



SOCIETY OF ACTUARIES

**SOA 09 Annual Meeting & Exhibit
October 25-28, 2009**

**Session 11 PD, Working Longer in Retirement - Is
it an Option? (Phased Retirement and Labor
Force Issues)**

Moderator:

Andrew J. Peterson, FSA, EA, FCA, MAAA

Presenters:

**Anne M. Button, FSA, EA, MAAA
Valerie A. Paganelli, FSA, EA, MAAA**

**Working Longer in Retirement
Is it an Option?
(Phased Retirement and Labor-Force Issues)**

2009 Society of Actuaries Annual Meeting – Session 11

Moderator: Andrew Peterson

Presenters: Anne Button and Valerie Paganelli

Date: October 26, 2009

Agenda

Introductions

Current Landscape

Employee Perspective

Employer Perspective

Future Landscape

Concluding Remarks

Introductions

Speaking today:

- Andrew Peterson, Society of Actuaries
- Anne Button, Deloitte Consulting LLP
- Valerie Paganelli, Paganelli Consulting, Inc.

Getting to know you...

Do you work for (or consult with) an organization that currently offers phased retirement?

- No
- Yes, through a formal phased retirement program
- Yes, through informal ad hoc arrangements

Do you think any of the organizations with which you consult are likely to offer some phased retirement option within the next three years?

- Not very likely
- Somewhat likely
- Very likely

What do you hope to learn from this session?

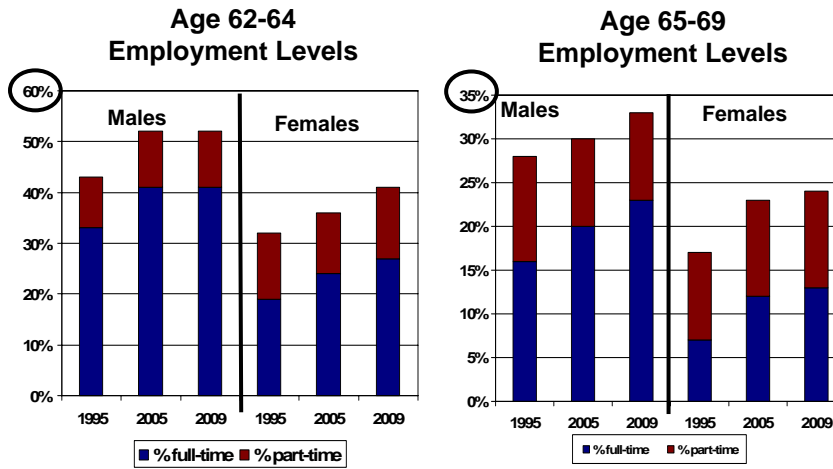
Current Landscape

Current Landscape

Where are we today?

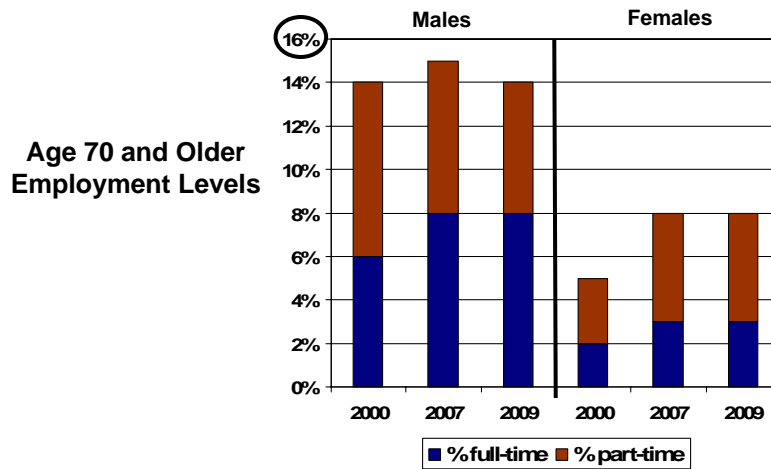
- State of US Workforce
- Phased retirement through qualified defined benefit and defined contribution plans
- Other options

There are More Workers Over Age 60 and We're Working More and We're Holding Steady...



