RECORD, Volume 27, No. 1*

Dallas Spring Meeting
May 30–June 1, 2001

Session 28PD
Changing Patterns of Retirement Seminar: Phased and Partial Retirement

Track: Pension

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Summary: Oncoming demographic shifts, as well as economic trends, are forcing changes in the way people think about retirement. Many people are postponing retirement, phasing out their current positions, or moving to part-time employment. Others are exploring alternative careers and taking full- or part-time jobs after retirement from current positions. All of these trends have a significant impact on the delivery of retirement benefits through pension plans.

MR. JOHN F. KALNBERG: This is the second of a three-part session. The first part (9PD) included Anna Rappaport and Bob Clark talking about some of the economic conditions that are driving people's decision to retire, how that's affecting plan design, and what we have to look forward to. Kathleen FitzPatrick and I are going to talk more about that and what's happening in benefits. Then, we will lead into more specifics about phased retirement. Few people have admitted to actually having phased retirement, but a lot of people are actually doing something about it.

Ten years ago my mother retired as a nurse and took a bridge job. She had been retired for six months, and after her pension kicked in, she went back to the hospital and got a job working part-time. This is called phased retirement. Today, we're going to talk about phased retirement. We'll talk about bridge jobs and some of the changing demographics. As I think about phased retirement and all the issues that are going on, I go back 10 years, to when Financial Accounting Standard (FAS) 106 came out. When this

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Note: The chart(s) referred to in the text can be found at the end of he manuscript.

happened, everybody was talking about how medical inflation was around 15%, and how it couldn't possibly go on that way forever because then the medical community would own the entire economy, and nobody would make any money. Everybody would always be working to keep people from being sick. That's where we are right now with the baby boomers going through a period of high employment.

You hear right now that many restaurants—fast food chains and department stores are having a lot of trouble finding employees, and that's just going to get worse. There will be more war for talent, especially for trained people. There will also be more demographic changes.

There are two sides. Some people retire earlier, up to a point, and then live longer, which gets you from both ends. Some of this is going to have to change. We can predict some of what is going to happen, but I'm sure 10, 15, or 20 years from now when I become a retiree, some of this will be much different than anything that we're predicting.

MS. KATHLEEN A. FITZPATRICK: Chart 1 shows the aging of the population—the rising number of Americans who are over the age of 85. In 1950 there were only about 600,000 people in the U.S. over 85. By 2000 it was 4.3 million. When those of us who are in the baby boomer group reach 85, there will be more than 17 million people in that age group.

What does this have to do with phased retirement? Clearly, there a couple of things; first of all, think in terms of longevity when you think about how much one will really need for retirement.

Some of the issues that you will address will include elder care. Many of you take care of or have some responsibility for taking care of your parents. In 1950 there were seven workers for every retiree. We always talk about this. By 2030 there are expected to be fewer than three workers for every retiree. Clearly, aging in the social system of the U.S. will have to be addressed too.

Having said that, let's study a little history. One of the things that we always talk about is the comparison of the average retirement age to the life expectancy of the population (Chart 2). Notice the flat line going across is the approximate, average retirement age. It's drawn from some of the social security information, so it tends to be on the high side.

Also notice that the mortality scales for males and females have changed slightly over the last 80 years or so.

I’m going to talk about what went on in each one of these phases, how that has changed, as well as what we expect to see in the future. Look to the 1920s and

1930s and notice a huge increase in improved mortality, significantly so for women. In 1935, when the Social Security Act came into being, the average retirement age was 65. The average retirement age is a bit above the average life expectancy at that point in time (Chart 3).

There is a huge improvement in mortality. I know that penicillin and other antibiotics came into regular usage in those days. While the Depression was coming, which did result in Social Security, employees also tended to work until death. There were very few private plans, and of course, the public plan came in 1935. That's where we were when the Social Security program started in the U.S.

By the time we reached the '40s and '50s, not only did we get "I Love Lucy," but before that we also ended up with World War II. My supposition here is the flatness of the male mortality in the initial years of Social Security, 1940-45, has something to do with World War II (Chart 4).

Interestingly enough, right about 1940, five years after the Social Security program came into being, the female mortality rate actually started to exceed the life expectancy of the average retirement age. This is a curious statistic. Then into the '50s, a couple of things cropped up. Remember, we're still not talking about early retirement. We're talking about being able to retire.

A Labor Relations Act came out in 1951 or 1952. It was with one of the steel companies and resulted in the ability for unions to negotiate retirement benefits. Once that act came into being, there was a huge proliferation of retirement programs. There was also a proliferation of the program as a result of the limit on compensation improvements during World War II.

Between those two events, significant defined benefit (DB) programs were put in place. There were very few defined contribution (DC) profit-sharing plans. Remember, those programs tended to shift off of Social Security. The average retirement age was somewhere around 65. There wasn't much early retirement. The objective of the employer was to provide employees with the opportunity to retire if they stayed with the company for long spans of time. That's the traditional program; that's where it comes from.

In 1956 women were eligible under Social Security to retire at age 62. Originally, the Social Security system was looking to allow spouses of retiring males to retire early. They wanted the spouse to be able to collect benefits too. Typically, women were a few years younger than their spouses. They had originally set up Social Security so that just wives, not working women, would collect early retirement at 62, while their husbands still collected at 65. The working women weren't too pleased. In that same year they allowed all women to retire with Social Security benefits at age 62. Now some of the early retirement provisions come into play.

We saw a proliferation of retirement plans in that period. We continue on to the '60s and '70s, but it was when ERISA came into being. From our perspective, it had a lot of positive implications. In 1961, Social Security was amended to allow men to retire at 62 also (Chart 5). Then Social Security came in, and there was a sense of early retirement. Notice what starts happening with the average retirement age chart. Interestingly enough, while there is some decline, there is a much larger decline in early retirement in the '60s and '70s.

What else went on? ERISA. Medicare came into being in 1965 also, which was clearly a big issue from all perspectives. We can trace retiree medical costs going up right to about that time. Again, in the '60s and '70s, there was still increased protectionism, the typical, traditional DB plan. Many DC plans had not come into play. At this time, those programs started to make noise, and there was some early retirement as unions and employers tried to grapple with earlier retirement ages.

Then came the '80s and '90s. Remember, up until this point people were just gradually going into earlier retirement starting at age 65. In the '80s and '90s employers really started to ramp up on earlier retirement ages. More plans provided benefits at age 55. More early retirement reduction factors were fully subsidized with a lot of negotiations for those types of programs, 30 years and out (Chart 6).

While that did come in the '70s, it was very common in all programs by 1980. An economic downturn was happening. It's amazing how we constantly adjusted our programs to reflect what was going on in the economy. We talked about phased retirement, and the point is well taken. As the economy goes, often, so do plans.

What we see is an economic downturn, more early retirements, more early-out provisions, and letting people go. I'd also say we see the baby boomer population starting to age and get into the work force.

In the 1990s and today, we see a proliferation. The first cash balance plans came into play in the '70s, and 401(k) plans came strongly into play in 1984. What we continue to see in the environment today is a leveling-out of benefits (Chart 7).

We're not trying to encourage early-outs anymore—at least not on the broad scales that we had been using in the last few decades. It naturally shows up not only in the cost of the programs, but also in the average retirement age. You'll notice from the graph that the flat line is flattening out. Where once there were many early retirements, now there is an up-tick in retirement ages.

