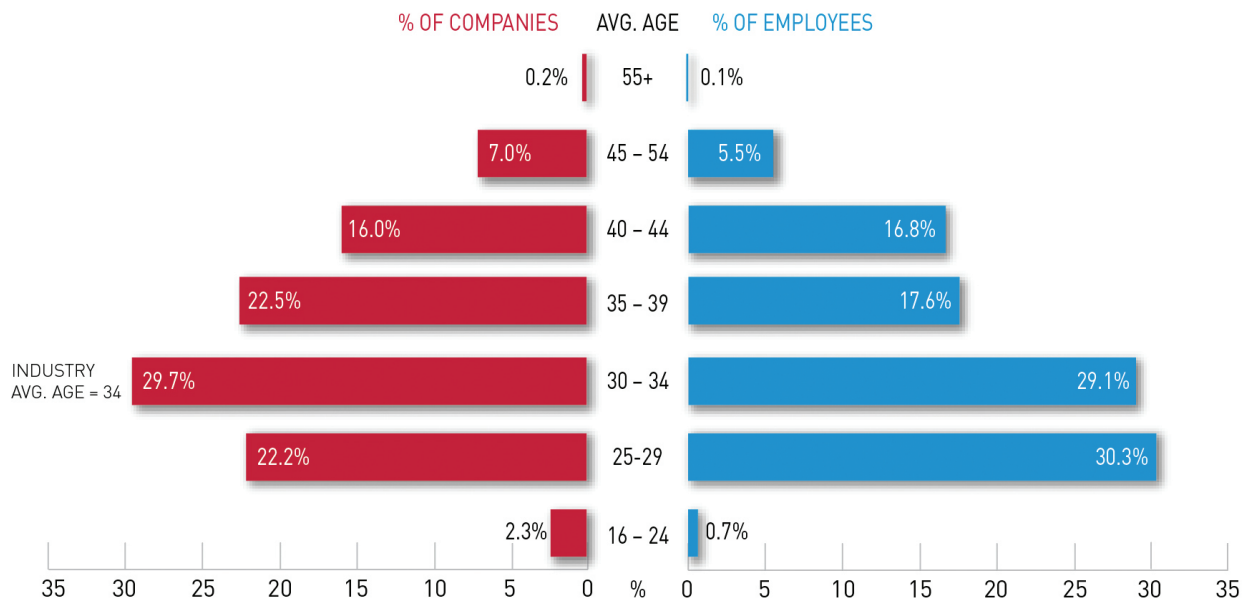
BEYOND THE AVERAGES – VARIATIONS WITHIN INDUSTRIES

Not all companies are aligned with the average age of their industry. The research showed significant variation among companies. Reasons for these variations may be linked to the type of work the company performs and length of training required. Due to its heterogeneous nature, there is significant variation in the retail trade, as some employers need workers with specialized skills, while others do not. In manufacturing, a more-trained and experienced workforce is generally required, which pushes up the average age. However, a new wave of technology-based manufacturers that need new types of skilled workers may be emerging in the cluster of companies found below this average. On the other hand, in the education and healthcare sectors, a period of fairly standard training is expected, which may explain why companies were more aligned with industry averages.

Organizations with workforces above or below their industry averages may require different strategies for recruitment, retention and management than are typically considered best practices for their industries. Moreover, those with high average ages may need to plan now to mitigate the impact of large numbers of retiring workers in the near future.

In the **hospitality** industry, the average age in the ADP study was 34. However, about 54% of the companies had a workforce with an average age lower than the industry average, comprising 60% of the workforce. In hospitality, little technical knowledge is needed for most positions, which may explain why so many companies are clustered in the below-average age range.