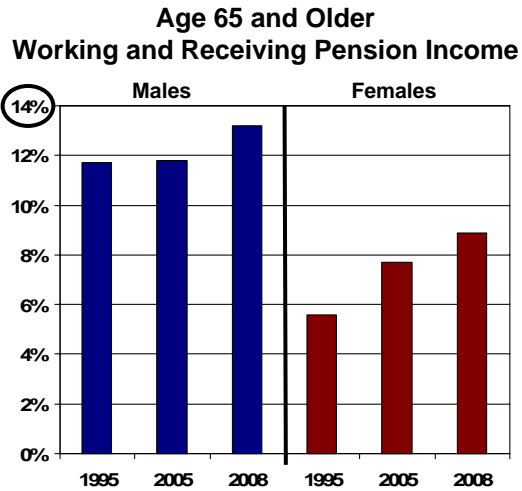
Source: CRS Report for Congress – September, 2009

We're Continuing to Work... Well Beyond Traditional Retirement Ages



Source: CRS Report for Congress – September, 2009

**We're Continuing to Work...
And A Growing Number are Also Receiving Pension Income**



Source: CRS Report for Congress – September, 2009

Current Landscape

- Increasing proportion of workers over age 50
- Life expectancy extended beyond age 80
- Number of workers accumulating pension plan benefits is falling
- Average 401(k) balances deficient
- About 16% employers offer “phased retirement”
- Over 67% of male pensioners over age 60 are also in the workforce
- Employment laws and pension laws strain flexibility

Current Phased Retirees... *Demographic and Industry Profile*

Nearly 24% of workers over 50
phase in some capacity

Over half are under age 60

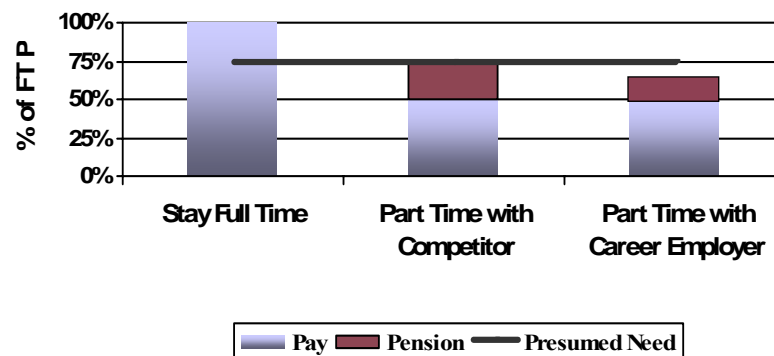
17% are age 65 or older
(proportion expected to increase)

Over 60% are women

Largest numbers in health care, social
assistance, education, manufacturing

Most likely occupations: managers,
teachers, clerical and technical workers

The Pension Economic Gap



PPA and Proposed phased retirement regulations provide some gap relief

Phased Retirement through Qualified Plans

With the 2006 Pension Protection Act, in-service distributions permitted for participant who has attained age 62

- No administrative requirements
- No earlier distribution

While in defined contribution plans such as 401(k) and profit sharing

- Commence in service distributions at age 59 ½

Many think that distribution restrictions at ages 59 ½ and 62 are too late for participants who want to “phase” into retirement via reduced work schedules for an extended period of time...

Phased Retirement through Qualified Plans

In-service distributions and early retirement subsidies

- Incentive to stay versus leave
- Age discrimination issues
- Coordination of distributions with additional accruals
- Coordination with suspension of benefit rules

Phased Retirement through Qualified Plans – Normal Retirement Age (NRA) Regulations

NRA must reference age, not period of service

- Typical retirement age for industry in which covered workforce employed
- Age 62 deemed reasonable
- Facts and circumstances standard for NRA between ages 55 and 62
- Below age 55 presumed unreasonable

Phased Retirement through Qualified Plans and Other Options

Termination/independent contractor

- If actually an independent contractor, no return to service
- Re-classification from employee to contractor
- IRS concern over employment classification

Phased Retirement through Qualified Plans and Other Options

Third party solutions

- Retirees hired by third party
- Bona fide employees of third party?

Retiree pools

- Sporadic, short-term employment of retirees
- Subterfuge for regular part-time employment?

Phased Retirement through Qualified Plans and Other Options

Rehire of Retirees

- Commence distribution upon retirement
- Subsequent rehire may not require cessation of benefit distributions
- Is retirement bona fide?
 - Pre-existing agreement
 - Minimum severance period
- Inherently factual question with significant legal issues

Employee Perspective

What Do We Know About Employees?

