Aging Workforce Series

New directions to retirement

Meeting emerging needs through alternative retirement pathways

A way forward

The aging of the U.S. population is gaining national attention, especially within higher education where the trend is particularly pronounced.[1] Between 2000 and 2010 the proportion of all professors 65 and older nearly doubled, and their median age now surpasses all other occupational groups.[2] Many faculty and staff are reluctant to retire from positions that provide significant financial and psychological rewards.[3] Unfortunately, as they age, their productivity appears to decline.[4] The types of programs discussed here can help institutions maintain productivity among aging employees who want to keep on working.

In the first paper of the Aging Workforce Series we reviewed important research undertaken by the University of Iowa (UI) Center on Aging. Its survey of nearly 200 American universities and colleges explored how institutions are addressing the financial and productivity challenges created by a rapidly aging campus workforce. The UI researchers found that most institutions lack a cohesive, strategic approach for dealing with these challenges. The researchers presented four tactical pillars to build a strategic plan: health and fitness programs, workplace and scheduling accommodations, retirement counseling and employee assistance programs, and retirement pathways. This paper examines retirement pathways. Additional papers explore the other pillars, with a similar focus on helping leaders take a strategic approach to managing their aging workforces and the financial challenges they present.

There's more than one way to retire

As life expectancies for Americans continue to increase, their opinions about retirement are evolving. Employees today often want to tailor their retirements so they can step down gradually — sometimes before the traditional retirement age, and sometimes after.[5] Indeed, baby boomers increasingly resist choosing between full-time work and retirement. These factors are encouraging human resource specialists to create new programs, services and occupational roles to meet these new employee demands. The UI study identified three types of retirement pathways often made available to employees on various campuses: early retirement, phased retirement, and retire/rehire.

By providing aging employees with workload options, incentives to explore retirement, and continued benefits, these pathways are proving to be a viable alternative for employees not attracted to traditional retirement. They can also provide significant benefits to the institution in terms of productivity, cost-efficiency and improved succession planning.

Early retirement

Under an early retirement approach, an employee leaves the workplace before becoming eligible for Social Security and Medicare benefits. There are significant benefits for institutions to promote early retirement.[6] The costs of payouts and benefits are easily offset by salary savings, and, as the UI survey showed, it's an excellent way to spur desirable changes in the composition of the workforce.

For many aging employees, however, early retirement can pose substantial financial risks. Institutions, for their part, have historically done little to address these risks. They have usually offered early retirement in response to a budget crisis without necessarily offering important incentives, such as continuing health benefits, for employees to participate.

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To encourage participation, some institutions are beginning to make early retirement with financial benefits a standard option. Benefits might include a financial bonus (either a lump sum or split payments over a period of time, often as a percentage of the employee's salary); continued health insurance for a set period of time; or the extended use of campus resources, such as wellness centers and libraries. By reducing an employee's financial risks, such incentives may encourage many more individuals to consider early retirement.

The University of Richmond, for example, has an early retirement plan for employees that includes continued email services, access to libraries and other facilities, tuition remission benefits, discounts, parking, invitations to university events, and medical benefits at the full-time level until age 65. In addition, early retirees are eligible to receive payment for unused vacation and sick leave, as well as a lump-sum payment upon retirement.

Phased retirement

Phased retirement is an extended transition from full-time work to full retirement that begins after the traditional retirement age. Usually, phased retirement occurs over two to five years, with salary diminishing as on-campus obligations wind down. According to the UI survey, few campuses offer phased retirement as a standard retirement pathway; most use it selectively on a case-by-case basis — and even then, only to faculty. Yet the survey also found that phased retirement is an effective way for schools to extend the tenure of key staff members as well, without great cost. Money saved in salary can offset other costs, such as continued health benefits.[7] Since a phased approach puts retirement plans firmly in motion, succession planning can also be vastly improved — giving institutions the confidence to begin recruiting before the employee is fully retired.

For individuals, phased retirement is a way to stay involved with the university and keep critical health benefits, while finding time to explore retirement options, develop outside interests, and network.

