Retirement Risk: Avoid Brain Drain

By Scott J. Cameron, IPMA-CP

All levels of government face serious challenges as their most experienced employees retire. Given the generally older public sector workforce, the next few years will inevitably see an exodus of those whose talents and experience have for years been the mainstays of public service. Unless agencies find ways to hold onto the wealth of knowledge possessed by their departing knowledge workers, the continuing delivery of public services will be imperiled.

Graying of the Civil Service

The Bureau of Labor Statistics reported in its 2012 Current Population Survey that nearly 71 percent of government employees are over the age of 45. The median age for most public employee groups is over 50 years of age. These are significantly higher than the data in the private sector workforce. The graying of the workforce is nowhere more prominent than in government. Several factors contribute to this phenomenon.

Budgets Cuts Drive Generation Gaps

Steep budget cuts that hit state and local governments hard during the Great Recession tended to disproportionately affect the recently hired, often younger employees, due to the seniority rules that many governments follow. The survivors of reductions in force during those lean times therefore tended to be the older workers with more seniority. As a result, the average age of the government workforce crept ever higher. While the use by some governments of early outs and buyouts naturally focused on older employees, these tools were not universally available or applied. It was often hard to explain to taxpayers facing double-digit unemployment rates that civil servants would get a financial windfall as an inducement to retire.

Those especially lucky agencies, or perhaps one should say especially well-managed agencies, that managed to avoid reductions in force usually did so because they used furloughs or had some sort of hiring freeze in place. Hiring freezes typically meant that hiring into entry level positions simply dried up, causing the average age of the workforce to get higher faster, since the younger cohorts were simply not entering the government workforce.

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Nowhere to Go

Another reason the government workforce is relatively old actually reflects employment conditions in the private sector. Our society still suffers from historically high unemployment rates and a continuing sluggishness in private sector job creation. This pattern means that few retirement-eligible government employees can look forward with any certainty to a second career outside government. If these workers decided that they need income from employment rather than retirement, they tended to stay put in their government jobs.

Government workers in retirement programs that are other than defined benefit plans are also less likely to retire at present. Retirement programs that are dependent to varying degrees on a 401(k) or similar programs are affected by returns in the stock and bond markets. Those assets have only recently recovered to the point where the value of the holdings has generally regained their pre-downturn levels. When government employees saw the value of their financial holdings shrink they realized that their retirement income had also shrunk, and many of them concluded they needed to stay on the government payroll to rebuild their nest eggs.

Work is Better than Golf?

The government workforce tends to be older than the private sector average because government employees are more likely to be in professional white collar roles. Since white collar jobs are rarely physically demanding, older workers are able to stay productive to a more advanced age than would be practical if they were in more physically demanding jobs.

Professional workers are also more likely to have high job satisfaction than other workers. This means they are also more likely to want to stay in the workforce to enjoy their profession. When I worked at the Department of the Interior, the running retirement joke was that the older scientists at the U.S. Geological Survey were so enjoying their science that the only way many of them would ever leave their laboratories was feet first. Finally, many government workers personally identify with the missions of their agencies in ways that are much stronger than the typical private sector employee’s bond with the corporate employer. This strong mission-orientation leads many government workers to want to stay in the workforce as long as they feel they are physically able to make a contribution to the agency mission.

All Good Things End

Sooner or later, even the most motivated civil servant is going to retire. When that does happen, the agency is not only losing a familiar and hopefully well-loved face, they may also be losing someone whose institutional knowledge and professional skill have been crucial to the agency's ability to deliver on its mission. That can be unnerving to the people left behind. It may be particularly problematic for the managers who have the responsibility to continue to run the programs without the benefit of the insights and inside knowledge of the new retiree.

I once was issued a contract by the U.S. Environmental Protection Agency to lead a team to thoroughly debrief a long-standing employee who was about to retire. This person, who we'll call "Joe," had for decades carried around in his head the complicated formulas and protocols for administering the EPA's Working Capital Fund. He and only he could confidently and convincingly explain to the agency's senior executives each year how much money out of each of their budgets had to be contributed toward the multimillion dollar Working Capital Fund in order to fund shared services.

Joe did have an ancient spreadsheet to help him crunch the numbers. It was not well-documented, and as a practical matter it was absolutely indecipherable to the tech-savvy twenty-somethings in the office who Joe viewed as his virtual grandchildren. For many years, the Almighty had granted the prayers of EPA senior executives that Joe would not get hit by a truck while jaywalking across one of Washington, D.C.'s busier thoroughfares. But now he was actually going to retire.

Over the space of several weeks, we interviewed Joe extensively, essentially getting a brain dump of everything he knew about the operation of the Working Capital Fund. Using modern software, we created well-documented financial models whose outputs Joe validated for us. Based on the interviews, we wrote a lengthy concept of operations document specifying the standard operating procedures for the Working Capital Fund. We captured the many years of decision rules and procedures that this one man had internalized—that no one else understood. In the end, Joe did retire, and with some trepidation, the agency moved on, relying on the documentation we had provided to help them manage the fund going forward.

Strategies for Knowledge Management

Across the country there are perhaps tens of thousands of experienced and capable public servants like Joe in all levels of government standing on the precipice of retirement. Agency managers need to identify these unique employees and quickly implement strategies to capture the often irreplaceable knowledge that they carry around in their heads.

