

# The Great Succession



*HRO Today* Flash Reports are a series of ongoing research initiatives that address today's topics of interest in the HR community. *HRO Today* Flash Reports are focused briefs that can be used to support business decisions and further discussion among industry practitioners and thought leaders.

This report examines awareness of the Peak 65 phenomenon that will impact succession planning and retention starting in 2024. Further, it gauges the level of concern about the issue, as well as where organizations currently are in planning for its impact.

This study was sponsored by **Corporate Relocation International**, though the sponsor of the study was not revealed to study participants.

## Methodology

Between January 5, and January 25, 2023, a series of emails were sent to subscribers of *HRO Today* magazine and *HRO Today* newsletters inviting them to take part in an online study. Study respondents were at the manager level or above within their human resources departments. Respondents were screened to ensure they were personally knowledgeable about their organization's staffing practices. The total number of usable surveys was 57, and respondents were from North America.

## Background

"Peak 65" is a term used to describe the point in time when more Americans will turn age 65 than at any point in history, which will occur in 2024. The result of this will be an unprecedented number of worker retirements.

One of the areas related to staffing an organization most impacted by Peak 65 is succession planning, as it addresses who will fill essential roles that are vacated. Succession planning is the process of identifying the critical positions within the organization and developing action plans for high potential individuals to assume those positions. It is a comprehensive plan that addresses future staffing requirements to ensure a pipeline of talent available to execute the organization strategies and goals.<sup>1</sup>





## THE PROBLEM:

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Beginning in 2024, Peak 65's imprint on organizations will reflect a significant loss of a skilled, knowledgeable workforce unless organizations devise plans of action to replace those retiring employees with qualified successors. In early 2023, CRI and *HRO Today* conducted a survey among HR leaders to gauge the level of awareness and preparedness organizations had regarding Peak 65's consequences as well as the ancillary issues affecting the current hiring climate. A general overview of the data shows a majority of organizations are poorly informed and under prepared for the looming challenges presented by Peak 65.

## ACTION TAKEN:

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*HRO Today* and Corporate Relocation International (CRI) introduced the term "The Great Succession." This term characterizes the need for organizations to adequately prepare for future hiring challenges due to these top three factors identified in the survey: Peak 65, a limited skilled workforce, and loss of institutional knowledge due to departing employees. The objective to create buy-in and familiarity around the Great Succession can hopefully inspire organizations and their HR departments to develop solid succession plans that minimize disruption to workflow or workforce continuity.

## ASSESSING THE IMPACT:

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By understanding and acknowledging the relevance behind the Great Succession, organizations can integrate programs within their HR departments that address both anticipated and unexpected hiring burdens. As a result of this preemptive approach, organizations stand to gain an appreciable amount of stability and cohesion among their workforce for years to come.



## EXECUTIVE SUMMARY

This study revealed eight key findings about organizations and Peak 65:



1. **Awareness of Peak 65 among HR leaders is low.** While the majority (72%) have any level of familiarity with Peak 65, only just over one-third (39%) have any degree of high awareness of it, suggesting that it's a topic with limited recognition.



2. **Concern over the implication of Peak 65 is also low.** Only 41% consider themselves extremely or moderately concerned about Peak 65. However, as familiarity with the issue rises, so too does concern about its implications. Among those most familiar with Peak 65, 55% are extremely or moderately concerned about it vs. 27% of those with little or no awareness of it.



3. **HR executives see many challenges presented by Peak 65.** The most frequently cited challenge was finding enough qualified workers, as indicated by 71% of respondents. The second most commonly indicated challenge is the knowledge drain, which 62% face. Older workers' experience and institutional knowledge is difficult to replace in the short term.



4. **Organizations are not yet ready for Peak 65.** Over one-quarter (29%) are not currently making plans or having meaningful discussions about how to address it. Only 4% have either completed plans or implemented them, despite the impact being felt in less than one year. Most (52%) are in early stages of discussion about how to address Peak 65.



5. **The area most in need of preparation because of Peak 65 is training and development programs.** Succession planning was selected similarly for senior leadership (50%) and all levels of management (48%). Succession planning can help identify employees with unique abilities and skills that can help them move up to higher executive roles.



6. **Among those that have taken steps to prepare for Peak 65, the most common is identifying specific workers likely to retire.** For many organizations, this means workers who are eligible or likely to retire within five years. It is not only identifying the workers likely to retire in the near term, but also what are the critical roles of the company and does the organization already have talent that can step up into expanded roles once retirees exit.



7. **Organizations are frequently not addressing known deficiencies.** Succession planning for senior leadership is a need for one-half (50%) of organizations, yet only 14% have taken any steps to address it. The gap between the need and action is 36%, the largest of any area examined. Training and development programs are the area most commonly in need (52%), yet only about one half (28%) have taken steps to address the programs. There is also a significant gap between areas in need and steps taken for expansion of the talent pool and succession planning for all levels of management.