Case in point: Grinnell College

According to Assistant Treasurer Jim Mulholland, this Iowa college is committed to offering its faculty options like a phased retirement program, called Senior Faculty Status (SFS). "SFS helps ease the transition from being a full-time to part-time faculty member while continuing full benefits," he says. "We find that most of our faculty now retire before 70 and take the SFS pathway."

That high participation rate is partly due to Grinnell offering many attractive benefits, such as generous contributions to employee retirement plans, insurance eligibility for life through its self-insurance pool, and spots for retirees on rehire lists — if they desire — to work occasionally on projects that interest them. Through SFS, faculty members can even design their own phased retirement plan. One recently retired faculty member submitted a proposal to work half-time for up to five years while retaining full-time benefits and 55% pay.

This plan allowed her to begin volunteering, traveling and spending additional time with family as she scaled back her workload and adjusted to a retirement lifestyle — while continuing to teach biology. "What makes it nice is it gives those of us who really like to teach a gradual transition," she says. "I kept thinking periodically during the five years, 'How did I teach full time?' It was just the right amount of engagement to maintain feeling very much a part of the community."

Yale University is one institution that recently implemented a phased retirement program that can be tailored to anyone between 65 and 70. It involves a one-to-three year transition period, half the workload, and pay that decreases from 100% to 75% to 50%. What's more, employees can carry over existing contractual benefits, such as sabbaticals, to the phased retirement program.

Retire then rehire

In this exit pathway, an employee is rehired after having transitioned to full retirement. This can occur before or after the traditional retirement age, but those rehired typically no longer receive many of their previous benefits, such as defined contributions to a retirement plan and health insurance. Interestingly, the UI study found this to be the most common retirement pathway on campuses, and was available at more than half of the campuses surveyed.

For institutions, retire then rehire is a way to tap high-performing faculty for special projects, augment urgent departmental needs quickly, or fill a sudden or temporary vacancy (e.g., due to maternity leave). These arrangements save the institutions time and money. For individuals, retire then rehire offers a rewarding experience with the flexibility of a short-term commitment — typically for a semester or year, or for a specific project.

At the State University of New York (SUNY), for example, the Retirees Service Corps contacts retirees with opportunities for employment on special projects or other service opportunities. This campus organization also helps retirees stay involved in university affairs and network with other retirees. The corps holds meetings and conferences, publishes newsletters, and maintains a website with links to legal, financial, and psychological resources to help employees adjust to retirement and access tools for lifelong learning.

For employees eligible for government benefits, particularly Medicare, retire and rehire is a great way to stay involved with the institution, earn money, and yet have the freedom to pursue other interests. For younger employees who need access to health insurance, retire and rehire may not be a viable option.

Get off to a fast start

Each institution should craft a thoughtful implementation strategy to promote different retirement pathways and achieve broad adoption. Researchers at UI found that the most successful implementation strategies share three common traits:

- A formal policy that offers and describes alternative retirement pathways
- A thorough assessment of financial risks and legal implications
- Incentives to make alternative retirement pathways attractive

Formalize and promote

It's important for institutions to formalize and describe all of their retirement pathway options. It should be clear who is eligible for them, and the institution should not make discretionary denials, which can undercut employee confidence and participation in the program. Also, leaders should publicly encourage employees to learn about these programs and promote an ongoing dialogue about available retirement pathways. This can help create a culture where choosing these pathways becomes a normal part of the retirement discussion.

Assess legal risks

Structuring a variety of retirement plans can be complicated. The plans often involve modified tenure employment contracts, profession-specific carve outs, mandatory waiting periods for pension withdrawals, and in-service pension distributions. In addition to issues about plan structure, the retirement issue itself raises a host of legal questions that institutions must consider. (See sidebar, *Legal counsel is imperative*.)[8]

Sweeten the deal

Most employees will not seriously consider options like early or phased retirement without an incentive to do so. For instance, it's critical to consider offering health benefits until the employee is eligible for Medicare — even if that means the employee's share of the costs increases as part of the bargain. It also helps to offer an employee a percentage of salary

Legal counsel is imperative

Keep in mind that alternative retirement pathways are legal contracts, and you should seek legal advice before proposing them. They must be structured in accordance with federal and, in some instances, state laws and regulations. While there are many compelling reasons for an institution to offer these options, and for employees to consider them, your communications about retirement pathways cannot be perceived as coercive or selective.

