April 2007

Pensions at Risk, Retiree Health Benefits at Risk: Retirement at Risk?

Valerie Martin Conley
Ohio University

Follow this and additional works at: http://thekeep.eiu.edu/jcba

Recommended Citation
Available at: http://thekeep.eiu.edu/jcba/vol0/iss2/12
Pensions at Risk, Retiree Health Benefits at Risk: Retirement at Risk?

Valerie Martin Conley

Ohio University

Draft prepared for presentation at the 34th annual National Center for the Study of Collective Bargaining in Higher Education and the Professions April 15-17, 2007, New York City. Please do not distribute or reference without permission of the author.
Abstract

There is mounting evidence to suggest there is cause for concern regarding the ability of pensions to provide the primary source of income in retirement for members of an aging U.S. workforce. Furthermore, the rising cost of health care and changes in accounting rules may put additional strains on the system, resulting in the erosion of retirement as a social institution as we now know it.
Introduction

The title of this panel is “Pensions in Crisis”– so in preparation– I asked myself the question: Are pensions in crisis? As far as I can tell there is no simple answer to the question, but there is mounting evidence to suggest there is cause for concern. Concern is growing about whether pensions will be able to support older Americans in retirement. At a minimum, the situation should be tracked and monitored much more closely than it is currently– particularly within the context of higher education.

Factors contributing to the concern include an increasing number of retirees to workers, rising health care costs, and a public policy environment characterized by competition for scarce resources. According to the Center for Retirement Research at Boston College, in 2003 only 10 percent of all private sector workers with pensions were covered solely by a defined benefit plan (Myths and Realities About Retirement Readiness, May 2006). Other work of the Center, specifically related to the calculation of a new National Retirement Risk Index (NRRI), shows 43% of households are at risk of having inadequate retirement income (Retirement at Risk: A New National Retirement Risk Index, June 2006). The research team concluded: “Having a pension of any sort is the key to a secure retirement” (p.12). They call “ensuring retirement security for an aging population…one of the most compelling challenges facing the nation” (p. 16).

Within this context higher education may be viewed as a special case. There are many reasons, but perhaps chief among them are (a) competing public policy needs, (b) the processes used to derive funding for higher education, and (c) the calls for accountability that are putting pressure on institutions to do more with less. Combined, these circumstances call into question
whether the current level of retiree benefits in general may be at risk in the future. In addition, higher education is comprised of a mix of types of institutions including public, private not-for-profit, private for-profit, four-year doctoral granting, four-year non-doctoral granting, two-year, and less-than-two-year institutions. The resources available vary widely among and between these types of institutions making the answer to the specific question: Are pensions in higher education in crisis very complex.

To fully appreciate this complexity, it is important to understand the context. We must monitor the demographic shifts that are occurring in the population in general and in higher education in particular. But, we must also be aware of the costs and benefits associated with various decisions impacting retirement policy in higher education while recognizing the unique role of colleges and universities in meeting the needs of individuals and society. We must understand what is at stake. The purpose of this paper is to shed some light on this complexity and to trace a fundamental shift that is occurring regarding responsibility for retirement— from the institution to the retiree and to question whether or not this is the wisest path to take. In particular, three trends and some related context within higher education will be discussed: (a) shifting demographics (b) rising health care costs and (c) retirement decision-making.

Shifting Demographics: Age

The median age of the U.S. population reached a new high in 2000 (Population profile of the United States: 2000), and key indicators show that the elderly will live longer healthier lives. The number of older Americans will begin to rise sharply as the baby boom generation reaches age 65 between 2010 and 2030. Census projections indicate that the annual growth rate in the elderly population—defined as those 65 and older—will increase from 1.3 percent to 2.8 percent
in less than a decade. The bottom line: This growth rate translates into a much higher retiree to worker ratio.

“Total pension coverage has remained stagnant while the nature of coverage has continued to shift to 401(k) plans. These developments, coupled with declining levels of earnings replacement under Social Security, mean that future retirees will have to work longer if they want to maintain their pre-retirement standard of living in retirement” (Munnell & Perun, 2006, 1).