In 2000, some things were changing. I find it fascinating that the Social Security Act changed again to eliminate the earnings test after age 65. Clearly the government saw that there's a need for continued employment, and maybe several sources of income.

Now we can talk about today and ask: Can we as a society continue to afford paying pensions over extended periods of time? Can we afford to retire at younger ages and live longer spans of time? We have to decide that because we're going to be the people who have to pay for it.

Is systematic encouragement of early retirement consistent with the future work force needs and investments that companies have made in seasoned productive employees? Remember phased retirement is merely a changing of things that have occurred over the last 100 years. The question is: How does it impact us? How does it impact what we'll be doing in the future as actuaries and also as consultants?

MR. KALNBERG: The next thing is to talk about where we are today. The industrial age is over. This is both good news and bad news. Physical strength is no longer a critical attribute. We're into the information age. We're into telecommuting. We're into places where knowledge, education, and experience pay off; experience is the big one, which you can't teach. You have to get experience. I think that's where a lot of the interest in phased retirement is coming in.

These things do not decline with advancing age, and increase as a career progresses. They may require some training or new exposure, but in fact they're going to increase. Intelligence continues late into life, and is more visible when one is more actively engaged. I think there's a lot of opportunity there.

In the '60s, a big thing that helped boost the economy was the fact that so many women were entering the work force. This was another group of untapped workers out there who were going to wind up doing more work as they get older.

The baby boomer stuff is interesting; it's an effect that's not only happening in this country and Canada, but also, to some extent, overseas. There is a big lump going through things, and the baby boomers have always controlled the world, or at least the country. One can turn on the radio today and still hear The Beatles, The Who, and other music from when the baby boomers were in college.

There are a couple of surveys out there since a good part of the baby boomers are planning on working for retirement. The American Association of Retired Persons (AARP) did one. Some people are going to have to work to subsidize their income, but a large part of the population is also planning on trying something new. I see a lot of programs now for people to become teachers in their 50s, as well as a lot more ways to get career people in their 50s to do something else. I think a lot more people will try to tap into that market.

Let's talk a little bit about phased retirement, which gets hard. We talked a little bit about bridge jobs. It's hard to track what the bridge job is and where the phased retirement comes, because everyone is working more jobs than our parents did. We go to more companies. We tend to have more careers. Defining which is the career job gets a little tricky, but in general, phased retirement is where income comes from a combination of salary, pension, savings and social security.

People ease their way out, and are not totally dependent on one way or the other. There tends to be a time between when one works full-time and when one is a full-time retiree. The big thing everybody thinks about a lot is the increase in leisure activity. There is some increase, but what's almost more important is the increase in freedom. People can come and go as they want and it's nice to have a lot more control around one's life. This probably ties in with reduced or different work responsibilities.

As you look at people in our career, and as some of us get closer to looking at phased retirement, people are going to get further from wanting day-to-day client responsibilities. It's a reduction of stress, and day-to-day client responsibilities do not tend to reduce stress. There are some by-products of this for the employers, which means that employers want to retain mature, experienced workers (Chart 8).

Somebody mentioned in the earlier session how it's driving companies crazy that people are retiring so that they can get their benefits, then they go and work at a competitor. It's something that people are doing, just like phased retirement, which is something that's going to happen whether we help it or not and whether we like it or not.

Part of having a more formal phased retirement program is that it helps companies retain the mature workers. It gives employees a sense of mentorship. It gives one a sense of corporate memory and a feeling for why things are done certain ways. As companies are bringing in more and more junior-level people, it's nice to have somebody who can serve as a mentor.

It does mean a change in role, however, and this is one of the more difficult things to do. This is a problem, especially with persons staying in the same company. Spending one's career on a certain track, a person wants to get a promotion, wants to get a raise, and has to work 12 hours to get to phased retirement. Back up, and now there is somebody taking more of a back-office role, somebody who is really mentoring, and not going out to the client meetings as much as before.

It probably requires some additional training, because now the phased retirees will be doing different tasks than they've ever done before. Mentoring is not always something that somebody gets to do just because he or she has worked a long time. There's also training that can encourage that.

There's also a certain amount of training that is just for older workers. As people start getting into their 50s and 60s, they don't tend to get training opportunities at work. The companies look back for their long-term investment, so the older you are, the less recap that they feel they're going to get back.
It almost becomes a self-fulfilling prophecy because there is not as much training for the older workers. In a class where half of the people are 50 years old, and half are 25, the teaching is very different for the two groups. It's not inherently better or worse for either, but it's very different. The younger people are pretty much going to do stuff because you asked them to; they're used to sitting in class, and they're used to taking notes. On the other hand, the older people are going to question you, make sure you have reasons for your statements, and they have a whole different mindset. Extra training is probably going to be required for the people working with phased retirees.

There's a lot more being done now with diversity training and remembering the needs of different groups of people in the work force. The older people are another whole group in which that's going to have to happen. There are going to be issues when somebody 30 years of age is supervising somebody 70 years of age, to work out the special problems of that dynamic. That's going to be a problem on both sides of the fence.

The employees have some different motivation to work. Somebody who's 40, with three kids who are around 10 years old, is working to get the kids through college and to save for retirement. In phased retirement, there are people working whose money that they earn is supplementary; it's not what they're living and dying on. It's to supplement what they have, or, for a lot of people, they're working for the extra stimulation. They're working for the fun of it, which means when it's not fun they aren't going to do it.

Retired workers have a much different motivation. There has to be some time spent worrying about keeping these things interesting. One of the common programs is bringing back people as consultants. Maybe that's a really good thing—bring them back for projects so you can keep the work varied and keep people interested in it.

One also has to worry about increased flexibility, because a lot of people work for the fun of it. I look at what my mother's done with work that she never would have done 20 years ago.

She was a head nurse in the emergency room, and a workaholic. When she started working in a phased retirement job she said, "I want to go visit my sister in Houston. I'm going to take next week off." She went in on a Friday and told her boss that she was taking the following week off. My thoughts were, "What are you, nuts?" She just couldn't understand why that would be a problem for anybody.

Companies are going to demand these kinds of workers. One of the prices of dealing with them is going to be having increased flexibility and having to deal with some of these issues.

An interesting thing is this retirement confidence survey, which is done by the Employee Benefits Research Institute. This is from the 1999 survey (Table 1). There's a 2000 one out there that's similar. Look at the worker column and the retiree column. It strikes me that the worker column is how people think it's going to be, and the retiree column is how it actually is. This is one of the things that's going to lead people to work, especially to supplement income.

Table 1

1999 Retirement Confidence Survey

	Worker	Retiree
Personal Savings	49%	18%
Employer-funded plans	20	30
Social Security	12	39
Employment	11	3
Sale of home or business	5	2
Other Government programs	1	4
Support from children/family	<1	<1

Co-sponsored by the Employee Benefit Research Institute (EBRI) and the American Savings Education Council (ASEC)

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Forty-nine percent of the workers feel like their personal savings is going to be really good to support them, as do 18% of the retirees. There is a great reality check once one has to start dealing with this. The workers may be largely discounting Social Security, but almost 40% of the retirees think it's a significant piece.

MS. ANNA RAPPAPORT: (William M. Mercer Inc.) Is this the percentage of income expected to come from these sources, or the percentage of people expecting it?

MS. FITZPATRICK: It's the percentage of income.