8. **A significant portion of organizations will not be ready for Peak 65 in three years.** While 87% are concerned about it, none that are concerned are already prepared to meet the challenge. Further, less than one-quarter (25%) will be fully prepared to meet the challenge in three years, while 34% admit their preparations will not be complete.

## DETAILED FINDINGS

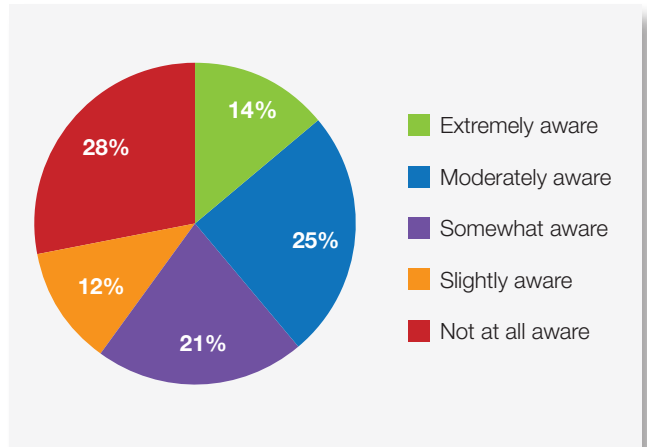
### Awareness of Peak 65

*Prior to reading the description stated above and in our invitation, how aware were you with Peak 65 and the challenges facing employers surrounding it?*

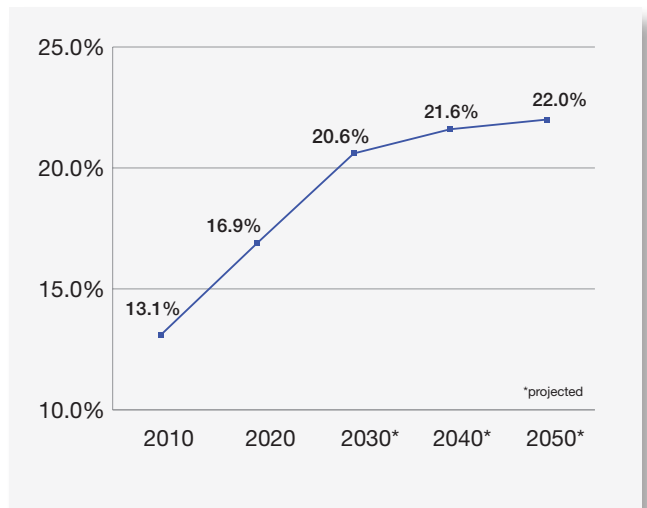
Study participants were asked to gauge how aware they were of Peak 65 prior to receiving the survey invitation and reading the questionnaire description. The description presented is the same as what is presented in our Background section. Just under three-quarters (72%) indicated they had any awareness of the issue. However, only 39% were extremely or moderately aware of it, indicating that it is a topic with limited recognition.

In recent years, the aging population of the United States has come into focus as a cause for concern, as the nature of work and retirement is expected to change to keep up. By 2024, the share of those 65 and older will be approaching 19%.<sup>2</sup> More workers reaching full retirement age will lower the labor force participation rate, exacerbating the current labor shortage. The labor force participation rate is projected to continue to trend down, declining from 61.7 percent in 2020 to 60.4 percent in 2030.<sup>3</sup>

**Awareness of Peak 65**



**Share of old age population (65 years and older) in the total U.S. population from 2000 to 2050**



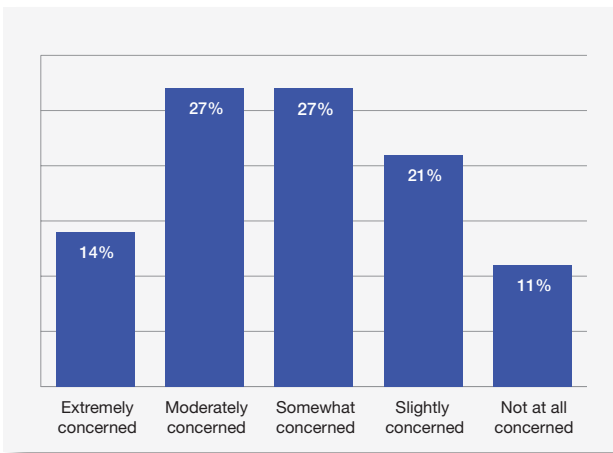
## Extent of Concern about Peak 65

### How concerned are you about Peak 65?

Respondents were asked how concerned they are about Peak 65. Only 41% consider themselves extremely or moderately concerned, and the average score on the one to five scale used was 3.13. This indicates that concern is lukewarm.

However, as familiarity with the issue rises, so too does concern about its implications. Among those most aware, 55% are extremely or moderately concerned about it vs. 27% of those with slight or no awareness.

