Retirement and Benefits: Protecting Ourselves

By Valerie Martin Conley

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Until recently, most observers believed that the long-awaited surge of retirements from higher education was just around the corner. An equally large-scale opportunity for reinvention had not occurred since the hiring boom of the 1960s and 1970s. Administrators developed strategies for regenerating—not just replacing—the higher education workforce, since empty offices would have allowed colleges to move in "different directions."[1]

The current economic crisis may change all that, if a substantial of number of staff and faculty members postpone their retirement. We know that enrollments increase during economic downturns. But we may now be dealing with a new, complementary theorem: retirements among faculty and education support professionals (ESPs) decrease when the economy goes south.

The economic crisis has generated another concern: the solvency of pensions. States and colleges are reviewing their retirement plans to ensure the safety of their investments and the adequacy of resources needed to pay promised benefits.

There's yet a third concern: restoring confidence, particularly among retirees and retirement eligible employees. Here's how the Ohio State Teachers Retirement System (STRS) attempted to allay participants' fears. "STRS Ohio members who are following news reports of the recent impact that the nation's credit crisis has had on global financial markets," a message to participants began, "might wonder how this affects their pension fund." Times like these, the message continued, "are a good time to remind our members that STRS Ohio pension benefits are safe and secure." The message continued:

> STRS Ohio is a long-term investor with an extremely diversified portfolio. This design enables us to weather the ups and downs of the market, including the investment-related market losses we have recently experienced due to the credit crisis and the overall general market decline.[2]

Financial analysts, the note concluded, consider short term and long term benefits accrual and payouts when tracking assets.

> The system's assets, along with contributions from members and employers, are used to pay benefits earned by its members. However, it's important to remember that not all of those benefits are due at once. Many of our members who are accruing benefits will not retire for many years. In other words, STRS Ohio has the liquidity needed to pay pension benefits when they are due near term, and the accumulated investment assets and income from employer and member contributions (future revenues) to allow us to continue to do so into the future.[3]

Continuing economic decline casts doubt on assurances for the health of pension systems. An aging population adds to these concerns. Pension administrators may adjust projections of investment returns downward as the ratio of active worker/contributors per retiree declines. But financial analysts join pension fund administrators in focusing on a long-term view of the market. Their complex models incorporate additional factors, such as asset allocation, and actuarial assumptions—salary increases, overall payroll growth, and changes in mortality rates, for example.

State pension overseers promise to make no hasty decisions. "The amount of investment assets alone," STRS Ohio notes, "does not determine the solvency of the pension fund."[4] "The recent events on Wall Street are unprecedented," a bulletin adds.

> Nevertheless, it is not time for knee-jerk reactions or to change the disciplined approach to investments that has served STRS Ohio well over the years. We are monitoring how the overall markets respond to discussions in Washington. We hope that steps will be taken that will restore both calm and confidence to the markets. During this period, we will continue to do what we do best as a public pension plan—maintain our long-term focus and only make significant changes after thorough and deliberative discussions.[5]

What is the fund's advice to members? Don't panic: read our newsletters and visit our Web site often.[6]

Such advice might (or might not) help to reassure participants in a defined benefits plan, such as offered by STRS Ohio. But other public higher education employees in Ohio elect to participate in an Alternative Retirement Plan (ARP), a defined contribution plan.[7] Analysts express considerable concern for the economic health of participants in defined contribution plans. Client calls to TIAA-CREF, which administers such plans, increased by 30 percent between the summers of 2007 and 2008.[8] Pension companies with a large higher education clientele, such as TIAA-CREF, continually counsel clients to balance risk and choice.