MS. RAPPAPORT: It's the percentage of income that the people expect. Like the first one—they're saying half of their money's going to come from personal savings.

MS. FITZPATRICK: Exactly.

MS. RAPPAPORT: But less than 20% really is going to savings.

MS. FITZPATRICK: That's right.

MR. KALNBERG: It really is a wake-up call, and you go through this the ‘grass is always greener’ mentality. One may think, "Of course I have enough money for retirement. I've been putting money in my 401(k) plan for 30 years," but you have to reevaluate a little bit.

There are going to have to be public policy changes to make this happen. Kathy is going to get into some of the legal constraints, but in general, employers are more willing to structure compensation and jobs to meet the needs of these people and employees.

A lot more flexible benefits are going on right now. No conversation on phased retirement would be complete without quoting the Wyatt study at least once. A Wyatt study of 600 employers showed that 16% are using some form of phased retirement, and a lot more are interested in it or thinking it's going to become more important. I think this ties in with what Anna talked about where these are the people who are out of the closet, calling phased retirement "phased retirement."

There are a whole lot of people who work part-time, who come back as consultants, and who have much more flexible personnel policies, which includes doing phased retirement or having opportunities for phased retirement. They're just not calling it that. I think this is interesting and that you're going to be hearing more about it as time goes on.

Somewhere around 1985 the world did change (Chart 8). There was, especially for men, a very pronounced decrease in the percentage working, and somewhere around 1985, it started to level off. The women's graphs are a lot more level because, at the same time that some of the underlying things were happening, more women went into the work force. There was something counter-balancing it. But you'll see that it has leveled off and people are working longer.

The growth of bridge jobs was interesting. Twenty years ago, at the place that I worked, there was a guy who was doing pre-retirement counseling. One of the big things they used to talk about in pre-retirement counseling was to make sure you plan something to do with your time once you retire, because a lot of people retire, and then realize that there's nothing to do. They're surprised because they've had a vision of all these great things they were always going to do with their life, but they don't happen by themselves. People have to make them happen.

A bridge job is one of the things people are doing with their time (Chart 9). This refers to 10,000 people ages 55–65. Thirty-four percent of the men and 49% of the women are in some kind of bridge job.

This is a study by Joe Quinn of Boston College, in which a career job was defined as one you've had for 10 years. It gets over one of the things that's going to be an issue as people hop around from job to job. People may wonder, “What's a career? When does a bridge job become a bridge job?” It gets a little muddier, but I think it is interesting to see how bridge jobs are becoming a way to ease into retirement.

In our business, there are a whole bunch of actuaries who work for big firms. They retire, hang up a shingle, and help people shop for actuaries. Either they go over to the dark side, or they'll go out and become certified financial planners and open up their own little shop.

I remember a man who was CEO of the firm where I used to work. He retired about 15 years ago and became the enrolled actuary for his country club. He had a country club plan with about 30 participants, and he kept going to the IRS for private letter rulings. This is somebody who used to work on very large plans, and he was doing this for the fun of it.

I think you'll see this a lot in heavily trained professions similar to ours, such as engineering and medicine, where there's still a demand, and experienced knowledge is really helpful.

The lawyer I had for my house closing was a great example. He practiced in New York, but I live in New Jersey. He also lived in New Jersey. He was practicing law on the side so that when he retired, his license in New Jersey was fine, and he could do house closings.

This is a very popular thing among heavily trained people. In the medical profession it's very easy for nurses to do. In education, especially for high school and elementary school teachers, I think it's very easy to do. There's a high demand for trained industries.

Another place people like us will start to fall into is education—when we start getting closer to retirement and money's not quite so important. Maybe part of the allure of teaching for a few years can get all of us who started with an education degree, and then taught for a year, to flip back into it after working as an actuary for 40 years.

Bob Clark talked this morning about universities, where phased retirement has been hugely popular. If you do a search on the Internet on phased retirement, you get something like 5,000 hits. Scroll through the first 10 or 15 pages, and 90% of them are the University of West Virginia, the University of North Carolina, Colorado and New Mexico. They all are talking about the phased retirement program.

Universities have been ahead of much of the world in getting their information on the Internet. They have more information out there and their sites are extremely popular. Universities kind of fall into two classes: public universities, which have certain constraints that a lot of the private businesses don't have, such as having to preserve different benefit levels; and private universities, which are largely DC shops. This was basically designed as a way to help ease out tenured employees.

MS. FITZPATRICK: This is really important. We're talking about phased retirement, yet the majority of the universities that have put it into action have not done so to phase people out. It has been a way to get people out who are older.

MR. KALNBERG: It typically has something to do with going down to the 55–70 age range. I think the one that Bob Clark was talking about at the first session at University of North Carolina was 50 with 20 years of service, or 60 with five years of service, and they go down to teaching one half of a year.

Some of them have a half-year on, a half-year off. Some of them are teaching half of a course load, or some other reduced workload, then are able to draw on some of the benefits.

The session after this one will talk about something that's also very popular in universities—the deferred retirement option programs (DROP), which is when one keeps working, but benefits get paid now. One effectively starts the annuity, but it gets paid to a side fund so when one actually retires, he or she gets this lump sum on the side, too.

In the private sector there are things like Monsanto was talking about, and this is because of regulatory constraints. A lot of times in private plans, there are situations like people have to quit, leave for six months, or stay away for some period of time, then come back working less than 1,000 hours so they don't get in trouble with the suspension rules.

This is a very common private design. Before GTE became Verizon, they had a one-shot program where a retired employee could receive a lump-sum pension, then come back and keep working. This is when it became controversial. A lot of these situations, while we very much look at the demographics or want to allow people to stay on, we talk later about changing plan designs to make them more age-neutral. Things like unreduced early retirement are really popular benefits.

The people who these benefits are getting taken away from, even if they're 10 or 20 years away from receiving them, really want those benefits. There are a lot of public relations kind of issues to worry about. It's going to be a traumatic change, like a lot of the cash balance implementations now.

The original ones were very clean, pure cash balances. Now they're a lot messier with a lot uglier grandfathering, and all kinds of strange related clauses put in. I think that's the change that will evolve.

MR. CHARLES E. CHITTENDEN: (Buck Consultants Inc.) I don't think the real issue for the GTE employees was the $487 million gain because that was just an accounting thing. I think what really happened is that the employees came to realize that when they got paid out for their lump sum, then they started over as a new employee and it accrued again, they got less pension.

This is because the first part was based on the old final average earnings. This was not disclosed to them at the time they made the election, when over 90% of the eligibles took it. It's a situation akin to some cash balance implementations where people are not told the whole story, and when they find out the whole story, after they've made an irrevocable decision, they're not happy about it.

MS. FITZPATRICK: That's a good point. Employees needing all disclosed information is a very valid point and one with which I'm sure that we'll see government becoming more and more involved. I've put the legal regulatory issues that we have in place into three major categories. Many of them can be handled in today's environment, but there are a few issues to which we really don't know the answers.

One of the biggest issues about phased retirement is the idea that one has to wait to receive a distribution until either the date of severance from employment or age 65, which ever comes later. In typical retirement at the age of 65, the definition of termination—complete severance from services, is a big question mark. Of course, companies have worked around that issue. And to say whether they've worked around it really depends on the court you get sued under.