### Extent of Concern about Peak 65

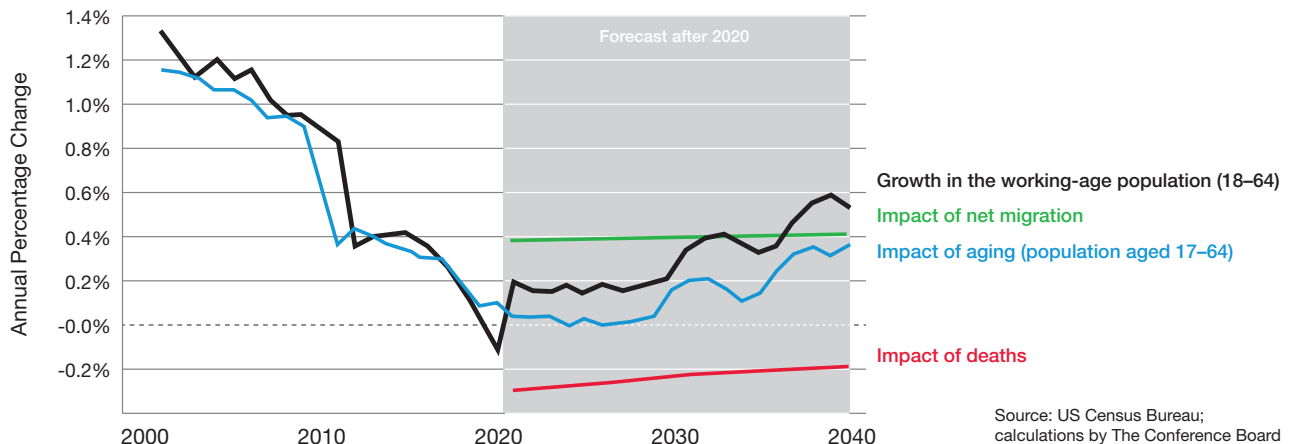


### Extent of Concern vs. Awareness About Peak 65

	Extremely/Moderately Aware	Slightly aware/Not at all
Extremely concerned	32%	5%
Moderately concerned	23%	22%
Somewhat concerned	23%	27%
Slightly concerned	18%	28%
Not at all concerned	5%	18%

Great concern about Peak 65 is warranted. The US working-age population (Ages 18-64) is projected to grow slowly over the next decades due to aging, limiting the supply of labor unless net migration picks up significantly.<sup>4</sup>

### Growth in the Working-Age Population (18-64) and its Contributions, Annual Percentage Change



## Biggest Challenges Faced with Peak 65

### *What are the biggest challenges to your organization Peak 65 creates?*

Study participants were asked to select the biggest challenges to their organization Peak 65 creates from a list of eight options. Overall, 84% indicated that Peak 65 presents at least one challenge for their organization. Four of the eight areas explored were a challenge for at least one-half of respondents.

The most frequently selected challenge was finding enough qualified workers, as indicated by 71% of respondents. This is a major concern for organizations even without consideration of Peak 65, which only serves to exacerbate the dilemma. Worker shortages are fueling America's labor crises.

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With more than 11 million job openings and only 6 million unemployed workers, employers continue to struggle to hire enough people to fill their ranks. That mismatch has left employees frustrated and burnt out and is fueling a new round of power struggles on the job.<sup>5</sup>

The knowledge drain is a challenge facing 62% of study respondents. Older workers' experience and institutional knowledge is difficult to replace in the short term. Relationships in the industry are also lost as they retire, necessitating the need to establish new ones which necessarily won't have the years behind them that were previously cultivated. The boomer brain drain is the growing trend of boomer workers retiring and

employers failing to have a succession plan, or knowledge transfer plan, in place. When many of these boomers leave, they take with them institutional knowledge and names of key contacts; these can be extremely useful to the workers (usually younger ones) who will take over for the retirees.<sup>6</sup>

According to a recent survey from The Harris Poll, as senior employees prepare to exit the workforce, 84% of U.S. employees say it is a big loss when older employees retire without passing on their years of knowledge to younger employees. And when the transfer of knowledge fails to happen, workers can be left learning how to do a job on their own with nearly half of U.S. employees (47%) experiencing it.<sup>7</sup>



