Retirement and Benefits: Shifting Responsibilities

By Valerie Martin Conley

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Kathleen Casey-Kirschling is the first member of the baby boom generation—born one second after midnight on Jan. 1, 1946. Last October, Casey-Kirschling filed electronically for Social Security benefits before a crowd of reporters and photographers at the National Press Club in Washington, D.C. We have witnessed the progress of the baby boomers through each previous life stage; now America is watching to see how this generation copes with aging and retirement.

The average age of the population is increasing, in part, because technological and medical advances offer more people the opportunity to live longer, healthier lives. But, the ability to maintain quality of life in retirement and even the ability to afford to retire at all may no longer be a given. Casey-Kirschling is scheduled to receive her first Social Security check in February 2008, but that event should lead us all to ask: *Will it last?*

Social Security Commissioner Michael Astrue told reporters there was plenty of money in the system for now. But, he added, funds would be solvent only through 2041.[1] According to the U.S. Department of the Treasury, "Social Security faces a shortfall over the indefinite future of $13.6 trillion in present-value terms, an amount equal to 3.5 percent of future taxable payrolls."[2] *Why?*

The answer begins with demographics. The demographic context drives the discussion of the impending Social Security crisis—primarily the aging of the U.S. population, especially the baby boomers. About 78.2 million people were born between 1946 and 1964, according to the U.S. Census Bureau. The baby boomers will place the most significant strain on the system since its inception when they, like Casey-Kirschling, begin to draw Social Security. The size of the aging population and the rapidity of the onset of the Social Security crisis are difficult to grasp. Beginning in 2006, the Census Bureau projected, 7,918 people turned 60 every day. That's equivalent to 330 people an hour! Between 2010 and 2030, the number of Americans 65 and older will rise sharply.

Historically, many workers paid into the Social Security system while relatively few retirees collected benefits. This favorable ratio translated into annual cash surpluses, because retirees' benefits are paid from taxes collected from the current workforce. But, as the baby boomers retire, the number of workers per retiree will shrink. So will the annual Social Security cash surplus until it eventually disappears. "And then the real problems hit," notes the Social Security Reform Center.[3] Observers disagree on exactly when the system will exhaust the annual surpluses—"somewhere around 2017" is the best estimate. Then, "Congress will have to find billions more so that Social Security can pay all the benefits that it has promised."[4]

Few observers disagree that Social Security reform is needed. The question is how it should be reformed. Proposals include "limiting benefits for wealthy retirees, indexing benefits to prices rather than wages, increasing the retirement age, discouraging early collection of retirement benefits, and changing the way benefits are calculated."[5] The implicit question underlying these proposals is: how much should individuals rely on Social Security for retirement income?

Changes will not likely affect individuals born prior to 1950, but Social Security reform will affect all younger contributors. These changes, in turn, will affect retirement patterns and policies in higher education. The demographic realities foretell one of the most significant challenges facing higher education. But few within the enterprise see what's coming: the core recruits of the expansion years of the 1970s may not recognize the faculty in our colleges in only a few years. The challenge increases in complexity when we factor in different institutional settings, disciplinary contexts, and the growth of the part-time and non-tenure track faculty workforce. These significant challenges mandate awareness of the competing policy concerns that may contribute to the systematic restructuring of faculty employment and threaten quality of life for the academic workforce—and their prospects for a comfortable retirement.