But the idea is that the best way to do phased retirement and allow earlier distribution in today's environment is to change the normal retirement age if you have a traditional DB plan. Luckily, that only costs a few pennies for employers to do. Clearly, cost is an issue, as well as well-thought-out, final average pay.

GTE found that out, very much to their detriment, when they did make those distributions, that the final average earnings that they would have earned in the future no longer counted for all that past service. It's a very interesting issue that employers have to address. It's a cost issue, but it can be addressed.

I personally think, and I'd be interested to know your comments on this, that age discrimination could truly be a bigger issue long-term if there are formal phased retirement programs. Here is the classic case that I like to use. Take an actuarial firm with senior actuaries that you want to keep over the next several years. Say, "Well, if they're the senior people, and we really, really like them, we're going to give them a phased retirement program, an early retirement reduction. Now Jane Doe over there, she's an admin, and we really need admins to be full-time."

Think about it. You have a phased retirement program, and now you get to pick and choose to whom you're going to provide this phased retirement program for. It's a question. I still think it's a question with pooling also. Several companies allow all their employees, once they're retired, to go into a pool, from which the company can draw.

That sounds pretty non-discriminatory to me, but what happens if you're only pooling certain people, who happen to be the most expensive people in the pool? Do you have a discrimination issue?

I talk about phased retirement, and you read the Pomeroy Grassley proposal on phased retirement, which hasn't really gone very far. If we start putting acts in place allowing for a phased retirement program, now is that program subject to ERISA? Is that program going to have age discrimination in it? What is the Equal Employment Opportunity Commission going to suggest that these programs provide? I think we have to really be thoughtful about what the programs will do.

I mentioned the Pomeroy Grassley bill. That particular bill has not gone very far for the reasons that I've just mentioned. What the bill intended to do was change normal retirement to allow for distributions for those who are 59.5 years old or have 30 years of service.

It originally set out there with those provisions to change the normal retirement age. I say they're small issues, but they're still necessary to think about.

We, as actuaries, know that it’s still necessary to meet all of the accrual rule issues. How does this change the plan formula? Just because I changed my normal retirement age doesn't mean I'm not forced to change the rest of my program if it potentially throws me out of compliance with non-discrimination or with the accrual rules issues.

Those are the kinds of things to think about when one starts making these changes. Again, my point is that you can get around them. They're not huge issues. The Age Discrimination in Employment Act of 1967 (ADEA) might be the bigger unknown in the whole environment.

The last major legal consideration I will reference is health-care coverage continuation. Certainly regarding the issue with health-care continuation, often times employers say that once you go down to part-time status, you're no longer eligible for retiree medical or that you may not be entitled to active coverage.

There is a concern that you have to make sure your plans are in sync. Of course the elimination of post-retirement medical programs may take that particular issue away, but it doesn't mean it's really gone away. Health-care coverage, when I talk about ADEA and the issues with the Erie County decision, can make one think again about how much involvement one will have.

How many problems will we have when we start providing phased retirement? ADEA clearly says that retirees are covered under it as well as active employees. I think it just points out the concerns that continue to be out there in the legal environment. Does anyone else have issues? Do they see issues with the legal and regulatory environment?

MR. JOSHUA DAVID BANK: (Deloitte & Touche LLP) Is a severance of employment relationship a pre-condition for it to be called a phased retirement program? Also, are there formal plan documents or is this just a concept?

MS. FITZPATRICK: That's a good question. The first answer, under the Pomeroy Grassley Act, the idea of severance from service is not part of the definition of being eligible for a phased retirement. But, specifically, they're not answering it. Remember, it's just a bill out there, that says if you go into this program at age 59-1/2, there may be certain hours or restrictions. You would be able to collect pensions at the same time you are an active employee working and collecting a check. It doesn't define phased retirement plan. Your point is exactly why I think there's not a huge push on some of these bills.

MR. KALNBERG: In addition, I think one of the reasons that legislation was even put out there is that right now, if people want to do a phased retirement, they take some arbitrary severance from employment just to get around some of the other rules. I think part of what they were trying to do with that act is prevent people from having to spend their career at one company, quit and go work part-time for the competitor.

MS. RAPPAPORT: If you think about retail and nursing as two examples of fields where people have traditionally worked on all sorts of schedules, their employees have probably been doing phased retirement for years, but they don't really think about it that way. I remember years ago asking somebody in a health care institution if nurses scale down their schedules before they retire, and they said, "Oh, yes."

Now, if I'd asked that person if they had phased retirement, they would have said, "What are you talking about?" I think that there are many environments where people build their own changes in work schedules, but we don't think about those as phased retirement.

I'll also point out that some people say, "If you don't pay people partial benefits, they would never scale down their work schedules." I think that entirely depends. In many cases they would.

MS. FITZPATRICK: I still think it's an interesting question about the phased retirement program, and with all the materials out there, if you read the Pomeroy Grassley provisions, you'll see that it really does leave a big black hole out there that the IRS will be more than happy to fill.

We keep bringing back that issue of final average earnings, because it is huge, at least from an employee's perspective. If one does start collecting benefits early, one could potentially lose the final average pay benefits. We all know about the excise tax issues—distributions prior to age 59-1/2—even from a 401(k) plan while you're active, would be subject to the excise tax.

I will point out there are some requests by AARP or one of the groups who want COBRA to continue through Medicare eligibility. I think that would be an interesting provision to bring in.

Now I will talk about plan design implications. Earlier I said we've had a history of having no retirement age, bringing in programs, then starting at an early retirement age. I submit to you that we have already started toward not only phased retirement but the elimination of early retirement provisions. I believe that started in the '80s when DC plans started to come into fruition.

Yes, we did have DB plans with early retirement provisions. We just started seeing the implications of moving away from the DB arena where the majority of the programs are earned in the last few years of one's work life.

The design implications under traditional plans where the programs include inherently older workers. The cost for older workers is much more heavily weighted than for younger employees, while there is back-loading, having the majority of benefits earned in the last five years of one's working career, this design will no longer work very well in the phased environment program.

In fact, there will be a lot of age-neutral types of programs such as the cash balance (CB) plan, the 401(k) plan, the 403(b) plan, etc. Moving to age-neutral benefit programs, one is actually moving to and easing, in a sense, into phased retirement. This lets employees choose rather than being encouraged one way or the other.

I find it fascinating. While we're moving towards age neutrality in our retirement programs, I think we are actually moving toward retaining people at older and older ages as we eliminate post-retirement medical benefits for employees who want to retire before Medicare eligibility. That's why I say the COBRA provision is interesting. Employers are beginning to move away from the thought that they should provide medical costs.

We put training and re-training needs here just because phased retirement plans could potentially require a significant amount of retraining. One of the approaches is to have a CB plan. We all know why cash-balance plans are at the forefront. They certainly tend to be more age neutral. Their intention is not to provide incentive for early retirement.

Think about it. Going to CB programs, what have you done? In a sense, you are trying to eliminate a "normal" retirement age. We already see the answers to some of the legal issues coming through. This doesn't mean that they don't bring their own legal questions back. The idea of equal pay for equal work of course goes to benefits.

If you think about it, benefits are part of total compensation. Why should an older person get so much more than a younger person? Because you can receive benefits in lump sums, this allows for more flexibility for employees to continue to work.

What does this mean? I keep going through this phased retirement, and have been lucky enough to hear quite a bit of discussion on it. I keep trying to think, "How do I apply it to my clients? What do I do for my clients? How do I use what I know and say what's of interest to them?"

