

The Retirement Tsunami – Where is the Wave?

Over 25 percent of the Oklahoma state workforce is eligible to retire within the next five years. Has the retirement wave that has been predicted for so many years finally arrived?

The state government of Oklahoma faces increasing retirements within its workforce that are unlikely to slow down within the next decade. Baby Boomers (born between 1946 and 1964) constitute approximately 35 percent of the Oklahoma state government workforce. However, the retirement increase can be attributed mostly to the earliest Baby Boomers (born between 1946 and 1956) who make up an increasingly smaller percentage of the state’s workforce. The majority of early Boomers are retirement-eligible, but the late Boomers (born between 1956 and 1964) are just beginning to reach normal retirement eligibility. The exodus of late Boomers, who represent a larger proportion of the state workforce, is only beginning.

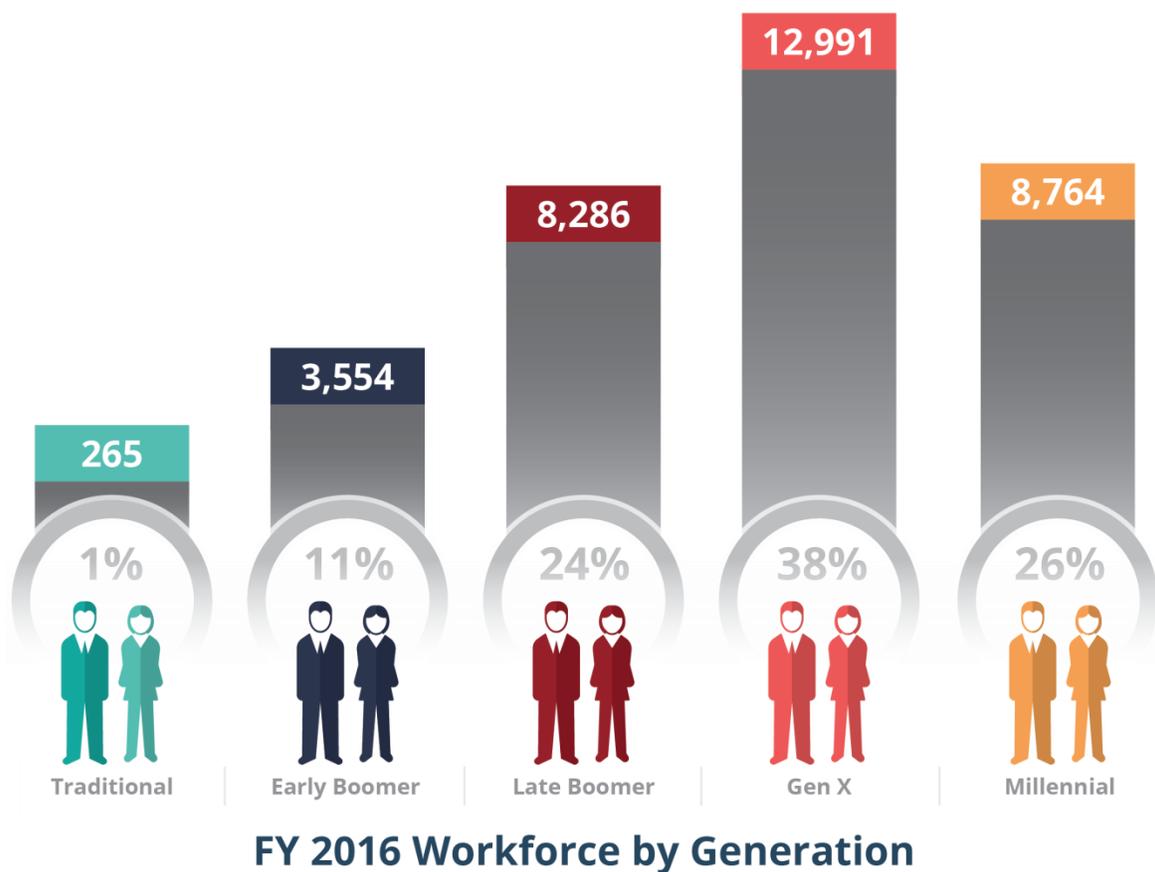


Figure 1: Proportions of each generation in the Oklahoma state government workforce, fiscal year 2016.