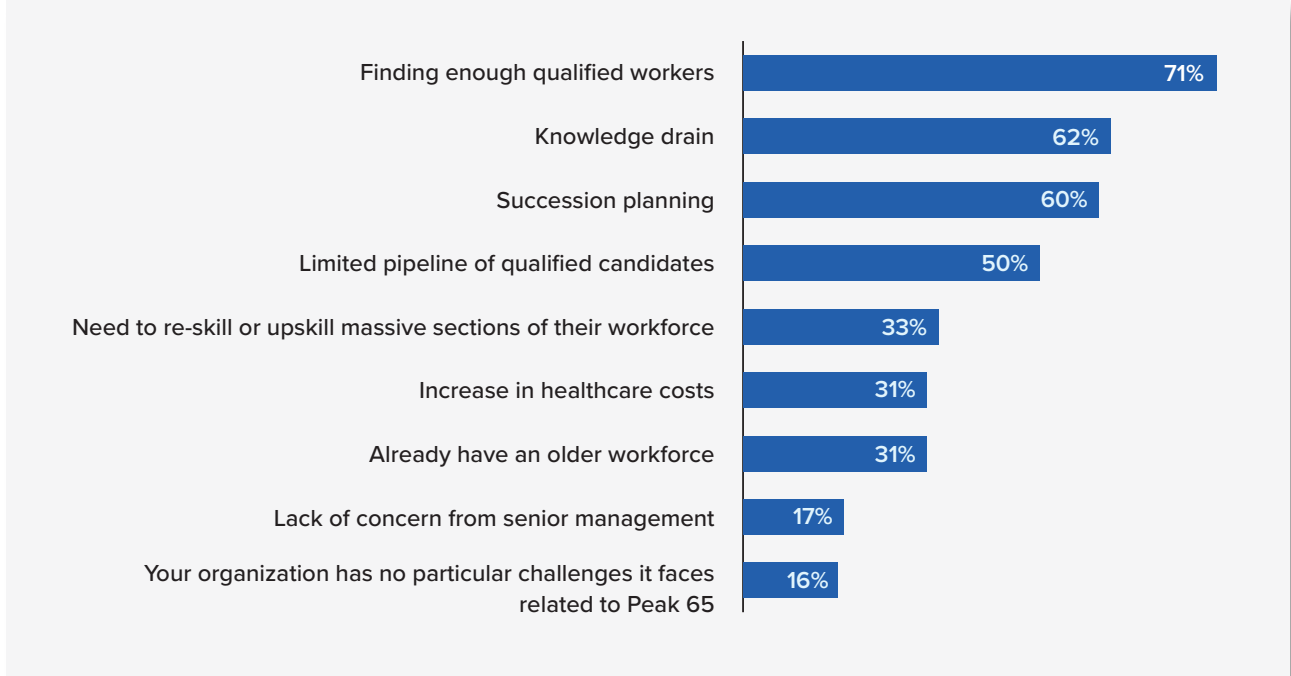
Succession planning is the third most common challenge for 60%. Many large companies fail to pay enough attention to their leadership pipelines and succession practices. That leads to excessive turnover at the top and destroys a

significant amount of value—close to \$1 trillion a year among the S&P 1500 alone. The biggest costs are underperformance at companies that hire ill-suited external CEOs, the loss of intellectual capital in the C-suites of organizations that executives leave behind, and for companies promoting from within, the lower performance of ill-prepared successors.<sup>8</sup>

The other area with at least one-half (50%) indicating it is a challenge is the limited pipeline of qualified candidates. Given the January US unemployment rate of 3.4%,<sup>9</sup> qualified candidates are scooped up very quickly, making it very difficult to hone a pipeline for future needs.