- Interested in flexible work arrangements
- Access to healthcare benefits is front-of-mind
- Lacking in over-arching employer messages
- Inconsistent saving patterns
- Expecting to “retire” earlier, later or work indefinitely
- ***Establishing individual portfolios of retirement***
- Job/career/organizational profiles dictate outcome
- Generally confident and/or generally nervous

**Pre-retirees expect to retire later than retirees...
1 in 3 say it “doesn’t apply”**

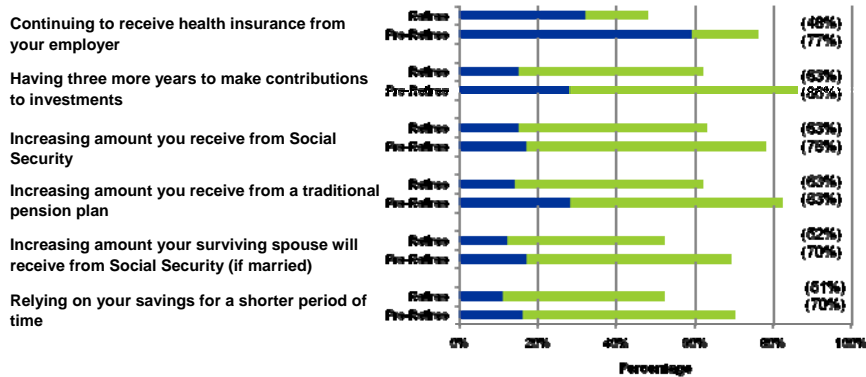
How old were you when you retired or began to retire from your primary occupation?
At what age do you expect to retire from your primary occupation?

Age category	Retirees (%) (n=400)	Pre-retirees (%) (n=387)
Under age 60	51%	9%
60-61	9	8
62 to 64	16	12
65	8	19
66 or older	9	14
Doesn't apply (won't retire)	4	33
Don't know/Refused	2	6

Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey

**Retirees see value in deferring retirement...
*especially when it comes to saving and spending that savings***

How much, if at all, would each of the following have increased your financial security in retirement if you retired three years later?
(Among those providing retirement age from primary occupation)



Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey

Employer Perspective

Employer Perspective

Why would an employer want to offer phased retirement?

- Case study
- Phased retirement vs. layoffs

We Have a Question for You...

What do you think is the most common “target retirement age” inherent at most employers today?

- A. Age 50 or younger
- B. Age 55
- C. Age 60
- D. Age 62
- E. Age 65
- F. Age 67
- G. Age 70 or older

Is Phased Retirement Relevant?

- **Cost pressures** – amidst ongoing workforce reductions
- **Company culture** – may not support it
- **No real or perceived need** – young workforce, lacking in concrete data
- **Strong retirement income adequacy** – no financial need for employees to continue working
- **Retention value hard to measure** – Costs of double dipping, turnover and recruitment intangible
- **U.S. regulatory environment** – Slow to facilitate but showing some momentum

Case Study: Let's Get Real... Sample Age/Service Distribution

Service	0..1	1..4	5..9	10..14	15..19	20..24	25..29	30..34	35..39	40..	Total
Age: Under 25	55	169	-	-	-	-	-	-	-	-	224
26..30	40	471	241	-	-	-	-	-	-	-	752
31..35	40	371	330	61	-	-	-	-	-	-	802
36..40	48	360	341	189	180	2	-	-	-	-	1,120
41..45	57	535	397	189	381	206	19	-	-	-	1,782
46..50	45	420	359	176	292	308	311	46	-	-	1,957
51..55	30	226	241	115	192	184	311	144	10	-	1,453
56..60	19	169	152	78	121	114	197	115	91	6	1,062
61..65	5	71	65	32	36	36	37	18	32	18	350
Over 65	2	15	9	7	7	4	2	-	1	11	58
Total	341	2,805	2,135	847	1,209	854	877	323	135	35	9,560