It is predicted by the year 2018 Social Security will no longer be solvent and will be “paying out more than it takes in and every year afterward will bring a new shortfall, bigger than the year before” (p.2). What is the reason? In short—“...because it was designed for a 1935 world in which benefits were much lower, life-spans were shorter, there were more workers per retiree, and fewer retirees were drawing from the system” (p.1).

Indeed, data from the Federal Interagency Forum on Aging-Related Statistics show life expectancy between 1900 and 2003 has increased for those 65 and 85, for both men and women. Three-year averages for 2002-2004 National Health Interview Survey data show that 51% or more of persons age 65 or older reported having good to excellent health, by age group, and race and Hispanic origin. For non-Hispanic whites (as a comparison group because it is the largest group of faculty) three-quarters (76%) of those age 65 or older reported good to excellent health, as did 81% of those age 65-74, 73% of those age 75 to 84, and 67% of those age 85 and older.

Our information about aging trends among higher education employees is much less complete. The National Center for Education Statistics (NCES) only collects data on age of
faculty and instructional staff– leaving out a large segment of other employees who work in colleges and universities nationwide. From these data (the National Study of Postsecondary Faculty) we know the average age of full-time faculty members has increased steadily since the fall of 1987. The average age of faculty was 47 in 1987, 48 in 1992, 49 in 1998, and 50 in 2003 (the most recent year data are available cover academic year 2003-04). The average age of full-time tenured faculty members has also been increasing and was 54 in 2004. As of 2004, more than one third (35%) of faculty members were 55 years old or older.

This moderate growth can be misleading, however. Clark and d’Ambrosio (2004) documented the dramatic trend in faculty aging occurring on the 15 degree granting campuses of the University of North Carolina (UNC) with a graph that showed an “aging cross”. The proportion of the faculty under age 40 in the UNC system decreased from 35 to 16 percent between 1982 and 2000, while the proportion of tenured and tenure-track faculty over age 55 increased from 18 to 31 percent. The crossing pattern in the age distribution of UNC faculty occurred around 1990. Data from the National Study of Postsecondary Faculty (NSOPF) reveal a similar national pattern. The proportion of faculty under age 40 decreased from 25 to 19 percent between fall 1987 and fall 2003, while the proportion of faculty age 55 or older increased from 24 to 35 percent.

NSOPF also collects information by employment status and type of institution. These data show the average age of part-time faculty has increased at a faster rate than the average age of those employed full time. The average age of part-time faculty increased from 44 to 50 years old during the time period.
In 2-year institutions the average age of part-time faculty has increased from 44 to 49 years old during the time period. However, in 4-year institutions the average age of part-time faculty was slightly higher in fall 2003 than for those employed full time.

What do we know about how faculty members have been planning for retirement and about their confidence in the availability of income to support them in retirement? The TIAA-CREF Institute conducted a Retirement Confidence Survey of College and University Faculty in 2005, which indicated America’s higher education faculty are confident in their prospects for a comfortable retirement and, relative to all working Americans, they are doing a good job of preparing for retirement. Among the report’s key findings are 35% of faculty are very confident in their retirement income prospects and an additional 51% are somewhat confident. Two-thirds (65%) expect employer-sponsored retirement plans to be their largest source of retirement income. A majority of faculty (59%) expect to receive retiree health insurance through an employer. Do current trends suggest their confidence is naïve?

Health Care Costs

Some evidence suggests colleges and universities are already reducing retiree health benefits. Schieber found 34 surveyed private institutions offered pre-65 retiree health benefits coverage to current retirees, but only 27 offered this benefit to new hires. Thirty private institutions offered post-65 retiree health care coverage to current retirees, but only 21 offered this benefit to new hires. Another study has found one of the emerging areas of concern among faculty is the availability and cost of health insurance in retirement. Berberet, Bland, Brown, and Risbey (2005) found senior faculty members are concerned about the cost of their health insurance plans and about their ability to maintain university-provided health insurance at
retirement. The extra cost of purchasing or maintaining health insurance after retirement may be a significant determinant in the retirement decision. Many colleges either cannot afford to pay for retiree health insurance or worry about the rising costs of such benefits. Soaring health care costs are prompting colleges to reexamine the benefits offered to active and retired faculty. While few universities have eliminated retiree health insurance, many now require retirees to bear a greater share of the cost for the coverage and to accept reduced benefits. Institutions should consider the importance of health insurance to individuals before changing their policies. Large numbers of faculty may not be postponing retirement indefinitely now, but changes in retiree health coverage—especially the cost borne by faculty—may increase the number—particularly if they have not been able to plan adequately for it.