## Biggest Challenges Faced with Peak 65







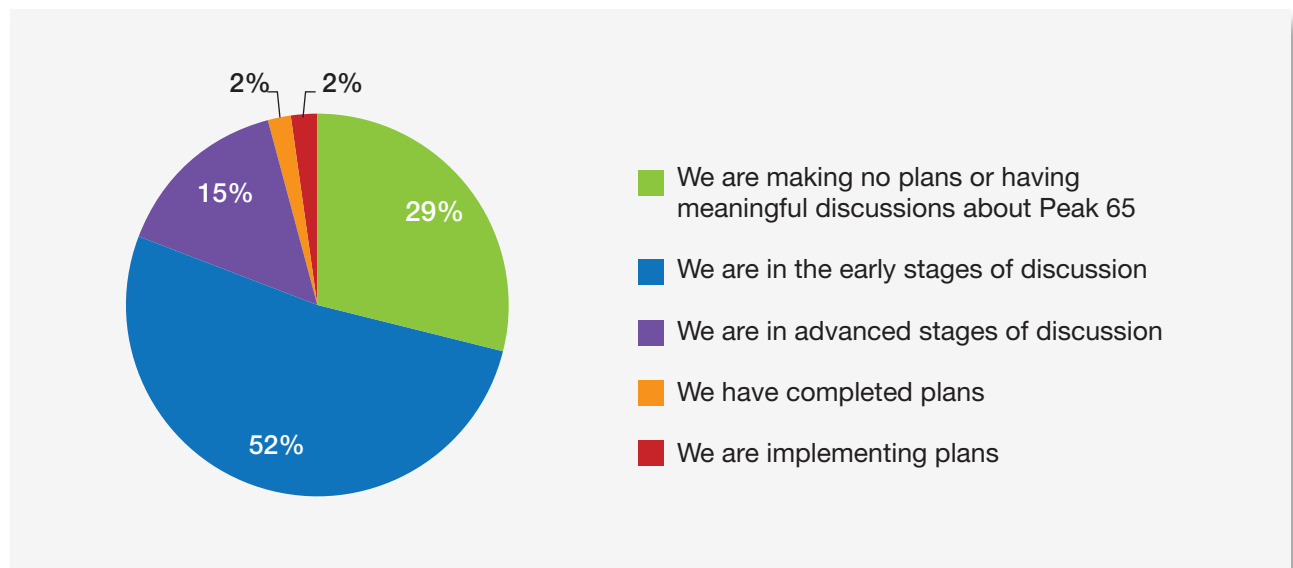
## Current Status with Peak 65 Planning

### Where are you in the process of planning for Peak 65?

Respondents were asked to identify where their organization is in planning for Peak 65. Organizations are not yet ready for Peak 65. Over one-quarter (29%) are making no plans or having meaningful discussions to address it. Only 4% have either completed plans or implemented them. The largest segment (52%) is in early stages of discussion.

Given the impact of Peak 65 will begin to be felt in 2024, the lack of progress organizations are making to address it is concerning. The last three years have been particularly tumultuous with the pandemic, followed by the subsequent labor shortage and subsequent inflation, which may have delayed long-term planning. But even though there have been significant distractions, workforce aging continues unabated.

### Current Status with Peak 65 Planning





## Areas Most in Need in Peak 65 Preparation

*Which areas have you identified as most in need in your Peak 65 preparation?*

Study participants selected the areas they have identified as most in need because of Peak 65. Overall, 87% have identified at least one area. Four of the six areas examined were selected similarly by about one-half, with the remaining two less than one-quarter.

While there was not one area that clearly was identified as significantly more in need than the others being assessed, the area most often (52%) selected was training and development programs.

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allows an organization to groom and equip high-potential employees for their future roles in the company. This creates a sense of stability and security.<sup>10</sup>

Succession planning was selected similarly for senior leadership (50%) and all levels of management (48%). Succession planning can help identify employees with unique abilities and skills that can help them move up to higher executive roles. The process of succession planning can also help identify an employee's weak areas and where talent training could help to improve performance outcomes.

Replacements who come from within the organization understand its operations inside out and are better placed to undertake specific executive roles, especially in firms where knowledge is specific. The need for

available replacements when making changes to the organizational structure allows senior management to make changes without being affected by a lack of qualified personnel.<sup>11</sup>

Expansion of the talent pool for recruiting was indicated by 45%. Given unemployment levels in the 3.7% range, this initiative is top of mind for recruiters regardless of Peak 65. But who is in the pools is key, as the focus has been on senior managers who have the background to manage the company in the near term.

Traditionally, succession plans identify potential replacements for key positions, while training and development is meant to improve the skills of the individual or is seen as a benefit provided by the company. By combining training and development with a succession plan, an organization can better prepare for the looming talent shortage and the uncertainty that the future holds. This uncertainty is heightened with employees (especially ones with high-potential) moving from organizations more regularly. Combining the organization's succession plan with its training and development program



## Areas Most in Need in Peak 65 Preparation



## Steps Taken to Prepare for Peak 65

### *What steps have you taken to prepare for Peak 65?*

Respondents were asked to identify the steps taken to prepare for Peak 65. Overall, about three-quarters (73%) have taken some steps to prepare for Peak 65, though only two steps were recognized as taken by at least one-half.

Among those that have taken steps, over one-half (56%) have begun identifying specific workers likely to retire. For many organizations, this means they are eligible or likely to retire within five years. This step requires more than counting those with gray hair. It is not only identifying the workers likely to retire over a set amount of time, but also which are in the critical roles of the company and if there are already those in the organization that can step up into expanded roles once they do retire.

Also, just over one-half (53%) selected “Identified areas where key talent is needed,” the second most common step to have taken. Without an understanding of the most critical roles based on

the value agenda and what matters most in each, it becomes virtually impossible to make informed, strategic decisions. Determine what experiences, skills and traits are needed and back it up with data about the talent pool.<sup>12</sup>