Every time I bring up the topic I get almost no interest from my clients. Have any of you experienced the same thing? How many of you have brought up the issue to your clients of some form of phased retirement? For those of you who have brought it up, has there been much interest?

FROM THE FLOOR: Yes.

MS. FITZPATRICK: In which types of industries did you see the most interest? Or is there a type?

FROM THE FLOOR: Utilities and the public environment.

MS. FITZPATRICK: The average age of the U.S. work force is currently slightly under 40, and the percentage of those workers is currently over 12%. I used some of my clients for whom I had this particular data. This is more of my own representation to clients about how they might be interested in phased retirement.

Chart 10 includes a graph of the U.S. work force population. Notice the spike in the U.S. work force somewhere around the 35-39 age group. I've picked three companies, and have defined them as transportation, utilities, and health care. I think you'll find utilities very interesting in terms of their retirement.

There is a very soft employment statistic for younger employees. A whole slew of people just strung out about 40-45. When you get to age 55, what happens in utilities is employees get very heavily subsidized early retirement provisions, so they take advantage of them, and then they leave.

Interestingly enough, while we have gone to utilities and talked about these issues, we have yet to see them interested in them. Right now they are more interested in things like deregulation and maybe acquiring other utilities, so they are really not focusing on the fact that their populations are aging rapidly.

Though we have seen this in the utilities, it's just as interesting to note that the transportation industry was even more heavily weighted towards retirement. Again, when we've brought this up to a particular transportation company, they did not necessarily see this as a negative. It's fascinating. It's just not on the forefront of their issues right now, but I think it will be in the next few years.

The one industry's response I wasn't sure of was health care. This is a marketplace with a nursing shortage, and this particular company has been hit by the nursing shortage. When we went back to analyze the statistics, we could not break out part-timers from full-timers in this statistic. We believed that if we tried to do that we would find a vastly different grid here. But it would certainly seem to imply that health care is much younger than the other industries, at least in terms of their work force.

As actuaries, we have to make sure clients are aware of how they look to either others in their industries, others in a geographic location, or within the U.S. work force. We get them to start thinking about it, which, for some clients, might be as far as we can get right now. It's one way of trying to graphically see if employers are more interested.

We should also look for plan formulas that encourage early retirement in industries with older populations. Clearly, you could take the statistics to show how one population compares to that of the U.S., then look at the formulas to see if it continues to encourage it.

One can move away from it by looking for employers with significant shortages in their industry. Nursing is certainly the hottest topic that I've heard about.

Where are we going? In today's marketplace, we still see some downsizing—continued implementation, believe it or not, of early retirement windows, even with utilities. We see shortages in the work force. There is a larger population of healthy and wealthier employees and an average retirement age of 64 that is increasing (albeit, very slowly) right now.

Having said all this, we cannot overlook the fact that there are outside influences. What are they? Something about the world hates a hole, and you have to fill in that hole. We have to remember that immigration, globalization, and training will have a significant impact on where we'll be in the future. If the U.S. does have a shortage of labor, I don't think the world is going to come to a sudden halt. Several things are going to occur. I think the immigration issue is clearly one of them.

California clearly has had huge increases in the immigrant population. Through North American Free Trade Agreement (NAFTA), we see quite a bit of work. Those of us in Texas feel some of this more than those in other parts of the country, but we do see work flowing outside of the U.S. to labor forces that are not only cheaper but also younger.

There's a huge issue with training. From the younger work force and younger employees, there is some sense that more training is needed and that educational needs are not being met strongly enough. This will cause some issues in the future, regardless of what we do with the aging of the population.

MR. KALNBERG: One of the last things that I want to talk about gets back to the baby boomers again—this AARP study. The study breaks up the baby boomers into a few different categories because we're not one big homogeneous group. It's interesting to look at the different categories of people and where they're going to wind up—the strugglers, the anxious, the enthusiasts, the self-reliants, and today's traditionalists.

This is a personal observation from being in the middle of the baby boom, as I've seen that there were plenty of schools by the time I had to go to school. There were plenty of seats in colleges by the time I had to go to college. Then three jobs came through. It was a little hard to find them, but there were plenty of jobs. Then I got married. When I had kids there was virtually no day care. Three years later day care centers started popping up all over the place.

I'm just far enough behind the curve, but a lot of this is just working it out as it goes along. Right now I have kids who are just beginning high school, and I figure college will take care of itself because a whole lot of other people are suffering through it right now. Now I just have to worry about paying for college when I retire.

One of the things that we haven't talked about—one of the really basic economic concepts that I've read and I've heard people say at these meetings—is really simple. It's something that you have to remember going through. We can have all kinds of money saved, but 30 years from now, someone has to make the loaf of bread we're going to eat and the money is not going to do us any good. We need people out there behind us to work, and that's part of what's going to have to make this whole thing change.

Look at the groups a little bit. The strugglers are nine percent of the total, and these are the baby boomers who are not as well educated and are single parent households. They're not putting away extra money for savings. They're not satisfied with what they've put away. They're living from hand-to-mouth. They find it hard to pay for what they've got to do today, let alone even think about putting any money away to pay for when they retire.

This group tends to have a very pessimistic view of the world. These are definitely people who are going to be doing some bridge jobs or phased retirement. They have no real view of ever being able to totally get out of working. As time goes on, these are probably the people who are also going to have a lot more social dependency. These are the people who are not going to have post-retirement medical insurance. They're not going to have the money to buy their own insurance.

The anxious 23% aren't particularly optimistic either. They're not putting away enough money. They're the second lowest on the economic ladder of the groups we're talking about. It's interesting because one of the big things that they're worried about is the health care coverage during retirement. Even though it's subtle, people do pick up on that, so they're very concerned about it. These are people who feel that they're going to be working in some way or another as time goes on.

The enthusiasts are the people who think, "I can't wait to retire. Things are going to go great. I'm going to go to Florida, to do the whole snowbird thing—Florida in the winter, go north in the summer, and have a ball." It's interesting that this is only 13% of the total. These are the people who just can't wait to retire.

Then there are the self-reliants, the largest group of the lot. They're probably the most stereotypical, as baby boomers have always been known as being very self-reliant, the 'go-their-own-way' people. They save in all kinds of vehicles. These are the people who keep e-trade busy. They're satisfied with what they're putting away. These are the people who are going to work for the fun of it.

Right now we're up to about 60% of the people planning on working after they retire. Then there are today's traditionalists, who comprise another 25%. These folks plan to work during retirement, but they're confident that Social Security will still be available. They're confident that Medicare is still going to be there. They will work for the fun and the reward, and a little for the money.

When the baby boomers go from somewhere between their early 40s to mid-50s, this group is entering the high-savings ages. They're entering the ages in which they're really starting to think about retirement. You can see that most of the people going into it are expecting to have to work one way or another. I think it's going to be prime for people to be able to keep doing this.

MS. FITZPATRICK: We want to remind you all about what happens during your career. If you are 55, in a planning mode, you're saving, and probably putting kids through school. You get to 62, and hopefully you can modify your work schedule into phased retirement, so you can explore outside interests.

By the time you get to age 70 though, you're really in full retirement, hopefully. But health problems start increasing around age 70, and you have more interest in non-work activities. It might be something like volunteer work. You go through phases in your own life where you have to think about what you will be doing now and in the future, as well as how you'll save for it. Phased retirement is certainly one of the parts.