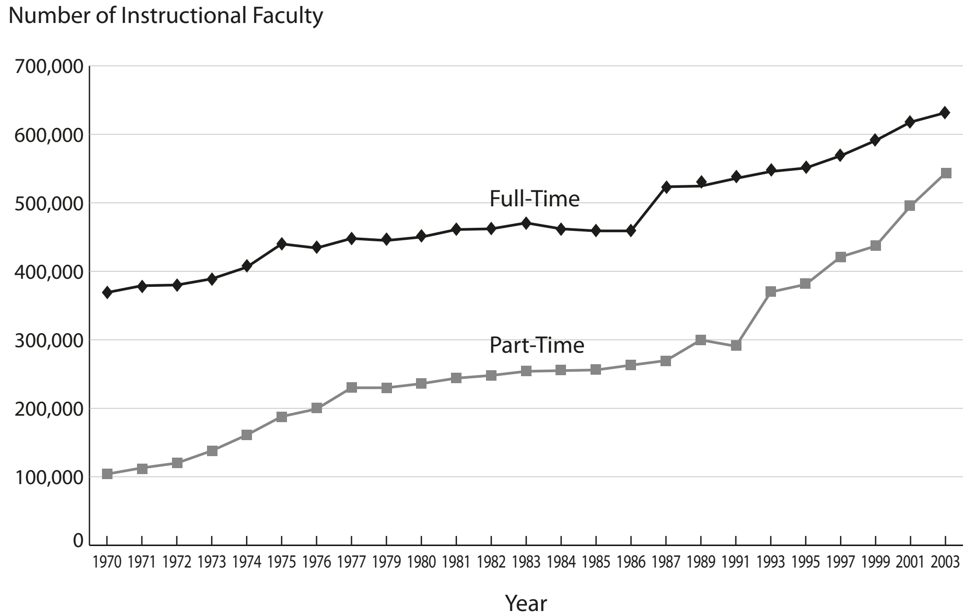
RESTRUCTURING

Figure 1 shows the number of instructional faculty in degree granting institutions by employment status for selected years. The figure shows the increase in the number of part-time faculty over time, and how the gap has narrowed between those employed part-time relative to those employed full-time. Among faculty members, more now teach part-time or full-time off the tenure track than in full-time tenured or tenure-eligible positions. The direction of the trend is clear (Figure 2).

A fundamental shift in responsibility for funding retirement and benefits accompanies this restructuring. This shift—from shared societal, organizational, and individual responsibility to a sole individual responsibility—is evident in the benefit levels and types of retirement plans available to current employees. The move also appears in the decline of the share of the cost for health insurance borne by institutions and in the potential elimination of health insurance for retirees and their spouses. Last, the shift is manifest in policies geared toward encouraging or discouraging retirement.

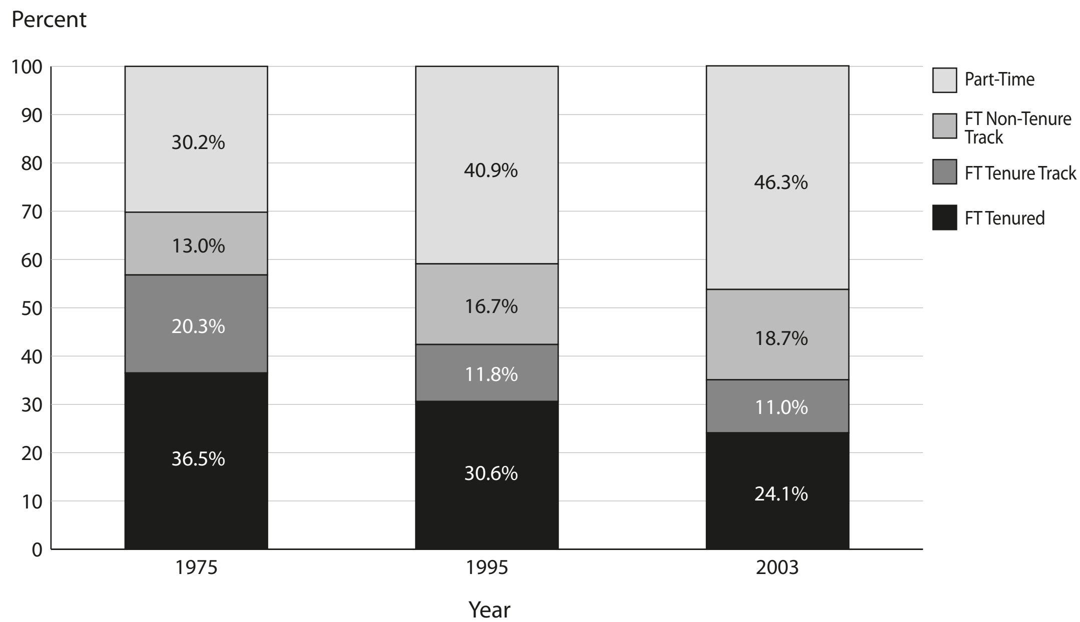
The predicted shortfalls of Social Security and the rising cost of health insurance is hastening the already rapid pace of this shift. But benefits are still a sizeable component of the compensation of full-time instructional faculty on nine-month contracts in degree-granting institutions. The U.S. Department of Education's National Center for Education

Figure 1. Number of Instructional Faculty in Degree-Granting institutions, by Employment Status: Selected Years, Fall 1970–Fall 2003



Source: Derived from Digest of Education Statistics (2005); Table 226.