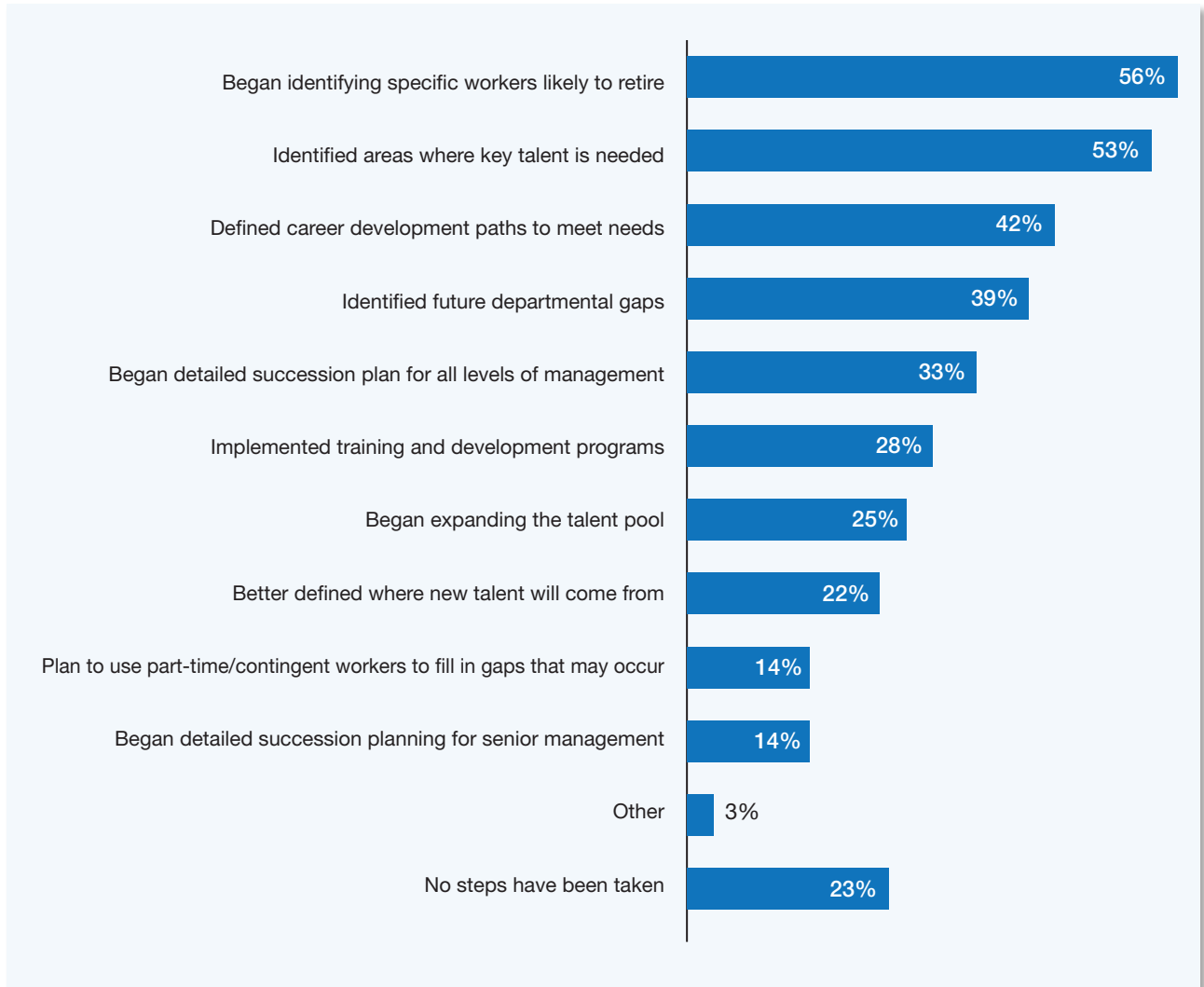
To determine where key talent is needed, organizations must identify critical positions and highlight potential vacancies. A critical position is one that, if it were vacant, would have a significant impact on the organization’s ability to conduct normal business. These positions may be managerial, technical or a support in nature that can be occupied or vacant. Ways to identify those positions include determining if there is only one person who can perform unique positions and duties in the organization, if the expertise incumbent has specialized knowledge and/or experience that is only acquired over time or through specialized education and training, and if the position or classification for which the organization has difficulty finding qualified candidates.<sup>13</sup>

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## Steps Taken to Prepare for Peak 65





## Areas Most Needed Vs. Steps Taken

Organizations identified the areas most in need to prepare for Peak 65, and the steps taken to prepare for it. A comparison of the four common elements between the two areas examined shows that organizations are frequently not addressing needs they know they have.