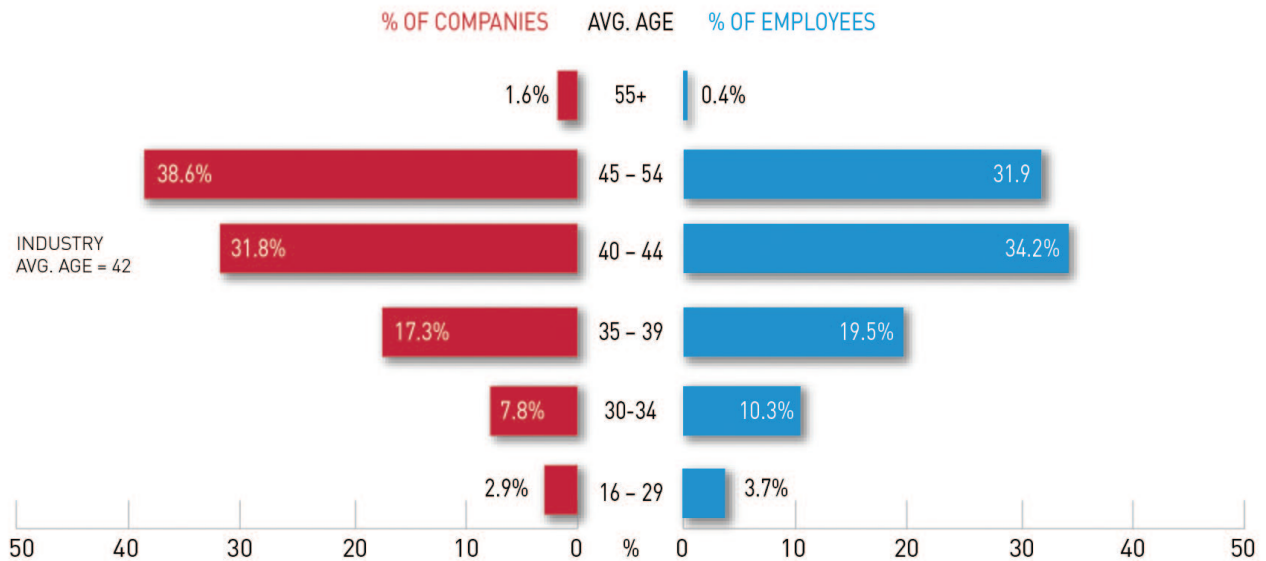
Figure 13
Distribution of Companies by Average Age:
Hospitality



Source: ADP Research Institute® 2013

In the **education** sector, the clusters were more closely aligned with the industry average age of 42. Approximately 32% of the organizations studied were aligned with the industry average, and their employees comprised 34% of the workforce. Most employees in this sector are expected to follow a prescribed path of advanced education before entering the field, which may explain this alignment.

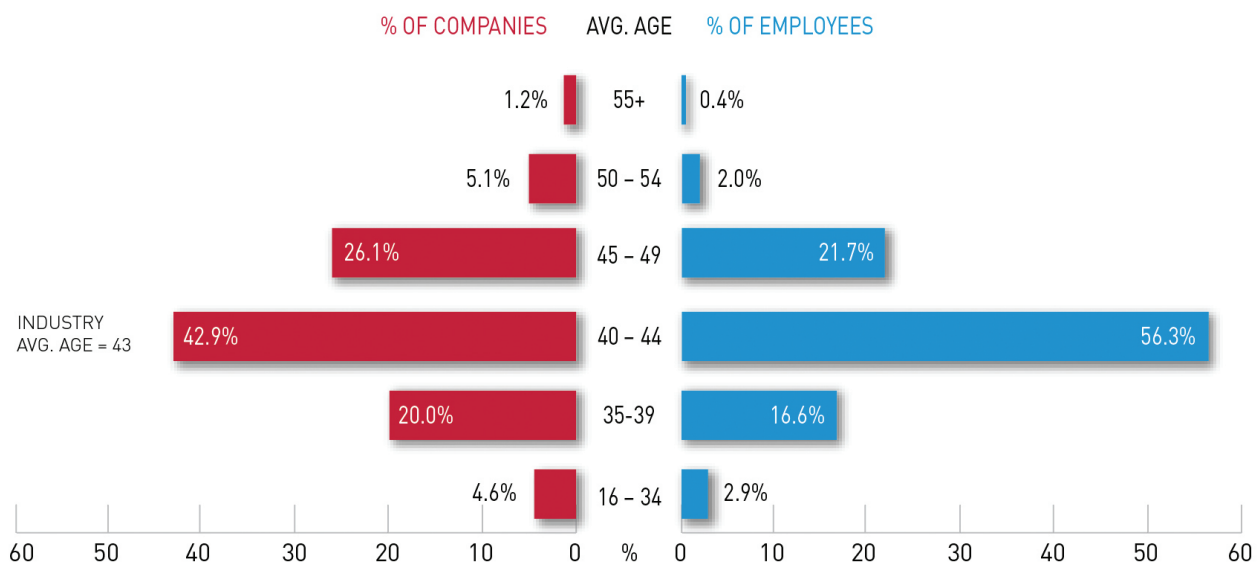
Figure 14
Distribution of Companies by Average Age:
Education