Our conclusion is that we do not believe that the current retirement trends are sustainable. In fact, I think that the indicators show it's moving back up, and we will see that continue. Changes are coming to the work force. As I said, it could be coming in many different ways, not only phased retirement. That is only one of many answers.

Some of the globalization and immigration will also result in changing demographics of the U.S. in many ways. However, we do need creative solutions, and we need to think about how we continue to be as strong as we are today.

MR. DOUGLAS W. ANDREWS: I'm with Aon Consulting in Toronto. The Canadian government has rejected the notion that the normal age for Social Security should be pushed forward, thus keeping it at 65. How is that going to affect the patterns that you've been seeing towards having earlier normal retirement ages? Will it start going in the other direction? Also, what will that do for phased retirement?

MS. FITZPATRICK: That's a good question. First of all, while we have accepted the notion that later retirements are something that we need to be doing, if you think about it, you haven't actually seen it particularly applied yet. We haven't seen it coming into the work force. We see the normal retirement age starting to flatten out and go up, yet we have not really felt that change directly.

I do think, as you indicated, that is going to cause people to retire later. My personal view on it, though, is that as people get rid of post-retirement medical, the Medicare coverage at 65 will have a huge impact or a larger and larger impact as we continue on. I think it would be interesting to know if Medicare potentially goes up in age?

That's one of the questions, I think, that is almost as important as what happens to the cash payments from Social Security. With regard to the cash payment from Social Security I will also point out that many Americans do not believe it will be there for them when they retire. There's this mental picture that it's not as big an issue.

MR. KALNBERG: Yes, and one of the other things that I've read, besides going to age 67, is encouraging people to stay on longer. You can still get benefits at age 62. There's also an issue that now you'll get a 30% reduction instead of a 20% reduction, and I have read about some concern with the benefit adequacy of the people who insist on going at age 62 because they're getting that much less.

MR. ROBERT L. BROWN: (University of Waterloo) I want to provide some more Canadian content. To follow up on the previous comment, when the Canadian government went through the reform of Social Security, it did a lot of polling. One of the questions asked was, "Should we raise the normal retirement age of Canada/Quebec pension plans?"

Believe it or not, Canadians resoundingly said "No," but they never had a question that asked, "Would you rather pay ten percent contribution and retire at 65 or a nine percent contribution and retire at 68?" First, DB plans still exist in Canada. Something like 88% of the workers who are in pension plans are in DB pension plans. I'm in one.

Employee contributions are also very common in Canada, and in my plan I make a 6.5% employee contribution, that in theory, my employer matches. When I'm young the employer doesn't pay nearly that much. When I'm old they pay a whole lot more than that. But on aggregate it's a matching formula, given actuarial assumptions, and if there's a surplus in the fund, we go on a pension contribution holiday, partial or full.

Now, if I sign a form saying I will retire in the next five years, I can go on half-time for half pay, but I can accrue a full pension, and make my 6.5% contribution on my full previous income; and my employer in the aggregate, in theory, matches it. Of course, now that I'm older they're paying a whole lot more. I see that as a real benefit, even if I don't fully comprehend it.

For those of you who wrote the exams prior to the year 2000, you'll remember the Canada/Quebec pension plans. One of the things that makes the Quebec pension plan different is they have a very similar provision now. If you have a signed partial retirement, a transition retirement contract with your employer that takes you below the year's maximum pensionable earnings in Social Security, you can actually contribute on your previous income and get benefits on your previous income within the Quebec pension plan.

The Quebec pension plan hardly cares because they're getting the same old contribution for the same old benefit, but it makes the employee feel a whole lot better about their income security post-retirement. These are some interesting ways that you might be able to keep DB and get around some of the problems that appear to be insurmountable but may not be.

MS. FITZPATRICK: You interview people in the U.S. and ask them what they think the probability is that they will have Social Security. It's not a particularly high percentage. Would you say if you asked that same question in Canada that the answers would be much more positive?

MR. BROWN: No. Even with reform young people do not believe they will get Social Security. But I would suggest to you that it's a very excellent system, because Social Security will be there when we retire, but because no one believes it, everyone saves for retirement as if it won't be. That's a perfect system to have.

MS. FITZPATRICK: Point well taken.

FROM THE FLOOR: You talked a little bit about age-neutral designs, and it seems if you move to an age-neutral design in your pension plan, phased retirement is not nearly as important. I'd like you to stress a bit more about what legislative or other changes you think companies that don't have age-neutral designs could do to encourage phased retirement. They're the ones who want phased retirement. What can they do?

MR. KALNBERG: Short-term is the way we think right now. That's where people are being pushed out to leave, severing employment, getting their benefits and coming back.

MS. FITZPATRICK: Are you asking what legislation is out there, what legislation they can encourage, or what they can do?

FROM THE FLOOR: All of these things. What can they do or what would you say is good legislation?

MS. FITZPATRICK: There are several things, and Anna's going to talk about them. I think what you're talking about is taking part-time compensation and annualizing it for the purposes of calculating the benefits. One of the big issues is the potential reduction in the benefits, which employees worry about. One of the issues people claim exists in the current way of traditional final average pay benefits is that if they work less hours, the earnings get reduced, which decreases their benefits.

FROM THE FLOOR: Their final average pay is not reduced.

MS. FITZPATRICK: It could eventually be. One of the things that could be done to answer that is to annualize pay. That's just one of the answers. You can change the normal retirement age so that to commence receipt of benefits, you can change the normal retirement age to an earlier age, when you could commence pay-out of benefits.

I think one doesn't want to go much beyond age 59.5 though, because there are excise tax issues. The other problem is it tends to be costly. As long as you satisfy accrual rules and non-discrimination issues, you can take the benefits and do quite a few things with them.

MR. KALNBERG: I think with doing this, though, you are introducing a little bit of schizophrenia into the way your plans are designed. On the one side you have a benefit formula that encourages people to leave, and on the other side you're moving things around so that they don't. I think you're going to wind up without amending the plan to do something about the subsidies. You're going to wind up creating something that's really complex and difficult to administer.

MS. FITZPATRICK: You can also subsidize the early retirement provisions.

MR. A. HAEWORTH ROBERTSON: (Retirement Policy Trust Inst.) You had some charts to start out with that showed retirement age and life expectancy. I want to clarify one or two things. If you go to 1960, and show a value for life expectancy, does that mean the life expectancy from birth of people born in 1960?

MS. FITZPATRICK: Yes, those were from birth. Just to make sure, if you look at the life expectancy table for somebody born in 1960, that was it.

MR. ROBERTSON: But then also for 1960 you would show the average retirement age.

MS. FITZPATRICK: Yes.

MR. ROBERTSON: And that's for people retiring in 1960.

MS. FITZPATRICK: That's right.

MR. ROBERTSON: Then I would say there's no correlation that I can think of between life expectancy measured from birth in a certain calendar year to the average age at retirement in that year. This is meaningless to me.

MS. FITZPATRICK: I did think about showing it a few different ways. One of the ways was looking at each one of those years. What is the average number of years from retirement on?, which is an interesting way of showing it. I came back this way only from the perspective of the work force issues. If you'd say life expectancy, who's in the work force supporting the group? But you're right. There is a disconnect.