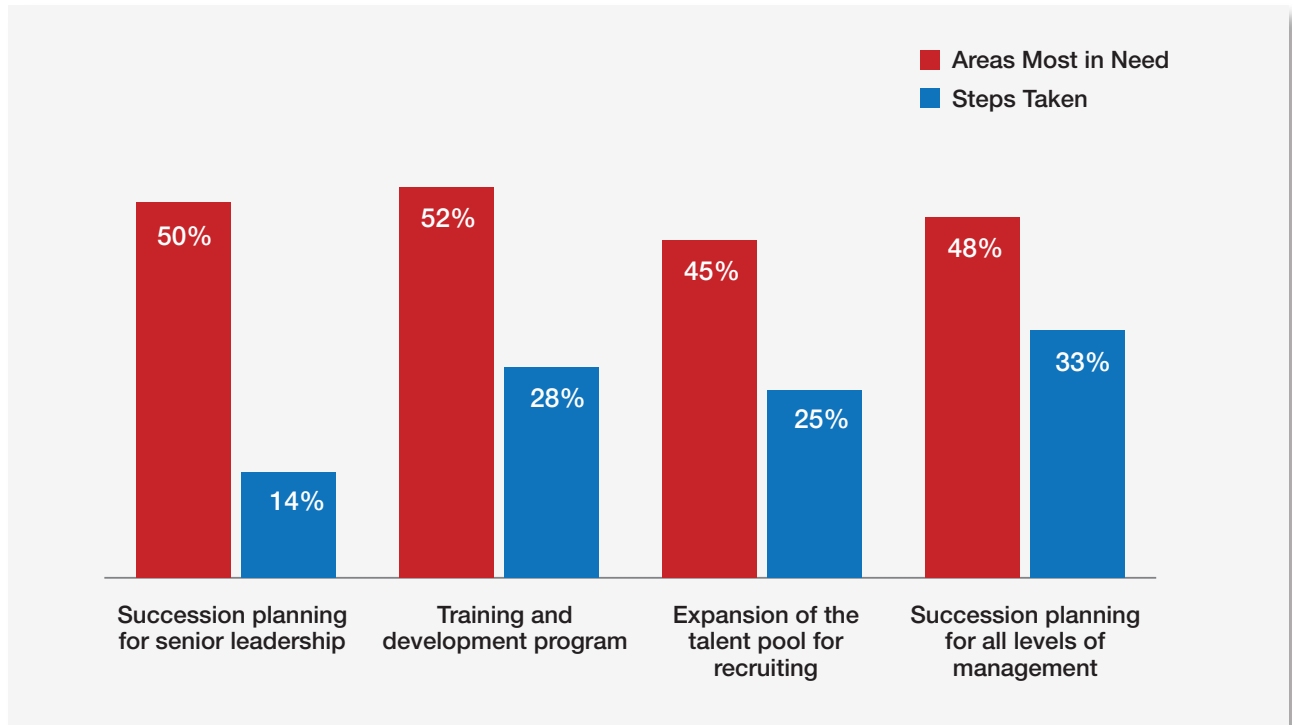
Succession planning for senior leadership is a need for one-half (50%) of organizations, yet only 14% have taken any steps to address it. The gap between the

need and action is 36 percentage points, the largest of any area examined.

Training and development programs are the area most commonly in need (52%), yet only about one half (28%) have taken steps to address the programs.

Further, there is also a significant gap between areas in need and steps taken for expansion of the talent pool and succession planning for all levels of management.

### Areas Most Needed Vs. Steps Taken





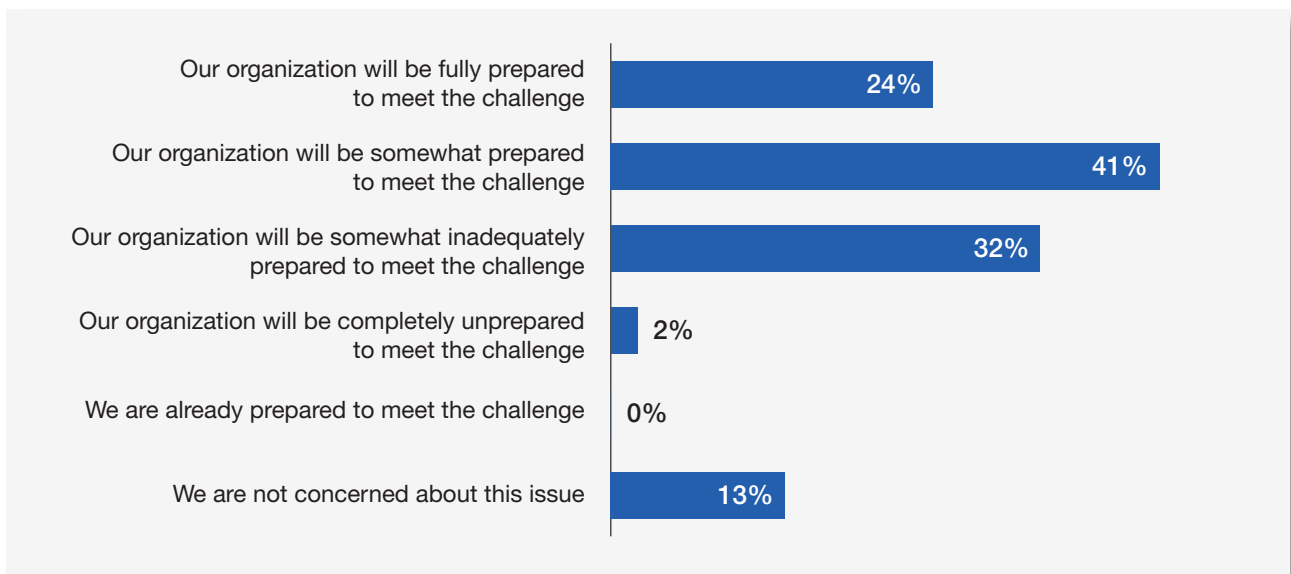
## How Well-Prepared Will Organizations Be in Three Years for Peak 65?