Source: ADP Research Institute® 2013

The **healthcare** services sector was also closely aligned with the industry average. Approximately 43% of the companies had an average age similar to the industry average, and their employees comprised 56% of the workforce. Similar to education, the alignment may be explained by the expectation that workers follow a prescribed training path before entering the field.

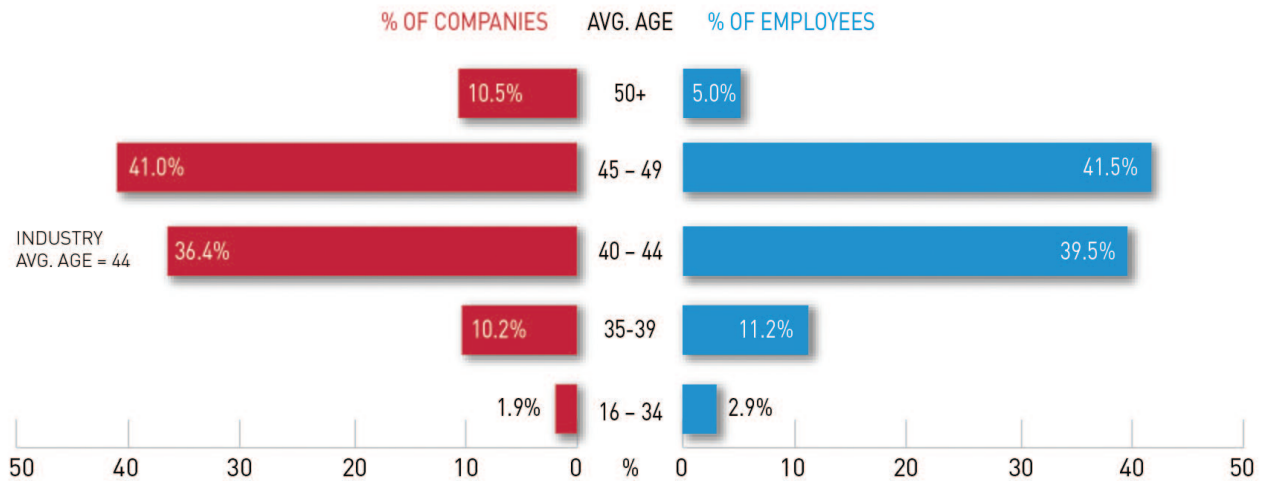
Figure 15
Distribution of Companies by Average Age:
Healthcare Services



Source: ADP Research Institute® 2013

In the **manufacturing** sector, companies seemed to fall sharply on either side of the average age of 44. More than 51% of companies had an average age above the industry average. Their employees comprised 47% of the workforce. The companies with employees below the industry average may represent new technology-based industries.

