TIAA-CREF Institute

Faculty Retirement Plans: The Role of Retiree Health Insurance

Research from the TIAA-CREF Institute
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About the research

Does the expectation of employer-provided health insurance in retirement encourage faculty members to retire earlier and save less than faculty who do not expect to receive this benefit?

To answer this question, the TIAA-CREF Institute funded a telephone survey of 892 faculty members age 50 and older – almost half of whom are full professors – at U.S. colleges and universities in late 2013.

The report summarized here – Faculty Retirement Plans: The Role of Retiree Health Insurance by Robert L. Clark, North Carolina State University – describes the survey's results. To download the full report, click the link above, or copy and paste this address into your web browser: www.tiaa-crefinstitute.org/public/pdf/institute/research/trends_issues/ti_role_of_retiree_health_insurance.pdf

Retiree health insurance gives faculty less incentive to save, but has little effect on planned retirement age.

Many public institutions are reviewing their retiree health plans due to increasing annual costs and unfunded liabilities. Academic administrators, however, are cognizant of potential impacts on faculty retirement patterns, particularly the age at which faculty retire. This report examines how an expectation of employer-provided retiree health insurance affects faculty retirement savings and expected retirement age.

Planned Retirement Age of Faculty

Benefit Status	Percent of Sample	Mean Expected Retirement Age
No Retiree Health Insurance	50.0%	68.0
Age 50-59	52.3%	66.1
Age 60 and over	47.7%	70.0
Has Retiree Health Insurance	50.0%	68.5
Age 50-59	40.6%	66.9
Age 60 and over	59.4%	69.7
Faculty with Retiree Health Insurance		
Percent of premium expect to pay		
Nothing	16.0%	67.9
1-25%	26.8%	68.9
26-50%	19.1%	67.9
51-75%	4.0%	67.5
76-99%	1.5%	70.4
All of the premium	5.8%	69.3
Do not know	26.8%	68.9

No difference in expected retirement age

Employer-sponsored retiree health insurance may impact faculty retirement ages by providing a financial incentive to retire before age 65, when Medicare covers begins. Those who retire before 65 and are not covered by a former employer's plan must purchase individual health insurance coverage until reaching age 65. Employer-sponsored retiree health benefits thus decrease the cost of retiring prior to age 65; those benefits provide much less value once an individual is eligible for Medicare.

There is no indication, however, that retiree health insurance actually induces faculty to retire at younger ages. As shown above, the average anticipated retirement age for all faculty is about age 68, with no significant difference based on retiree health insurance coverage. In fact, for faculty aged 50 to 59, the promise of retiree health insurance is associated with slightly later, not earlier, retirement. This result is likely explained by the fact that most faculty work to age 65 and beyond for reasons other than financial need. The dynamic would be different if their motivation for continuing to work was to maintain health insurance coverage.

Financial Services

Lower level of retirement savings

Faculty members who receive subsidized health insurance in retirement need to save less while working to amass enough wealth to maintain their desired standard of living in retirement. A common way to save while working is through tax-advantaged retirement saving plans. Given the value of retiree health insurance, workers covered by such insurance would be expected to have lower levels of wealth accumulation.

To test this hypothesis, survey respondents who participate in a retirement saving plan were asked to indicate their current account balance by broad dollar ranges. The table below shows the distribution of faculty across the seven response categories. In each of the lower-balance categories (i.e., less than $750,000), more than half of all respondents expect to receive health insurance from their current institution upon retiring. In contrast, only about a quarter of faculty with account balances in excess of $750,000 expect such insurance. These patterns are consistent with the notion that retiree health insurance reduces saving by university faculty.

Wealth Accumulation of Faculty

Supplemental Account Balance	Percent of Sample	Has Retiree Health Insurance	No Retiree Health Insurance
Less than $50,000	12.1%	52.2%	47.8%
$50,000 to less than $100,000	12.3%	58.8%	41.2%
$100,000 to less than $250,000	16.8%	52.7%	47.3%
$250,000 to less than $500,000	14.6%	50.6%	49.4%
$500,000 to less than $750,000	7.2%	57.5%	42.5%
$750,000 to less than a $1 million	2.7%	26.7%	73.3%
$1 million or more	3.8%	28.6%	71.4%
Do Not Know	15.7%	49.4%	50.6%
Refused	15.0%	47.0%	53.0%

For more information

To learn more about trends in retiree health programs and how health care concerns affect retirement decisions, go to www.tiaa-crefinstitute.org > Research > Retiree Health Care.