Researchers have predicted a “Silver Tsunami” of Baby Boomer retirements, but the Oklahoma state government workforce should expect a retirement surge that continues over the next decade, rather than a tsunami that hits all at once. The retirement surge will lead to unwanted vacancies in pivotal roles, a management gap, and the loss of valuable institutional knowledge without planned succession, so state agencies should begin to prepare for these vacancies now. In this article, we assess historical retirement trends and what these trends can tell state agencies about the future retirement surge within the Oklahoma state government workforce. We also provide strategies that agencies can use to plan for the upcoming retirement surge.

The Continuous Surge

So what happened to the tsunami?

Retirements as a percentage of the state government workforce have increased over the last decade. The majority of earliest Baby Boomers reached normal retirement age¹ in 2008. Figure 2 shows that the retirement surge began around this time period; retirements increased slowly from 2005 through 2009. From 2009 to 2010, retirements increased sharply. However, this increase is not due to the arrival of the predicted tsunami. Instead, legislative changes during this time resulted in a decrease in the overall employee headcount, while the sheer number of retirements increased simultaneously. Thus, the percentage of the workforce who retired showed such a large increase in part because the pool of employees was smaller than in previous years.

Oklahoma State Workforce Retirements

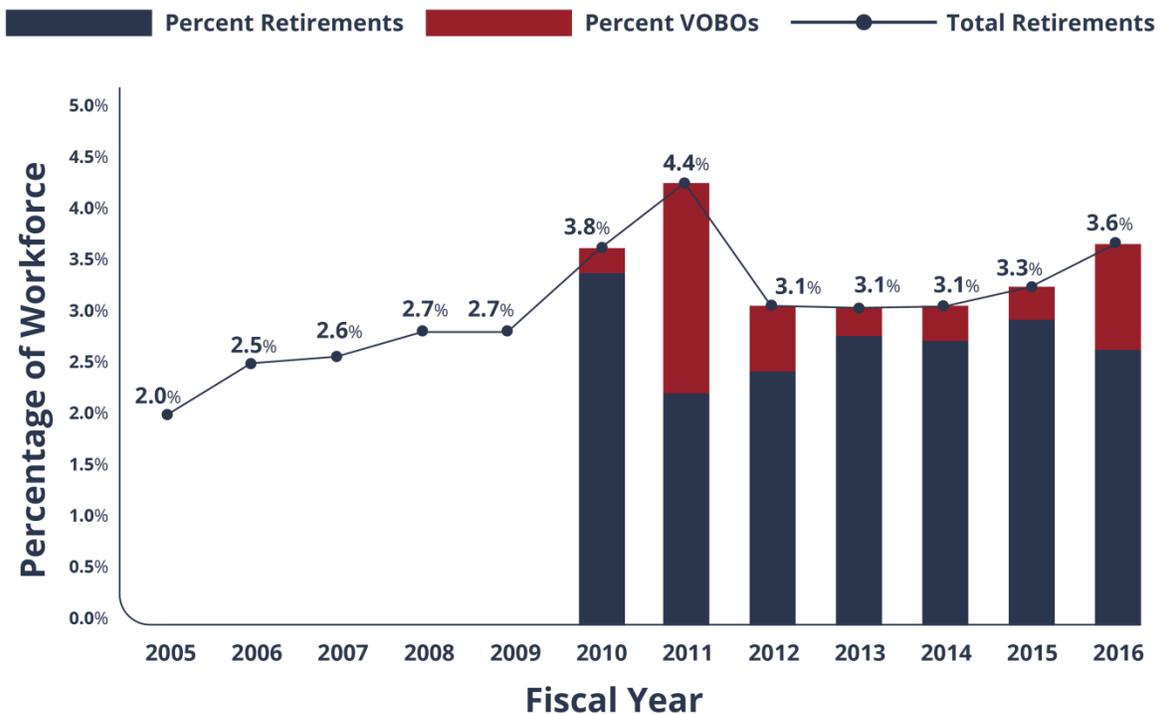


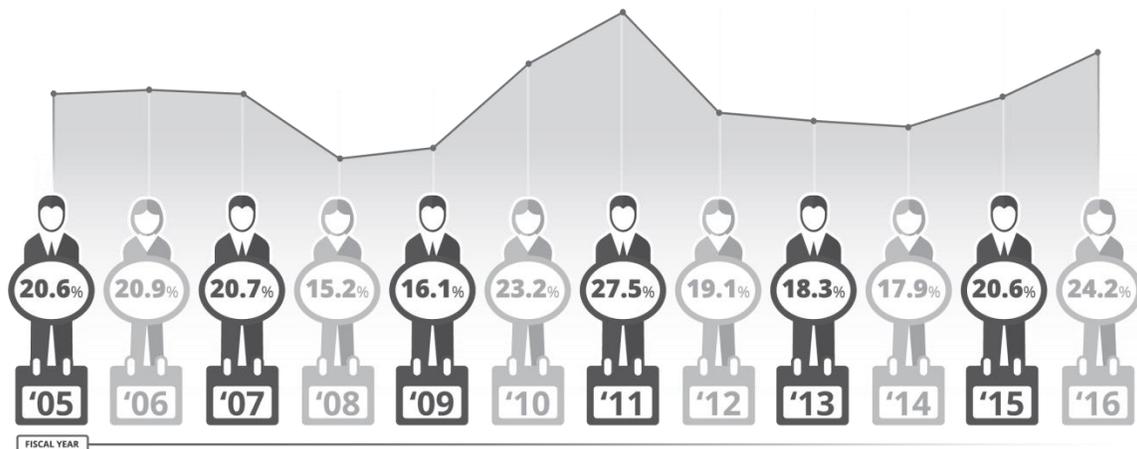
Figure 2: Actual retirement trend as percentage of the overall Oklahoma state government workforce from fiscal year 2005 to 2016. Note: in 2010, a new retirement code was introduced to distinguish Voluntary Buyout (VOBO) retirements from standard retirements. From 2010 and onward, the line in Figure 2 represents both types of retirement codes.

Another sharp increase in retirements occurred in Fiscal Year 2011, but this increase occurred because new legislative policies and the impact of the recession led many agencies to offer voluntary retirement buyouts² (VOBOs) to eligible employees (Henry, 2010). The VOBOs incentivized retirement for employees who might otherwise delay retirement for several more years. The VOBOs created an artificial surge of retirements in 2011, resulting in a drop in the percentage of retirements in subsequent years. Individuals who would have normally retired in those years likely retired sooner when offered the buyout.

