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MANAGING RETIREMENT IN HIGHER EDUCATION

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EXECUTIVE SUMMARY

Managing retirement patterns in higher education, already a challenge for many colleges and universities, has only become more challenging in the current economic environment where drops in individual wealth resulting from the downturn in the financial markets create the incentive to remain on campus as opposed to retiring. This report is the first in a series that will examine the impact of the downturn in the economy and financial markets on the decisions of higher education employees regarding their preparations for retirement and the timing of their retirement, as well as institutional responses to these pressures.

This report synthesizes existing research on retirement incentive programs offered by colleges and universities with survey data on faculty interest in such programs. Thirty-two percent of institutions have a phased retirement program in place, and one-third of these implemented their program since 2000. The likelihood of faculty participating in a phased retirement program if available when they are ready to retire is quite high; 40% say they would be very likely to take advantage of a phased retirement option and an additional 29% say they would be somewhat likely. Faculty are less enthused about early retirement buy-out programs; 22% of faculty report being very likely to take advantage of such a program if available a few years before their planned retirement. Forty percent of institutions have offered at least one early retirement buy-out program since 2000.

A phased retirement program may be attractive to faculty who had planned to retire near-term but have seen their savings drop with the financial markets. Buy-out offers would also be attractive in that regard, but the size of the buy-out that would induce interest has surely risen for many given the market downturns. Given that phased retirement programs typically require faculty to secure administrative approval to participate, they also provide a degree of institutional control over faculty retirement patterns that early retirement buy-outs do not.

INTRODUCTION

An imperative for senior administration in higher education today is managing the flow of faculty through their institutions, from hiring to retirement. The downturn in the financial markets and economy in general over the past year has, among other things, placed renewed emphasis on the challenge and importance of understanding and managing retirement patterns at colleges and universities. Anecdotal evidence abounds regarding employees who have rescinded announced retirement plans due to decreases in retirement account values, both in the economy at large and within higher education. Managing retirement patterns among faculty, in particular, has always been a priority for institutional leadership, and the current environment has only made this more challenging.

This report synthesizes existing research on retirement incentive programs offered by colleges and universities with survey data on faculty interest in such programs. This information is framed with data regarding the retirement preparations and attitudes among higher education faculty. Subsequent Institute studies will examine the impact of the economy on the retirement plans and preparations of higher education employees age 50 and older, i.e., individuals approaching what is typically considered to be retirement age.

RETIREMENT PLANS

Many considerations factor into the decision to retire, but it is safe to assume that most individuals will not retire if they do not feel secure in their financial position to do so. Among full-time faculty at four-year institutions in 2007, 26% reported being very confident that they will have enough money to live comfortably throughout their retirement years, and an additional 57% were somewhat confident (Yakoboski 2007.) Such figures compare favorably with those reported by all American workers over time.[1] While one would expect confidence to be lower today given the severe downturn in the economy and financial markets over the past year, the relatively high confidence among faculty can be attributed, at least in part, to important differences in retirement plan availability and design in the higher education sector relative to other sectors of the economy.[2]

A sizeable fraction of full-time faculty would ***like*** to retire early (23% before age 65) and a sizeable fraction would ***like*** to retire late (28% at age 70 or older.) However, when asked when they ***realistically think*** they will retire, the '70 and older' figure increased to 37% while the 'before age 65' figure decreased to 14% (Yakoboski 2007.) Again, economic developments over the past year probably mean an even great tilt to older ages for likely age of retirement. Among those expecting to work past age 65, two-thirds (67%) reported that the most important reason is that they enjoy working. This is not surprising given that 53% of faculty report that they are very satisfied with their career in academe and 35% report that their academic career so far has completely met their expectations. At the same time, one-quarter (23%) said the most important reason for working past age 65 is that they will need the income; another figure one would expect to be higher today.

Such data highlight the challenge for colleges and universities of moving faculty into retirement in an orderly and somewhat predictable flow.

1 See results from the Retirement Confidence Survey (Employee Benefit Research Institute, Mathew Greenwald & Associates, American Savings Education Council.) (http://ebri.org/surveys/rcs/)

2 Retirement plan coverage is higher for workers in the higher education sector relative to the economy as a whole. Furthermore, defined contribution plans as primary plans in higher education are fundamentally different than 401(k) plans; worker participation is often mandatory with both worker and institution contribution levels set at pre-determined levels. In addition, most higher education faculty, whether their primary plan is defined benefit or defined contribution, are offered the opportunity to save additional funds for retirement through a supplemental plan that is either a 403(b) plan or a 401(k) plan. While higher education faculty tend to be older, have higher education levels and higher incomes than the working population as a whole, such structural pension plan design differences in the higher education sector surely make a significant contribution to the confidence expressed by faculty (see Yakoboski 2005.)

RETIREMENT INCENTIVE PROGRAMS

Can faculty retirement patterns be managed? Can a greater degree of predictability be achieved for planning purposes? Such questions lead to consideration and evaluation of programs such as phased retirements and early retirement buy-outs.

PHASED RETIREMENT

According to a recent AAUP survey of colleges and universities, 32% of institutions had a phased retirement program in place as of 2006, and one-third of these had implemented their program since 2000 (Conley.) Phased retirement programs typically specify the maximum timeframe over which an individual segues into retirement with the most common phases being 5 years (38% of programs) and 3 years (35% of programs.) During the phase period, an individual transitions from full-time employment to part-time employment to full retirement and receives a pro-rata share of his or her salary along the way. Minimum and maximum eligibility ages for participation are typical; 55 being the most common minimum age and the typical maximum age falling in the 63 to 65 range. In addition, such programs generally require faculty to secure administrative approval to participate (77% reported this requirement), thus providing a degree of institutional control over faculty retirement patterns. Finally, employee benefits often continue to be provided to faculty during the time period in which they phase into retirement.