There are several strategies that agencies can employ to make sure that they don't lose their capabilities when they lose their senior employees.

Hire a Contractor

This was EPA's option: hire a contractor to memorialize in writing or in systems the knowledge of the key person who is about to retire. The information can be posted on a SharePoint site, or at least saved on a computer network accessible to the staff. This strategy enables all affected employees to access the knowledge of the person who is retiring.

Create an Apprentice

Do some thoughtful in-house human-to-human knowledge transfer through an apprenticeship program. Assign an up-and-coming junior person as an apprentice to the sage nearing retirement, so that over the course of six months to a year the junior person can absorb the knowledge of the future retiree. The problem with this approach is that you once again are putting all of your knowledge apples into one basket. Now the basket is 20-30 years younger than the one about to retire. Instead of worrying about "Joe" getting run over by a truck while crossing the street, you now have to worry about your newly apprenticed thirty-something getting hit by a truck while texting and driving. The organization is still vulnerable to information loss.

Employ the Retiree as a Consultant

Bring back your retired sage as a consultant, so they can continue performing the same work as before, only now no longer as an employee. There are several problems with this approach. First, the agency still has a single point of knowledge failure. Second, the employee may face a financial penalty from their retirement plan if they are not really retired, which may make this option less financially attractive. Thirdly, the agency-contractor relationship is not as intimate as the agency-employee relationship; the agency is bound by the scope of work that it writes for the consultant. There is nowhere near the same flexibility that one has with an employee, who you can ultimately get to do anything under the position description's ever-popular "other duties as assigned" provision.

Call for Volunteers

The agency can encourage the retired sage to volunteer services, without receiving any compensation. This can work well in some situations, and has the benefit of not costing any money. However, there is far less assurance that the agency will get the services that it wants and needs. You can't direct volunteers; you can only rely on their good will and be at the mercy of their other priorities. Agencies may not even have the statutory authority to accept donated services, which of course presents a different problem.

Rehire the Retiree

Rehiring the retiree as a part-time employee can work, but for many retirees it limits their ability to fully benefit from their retirement program.

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Phasing Retirement

Finally, there is the option of phased retirement. In the last year or so of a treasured employee's time on the job, they can work part-time. All the time that they work is dedicated solely to training their successor. This arrangement maximizes the agency's control because it is still working with the sage as an employee. It can be emotionally helpful to the retiring employee. The employee doesn't have to completely and abruptly separate from old professional relationships in the same way as would be the case with a conventional retirement. The challenge is that one needs to do a considerable amount of up-front workforce planning and coordination to pull this off. The agency needs to have a number of up-front conversations with key retirement-eligible employees to have a good sense as to when they want to pull the trigger. The agency needs to manage succession planning so that the designated successor is available when the phased retirement of the older employee kicks in. Finally, it helps if the arrangement can be structured so that the retiree's retirement annuity is not negatively affected.

I have long been an advocate of phased retirement, and argued for it as a federal agency chief human capital officer. One of the risks is that this benefit will be made available across the board to all prospective federal retirees. I would argue it really should be limited to those who have exceptional talents or knowledge that the agency does not want to lose.

Either way, agencies need to aggressively explore ways to deal with the retirement of their employees, so that when their most capable employees retire, the agency does not lose its capacity to serve the public.

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Background

Of the 207 breaches of unsecured protected health information (PHI) affecting 500 or more individuals in 2010, the most common cause, representing close to half of the breaches, was theft of paper records or electronic media (e.g., backup tapes, laptop computers, desktop computers, smartphones, flash drives or network servers). Loss of paper records or electronic media account for just over 15 percent of PHI breaches, and unauthorized access to, use, or disclosure of PHI (*e.g.*, hacking, access by unauthorized employees) accounted for just under 15 percent of all breaches.

Such data breaches damage the reputation of the affected entities and are expensive to manage. This article does not address the consequential losses a participant may incur as a result of a breach incident. These losses might include postage, cost of credit reconstruction and lost wages due to time taken off. While at least one policy does provide some limited coverage, these consequential participant losses are generally the subject of yet another insurance policy.

Recent changes to the federal law protecting health information include the requirement that group health plans monitor data security and report breaches of PHI to the government, as well as stepped-up enforcement efforts by the government, including the recently announced program to audit compliance with the Privacy and Security Rules of the Health Insurance Portability and Accountability Act (HIPAA).

Questions to Address Before Seeking a Quote for Cyber Liability Insurance

For state and local governments interested in obtaining cyber liability coverage, underwriters are currently willing to provide preliminary coverage terms based on answers to the following questions:

- Does the plan have an information security policy that stipulates the protection of sensitive information whether in written or electronic form?
- Does the plan sponsor's web server store or have direct access to sensitive information?
- Does the plan sponsor implement start-up password protection for laptops and do they utilize encryption for all mobile devices (e.g., laptops, smart phones and flash drives)?
- Does the plan sponsor require use of anti-virus programs on desktops and laptops?
- Does the plan sponsor use third parties to process or store sensitive information?
- Does the plan sponsor have an incident-response plan?
- Has the plan experienced a breach incident in the past two years?

Although the answers to all of these questions are important, underwriters typically focus on the existence of an information security policy, the existence and testing of an incident response plan and the use of encryption.