1032 (11%) in pre-retirement mode

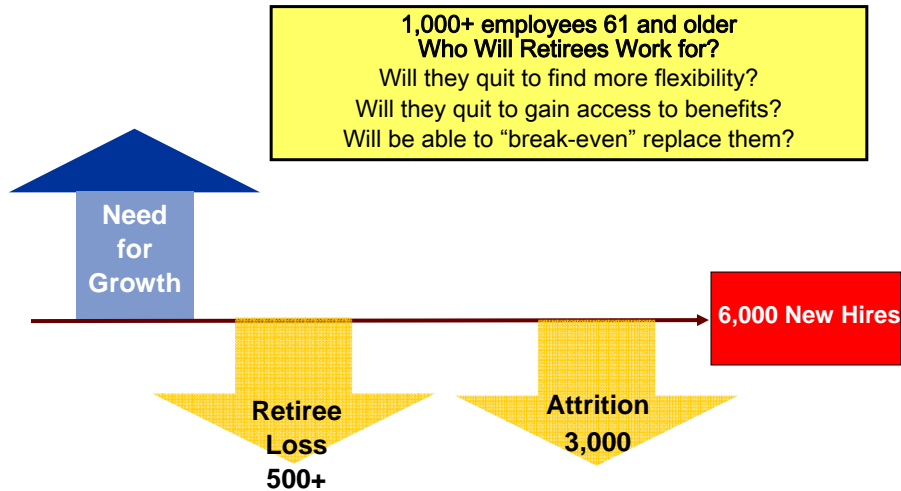
58 are over age 65

1,313 (14%) are age 50 to 65 and 20+ years

Over 30% of new employees are age 46 to 65

50%+ in the "What About Me?" statistic

Case Study: The Challenge – A Three-Year Projection



Case Study: How Can We Direct the Outcome?

Organizational Goal:

Offer, communicate and deliver:

- Flexibility
- “late-career-friendly” culture
- Relevant benefits package

In exchange for:

- Extended working lifetime of up to five years
- Access to expertise that directly supports critical business and knowledge transfer needs

Case Study: What Can We Offer...and To Whom?

Potential flexibility solutions

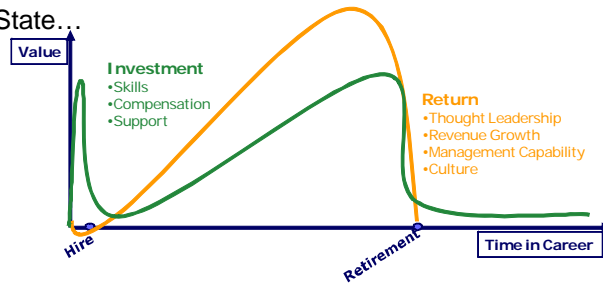
- Compressed/flexible work schedules
- Meaningful periods of unpaid time off
- Part-time with benefits
- Telecommuting
- Interesting assignments
- Reduced/shared responsibility

Retiree benefits options

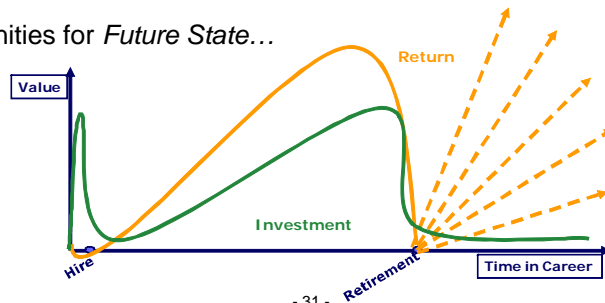
- Offset potential financial loss via health care benefits, deferred comp, pay allowance, retention incentives, long-term care, savings enhancements
- Allow age 62 in-service pension payments
- Amend pension plans to allow continued payments upon rehire
- Contract labor companies

The Economics of Employees

■ Current State...



■ Opportunities for *Future State*...



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Session 11

Defining Customized Phased Retirement

■ **Phased retirement...**

- refers to employment options in which employees stay with the employer in reduced roles (i.e., reduced hours, job sharing).

■ **Traditional Phased Retirement...**

- opportunities are offered on an 'ad hoc' basis rather than utilizing standardized, strategic programs.

■ **Customized Phased Retirement (CPR)...**

- develop formal, customized, strategic processes to **personalizing retirement**, enabling organizations to **retain critical workforce segments** while **reducing retirement program costs**.

CPR provides clients a talent management process that directly achieves scalable cost-reduction savings related to payroll, benefits and global mobility program costs.