Figure 2. Trends in Tenure Status: Selected Years 1975–2003



Source: Derived from U.S. Department of Education, IPEDS Fall Staff Survey; EEO-6 Survey.

Statistics (NCES) publishes average benefit expenditures for full-time faculty. These statistics include retirement plans, medical/dental plans, guaranteed disability income protection, tuition remission for dependents, housing, social security taxes, unemployment compensation, group life insurance, worker's compensation, and other benefits.[6] Contributions to retirement plans and health insurance premiums typically comprise the bulk of benefits packages available to faculty regardless of type of institution.

In 2005–06, the average total benefit expenditure for full-time instructional faculty on nine-month contracts was $18,082. The average retirement benefit expenditure was $6,402 and the average medical/dental plan benefit expenditure was $6,863.[7] Average benefit expenditures are higher in private institutions than in public institutions.

RETIREMENT PLAN TYPES AND LEVEL OF BENEFITS

Forty-two percent of institutions responding to a recent survey reported offering defined contribution retirement plans (such as TIAA-CREF) and "an additional 41% of institutions allowed faculty members to choose either a defined-contribution or defined-benefit plan such as a state plan that calculates benefits based on a formula that might include years of service, final average salary, and age."[8] Many institutions are moving from offering traditional defined-benefit retirement plans to defined-contribution plans. This trend is masked somewhat by the fact that many institutions (in particular public institutions) allow faculty members to choose the type of plan in which they wish to participate. Of course, one appeal of defined-contribution plans for individuals is the portability of benefits. But, individuals assume more of the risk associated with the return on investments in defined-contribution plans. The key looming policy questions: Are faculty members saving enough? Will these plans generate enough income for participants to live comfortably in retirement? *Whose responsibility is it?*

Almost all eligible full-time faculty members participate in employer sponsored retirement savings plans; 81 percent of institutions *require* full-time faculty participation. But plan types and level of benefits differ greatly for part-time faculty: only 57 percent of the surveyed institutions indicated that part-time faculty members were eligible to participate in institutionally sponsored retirement savings plans. A smaller proportion of eligible part-time faculty members (53 percent) than their full-time colleagues elect to participate. Part-time faculty members receive less pay, and are less likely to be eligible for benefits. This ineligibility further reduces their compensation and makes them much cheaper for institutions to employ. But their ineligibility at many institutions and low participation rates at others increases their financial risk at retirement. Their growing numbers demands actions to increase the availability of retirement plans and to understand why many eligible part-timers do not participate.

Levels of benefits also vary. Institutions typically contribute around ten percent of a full-time faculty member's annual salary for defined-contribution plans. But, many colleges contribute a lower percentage. The typical annual defined-benefit rate is two times the number of years of service. The definition of "salary" varied greatly at these institutions for the purpose of calculating the benefit under defined-benefit plans. The minimum required individual contribution rate was zero in 28 percent of institutions. Defined-benefit plans typically have "caps" or maximum benefit levels based on years of service (40 years, for example) or salary (75 percent, for example). These variations make benefits comparisons across institutions extremely difficult.

HEALTH INSURANCE

The "Institution Survey" of the 2004 National Study of Postsecondary Faculty (NSOPF), provides information on health insurance benefits. This NCES survey shows that 95 percent of institutions offered medical insurance to *all* full-time faculty members (Figure 3). But 59.7 percent of surveyed institutions did not make medical insurance available to *any* part-time instructional faculty and staff (Figure 4). Most of the 40.3 percent of institutions that offered medical insurance to all or some part-timers subsidized (paid a share of the cost of) the benefit: 32.8 percent vs. 6.2 percent (Table 1).

Dental insurance, the survey showed, is also available to all full-time faculty at 88.5 percent of surveyed institutions: 68.7 percent reported it was subsidized and 19.8 percent reported it was not subsidized (Table 2). About 64 percent of reporting institutions did not offer dental insurance to any part-time faculty. (Table 3 and Figures 5 and 6). As with medical insurance, most of the 35.7 percent of institutions that offered dental insurance to all or some part-timers subsidized the benefit: 23.4 percent vs. 11.9 percent (Table 3). The survey did not collect data on the criteria for eligibility or the extent of the subsidy. As with retirement plans, colleges and universities should look for ways to increase the availability of health insurance for part-time faculty and liberalize the criteria for eligibility.