One recent analysis offered "three scenarios, based on whether individuals were invested in conservative, moderate, or aggressive portfolios."[9] Losses through August 2008 for the three different scenarios were one, five, and eight percent, respectively.[10] A TIAA-CREF representative advised participants "to run 'a stress test' on their funds, and to work with their retirement plan provider to determine how they would fare in various scenarios, including one in which markets are down substantially and inflation is up."[11] But worsening economic conditions in late summer and fall substantially diminished the value of defined benefit and contribution plans. "As of September 30, 2008, STRS Ohio's investment was estimated at about $62.9 billion, down from about $70.3 billion on June 30, 2008."[12] "The market value of STRS Ohio's investment assets on Oct. 31 was $54.5 billion."[13]

The *NEA Almanac* chapter on retirement and benefits usually focuses on national retirement trends and policies. But current economic conditions require faculty members and ESPs to understand the details of their specific retirement plans. So must human resource professionals, deans, and department chairs. Employees need clear, precise, and accurate information to make good decisions.

Those responsible for collective bargaining contracts and negotiations have an especially important responsibility: to understand the trade-offs for retired employees, workers contemplating retirement, and younger faculty and ESPs who will work for many years before receiving retirement benefits. This chapter first analyzes the current retirement planning landscape. It then examines retirement-related contractual provisions using NEA's Higher Education Contract Analysis System (HECAS). The contracts in this system delineate important practices and trade-offs for negotiators.

CONTEXT AND SCOPE

During the past half century, the context for retirement planning dramatically changed. Two key reasons for the change are the elimination of mandatory retirement for tenured faculty members and the shift from defined benefit to defined contribution plans (or to a combination). Let's examine each change in turn.

Mandatory Retirement

Two economists compared faculty turnover rates before and after the elimination of mandatory retirement ages at a large sample of institutions with defined contribution pension plans. Eliminating mandatory retirement, the economists found, significantly affected faculty retirement. "After the elimination of compulsory retirement," they wrote, "the retirement rates of 70- and 71-year-olds fell by two-thirds and were comparable to rates of 69-year-olds."[14] Other scholars found similar results when they analyzed faculty age structures in three North Carolina universities—Duke, North Carolina State, and the University of North Carolina—between 1988 and 1997.[15] "A clear impact of lower retirement rates for persons 69 and 70," they noted, "is found after the elimination of mandatory retirement."[16] "If these patterns continue to hold in the coming years," the scholars concluded, "the faculty at these institutions will become much older."[17] A national increase in the average age of full-time faculty supports this trend.[18]

Neither study considered the impact of early retirement incentives. But a recent survey of changes in faculty retirement policies found that "more than 38 percent of responding institutions reported that since 2000 they had offered one or more institution-wide financial-incentive program for retirement." Most incentive programs had minimum age and years of service requirements. "Among the most recent retirement-incentive plans institutions provided, ages fifty (25 percent), fifty-five (34 percent), and sixty (25 percent) were the most frequently reported minimum ages to participate." As for minimum length of service, one-third of surveyed institutions reported ten years. Another one-fourth reported 15 years. "Retirement incentives (sometimes referred to as buyouts)," the study concluded, "have become accepted practice among institutions of higher education since the end of mandatory retirement."[19]

What is the normal amount for an institution-wide financial-incentive program for retirement? The typical one-time cash payment is equivalent to less than nine months of salary, while the typical number of years of service credit is three.[20] "The size of incentive payments varies widely among types of schools," one study noted.[21] Private institutions, the study found, offered a minimum of 40 percent of final salary. The minimum incentive at public institutions was only 12 percent, but many public and private institutions offered 100 percent of final salary. Some institutions made severance payments over time.[22]

We cannot assess the effectiveness or success of early retirement programs because few institutions provided the needed information.[23] Nor do we know whether current incentive levels will entice tenured faculty, administrators, and ESPs to retire in the future. We do know that changes in accounting rules and reporting requirements may affect the timing of retirement incentives and how payments are made.

Let's look at complete offer and acceptance statistics provided by 11 institutions.[24] "Acceptance rates ranged from zero to 100 percent," the study noted. "Most rates came in between 12 and 33 percent."[25] But even among this group, few institutions "kept track of the numbers of faculty who became eligible" for early retirement.[26] This "unfortunate" finding illustrates the need for better data related to retirement planning if we are to determine the effectiveness of retirement incentive programs on turnover rates.