Since 2012, retirements have again begun to increase, and many agencies can expect an even greater increase in the next fiscal year. In Fiscal Year 2016, some agencies began to offer more voluntary retirement buyouts in reaction to the budget shortfall. As occurred in Fiscal Year 2011, the overall percentage of the workforce retiring has increased with an artificial surge due to VOBO retirements. With more VOBOs potentially planned for Fiscal Year 2017, the percentage of employees retiring may be even greater than in Fiscal Year 2016.

Delaying no longer

Aside from the effects of VOBOs on retirements, other factors point to a continuous surge of retirements throughout the next decade. Figure 3 shows the percentage of employees who actually retired out of the number who were eligible. The graph illustrates two important points. First, the percentage of employees who actually retire out of those who are eligible has been increasing since the artificial retirement surge in 2011. This increase suggests that fewer employees are delaying retirement, consistent with data from the Center for State and Local Government Excellence (2015) which show that fewer employees are delaying retirement nationwide. Second, and perhaps more alarmingly, the vast majority (~ 75 percent) of employees eligible to retire in a given year do not retire. This discrepancy in actual and eligible retirements suggests that retirements will continue to increase as employees who have delayed retirement choose to exit the workforce.



ACTUAL: Eligible Retirement Ratio

Figure 3: The ratio of Oklahoma state government employees who actually retired to those who were eligible.

Note: The ratio was calculated by taking the total number of retirees divided by the number of employees eligible for retirement.

The average age at retirement for state employees has steadily increased throughout the last decade. This trend is occurring nationwide, and Oklahoma's current average retirement age of 62.3 is in line with the average national retirement age of 62 (Gallup, 2015). The rising retirement age indicates that employees who were once delaying retirement past eligibility are choosing to retire. Boomers are becoming more likely to retire and exit the workforce than they once were. This trend is consistent with the increasing actual-to-eligible retirement ratio.