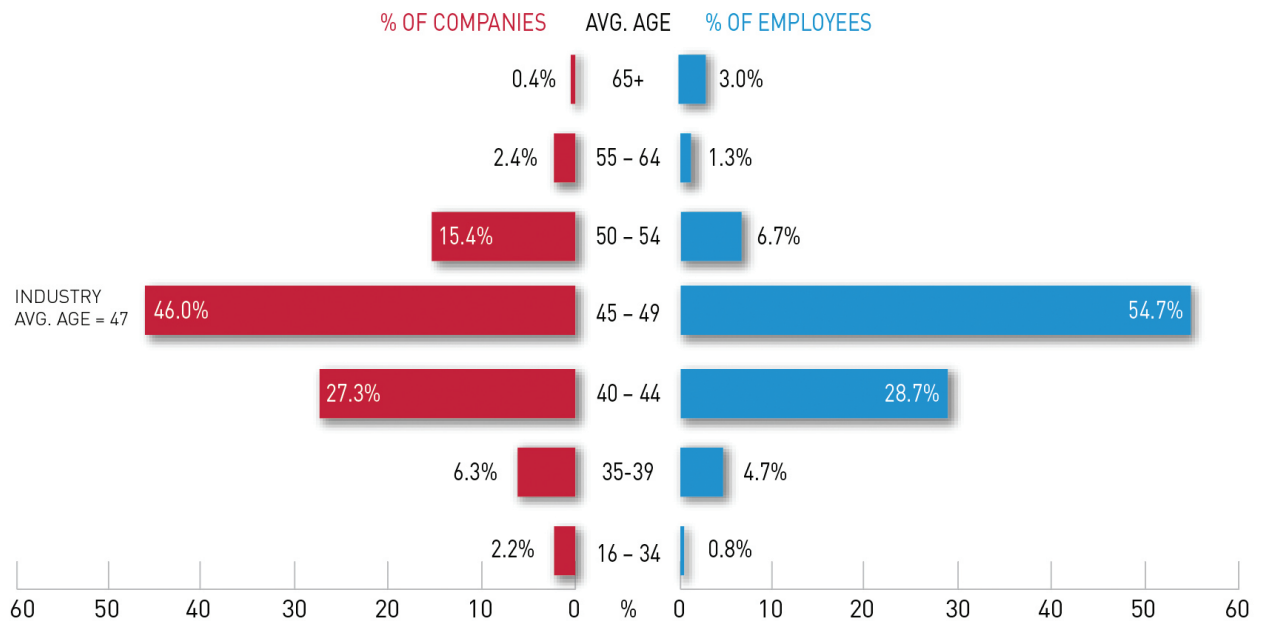
Figure 16
Distribution of Companies by Average Age:
Manufacturing



Source: ADP Research Institute® 2013

The average age in public administration was 47 – above the average for any other industry. About 46% of these organizations had an average age between 45 and 49, and their employees comprised 55% of the workforce.

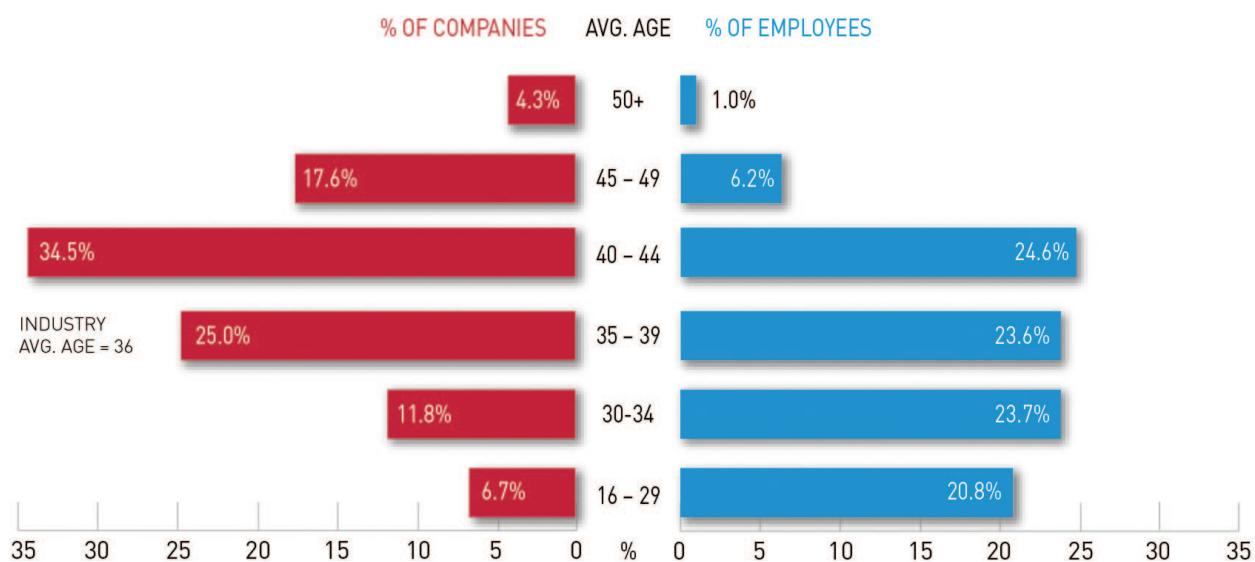
Figure 17
Distribution of Companies by Average Age:
Public Administration