Non-financial incentives, including working fractional time for pro-rated pay (phased-retirement), may be as appealing to faculty as institution-wide financial-incentive programs for retirement. Many observers view phased-retirement as a "win-win" program. The faculty member maintains employment while the institution "saves," and can therefore reallocate, a portion of the individual's salary.[27] About one-third of institutional respondents in one survey had a phased-retirement program.[28] Benefits varied. Three-quarters of the institutions continued full health-insurance premium contributions. Faculty members could draw partial retirement benefits along with salary in one-half of the institutions.[29] Eligibility and the length of permitted participation in phased-retirement programs also varied.

Figure 1 shows the percentage of institutions reporting minimum age eligibility requirements for participating in a phased-retirement program, by age specified. Faculty members could participate in the phased-retirement program for a maximum of three years in 35 percent of the institutions, and five years in another 38 percent of institutions. Must faculty members give up tenure to participate in a phased-retirement program? Less than one-half (43 percent) of the 192 responding institutions with a phased-retirement program required participating faculty members to relinquish tenure.[30]

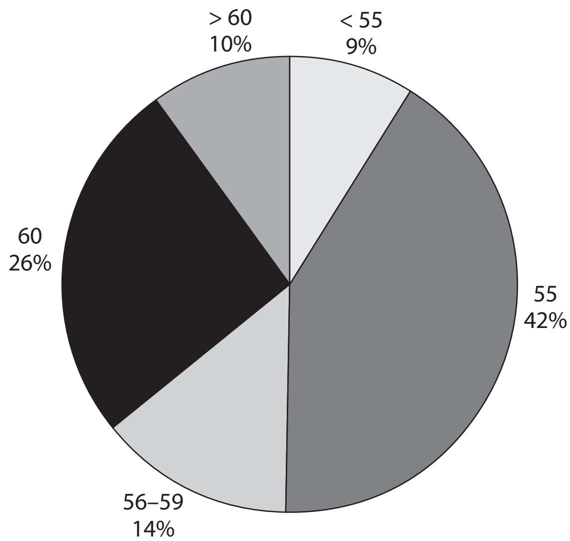
Defined Benefit and Contribution Plans

The shift from defined benefit to defined contribution plans—or to a combination—fundamentally changed retirement planning in higher education. In 1982, defined benefit plans accounted for 29 percent of total plans and 65 percent of total participants.[31] In 2007, only 12 percent of responding higher education institutions offered a defined benefit plan as the sole retirement plan option. Of these institutions, 94 percent are public. In the year, 41 percent of respondents offered faculty members a choice of plans (97 percent public). In contrast, 42 percent of responding institutions offered a defined contribution plan as the sole retirement plan option; 76 percent of these colleges and universities are private.[32]

As part of leadership of the National Education Association (NEA) on retirement issues, researchers examined 99 retirement systems. These systems included 79 "pure DB [defined benefit] plans" that "provide a fixed, lifetime annuity to participants, with the benefit based on a formula that takes into account years of service and an average final salary over a specified number of years."[33] An NEA resolution on retirement resulting from this analysis calls for:

> A benefit that will maintain real replacement income levels of at least 75 percent of

Figure 1. Percent of Institutions Reporting Minimum Age Eligibility Requirements for Participating in Phased–Retirement Programs, by Age Specified.



Source: Conley, 2007b. Author's calculations.
Note: Totals do not add to 100 percent due to rounding.

> the highest single year's rate of salary after 30 years of service (and at least 50 percent after 20 years of creditable service) and automatic cost of living increases (without regard to age) to maintain purchasing power for retirees and beneficiaries.[34]

"Each type of pension plan has its own advantages and disadvantages," noted a 1990 retirement commission report.[35] Advantages of defined benefit plans include "the predictability of the benefit as one nears the normal retirement age and the possibility of building early retirement incentives into the structure."[36] The report noted one major disadvantage: lack of portability. "People who change jobs frequently suffer serious losses under defined benefit plans," explains one analyst.

