

# Demographics and Aging Systems: At the Confluence of Change

A Blog by John Radford, Former Oregon State Controller; Chair of the Institute for Modern Government, Willamette University; Senior Advisor, Executive Team, H.J. Steininger PLLC

Personally, I'm as frustrated with the pace of change along with everyone else in the country, but as a retired government employee, I know and understand it's not the employees; it's the overwhelming lack of consistent applied research and development in core government-systems that is at the heart of the problem.

Efforts to modernize government typically run into the financial chopping block for a wide variety of reasons. Budgets are spread way too thin, politically visible problems are always scored ahead of mundane administrative needs, constrained revenues during poor economic times, politicians rushing to curry favors during good economic times. Look under the covers and you'll find even more.

The lack of consistently applied investments in research and development has meant that systems grow out of date, employees stagnate in outdated technologies, young prospective employees look elsewhere for employment not only because of outdated technologies, but there are no training dollars available, no career path, little hope for advancement. Maintenance funds take an increasing share of operational budgets and the lack of enterprise leadership leads to a proliferation of a tangled web of technologies, data definitions, compromised standards, and inevitably higher cost. Governments are typically noted for bureaucratic, centralized one-size-fits-all making it difficult to respond in modern ways. Further, institutional inertia and rigid hierarchical internal structures means less agility, less innovation, and restrained imagination at best.

As time and technology move forward, the risk of change rises exponentially. No one is around that remembers how and why current systems have been banded together in ways that now seem strange. Leapfrogging technologies now mean you deal with a person who knows the mechanics of a 1975 Chevy inside and out, but has no idea how a 2014 Prism works. Yesterday's change agents buried in the past have difficulty navigating an environment of rapidly changing strategic

planning norms, new execution models, modern cost structures, a pace of change lead by mobility, risk taking, collaboration, and new management techniques largely enabled by a new more educated mobile workforce. And speaking of workforce, what risks to modernization are embedded into human resource systems decades old, rule bound, rigid, fragmented, and that do not support hiring best talent, provide incentive based compensation and a pathway to personal professional growth?

Old systems are not news. Survey's and articles document many of the ancient systems found in governments of all shapes and sizes. In Oregon for example, the state's payroll system implemented in 1985 is based on design and architecture's prevalent in the 1970's is in operational use today. The Washington Post recently ran a report detailing that inside a cavernous installation deep under Pennsylvania are tens of thousands of file cabinets and 600 employees manually processing federal retirements. As systems continue to deteriorate, no doubt governments will try to muddle through, but eventually muddle management techniques won't be able to overcome the tsunami of advancing technologies, citizen demands for digital transactions, demands for access to digital information, and systems that can no longer be maintained or the burden of manual processes becomes too great. Eventually, you're going to see the Emperor naked.

The financial condition of our investments in technology largely represents ballooning liabilities, not unlike hidden liabilities of employee pensions and promised health care benefits. As systems age and technology advances, as other risks discussed here materialize, the cost of replacing aging systems development including redesign, acquisition, integration, implementation, process engineering, training, and bug fixing can be predicted. These liabilities at present are not disclosed on government financial statements. For example, disclosed road and bridge infrastructure assets include fully depreciated values or an assessment of condition analysis. The Government Accounting Standards Board (GASB) will hopefully identify and examine user needs for assessing the disclosure of future government technology liabilities. The size, scope, and magnitude of government

technology assets is so dependent on a government's ability to deliver services and maintain itself as a going concern that this kind of examination and reporting is now warranted.

Compounding and about to underlay our current environment is a growing nationwide knowledge and skills gap being created as millions of Baby Boomer's retire. An analysis of 2010 U.S. Census data revealed that during the past decade the percentage of Americans age 55 and older who are in the labor force increased from 32.4 percent to 40.2 percent. According to the U.S. Labor Department's Bureau of Labor Statistics (BLS), the labor force is projected to grow by 8 percent between 2008 and 2018 and will include nearly 12 million workers age 55 and older. The number of workers ages 16 to 54 is projected to grow by less than 700,000 during that same time.

Data from the Pew Research Center revealed that 10,000 Baby Boomers will reach age 65 every day during the next two decades. The oldest of the country's estimated 77 million Baby Boomers began turning age 65—the traditional retirement age—in 2011.