Late Boomers rising

The distribution of early and late Baby Boomers within the workforce provides perhaps the most significant evidence for a continuous retirement surge. Figure 4 shows that early Boomers as a percentage of the workforce has drastically decreased, more than twice the rate of decrease in the late Boomers.

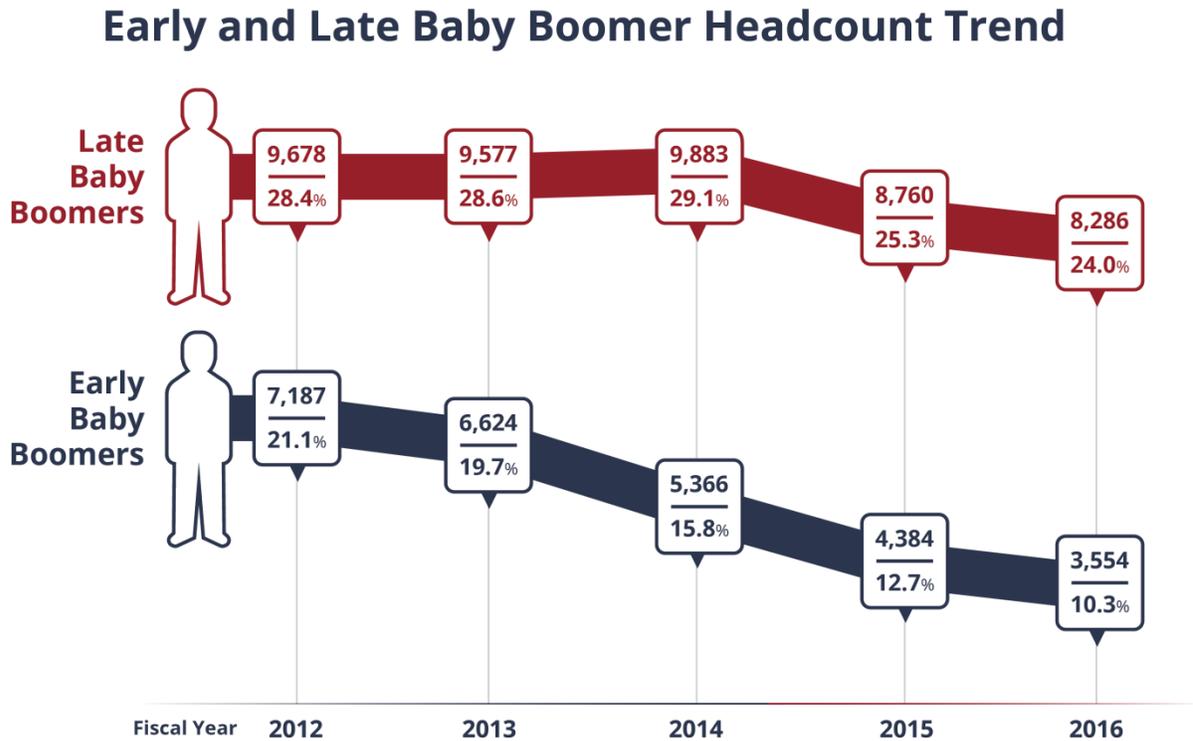


Figure 4: The number and percentage of early and late Baby Boomers in the Oklahoma state government workforce.

Figure 5 shows that historically most of the retirement surge thus far can be attributed to the early Boomers. However, late Boomers now make up a larger proportion of the overall workforce (24 percent in 2016) and at the same time are increasing in percentage of retirements, indicating that there are a lot more Boomer retirements to come.