> Even if benefits are fully and immediately vested, individuals receive significantly lower pensions as a result of moving among plans—even if they are all identical—than they would receive from continuous coverage in a single plan. This difference arises because pension benefits for non-mobile employees are generally related to earnings just before retirement, while the benefits of the mobile employees will be based on earnings at the time they terminate employment from each employer.[37]

Defined contribution plans are portable, but the participant assumes the investment risk.[38] "In addition, the plans provide significant incentives for individuals to continue working beyond their normal retirement age."[39] The move away from defined benefit plans points to a broader trend: the shift from a shared societal, organizational, and individual responsibility for retirement to an individual responsibility.[40] Current economic conditions may hasten this trend.

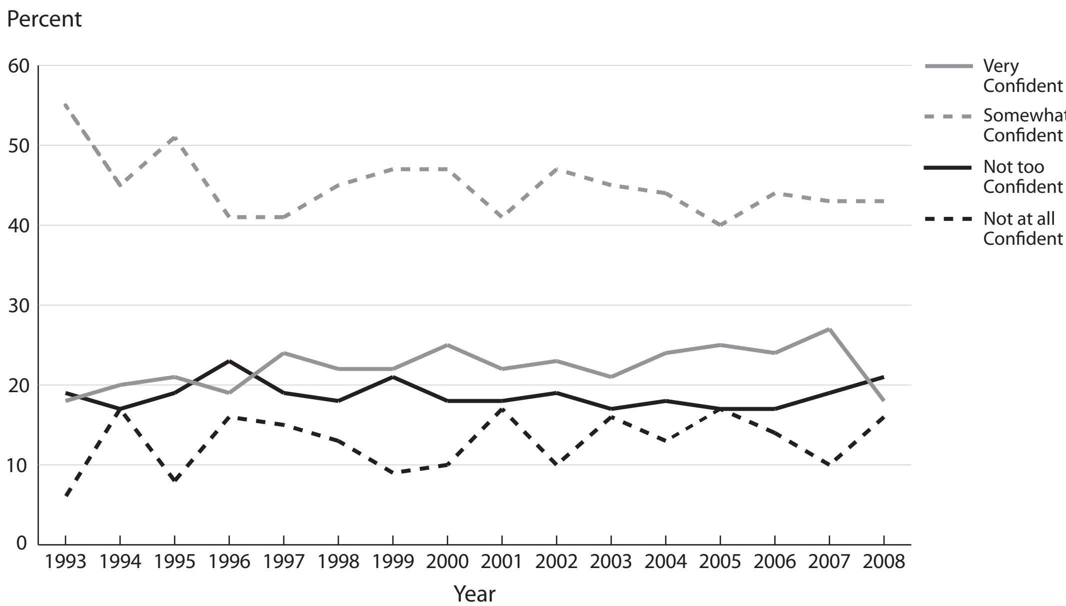
How prepared are individuals to shoulder this responsibility? American workers' confidence in their ability to afford a comfortable retirement, notes an annual survey, declined more in 2008 than at any other time in the survey's

18-year history.[41] Health care and the economy, the survey added, contributed to the record drop in retirement confidence. The percentage of workers *very* confident about having enough money for a comfortable retirement decreased from 27 percent to 18 percent between 2007 and 2008. "Decreases in confidence occurred across all age groups and income levels," the survey stated, "but was particularly acute among younger workers and those with lower income."[42] "More than half of retirees (54 percent)," the report concluded, "say they are now more concerned about their financial future than they were right after they retired, a 14 percentage-point increase from a year ago."[43] The survey was conducted in January 2008, so confidence may be even lower today.

Figure 2 shows changes in worker confidence in having enough money to live comfortably throughout their retirement years. The majority of workers (61 percent) still say they are "somewhat confident" (43 percent) or "very confident" (18 percent) in their prospects for a comfortable retirement. But the two-fifths of respondents in the "not too confident" and the "not at all confident" categories indicates uncertainty and lack of awareness. "Some workers appear to be counting on employer-provided benefits in retirement that are increasingly unavailable," notes a recent report.[44] Workers express concern about medical and long-term care expenses and "try to push back their expected retirement age, often with the intention of improving their current financial situation or to increase their financial security in retirement."[45]