The shift from retirement as primarily a societal and employer responsibility to primarily an individual one is occurring at a rapid pace, hastened by the impending predicted shortfalls of Social Security. The Government Accountability Office (GAO) notes: “As more workers participate in 401(k) plans they bear more of the responsibility for funding their retirement” (Increased Reliance on 401(k) Plans Calls for Better Information on Fees, March 6, 2007). At the same time people are living longer, some living longer, healthier lives, and advances in technology and medicine are promising even more people the possibility of doing so; 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. The retirement choice may become do I work longer because I want to or do I work longer because I have to?

Retirement decision-making
Much of the research on retirement in higher education has focused on the retirement decision-making process—specifically on those factors that influence when an individual faculty member will elect to retire. A flurry of research came just prior to or very soon after the amendments to the Age Discrimination in Employment Act (ADEA) which eliminated mandatory retirement for tenured faculty members as of January 1, 1994. Since that time, retiring from higher education has become a complex web of negotiated decision-making (Conley, 2006). The retirement process is symbolized by a maze of regulations and institutional policies that many are left to traverse on their own. At the core, the decision-making process can be characterized by an individual’s receptivity to retirement and their perception of the extent to which they feel supported monetarily, psychologically, and socially in transitioning from work to retirement.

The largest proportion of full-time faculty members (37%) expects to retire on time (65-67 years old). However, diverse expectations about the expected timing of retirement are emerging in an uncapped environment. Twenty-five percent expect to retire early (55-64 years old) and 29% expect to retire late (68-74 years old). Smaller percentages expect to retire very early (1% before 55 years of age) and very late (8% 75 years old or older) than on-time, early, or late. The average retirement age for the general population is 63 for men and 62 women, suggesting full-time faculty work longer.

The type of institution employing the faculty member matters. The average expected retirement age is higher for faculty employed in 4-year institutions (67 years old) than for faculty employed in 2-year institutions (65 years old). In 2004, 38% of faculty in 2-year institutions said they expected to retire between 55 and 64 years old compared to 22% of faculty in public
research and 18% of faculty in private research institutions. Researchers have found faculty in research institutions, particularly private research institutions, retire later than faculty in other types of institutions.

After mandatory retirement ages for tenured faculty were eliminated, many institutions developed early retirement incentive programs in an effort to gain more control over when individual faculty members would choose to retire. The availability of these programs has added complexity to the retirement decision-making process. Individuals have to consider the likelihood that an incentive will be offered as they contemplate when they choose to retire. Some will need to be as savvy as they negotiate the terms of their retirement as they were when they negotiated the terms of their employment. Feldman (2003) describes the goals of early retirement incentives as:

1. Getting the right number of older workers to take the incentive;
2. Getting the right individuals to take the incentive;
3. Getting individuals to commit to retire at the right cost to the organization.

More recently, institutions have begun developing formal phased retirement policies. Institutions are either offering these formal phased retirement programs instead of, or as alternatives to, early retirement incentives in the form of lump sum cash buy-outs. In many institutions that have chosen to implement phased retirement policies, phased retirement had been offered on an ad-hoc basis with few rules and many individual deals. The key is to offer flexibility. NSOPF data indicate about one-half of faculty members were willing to consider early retirement and approximately two-thirds of faculty responded that they would elect to draw on their retirement and still continue working at the institution on a part-time basis. Leslie,
Conley, and Janson (2006) offer guidance to those contemplating implementing phased retirement programs:

1. Goals should be grounded firmly in knowledge of faculty demographics.

2. Policies should be explicitly framed and communicated by institutional leaders.

3. Departments should be given the flexibility to accommodate their own needs and those of individual faculty.

Informed policy and practice requires systematically collected data, analysis of local conditions, examining the relationship between institutional characteristics and individual circumstances, and asking individuals about attitudes towards retirement and expected retirement ages.

Whether or not pensions are in crisis, individuals need to be much more aware of their prospects for a comfortable life in retirement. Earlier attention to saving and details regarding retirement planning decisions may make all the difference.
References