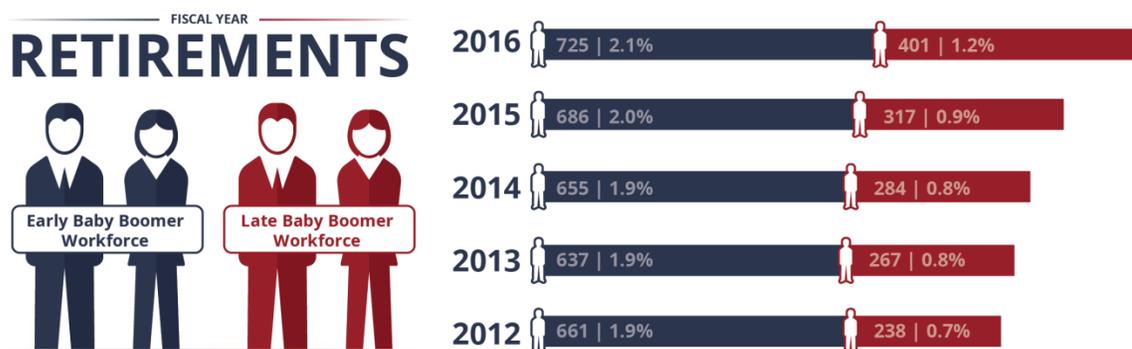


Figure 5: Early and late Baby Boomer retirements as a percentage of the Oklahoma state government workforce.

As the late Boomers reach normal retirement eligibility through 2026, we can expect retirements to continue to surge. As Figure 6 shows, nearly all early Baby Boomers are currently eligible for retirement, and all but 1 percent of the early Boomers will reach eligibility within the next three years. The largest number of late Boomers will reach retirement eligibility in the next 5-10 years. This data further reinforces the prediction that the retirement surge shows no sign of slowing down within the next decade.

FY 2016 Baby Boomer Retirement Eligibility Projections

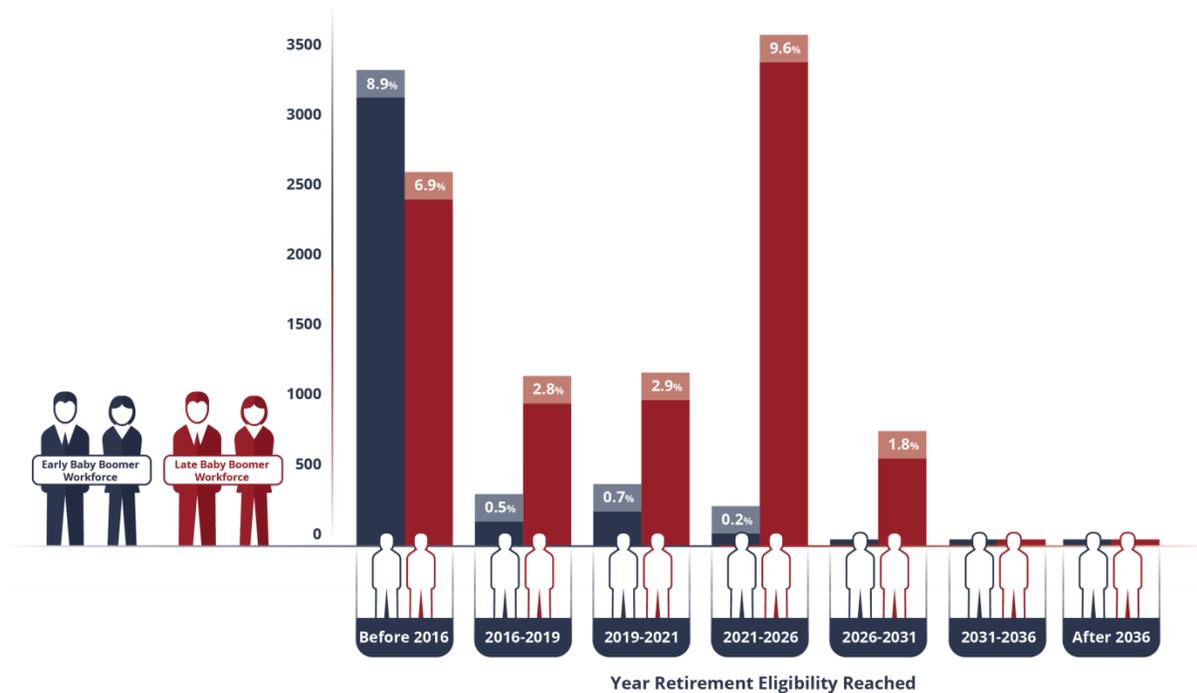


Figure 6: The retirement eligibility projections for early and late Baby Boomers currently in the workforce. The percentage label in the graph represents the total percentage of the workforce.