One bright note is that more workers now report they or their spouse "have tried to calculate how much money they will need for a comfortable retirement."[46] "Calculating a goal amount is particularly effective in changing behavior," notes the report. Nearly three-fifths (59 percent) of the workers who calculated a goal amount started saving or investing more.[47] But the study reported only a modest average savings level: 49 percent of workers "report

Figure 2. Worker Confidence in Having Enough Money to Live Comfortably Throughout their Retirement Years



Source: Employee Benefit Research Institute, 1993–2008.

total savings and investments (not including the value of their primary residence or any defined benefit plans) of less than $50,000."[48]

Retirement confidence depends on awareness of employer-provided retirement benefits—key components of contract negotiation. We therefore analyze retirement-related contract language for selected states and institutions.

CONTRACT ANALYSIS

HECAS includes contracts for NEA and other U.S. union locals. These contracts cover many different types of employees including faculty, ESPs, and graduate assistants at two- and four-year institutions. This analysis focuses on four categories of retirement-related provisions in full-time ESP and faculty/AP contracts: selecting a retirement plan, guidelines for post-retirement employment, phased retirement, and benefits available to retirees.

Selecting a Plan

New employees must make many benefits decisions within a specific timeline. The length of time varies considerably. Faculty members in Pennsylvania have 30 days to select a retirement program. Florida faculty members must make their choice within 90 days, while new Ohio full-time public higher education employees have 120 days. In these states, the state system is the default for employees who do not declare an intention. Employees confront a growing number of choices, and must carefully examine the advantages and the disadvantages of each plan. Negotiators must assure that contracts provide unit members with sufficient time to make informed decisions.

Some states have "switch options." For example, new Ohio public higher education employees who choose the STRS Ohio defined contribution or combined plan may change retirement plans in their fifth year of membership. "This 'switch' option may be particularly beneficial to you if you are unsure about the amount of time you will teach in Ohio," the system notes.[49] But employees who participate in the Alternative Retirement Program may not switch unless they change employers.

Post-Retirement Employment

Many contracts contain guidelines for part-time, extended service, and summer teaching for retirees. Provisions in the Youngstown State University faculty contract stipulate that bargaining unit employees who retire at the end of an academic year are eligible to teach through the end of the summer term following the academic year in which they retire. Retired faculty members of the bargaining unit are eligible to teach part-time with restrictions. Faculty members with at least ten complete academic years of full-time service may be placed on extended teaching service for up to five years upon recommendation of the department faculty.[50]

Florida distinguishes between continued employment and phased retirement. Provisions regarding continued re-employment state:

> Prior to re-employment, participants in the Phased Retirement Program must remain off the State payroll for one (1) calendar month following the effective date of retirement in order to validate their retirement, as required by the Florida Division of Retirement…

As for compensation:

> Compensation during the period of re-employment will be at a salary proportional to the participant's salary prior to retirement, including an amount comparable to the pre-retirement employer contribution for health and life insurance and an allowance for any taxes associated with this amount…

Phased Retirement

The University of West Florida faculty/AP contract describes eligibility and program provisions for the university's Phased Retirement

Program.[51] Faculty members may participate after accruing six years of service, but eligibility expires when a faculty member turns 63. Faculty members must relinquish tenure to participate in the program:

> All participants must retire and thereby relinquish all rights to tenure/permanent status as described in Article 16 (Tenure), except as stated otherwise in this Article. Participants' retirement benefits will be determined as provided under Florida Statutes and the rules of the Division of Retirement.

As for salary increases:

> Participants will receive all increases guaranteed to faculty in established positions, in an amount proportional to the part-time appointment, and will be eligible for non-guaranteed salary increases on the same basis as other faculty.

Faculty members in Florida may select the Phased Retirement Program (PRP) or the Deferred Retirement Option (DROP), an alternative method for payment of retirement benefits.[52] The program allows members to "retire" while pension benefits continue to accumulate with interest. Participants may continue to work for up to five years. DROP participants are not eligible to participate in the PRP.