MR. ROBERTSON: I think in doing it the latter way, the remaining life expectancy from age 60 or 65 would have been much more meaningful, especially when you go to the early years such as 1920 and 1930, when we show tremendous increases in life expectancy. Now that wasn't really because people were living longer. That's because babies weren't dying as often.

MS. FITZPATRICK: Exactly.

MR. ROBERTSON: Any statement you make comparing those two sets of lines does not seem meaningful.

MS. FITZPATRICK: I don’t think they're as meaningful as they could be. We're trying to show some comparison. I gave a lot of thought to both ways, and your point is well taken.

Chart 1

Demographic Changes
Population Aging - Change Graph

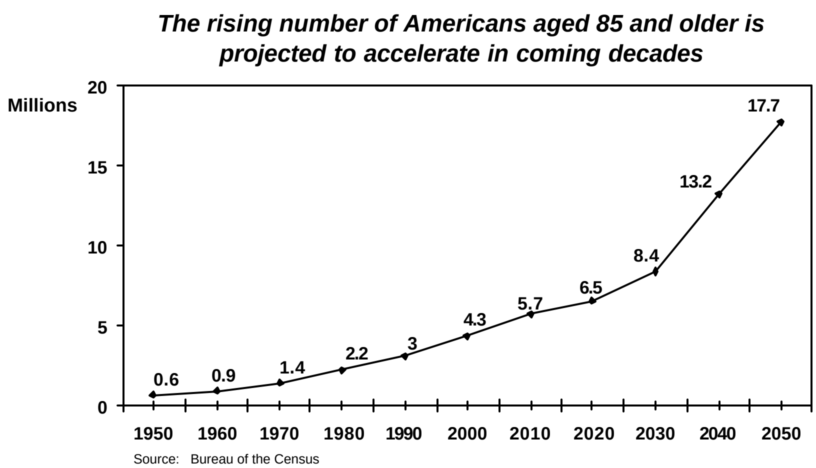

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Chart 2

Retirement Age and Life Expectancy - 1920 - 2000

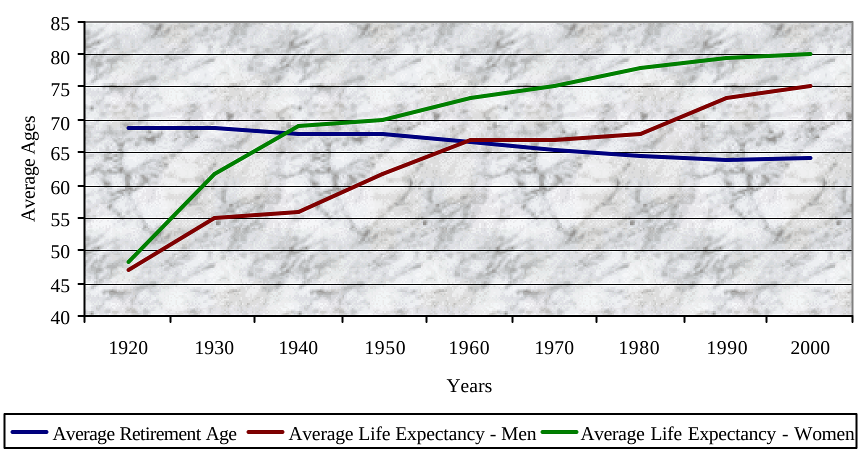

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Chart 3

1920 - 1930

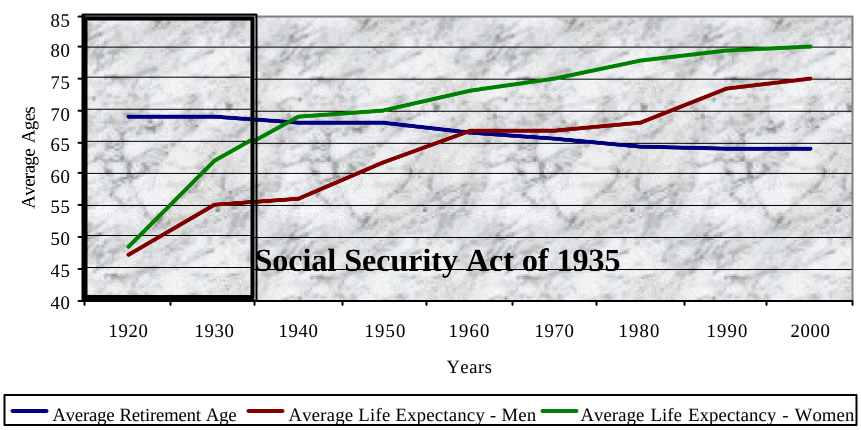

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Chart 4

1940 - 1950