Source: ADP Research Institute® 2013

In the **retail** industry, the average age was 36, which was below the overall workforce average of 41. However, about one-third of retail companies had an average age that was even lower than the industry average, and their employees comprised 57% of the workforce. On the other hand, nearly two-thirds of these companies had an average age above the industry average. This distribution may reflect the highly variable and sometimes seasonal nature of the retail industry, which includes clothing stores catering to teenagers, department stores serving mature shoppers and hardware stores serving those with specialized needs – to name a few. In addition to the variation in skills required, retail stores tend to hire workers whose ages are similar to the patrons they serve.

Figure 18
Distribution of Companies by Average Age:
Retail



Source: ADP Research Institute® 2013

Retirement Data Reveals Key Trends

Planning for the future of any organization requires an understanding of what percentage of a company's workforce – and what percentage of the industry's workforce – can be expected to retire in the next five years. Analysis of retirement eligibility can help HCM professionals predict future workforce shortfalls, set succession-planning and knowledge-transfer goals, and implement management practices that can help avoid the significant risks inherent when workers retire, especially in large numbers. Without strategic planning, retirement trends can put an employer at risk of losing the very talent that has fueled the company's growth for years. These companies and organizations must consider if their pool of promising younger talent is robust enough to bridge any transition. While a company's own retirement rate should be put in context, a high rate of retirement industry-wide may make it difficult to find experienced workers even outside the company.

Retiring workers often take with them valuable knowledge, skills and experience that are not easily replaced. There could be a significant loss of corporate knowledge and culture, especially if the retirements are key staff members such as department heads, sales people with vital accounts and executives. These positions are likely to be the most difficult to fill. In some industries, replacing these knowledgeable, high-level workers may require considerable effort and investment of resources to attract candidates and retain them.

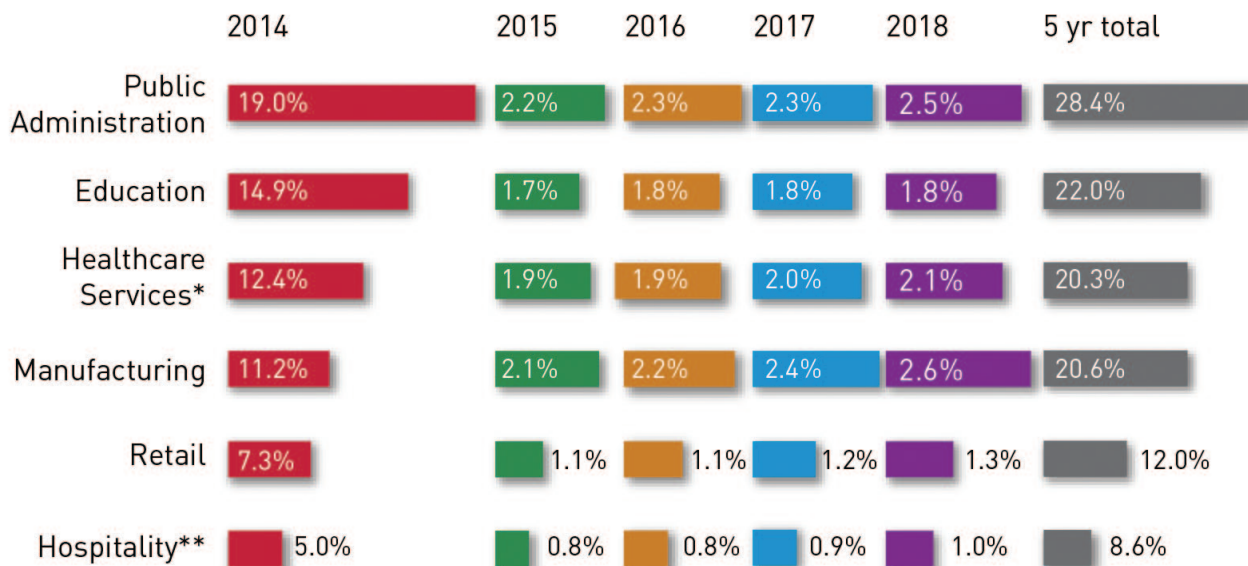
As a key HCM metric, retirement data provides companies with time to plan and mitigate the impact of a large number of workers who are retiring. Once again, benchmarks allow a company to compare and put the data into context.