Conclusions

The predicted retirement tsunami appears to be more of a continuous surge of retirements for the Oklahoma state government workforce. Retirements as a percentage of the workforce are increasing, artificially bolstered by voluntary buyouts that occurred in 2011 and are occurring again in 2016 and 2017. Fewer employees appear to be delaying retirement, leading to an increase in the percentage of employees who retire out of those who are eligible. The trend of rising retirements is set to continue as the rest of the early Boomers transition out of the workforce, and the late Boomers, who make up approximately one quarter of the workforce, begin reaching retirement eligibility. So the retirements will come in surges rather than all at once as implied by the term, tsunami.

Agency leaders may think the surge of retirements facing the state government is concerning, however, it only accounts for approximately 3 percent of the state's overall turnover rate of 19 percent. Voluntary resignation rates are a bigger concern. Keep an eye out for our next article discussing Oklahoma state government's issue related to resignation turnover.

What can agencies do?

Agencies can address retirement turnover through proper workforce and management strategies. If the increasing retirement trend continues, it could result in unwanted and untimely vacancies at leadership levels. Agencies will want to alleviate concerns regarding institutional knowledge loss, the availability of qualified talent pools and an organizational culture shift as an entire generation transitions out of the workforce. Implementing a workforce plan will be essential to ensure that agencies have good bench strength prepared to continue the Boomer generation's legacy in Oklahoma state government.

There are several strategies that both private organizations and governmental entities can put into action to make the surging retirement issue manageable.

1. **Facilitate the transfer of critical knowledge between employees:** Before vacancies occur due to retirement, identify the critical roles having high impact on the agency's success. Next, create the systems to gather, record and share institutional knowledge related to the critical roles, and invest in developing employees to be ready to step into vacancies created by retirements.
2. **Incentivize retirement-eligible employees to postpone retirement:** Incentivize potential retirees to postpone retirement to serve as mentors to fellow employees and share their experience. This involves offering some attractive benefits such as reduced work hours, flexible work schedules and telework in exchange for staying with the agency and mentoring.
3. **Bring back retired personnel:** Some organizations bring retirees out of retirement to get them to serve as consultants, part-time or temporary employees to leverage their experience to meet short term needs.
4. **Build a talent pipeline:** As a generation moves out of the workforce, organizations have looked into building relationships and collaborating with local colleges, tech schools and other recruitment sources to not only attract new talent but ensure there is a consistent source of new talent available.
5. **Ensure a culture fit:** Organizations are turning toward improving their work cultures to engage the generations remaining in the workforce. It is becoming more important for organizations to understand and adapt their culture to meet the needs and perspective of the generations both entering and remaining in the workforce. Trends show that workers from both Gen X and the Millennial generation hold different views on working for a single employer for their entire careers, pensions vs a 401(k) and work/life balance. As the generational shift happens organizations are changing their policies and work environment to adapt to different generational preferences.

How Workforce Services can help

The Workforce Strategic Services Department at OMES HCM can help your agency plan for the effects of increased turnover and can assist your agency in developing a workforce plan and succession strategy. We provide guidance in organizational design, engagement, knowledge transfer and other strategic workforce areas (Recruitment, Retention, Training and Development). The Office of Workforce Planning can help your agency develop tailored solutions that decrease turnover and increase employee satisfaction. Now is the time to start developing your pool of internal and external talent.

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The Strategic Workforce Services department at OMES HCM published this article, the first of an informative series intended to share their insight into the state's workforce and provide agency leadership with current trends in talent management. This fiscal year, expect to see additional articles related to hiring rates, resignation turnover rates, and the shifting dynamic of multiple generations in the workplace as well as planning strategies to address the workforce-related issues affecting Oklahoma's state government.

Footnotes

¹ In general, employees who started before November 2011 reach normal retirement eligibility at age 62 with at least six years of participating service or when they accumulate 80 or 90 points toward retirement based on their age, years of service and start date. For employees who started after November 2011, the age requirement changed to age 65, but the 90 rule is in effect and the six years of participating service requirement remains unchanged. Details related to retirement eligibility are available through OPERS.

² Prior to 2010, Oklahoma state government only used one code to designate all retirements in the data. In 2010, a new code was added to track voluntary buyout (VOBO) retirements as well as standard retirements. Because of this change in coding, the data representing retirements in 2010 onward include both standard and VOBO retirements in our analysis. VOBOs prior to 2010 were likely to have been treated as a standard retirement. Because of this, in our report we treat the historical trend up to 2009 as separate analysis from the historical trend from 2010 through 2016.

Sources

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