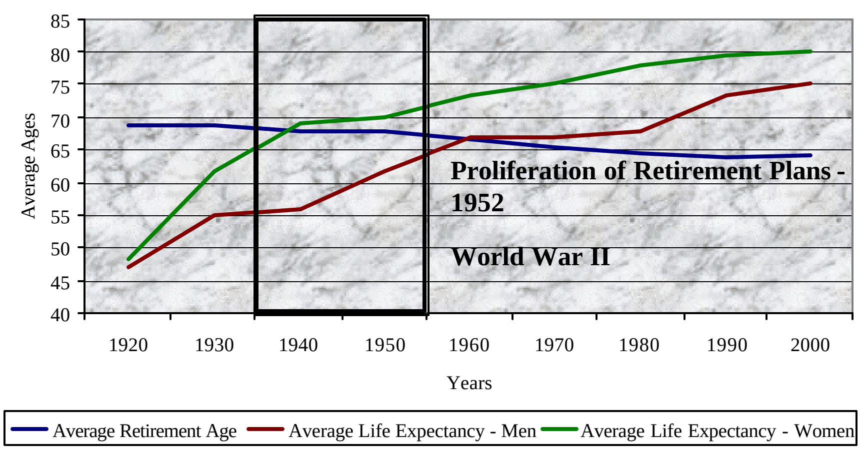

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Chart 5

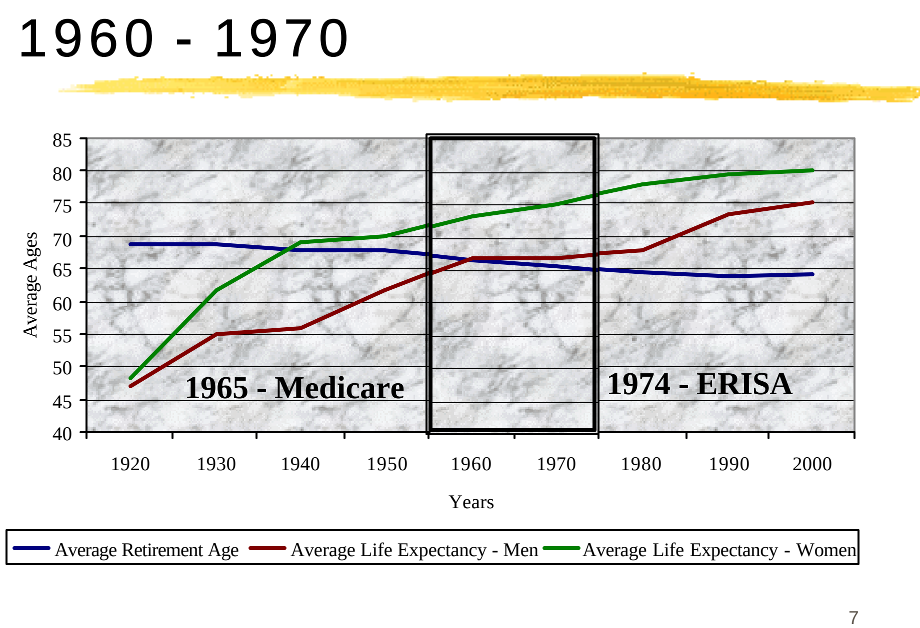

Chart 6

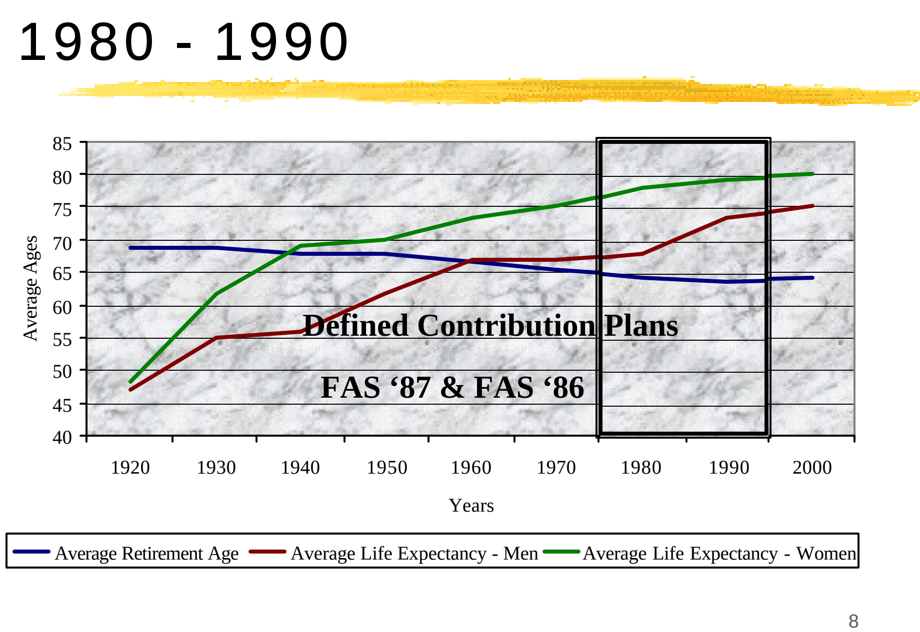

Chart 7

2000

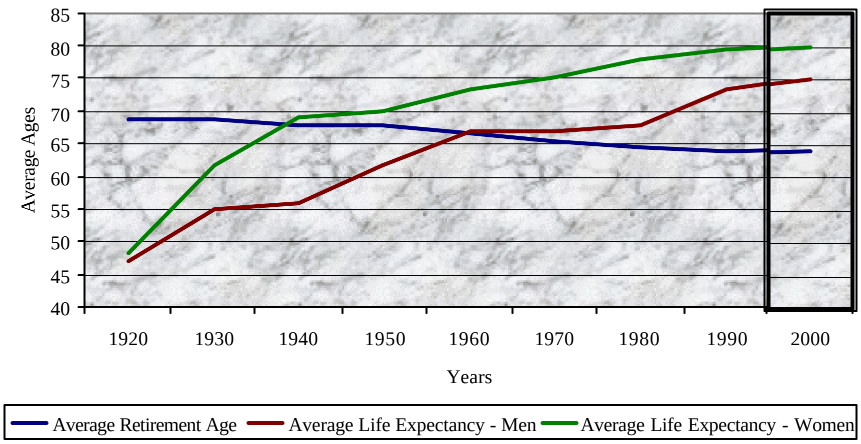

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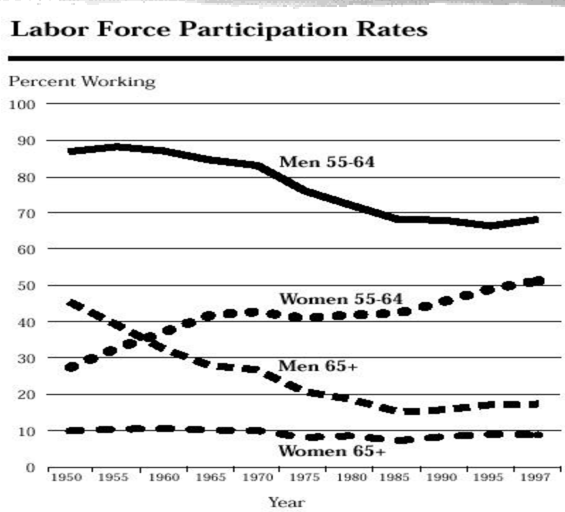
Chart 8

Changing Retirement Patterns
Working After Retirement



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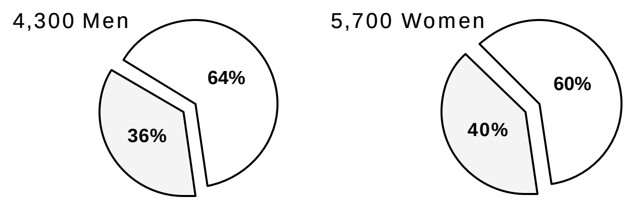
Source Bureau of Labor Statistics 1998

Chart 9

Changing Retirement Patterns
Growth of Bridge Jobs

A 1996 study of 10,000 "career workers" aged 55-65 shows a high incidence of bridge jobs



	Not working	Still working	Not working	Still working
	Last job held	*Current job*	*Last job held*	*Current job*
Full-time career job	25%	41%	17%	34%
Bridge job	11%	23%	23%	26%

Source: J.F. Quinn, Boston College, 2000

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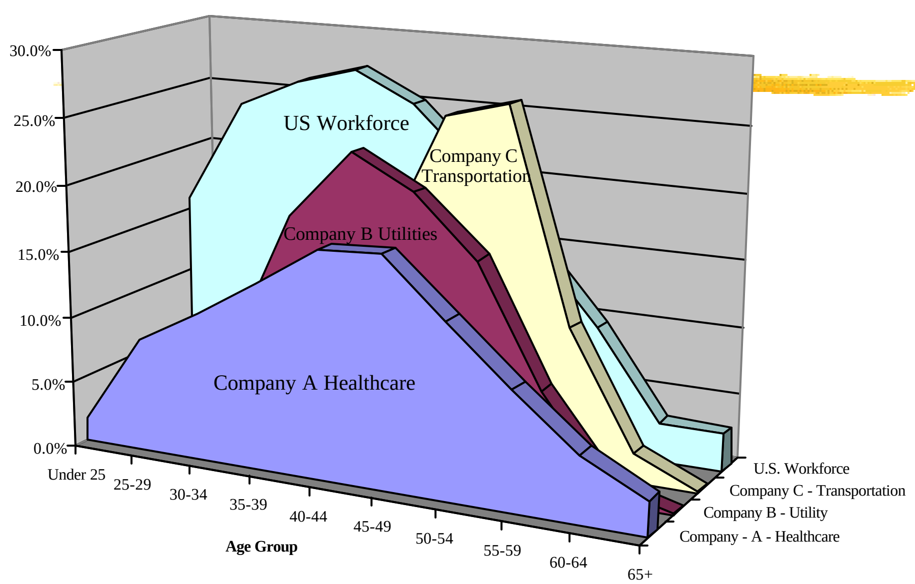
Chart 10

Workforce Distributions by Age



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