5-YEAR RETIREMENT OUTLOOK

Although the accepted norm for retirement age of the U.S. workforce by the U.S. Bureau of Labor Statistics is 65, the consensus among several other retirement studies is that the average retirement age is 61. Assuming a retirement age of 61, this study found that nearly 18% of the workforce from last quarter of 2012 may be due to retire over the next five years.

The research delved more deeply to explore how each industry's retirement compared to this national average of 18%. The data showed the retirement percentage to vary widely across industries, as the following graphic illustrates. The percentage for 2014 represents the total workforce percentage from 2012 who would reach age 61. For the rest of the years (2015 – 2018) the percentages represent incremental workforce reaching the retirement age. In public administration, for example, 19% of workforce will be 61 in 2014, and additional 2% approximately every year after that until 2018, making it 28% for the 5 years under consideration.

Figure 19
Retirement by Industry



*Hospitality: Accommodation and Food Services

**Healthcare Services: Healthcare and Social Services

Source: ADP Research Institute® 2013

Conclusions

Big data can drive decisions and actions in forward-thinking organizations. When HCM professionals access their own data on key metrics and compare them to other companies in their industry and region, they tap an objective source for determining if HR policies and practices are effective and cost-efficient. Specifically, age and retirement are very revealing measurements for strategy and planning.

Although quantitative, a company's age data reveals a wealth of qualitative information when benchmarked against other industries, other companies within the industry and regional trends. If a company's average age is above or below average, there may be a valid reason. For example, it may be a retail company that caters to young shoppers. However, in the absence of a reasonable explanation, it could mean that the company is not staying competitive with organizations that are aligned with the industry average. Such a company may need to adjust its policies and practices for attracting and retaining employees in order to compete effectively in the marketplace.

Retirement data can provide a critical glimpse into the future make up of a company's workforce. The number of workers reaching retirement age over the next five years varies widely across industries, according to the study results. Public administration, education, healthcare services, and manufacturing can expect large numbers of employees to leave the workforce. HCM professionals will want to assess how their own workforces compare to the averages, and then consider strategies for recruitment and training in order to replace the potentially significant loss of knowledge, experience and company culture that can be expected.

Long gone are the days when HR professionals worked in isolation and when it seemed impossible to compare one company's workforce to another. Today, companies understand that Human Capital is a critical asset that must be measured accurately in order to be managed well. To win the intensifying war for talent, corporations are increasingly forced to analyze their HCM data to understand how their performance compares to others. Otherwise, a company may face the heavy costs associated with turnover and ineffective talent development.

The good news is newer technologies and access to benchmarks is allowing organizations to directly compare HR performance among companies. Big data and benchmarks give HCM professionals a new power to tap into the full talent pool and manage the organization's most valuable asset of Human Capital, contributing significantly to the ultimate success of their organizations.

ABOUT THE STUDY

Conducted by ADP Research Institute, a specialized group within ADP, this study is based on the 4th quarter of 2012 actual, aggregate and anonymous employee-level data from approximately 52,000 ADP clients. Though all states and industries are covered for averages and general results, the study concentrates on six selected industries: Education, Hospitality, Healthcare, Manufacturing, Retail, and Public Administration. Each of the companies in the study has 50 or more employees, including both full-time and part-time workers.

ABOUT ADP

With more than \$11 billion in revenues and more than 60 years of experience, ADP® (NASDAQ: ADP) serves approximately 620,000 clients in more than 125 countries. As one of the world's largest providers of business outsourcing and human capital management solutions, ADP offers a wide range of human resource, payroll, talent management, tax and benefits administration solutions from a single source, and helps clients comply with regulatory and legislative changes, such as the Affordable Care Act (ACA). ADP's easy-to-use solutions for employers provide superior value to companies of all types and sizes. ADP is also a leading provider of integrated computing solutions to auto, truck, motorcycle, marine, recreational vehicle, and heavy equipment dealers throughout the world. For more information about ADP or to contact a local ADP sales office, reach us at **1.800.225.5237** or visit the company's Web site at **www.adp.com**.

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