The likelihood of full-time faculty at four-year institutions participating in a phased retirement program if available when they are ready to retire is quite high (figure 1.) Forty-percent say they would be very likely to take advantage of a phased retirement option if available when they were ready to retire and an additional 29% say they would be somewhat likely to use a phased retirement option (Yakoboski 2007.) A phased retirement program may be attractive to faculty who had planned to retire near-term but have seen their savings drop with the financial markets' downturn. However, the oldest generation of faculty, early baby boomers, are the least likely to think they would participate in a phased retirement program if offered; 56% report being very or somewhat likely to do so.

Figure 1
Likely Use of Phased Retirement Programs

	All Faculty	Gen X	Late Boomers	Early Boomers
Very likely	40%	36%	46%	36%
Somewhat likely	29	38	28	20
Not too likely	19	18	13	26
Not at all likely	10	6	12	12

Source: TIAA-CREF Institute, Faculty Generations Survey (2007.) Survey covers full-time faculty at four-year institutions.

EARLY RETIREMENT BUY-OUTS

Faculty are less enthused about early retirement buy-out programs relative to phased retirement programs (figure 2.) Twenty-two percent of full-time faculty at four-year institutions reported being very likely to take advantage of such a program if available a few years before their planned retirement; the analogous figure for phased retirement was 40% (Yakoboski 2007.) Nonetheless, 66% of all faculty reported being at least somewhat likely to participate in such a program, with an identical percentage of early boomers feeling that way. Such buy-outs offer a financial incentive to retire, but the offer is only available for a limited period of time. Again, given the economic and market downturns of the past year, the size of the buy-out necessary to induce interest has surely risen for many of those in or approaching ages commonly considered as retirement age.

Figure 2 **Likely Use of Early Retirement Buy-Outs**				
	All Faculty	Gen X	Late Boomers	Early Boomers
Very likely	22%	19%	21%	25%
Somewhat likely	44	55	37	41
Not too likely	20	19	25	15
Not at all likely	6	2	6	8
Source: TIAA-CREF Institute, Faculty Generations Survey (2007.) Survey covers full-time faculty at four-year institutions.				

According to the AAUP survey, 40% of institutions have offered at least one early retirement buy-out program since 2000 (Conley.) Such programs are generally designed to encourage retirement before age 70. Age and service requirements typically must be satisfied for an individual to participate; the most common age requirements are 55 (34% of programs), 50 (25%) and age 60 (25%), and typical service requirements are 10 years (33% of programs) and 15 years (25%.) Targeting on age and service alone, however, presents the challenge of the "wrong" faculty accepting the buyout to retire. The definition of "wrong" will vary across campuses but would include individuals who remain highly productive and valued, as well as individuals in departments and programs that are in high or increasing demand by students. The study also found that the generosity of the offers appears to be increasing over time and notes that this may actually create the perverse incentive for individuals to wait since a better offer may be presented in the not too distant future.

CONCLUSION

A wild card in the retirement equation is the availability and funding of retiree health insurance. When asked about their biggest concern regarding retirement, 40% of all faculty (36% of early boomers) identified having a long period of poor health and frailty and 21% (26% of early boomers) responded having to pay for health care and prescription drugs (Yakoboski 2007.) The presence or absence along with relative expense of retiree health insurance will impact the decision regarding when to retire.

At the same time, providing such benefits and, in particular, funding them has become increasingly burdensome for employers, including higher education.[3] But while the private sector has experienced a mass exodus of employers providing retiree health insurance, such coverage remains in higher education. Eighty-two percent of colleges and universities report that their retired faculty remain eligible for group health insurance,[4] but 34% report that health insurance benefits for retirees have been reduced since 2000 (Conley.) Ensuring the continued provision of employment-based retiree health insurance will require a consolidated approach involving better pre-funding and more cost conscience vehicles for providing benefits. In the process of reform, however, any restructuring of retiree health benefits to control costs should consider potential unintended consequences on retirement patterns. Else savings and efficiencies gained in one arena will be countered in another.

3 The same statement could be made regarding the federal funding of retiree health insurance through the Medicare program; Medicare Part A is currently projected to be insolvent in 2019, and both Parts B and D are currently on unsustainable paths.

4 Seventeen percent of institutions pay the full cost for retired faculty, 51% share the cost, and 33% require retirees to pay the full cost.

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ABOUT THE AUTHOR

Paul Yakoboski is a Principal Research Fellow with the TIAA-CREF Institute. He conducts and manages research on issues related to retirement income security, including saving and planning for retirement, retirement plan design and managing workforce retirement patterns, and research on issues related to strategic management in higher education. Yakoboski manages the Institute's Fellows Program, as well as its *Trends and Issues* and *Advancing Higher Education* publication series. Prior to joining the Institute he held positions as Director of Research for the American Council of Life Insurers, Senior Research Associate with the Employee Benefit Research Institute and Senior Economist with the U.S. General Accounting Office. He is a member of the American Economic Association and serves on the editorial advisory board of *Benefits Quarterly*. He previously served as Director of Research for the American Savings Education Council. Yakoboski earned his Ph.D. and M.A. in economics from the University of Rochester and his B.S. in economics from Virginia Tech.