THE NEVERTIREES

A shortage of senior accountants and longer life spans have prompted many firms to extend their mandatory retirement age. Alex Frew McMillan reports

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When the tiny Hong Kong accounting firm of McCabe Lo & Co. enshrined its partnership deeds in 1994, almost all the Big Eight accounting firms at the time had set 55 as their mandatory retirement age. All of McCabe Lo's partners were in their 30s then and had big hopes of expanding the firm.

So when they were about to take on a new partner, they wanted to reassure the newcomer that they were going to stay around for a long time and decided to set 65 as the firm's retirement age instead.

"At that time, it was considered to be pushing the limit a bit," Albert S.C. Au, one of the original partners and a former Institute president, recalls. "But in hindsight I would call it a very good decision. We dreamed about being a very large firm."

Earlier retirement ages were intended to ensure that young accountants could make partner without the most senior members of the firm blocking their way by remaining in their posts forever. Forced retirement guarantees turnover and therefore career succession.

"If people are in their business for 20 years past retirement age, there will be people below them that don't have the opportunities to step up, so that will cause attrition and retention problems," Andrew Morris, managing director for Greater China at recruitment agency Robert Half International, says.

55 is the new 40

In recent years however, Hong Kong's accounting profession has been facing the opposite problem. China's appetite for accountants means Chinese enterprises often look to Hong Kong to poach professionals. China estimates that it needs 300,000 CPAs to meet existing demand and it only has around 92,000 now.

Finding enough senior partners to usher through the next generation of successors is an ongoing battle, especially when attrition claims one-fifth of a firm's staff annually. Three of the Big Four – PwC, Deloitte and Ernst & Young – have pushed up their retirement age in Hong Kong. Only KPMG retains it at 55.

"As we are growing the practice, we have more and more young partners. And as a result of that, we need more experienced partners to do more hand-holding and try to get the young partners to develop the relevant experience," says Ernest Ip, senior partner-elect at PwC Hong Kong, which extended its mandatory retirement age to 58 three years ago.

PwC used to admit only one or two partners a year back when Hong Kong was a slow-moving economy, but the boom across the border has caused rapid expansion at the firm. It now admits 30 to 40 new partners a year in Hong Kong, where it has around 300 partners. Every time a partner retires, it takes about a year to pair the outgoing executive with a successor to ensure a smooth transition, says the 50-year-old Ip.

Christina Antoniou, the national human resources leader of Deloitte in China, agrees that the business challenges in China require people to grow up faster compared to people in more-developed markets. As a result, "there's that middle management level that does lack some of the capabilities, if you did a like-for-like [comparison] with some of the more mature markets," she says.

With more than 350 partners in Hong Kong and China, Deloitte promotes 40 to 60 new partners each year. The firm, whose retirement age is now 60, is battling high attrition (at about 20 percent a year and rising) through its mentoring programme, where it pairs senior staff with their successors.

"You can't rush experience – experience comes with time," Antoniou says. "You can promote someone early, but if you don't give them the opportunity to have the right experiences, it is difficult. The danger is you over-promote, and you get failure."

Shortage at all levels

Neale O'Connor, an associate professor of accounting at The University of Hong Kong, points out that the accounting firms face challenges at not just the retirement level but also at the middle-management level.

Their accountants, particularly at the junior level, are lured away by private companies offering higher salaries. That winnows the potential ranks of middle managers, meaning firms need their experienced partners to work even longer.

As a result, he says accounting firms have to recruit from outside the profession to fill the void and get non-accounting graduates to bulk up the ranks of graduates at the entry level. PwC, for instance, has teamed up with Hong Kong Polytechnic University to recruit graduates from other subjects and convert them into accountants.

"The challenge is going to be keeping enough of Generation Y in the hierarchy to get them into middle management," O'Connor says.

Past Institute President Au is glad that his firm was almost prophetic on the retirement issue. McCabe Lo has grown into a member firm of the international network BDO. Having set an "older" retirement age, the firm now has 76 partners out of 1,000 staff in its Hong Kong office and only a handful of them have reached retirement so far.

