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As region's workers get older, employers' headaches get bigger

Workplace issue: Shortages

Tuesday, March 20, 2007

Three Rivers Work force Investment Board

The work force of the world's industrialized countries will change dramatically in the next two decades. Declining birth rates, increasing life expectancy, early retirement programs, boomers working later in life and emergent skills crucial to new occupations will transform strategic work-force management.

This combination of a work force projected to be smaller and older will challenge the region, as well as the nation and most developed countries. Because of this challenge, the Three Rivers Workforce Investment Board, in partnership with Carnegie Mellon University's Center for Economic Development, decided to do a study focusing on work-force development in the southwestern Pennsylvania region of Allegheny, Armstrong, Beaver, Butler, Fayette, Greene, Indiana, Washington and Westmoreland counties.

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While it is not news that our region is getting older, what remains relatively undefined is the specific impact that this change will have on our region's work force, employers, industries, and overall economy. The research, funded by the Heinz Endowments through the Regional Workforce Collaborative of southwestern Pennsylvania, utilized new U.S. Census Bureau data, a survey of 1,500 employers and feedback from industry experts. Among its key findings:

1. Following national and international trends, the Pittsburgh region's work force is aging.

An analysis of data from the U.S. Census Department shows that the employed work force in southwestern Pennsylvania is slowly getting older. The percentage of the region's jobs held by 45- to 64-year-old workers appears to be rising, while the percentage of jobs held by 25- to 44-year-old workers appears to be falling.

Moreover, small percent changes mask large absolute changes in jobs held by each age group. For example, from 2001 to 2004, the number of jobs held by workers 14 to 44 fell by about 20,000, while the number of jobs held by workers 45+ increased by 47,000.

This trend follows demographic patterns in the United States as a whole as well as many other industrialized countries. As a recent article from Forbes Magazine points out: By 2010, the number of workers aged 35 to 44 -- or those typically moving into upper management -- will decline by 19 percent; the number of workers aged 45 to 54 will increase 21 percent; and the number of workers aged 55 to 64 will increase 52 percent.

The gray-haired demographics aren't limited to the United States, either. The number of workers aged 35 to 44 is expected to decline by 27 percent in Germany, 19 percent in the United Kingdom and 9 percent in Italy. In Japan, that age group is expected to shrink by 10 percent, and by 8 percent in China.

2. While the aging work force is a phenomenon of national and international scope, our region's work force is older on average than the nation and is older than other peer regions. Previous research conducted by Christopher Briem, with the University of Pittsburgh's Center for Urban and Social Research, indicated in 2002 that:

- Pittsburgh's work force was slightly older than the national average (compared to the nation, a greater percentage of the region's work force is between the ages of 45-54 and a smaller percentage is between ages 25-34).

- Almost every Pittsburgh industry was older than its national counterpart; with the exception of mining and construction.

Our analysis shows that the Pittsburgh region's work force is also older than the work forces of our peer regions, categorized by levels of economic competition and size. Based on a comparison with Baltimore, Denver, Kansas City, Minneapolis, Portland, Ore., San Diego, and Seattle, Pittsburgh has a relatively older employed work force. How we compare to our peers may have implications for our ability to compete from an economic development standpoint.

3. Our region has a pipeline problem. In terms of sheer numbers to fill projected job openings, there are not enough younger workers in the region.

As previous studies such as that led by Duquesne University in 2002 have asserted, a critical issue in southwestern Pennsylvania is that we don't have enough younger workers to replace

those who will retire in the next 10 to 15 years. This "Baby Boom Bubble" will occur in the United States and Europe, but in our region the pipeline issue is compounded by the out-migration that followed our industrial restructuring.

Comparing the age distribution of the Pittsburgh region's work force to the average age distribution of the seven peer regions provides a striking perspective on the work force pipeline. Southwestern Pennsylvania has a "50/50 Problem": the region has 50,000 more older workers and 50,000 fewer younger workers than its average peer.

As these older workers retire during the next two decades, our work force will be younger, but it will be smaller, unless we can rejuvenate our work-force pipeline or uncover other solutions. Since the region lacks in-migration and natural population growth, we will not be able to maintain our current economy without more (and younger) workers.

On a positive note, the possibility of tens of thousands of job openings creates opportunities for younger workers and provides more depth in the job market and more prospects for career advancement. These opportunities can be drivers of economic growth that will attract talented workers to the region.

4. Addressing an aging work force requires looking beyond the region in aggregate and considering variations by industry, occupation, geography and characteristics of aging workers themselves.

We have become accustomed to viewing the region as homogenous and old. That line of thinking leads to seeing work-force problems that may not exist. Characterizing the region's work force as uniformly old is bound to lead to inaccurate conclusions and to make it difficult to address problems that may indeed exist.

It should be noted that: Industries are not equally old; they represent a mix of ages and other demographics. Not every firm in "old" industries fits an industry-wide pattern; some firms may be young. Even some "young" industries have large pockets of older workers that are approaching retirement.

The age distribution among the oldest private sector industries in our region varies, with the oldest being mining; utilities; petroleum and coal products manufacturing; air transportation; primary metals manufacturing; and transit and ground transportation.

5. An aging work force does not necessarily pose a problem for all industries or employers but having an "older work force" can pose a problem for a firm if workers in key positions necessary to sustain operations are near retirement and not easily replaced by the means at the firm's disposal.

The latter is a function of numerous factors, including but not limited to the availability of a qualified labor supply; the degree of freedom with which the firm can tap new labor supply under collective bargaining agreements; the time and expense of on-the-job training necessary to achieve suitable productivity and quality of output; and the firm's competitive

position in the labor market in terms of wages, benefits, risks, and job satisfaction.

A survey sent to 1,500 employers in the region's oldest industries to examine the extent to which these firms have or foresee problems with aging work forces found 40 percent of respondents perceived a problem with replacing older workers.

6. Some industries with the oldest work forces actually rely on and purposely hire older workers for certain positions. Thirty-seven percent of surveyed firms said many of the workers with the skills they need are older, while 34 percent said they need and seek older, experienced workers.

7. Developing an effective strategy to address projected worker shortfalls requires a targeted long-term approach. The lesson is start early. For example, conversations with work-force development professionals in the utilities industry revealed that such initiatives often run into challenges.

In one case, a joint program between FirstEnergy Corp. and Youngstown State University initially ran into problems with recruitment when the physical, academic and financial demands of the program exceeded the capabilities of many potential applicants.

The director of another national effort noted that many firms starting such initiatives often find that they lack in-house capabilities necessary to articulate curriculum needs to education providers such as community colleges, and further noted that many otherwise carefully thought-out initiatives fail because they are located in an unfavorable place.

(The Three Rivers Work force Investment Board is an employer-driven, policymaking entity for Pittsburgh and Allegheny County whose members are appointed by the Mayor of Pittsburgh and Chief Executive of Allegheny County. The Center for Economic Development is affiliated with the H. John Heinz III School of Public Policy and Management at Carnegie Mellon University.)

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