RETIREE HEALTH INSURANCE

In Fall 2003, about half of surveyed institutions offered retiree medical insurance to all full-time faculty members; 21 percent offered the benefit to some faculty; 29 percent offered it to none.[9] Retiree medical insurance, even when available, was not necessarily subsidized: 17 percent of the 48 percent of institutions reporting availability did not subsidize the benefit. Faculty retirees at most reporting institutions may continue to participate in the group health insurance plan, but the relative costs borne by the individual and the institution vary considerably. One third of responding institutions required the retiree to pay 100 percent of the cost; the retiree pays 100 percent of the cost of the spouse's premium even more often.[10]

Collective bargaining representatives, administrators, and policymakers face a significant challenge: ensuring that faculty members work longer because they want to, not because they must work to maintain access to affordable health care for themselves or their spouse. A college consortium has formed Emeriti Retirement Health Solutions, an effort to provide affordable supplemental health care for retirees. This program invests employer and employee contributions, and upon retirement, employees can select among several Medicare supplemental health insurance plans.

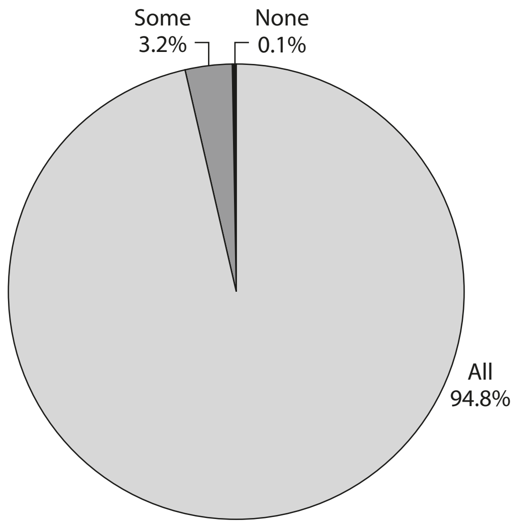
Participating institutions recognize that retirement benefits, including employer sponsored pension plans and affordable, quality health insurance, are a mechanism for attracting and retaining new, quality faculty and a tool for controlling the flow of older faculty out of the workforce.

RETIREMENT INCENTIVES

Absent mandatory retirement ages, timing of retirement for tenured faculty members is an individual choice. Many institutions have therefore increased workforce predictability by implementing retirement incentives (buy-outs) and adopting phased-retirement programs to encourage retirements. These programs have fundamentally altered the faculty retirement process over the past decade. What are buy-outs? Why are they offered? *Are they already becoming a thing of the past?*

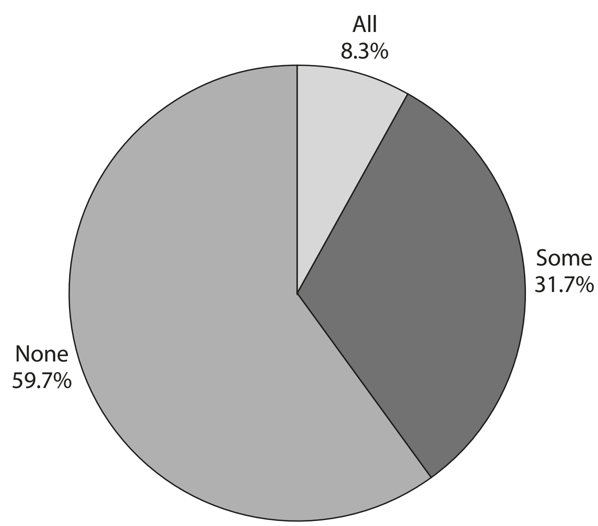
Retirement incentives—described as innovative responses to a changing environment—include one-time cash payments, terminal leave arrangements, and phased retirement.[11] One survey found 38 percent of institutions have offered buy-outs to their faculty since 2000; some institutions offer multiple institution-wide financial incentive programs. But responsibility for financing retirement continues to shift from the institution and the government to the individual. This shift begs the question: Is a buy-out a "golden" or "lead" parachute?

Figure 3. Percent of Institutions Offering Medical Insurance to Full-Time Faculty Members, Fall 2003



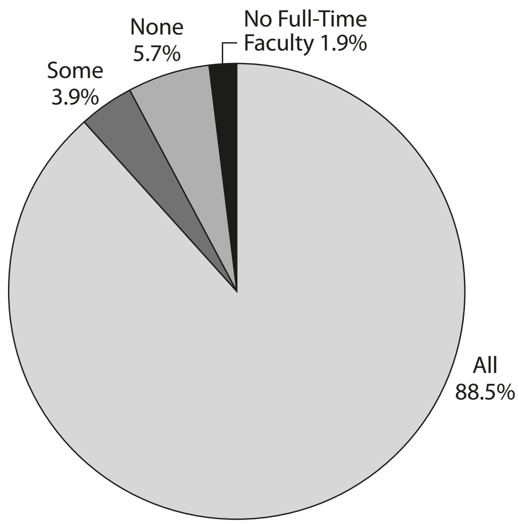
Source: 2004 National Study of Postsecondary Faculty Institution Survey.