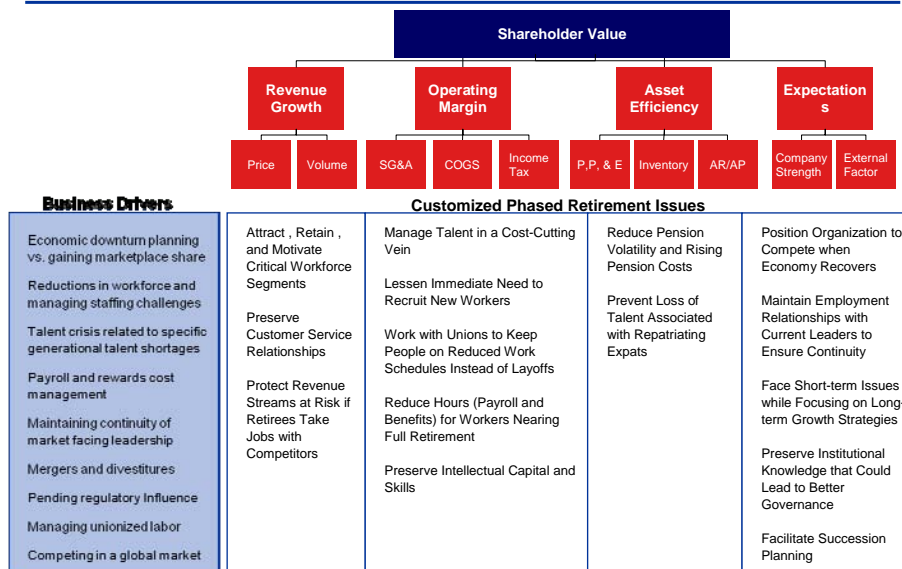
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Session 11

Impact of CPR on Rewards Programs

Rewards Programs	Employer Perspective	Employee Perspective
Compensation	The reduction in payroll increases cash flow for the employer	Some cannot afford to fully retire and appreciate an opportunity to earn part-time income
Retirement	Smaller pension accruals and/or employer match on 401(k)	Access to retirement funds enables phased retirees to supplement part-time income
Medical	Introducing consumer-driven health plans helps control increases in medical spending	Early retirees can continue health care coverage through the employer's program
Paid Time Off (Holidays, Vacation, and Sick)	Payroll decreases because reduced work schedule means fewer days of paid time off	Phased retirees have time for non-work activities and work/life balance
Ancillary Health and Welfare (Dental, Vision, Life Ins, STD, LTD, etc.)	The employer may save money depending on type of coverage	Financial impact to employees may be minimal

Driving Shareholder Value



Impact of CPR on Employer's Cost (Sample)

Comparison of the impact of CPR compared to layoff and the impact on one employee:

	Assumptions
Compensation	\$100,000
Age	55
Service	20
Layoff occurs	7/1

Impact of CPR on Employer's Cost (Sample)

Compensation	% of Pay	Current State	Layoff	CPR w/ 50% employment
		100,000	50,000	50,000
Insurance				
Health	7.10%	9,400	4,700	7,520
Dental	1.00%	1,000	500	500
Life	0.32%	323	161	161
STD	0.32%	323	161	161
LTD	0.16%	161	81	81
Retirement				
DB	6.82%	6,818	3,409	3,409
DC	3.23%	3,226	1,613	1,613
Severance			50,000	
Legally required benefits				
OASDI	6.20%	6,200	6,200	3,100
HI	1.45%	1,450	1,450	725
Federal Unemployment	0.10%	100	50	50
State Unemployment	0.50%	500	250	250
Workers' Compensation	1.70%	1,700	1,700	1,700
Total Cost		131,200	120,275	69,270
Savings				
		Immediate	(10,925)	(61,930)
		Year 1	(131,200)	(61,930)
		Year 2	(131,200)	(61,930)
		Year 3	(131,200)	(61,930)
		Aggregate savings	(404,525)	(247,720)
		Eventual replacement cost	150,000	0
		Total Impact	(254,525)	(247,720)

Future Landscape

Being Proactive Can Be Daunting...

- Establish “ownership” in the organization
- Define urgency and readiness (U&R) via assessment / investigations
- Build ROI business case and establish timeline in concert with U&R
- Develop supporting data metrics
- Educate leadership and stakeholders
- Focus on culture
- Assess limitations
- (Re)-Establish benefits philosophy and offerings
- Elicit relevant employee input
- Understand harsh realities of recruiting...all ages!
- Coordinate with other initiatives, e.g., diversity, relocation, recruiting

Normal Retirement Age Regulations

No other part of phased retirement regulations finalized

- Immediate prospects slim
- Immediate Effective Date
- Plans with early normal retirement age must cease in-service distributions instantly

Pension Protection Act

Notice 2007-8, IRS Request for Comments

- Should in-service distributions include early retirement subsidies?
- If so, how should subsidies be characterized?
- Should IRS continue work on proposed phased retirement regulations?

What Should We Hope For?

- Reality (not concept) for workforce planning
- Replacement for “retirement”
- Enabling environment for various portfolios of retirement
- Four-legged stool embraced
- Fundamental financial education
- Labor shortage debate to unfold
- Recommendations to IRS / Senate Committee on Aging / other governing agencies
- Active participation of employers, employees, government, the actuarial profession, etc.

QUESTIONS?