"We find that a retirement age like we have now has actually proven to be an advantage for us – otherwise you would leave a vacuum of leadership and experience at the very top level," says Au, now chairman and CEO of BDO Ltd.

"In order to plan for succession you have to assure the younger partners that there is a future for them, and that they need your guidance and leadership, at least for a time," Au says. "For a large firm, you've got to have a very robust partner appraisal system, which would enable you to reward and identify leadership-quality partners."

Au says the ideal time to prepare for succession is at least 10 years.

Succession poses an even greater challenge to smaller accounting firms, many of which don't have a set retirement age, because the departure of one or more senior partners can result in the sale or closure of the firm.

Thomas Wong Wa-sun, a 50-year-old partner at CWCC, says his firm does not have a mandatory retirement age. "It's very, very hard to ask someone to retire at the age of 55. They are still capable," he says.

COURTESY OF ROD HOUNG-LEE

Exit plan

Many people dream of retirement while they're working but entering that phase of life can be daunting

Rod Houng-Lee retired on 1 July last year after 22 years as a partner at PwC. He stepped down at 54, four years ahead of the firm's mandatory age.

"I suppose it is relatively young," he says, adding that he thinks firms should have greater flexibility for keeping partners on into their 60s.

He originally intended to retire in 2008, but put off his decision when his wife, Khim, suddenly fell ill with terminal lung cancer and died within months. Having planned to retire to be with her, he recast his plans after her death.

"That's the reason I stayed on," he says. "I thought it would be absolutely crazy to leave at that stage when all my plans revolved around her."

Houng-Lee believes retirement forces anyone going through it to confront their own demons.

"Everyone who thinks about retirement looks at it and says how good it would be," he says. "But as they approach it, there are a number of issues that are raised."

Will they have enough money in retirement? How will they occupy their time? And who are they, really, now that their professional life no longer defines their identity?

"An organization like a Big Four accounting firm provides you networks for making acquaintances and friends," Houng-Lee says. "People introduce you as being with PricewaterhouseCoopers. Up to 75 percent of my acquaintances are connected to the firm in some way – clients, colleagues, connections."

Who would he be in retirement? What would his life mean? He wasn't sure.

Houng-Lee, who was born in Fiji, spent his professional life in Hong Kong, where he became the firm's Hong Kong-China tax leader and then fulfilled the same role for the Asia-Pacific region.

He promised himself at least a year to figure things out, and he is now carving out a new life in Australia.

He has written a book about his experience preparing for and entering retirement, and helping his wife through her illness.

"I lived with my children for less time than I have worked, and I was married to my job longer than I was married to my wife," he writes. "I should have expected, rather than be surprised, to experience the emotional trauma that I did when I started

"The partners are still full of energy in their mid-50s, so what is the point of asking them to retire early?"

"Small-to-medium firms practising like us are more flexible, and it's more of a fellowship."

Set up in 1986, CWCC has six partners and the partnership hasn't changed since. Wong himself intends to continue working well into his 60s.

"You work until you don't feel like working," he says. "We have to contribute to society."

There's also the matter of money when outgoing partners withdraw their share of often hefty retained profits from the partnership. Having a senior partner leave the firm later can at least delay the problem. And because smaller partnerships are often founded by partners of a similar age, devising an exit plan that staggers their departures is important.

thinking about the implications of leaving my job and retiring, and wondering what I would do with all of the time that would now be available to me."

Besides working on the book, Houng-Lee is considering charitable work, particularly helping terminally ill patients organize their finances. He says retirement requires a leap of faith, much like the other life stages he went through.

"The difficulty people have in life is change," he says. "I just told myself I have done it many times before, and I'm sure I will be able to work it out and get on with the next stage in my life."

Firms that don't plan in advance to pay out their partners run the risk of being perceived as placing the financial burden on any new, incoming younger partners – who then won't want to join the firm.