Figure 4. Percent of Institutions Offering Medical Insurance to Part-Time Faculty Members, Fall 2003



Source: 2004 National Study of Postsecondary Faculty Institution Survey.

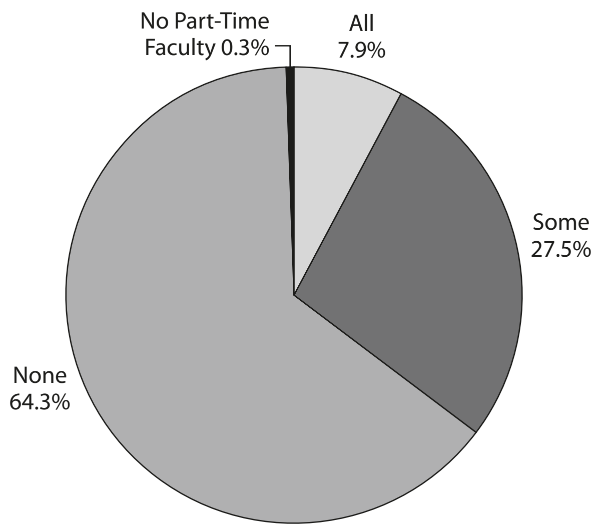
Figure 5. Percent of Institutions Offering Dental Insurance to Full-Time Faculty Members, Fall 2003



Source: 2004 National Study of Postsecondary Faculty Institution Survey.

Note: Of the surveyed colleges, 1.9 percent have no full-time faculty members.

Figure 6. Percent of Institutions Offering Dental Insurance to Part-Time Faculty Members, Fall 2003



Source: 2004 National Study of Postsecondary Faculty Institution Survey.

Note: Of the surveyed colleges, 0.3 percent have no part-time faculty members.

Table 1. Availability of Medical Insurance and of Institutional Subsidies: Part-Time Faculty

	Members, Fall 2003
Available to none	59.7%
Available to some, not subsidized	1.7
Available to some, subsidized	29.0
Available to all, not subsidized	4.5
Available to all, subsidized	3.8
No part-time faculty	1.3

Source: 2004 National Study of Postsecondary Faculty Institution Survey

Table 2. Availability of Dental Insurance and of Institutional Subsidies: Full-Time Faculty

	Members, Fall 2003
Available to none	5.7%
Available to some, not subsidized	1.6
Available to some, subsidized	2.3
Available to all, not subsidized	19.8
Available to all, subsidized	68.7
No full-time faculty	1.9

Source: 2004 National Study of Postsecondary Faculty Institution Survey.

Table 3. Availability of Dental Insurance and of Institutional Subsidies: Part-Time Faculty

	Members, Fall 2003
Available to none	64.3%
Available to some, not subsidized	5.7
Available to some, subsidized	21.7
Available to all, not subsidized	6.2
Available to all, subsidized	1.7
No part-time faculty	0.3

Source: 2004 National Study of Postsecondary Faculty Institution Survey.
Note: Total may not add to 100 percent due to rounding.

Commitments for continued part-time employment or phased retirement are becoming more prevalent in higher education. "The number of phased-retirement programs in higher education has increased," notes one survey, "fifty-eight institutions reported that they implemented phased-retirement plans since 2000 (twenty institutions reported doing so in 2005 and 2006 alone)."[12] Often viewed as win-win plans for institutions and individuals, phased retirement extends the time faculty pay into Social Security and shortens the time of complete dependence on retirement savings for income.

Are faculty members who retire gradually happier than colleagues who retire "cold turkey?" A group of researchers found "no evidence that a gradual transition produces a happier retirement."[13] But the results, the researchers concede, may have little impact on worker preferences, because workers generally *prefer* gradual retirement. Having a sense of control over the retirement transition, the researchers added, significantly affected happiness in retirement. The study looked at broad occupational classifications, such as blue-collar and professional. We lack similar longitudinal data to analyze the effects of gradual retirement for faculty members. Faculty members value autonomy, suggesting they may desire even more control over the retirement transition.[14] In any case, planning and feeling prepared for retirement, note other researchers, are associated with lower anxiety and depression.[15] A gradual transition should afford individuals more time to plan for eventual retirement.