These examples show the variability and complexity of guidelines surrounding continued and phased employment. Late-career part-time employment and phased retirement may be increasing, so local bargaining units should negotiating guidelines that include the status of tenure, eligibility, time limits, salary increases, and responsibility for paying health care costs.

Retiree Benefits

Retirement provisions typically include many "continued benefits." Benefits for retired University of North Florida faculty members, for example, include use of the library and of physical fitness and recreational facilities, listing in the university directory, and an e-mail account. The contract encourages the university to provide retired faculty members with offices or laboratories on a space-available basis. Retired employees of state-administered retirement systems—excluding the Optional Retirement Program—also receive health insurance subsidy payments.

How important are these benefits to retirees? Local bargaining units may consider the extent to which retirees are aware of and take advantage of the availability of these benefits. Perhaps most important: providing subsidies for retiree health insurance. Local bargaining units should focus attention on the increasing cost of health care and the impending Social Security/Medicare shortfalls, in upcoming contract negotiations. The Association of Pennsylvania State College and University Faculties (APSCUF) contract outlines two tiers of annuitant health care coverage for retirees: for before and after June 30, 2004. Such two-tier provisions raise questions about the adequacy of insurance subsidies for new employees.

Other key questions to consider: What programs are offered to inform new hires about their options? The retirement committee of APSCUF takes the initiative in providing information, advocacy, and research to faculty members and their spouses.[53] What strategies are used to encourage new hires to get involved in retirement planning early and to remain actively involved in retirement planning? Are comprehensive planning programs offered for retiring employees?

CONCLUSION

Transforming higher education must not involve compromising the academic mission of our institutions or our responsibility for the livelihood of workers in academe. Taken together, the *Almanac's* chapters on salaries and on retirement and benefits provide a context for understanding total compensation.

Unions must continue to negotiate retirement security and benefits provisions that ensure fiscally sound, sufficient investments on behalf of all employees. Economic conditions and declining retirement confidence should focus local bargaining units on assuring maximum total compensation—not just at a single point in time, but over a member's lifetime.

NOTES

[1] Conley, 2008.

[2] State Teachers Retirement System, September 30, 2008.

[3] Ibid.

[4] State Teachers Retirement System, October 17, 2008.

[5] State Teachers Retirement System, September 30, 2008, paragraph 3.

[6] Ibid., paragraph 4.

[7] Administrative personnel participate in PERS—Ohio Public Employees Retirement System.

[8] Jaschik, 2008.

[9] Ibid., 2.

[10] Ibid.

[11] Ibid.

[12] State Teachers Retirement System, October 17, 2008.

[13] State Teachers Retirement System, November 21, 2008.

[14] Ashenfelter and Card, 2002, 957.

[15] Clark, Ghent, and Kreps, 2001.

[16] Ibid., 29-30.

[17] Ibid., 30.

[18] Conley, 2006; Conley, 2007a.

[19] Conley, 2007b, 8.

[20] Ibid.

[21] Keefe, 2001, 66.

[22] Ibid.

[23] Ibid, 75.

[24] Ibid.

[25] Ibid., 77.

[26] Ibid.

[27] Lord, 2005.

[28] Conley, 2007b, 9.

[29] Ibid.

[30] Ibid.

[31] Munnell, 1982, 213.

[32] Conley, 2007b.

[33] NEA, 2006, 1.

[34] Ibid, 162.

[35] Ruebhausen, 1990, 177.

[36] Ibid.

[37] Ibid.

[38] Ibid

[39] Ibid, 177.

[40] Conley, 2008b.

[41] Helman et al., 2008.

[42] Ibid.

[43] Ibid.

[44] Ibid., 5.

[45] Helman et al., 2008, 5.

[46] 29 percent in 1996, 42 percent in 2004–06, and 47 percent in 2008, respectively.

[47] Helman et al., 2008.

[48] Ibid. 1:6.

[49] See http://www.strsoh.org/new/2.html, lines 6-7.

[50] Articles 16.1, 16.4, and 16.5, respectively.

[51] Article 26.6.

[52] See http://www.janthonygroup.com/DROP_PLAN.html.

[53] See http://www.apscuf.com/CAP/retirementpage.html

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