"The firms have to be prepared," says Mark Fong, who retired as a partner from Grant Thornton two years ago. "In my career, I have seen many firms fail and they have to be taken over or run for cover because they can't afford to pay their retiring partners."

Au agrees that the financial planning for succession must be tackled early. "Unlike wine, it doesn't age well," he says. "If you are able to plan for your succession early in the day, it is easier to work out a formula of goodwill for the younger partners."

Beyond retirement

Requiring seasoned partners at audit firms to leave at 55 may no longer make sense when people are getting married in their mid-30s, working in the private sector into their mid-60s and enjoying longer lives. Hong Kong's life expectancy of 82.2 years is the second-highest in the world, according to the United Nations, with Japan at 82.6 years.

There are great variations in how countries and jurisdictions handle their retirement policies. Australia, for instance, forbids companies from setting a mandatory retirement age – only the states of Tasmania and Northern Territory allow it. The U.K. and the U.S. tend to set 60 or 65 as a retirement age. U.S. law protects against mandatory retirement for employees, but firms can still stipulate a mandatory buyout age for partners.

PwC's Ip believes later retirement is helping to solve a social problem, effectively of having too many idle senior citizens. "The partners are still full of energy in their mid-50s, so what is the point of asking them to retire early?" he asks.

Feeling they still have plenty to offer, more and more veteran CPAs are contributing in various ways following retirement. For example, Carlson Tong, KPMG's former Asia-Pacific chairman, took up the position as chairman of the English Schools Foundation last month after he retired from the firm in April.

Other partners often "retire" into consulting positions but maintain strong ties with their former firm. This circumvents the retirement policy but allows the firm and the former partner to work together.

"It's not necessarily that they miss the money. It's more that they miss the intellectual part of the business."

Fong, a former Institute president, did exactly that. In 2009, he retired from Grant Thornton's Hong Kong office at the age of 58 – two years ahead of the firm's mandatory age. But he then led Grant Thornton International's expansion into the mainland on a contract basis. GTI has 100 employees rather than partners and no mandatory retirement.

"I really moved out in order to do this special project for Grant Thornton International," says Fong, the firm's executive director for China development. "This is actually a great opportunity for me to transfer my knowledge and experience over to somebody that is eager to learn and eager to change."

In recent months, Fong has been busy overseeing the integration of the new mainland Chinese member firm, Grant Thornton Jingdu Tianhua, into the international network. He is trying to implement international standards and best practices in the Chinese firm.

"My job is to help the Chinese firm move from a very, very local Chinese firm that is relatively unexposed to how a global accounting firm works and to transform it so it can be a competitive force in the mainland," he says. "You are doing a major change – you cannot just flick a switch."

Fong says some partners may want to switch to a consulting role because they deem the responsibilities they face from regulations such as the Sarbanes-Oxley Act as too great. The effects are felt in China too – hundreds of companies listed in the United States and the mainland will have to comply with China's own version of the law, C-SOX.

"Sometimes the older partner says, 'Look, our business is high risk. I don't want to be signing accounts anymore. But I still have a lot to contribute in terms of experience and client relationships,'" he says.

Booming consulting work

The recession has created more consulting opportunities, too. With the economy racing back in Asia, companies have been under pressure to staff up rapidly, but face uncertainty about problems elsewhere in the world that could disrupt the rebound. Companies are therefore keener than ever to work with consultants such as retired accountants.

"I have numerous candidates who may have retired from their firm but are interested in getting into contracting," Morris says. "It's not necessarily that they miss the money. It's more that they miss the intellectual part of the business."

Such consultants may command hourly rates that are 20 to 30 percent better than their old base salary at their firms, he says.

Many retirees figure they will have another decade or two of useful employment in a second career.

"The times have changed in our profession," BDO's Au says. "People are starting to realize 55 is too young for people to retire, particularly people who are involved in using their brain power. That is what really drives the move towards increasing the retirement age." A

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