When consulting an attorney about the *financial and contracting details* of retirement pathways, ask these questions:

- What are the potential tax implications for the institution of specific retirement incentives being considered?
- Is the institution covered by the Employee Retirement Income Security Act (ERISA)? If so, how are the pension structures and employee tax liability affected?
- How can the institution modify the pension agreement to reflect the in-service pension distributions allowed by the Pension Protection Act of 2006?
- How does the institution avoid pension penalties that may be incurred by hiring employees back too quickly, or for too many hours?
- If the institution wants to impose an upper age limit on tenured faculty participating in a retirement program, how does it stay in compliance with the 1998 Age Discrimination in Employment Act (ADEA) safe harbor?

When consulting an attorney about how to *target retirement messaging* to aging employees, ask these questions:

- How does the institution communicate with employees about specialized retirement pathways so it's clear that retirement is voluntary and the institution is not coercing or discriminating against older employees?
- How does the ADEA affect the institution's communications with employees regarding retirement?
- How does the institution remain compliant with the 1990 ADEA amendment, the Older Workers Benefit Protection Act (OWBPA), when communicating retirement options to employees and participating in waivers of ADEA rights when accepting and personalizing retirement plans?

either in a lump sum or in installments. For phased retirement, a percentage of salary above the percentage of teaching load, or maintaining benefits with the same university contribution may be attractive to employees. For example, an institution could offer faculty members in phased retirement 75% of their full-time salary and all of their retirement benefits while the employee maintains a 50% full-time equivalent workload. The bottom line: For employees to seriously consider alternative retirement pathways, the institution must be serious about offering incentives.

Financial incentives are a must, but there are other ways to sweeten the deal, such as offering programs or creating organizations that help retirees remain connected to the institution. The Encore Cornell Program at Cornell University, for example, seeks to integrate the retirees into campus and off-campus life in a lasting and meaningful way.

Developed with a Cornell retiree, the program provides retirees employment and volunteer opportunities, support and educational programming, and networking both on campus and off. Director Kathee Shaff says the school will continue to expand the program in two key ways: by doing more to educate aging employees about opportunities so they are better prepared prior to retirement; and by expanding the program nationally to serve retirees no longer close to campus.

A checklist for getting started

Creating various retirement pathways can seem a daunting challenge, but done right it is quite manageable. Here's a checklist for getting started.

- Share with institutional leadership — including administration, faculty and staff councils, campus health officials, and human resources specialists — the many benefits that alternative retirement pathways can provide to employees and the institution.
- Form a working group to assess the feasibility of offering permanent alternative retirement pathway options.
- Survey your institution to assess the desire among faculty to have more retirement pathway options.
- Appoint a program manager and staff to develop retirement pathway options, including a direct communications strategy targeting eligible employee groups.
- Develop an implementation strategy for your new retirement pathways and allow an adequate amount of time to foster awareness and engagement across campus.
- Create measurement and evaluation processes that track applications, participation and costs and savings of the retirement pathways.
- Given the expected growth in the number of aging employees, continue to think about future retirement pathway options.

A productive path

Many people can now expect to spend 20 years or more of their lives in retirement. Providing those at academic institutions with an appropriate retirement pathway is more important than ever. The alternative retirement pathways discussed here offer the kind of flexibility and personalization features that today's employees value.

Offering these alternatives may actually encourage aging employees to consider the idea of retirement rather than avoid it. Recognizing that there is a way to retire without completely severing their ties to the institution — or in a way that lets them continue to contribute to their field — could be the impetus they need to begin the next chapter in their lives.

From an administrative point of view, alternate retirement pathways give an institution a way to retain the skills of experienced employees, while easing their way toward an eventual retirement. These exit strategies can also improve succession planning by helping the institution plan for and recruit new faculty with more certainty and confidence. Further, they help the institution address the problem of maintaining full-time employees who, as they age, may no longer be making a full-time contribution.

Implementing alternative retirement pathways will take a commitment of time, money and effort on the part of the institution. But such pathways can pay off with improved productivity for the institution and improved satisfaction and security for aging employees.

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8 American Council on Education, 2011

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