CHALLENGES AHEAD

Researchers at Boston College have developed a new index that measures the percentage of working-age households potentially unable to maintain their standard of living after retirement. Almost 45 percent of U.S. households are "at risk," the researchers found. "Having a pension of any sort is the key to a secure retirement," they concluded.[16] "Ensuring retirement security for an aging population," they added, is "one of the most compelling challenges facing the nation."[17]

Higher education is a special case, because of (a) competing public policy needs, (b) the processes used to derive funding for higher education, and (c) the calls for accountability that pressure institutions to do more with less. These factors lead observers to ask if the current level of retiree benefits is at risk. This risk may disproportionately affect faculty members at specific institutional types because available resources vary widely among and between public, private not-for-profit and for-profit, four-year doctoral and non-doctoral granting, and two-year and less-than-two-year institutions. Needed is a higher education *retiree benefit* risk index, sophisticated enough to account for institutional differences and variations in the benefits offered.

Dwindling resources and competing policy concerns, including national defense and homeland security; re-investment in transportation infrastructure; healthcare, social security, and Medicare; and K-12 education make it difficult to justify increased investment in higher education. U.S. colleges and universities also face increased concern about their ability to meet the needs of a changing student clientele. More than 17 million students were enrolled in postsecondary education in fall 2006.[18] Students are more likely today to attend postsecondary education part-time, have full-time jobs, and have family responsibilities. They are more likely to be female. Observers project greater growth in the percentage of students in "minority" categories, such as Hispanic or Latino/Latina, than in the "majority" White, non-Hispanic category. Distinct generational differences accompany these characteristics. Students matriculate with different abilities, expectations, and skills—especially technological skills. They want affordable, convenient, quality higher education. It is no wonder that higher education has come under increased scrutiny.

U.S. Secretary of Education Margaret Spellings announced formation of a 19-member Commission on the Future of Higher Education in September 2005. Her charge: "Develop a comprehensive national strategy for postsecondary education that will meet the needs of America's diverse population and also address the economic and workforce needs of the country's future." Suggested proposals from a draft of the report sent ripples through the entire higher education community. Among the proposals: eliminate regional accreditors, re-engineer the Federal Student-Aid System; demonstrate learning outcomes through testing; and create a "consumer report" like rating that would be information driven and transparent in an effort to promote public trust.

When the commission released its final report in fall 2006, the word *faculty* appeared only seven times. The seven appearances included two mentions in commission member biographies and one mention in the reference table. The report contained only one significant reference to higher education faculty: "Faculty must be at the forefront in defining educational objectives for students and developing meaningful evidence-based measures of their progress toward those goals."[19] Higher education is a national resource, built on the expertise of the faculty. Current faculty-related policy discussions focus on the need to regenerate, on calls to increase productivity, and on academic norms. If we agree higher education matters, then we should also agree that the well being of faculty matters.

These challenges demand a reinvigorated research agenda to study faculty, including the study of retirement and benefits. The few comprehensive studies of faculty retirement[20] occurred before baby-boomers became eligible, before Congress eliminated mandatory retirement ages, before the U.S. faced a social security crisis, and before public support for higher began to education decline. More research and much better data will help us understand the contemporary academic retirement and benefits landscape.

NOTES

1 NBC Field Notes available: http://fieldnotes.msnbc.msn.com/archive/2007/10/15/412037.aspx.

2 U.S. Department of the Treasury, 2007.

3 Social Security Reform Center, 2007.

4 Ibid.

5 U.S. Government White House Document, 2005.

6 U.S. Department of Education, 2007, table 246.

7 Ibid.

8 Conley, 2007, 22.

9 U.S. Department of Education, 2004.

10 Conley, 2007.

11 Chronister and Kepple, 1987.

12 Conley, 2007, 9.

13 Calvo, Haverstick, and Sass, 2007, 3.

14 Finkelstein, 1984.

15 Fretz, Kluge, Ossana, Jones, and Merikangas, 1989.

16 Munnell, Web, and Delorme, 2006, 12.

17 Ibid., 16.

18 U.S. Department of Education, 2007.

19 Ibid., 24.

20 Hammond and Morgan, 1991; Lozier and Dooris, 1991; Monahan and Greene, 1987; Montgomery, 1989, for example.

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