*Which statement below best characterizes how prepared you feel your organization will be to address this challenge in three years?*

Study participants were asked to indicate how well prepared they feel their organization will be in three years to address Peak 65. While 87% are concerned

about it, none that are concerned are already prepared to meet the challenge. Further, less than one-quarter (24%) will be fully prepared to meet the challenge in three years, while 34% admit their preparations will not be complete.

### How Well-Prepared Will Organizations Be in Three Years for Peak 65?





## Concern with HR Related Issues

*How concerned are you, if at all, about each of the following:*

Respondents were asked to rate their extent of concern about 10 different areas that fall under the responsibility of human resources. The scale used was 1-5, with one being not at all concerned and five being extremely concerned. HR's charge is wide, and many issues are of great concern to them. The biggest concerns were listed along with Peak 65 to better understand where it fit in. Of the ten areas examined, Peak 65 was ninth.

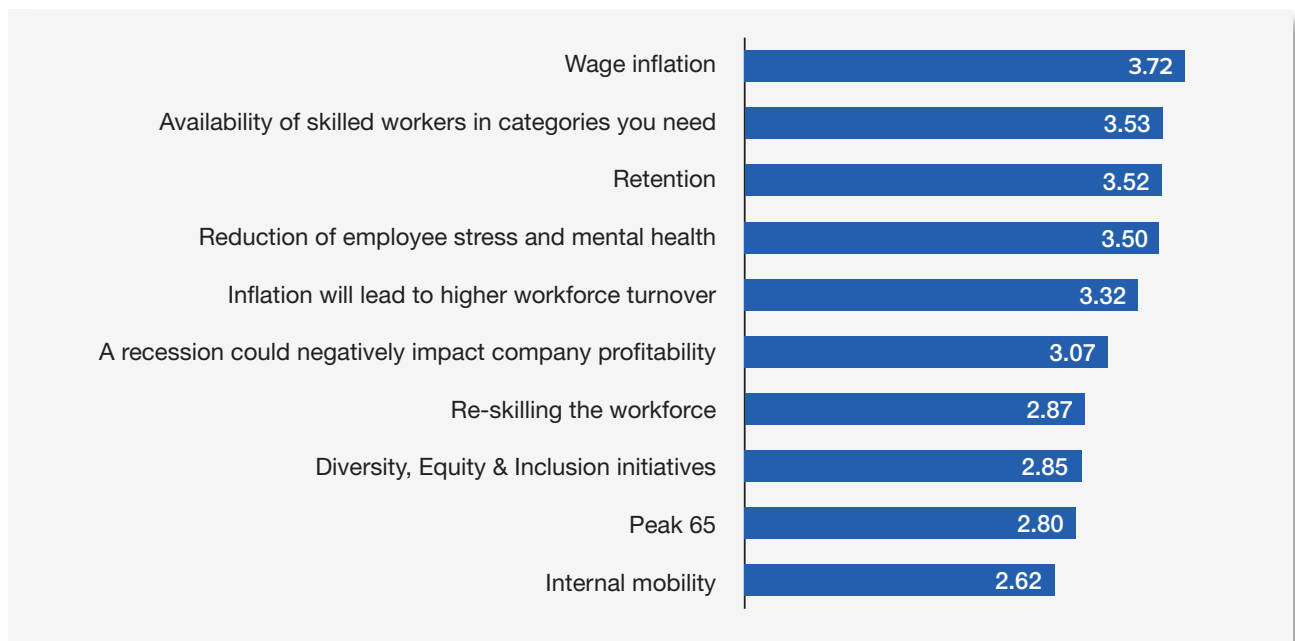
Wage inflation was the area of greatest concern. Inflation, and by extension wage inflation, continues to be the major concern in the economy, though recent months have begun to show the rate of inflation abating. Wages and salaries for civilian workers increased by 5.1% for the year ending in December,

according to the Bureau of Labor Statistics' quarterly Employment Cost Index, while the annual inflation rate for the United States was 6.5%.<sup>14</sup>

The availability of skilled workers had the second highest average concern. Despite news in the IT sector of layoffs particularly in the technology sector, as of January the US unemployment rate was at a 53-year low of 3.4%, while the total nonfarm payroll rose by a whopping 517,000 jobs.<sup>15</sup> The continued high demand for employees makes finding the right workers during a very tight labor market an ongoing challenge.

Retention was ranked as the area of third greatest concern, though it was essentially at the same level as the availability of skilled workers. Retention issues are a byproduct of employees seeking greater compensation elsewhere in part because of higher wages, which are driving the demand for skilled workers.

### Concern with HR Related Issues (Average Scores)





## Notes:

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