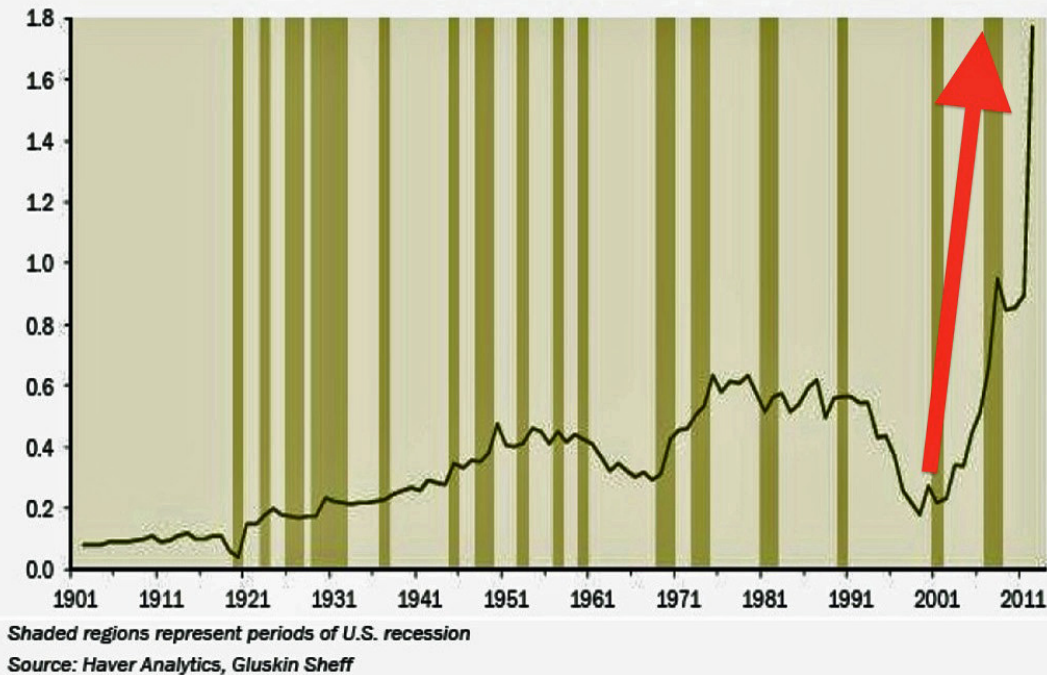
"The retirement wave is just starting," notes Gluskin Sheff's David Rosenberg. "This is the primary reason for the secular decline in the participation rate. Indeed, from 2010 to 2013, more than 60% of labor force dropouts were retirees — more than double the share for the prior three years."

Graphically, the trend is breathtaking.

"This is not a chart of a dot-com stock circa 1999," said Rosenberg. "This is the annual increase in the number of Americans turning 65 — the number is going to be at least 1.5 million per year for at least the next fifteen years. We are seeing record high numbers of people falling into the 65 and over age bracket, resulting in a significant shift in U.S. demographics and thus the labor market."

**CHART 12: THE FIRST OF THE BOOMERS ARE ONLY NOW TURNING 65**

**United States: Resident Population Aged 65 and Over**  
(annual change, millions)



BUSINESS INSIDER

A report by the Partnership for Public Service entitled, *Building the Enterprise: A New Civil Service Framework* offers a list ideas part and parcel to sweeping reforms. They include building a more market-sensitive labor system; merging many disparate personnel systems into one to level the playing field across government in the competition for talent; creating more flexibility for agencies to hire the best qualified people; creating pay-raise-for-performance incentives (and no raises for slackers) to improve performance management; creating a four-tier senior executive service to train managers better for the complex jobs they will have; and reducing the number of political-appointment positions to enable talented career managers to have more opportunities to advance.

“Our nation’s civil service system is a relic of a bygone era,” said Max Stier, president and CEO of the Partnership for Public Service. “Our nation’s leadership

must make it a priority to create a civil service system that our public servants deserve and that will produce the results our country needs.”

Produced in collaboration with Booz Allen Hamilton, the comprehensive report calls the federal personnel system, the foundation for effective government, obsolete and in crisis, and an obstacle rather than an aid in attracting, hiring, retaining and developing top talent. The same is exactly applicable to state and local governments.

I don't think it's a stretch to predict that over the next 5 to 15 years governments at all levels are going to be forced to transform. For many governments, modernization is not going to be planned and executed; it is going to be transformation by crisis as technology driven management systems begin a path to accelerated deterioration. As physical plant declines, risks will increase, citizens will become increasingly alienated from government; the demographics of an aging and changing workforce become known, and perhaps worst of all, the magnitude of accumulated liabilities from decades of neglect will be thrust upon poorly informed elected officials.

