RECORD, Volume 27, No. 3*

New Orleans Annual Meeting
October 21–24, 2001

Session 62PD
Changing Patterns of Retirement

Track: Retirement Systems Practice Area/General

Moderator: ANNA M. RAPPAPORT
Panelists: LOIDA RODIS ABRAHAM
RONALD GEBHARDTSBAUER
MARK J. WARSHAWSKY†

Summary: In the U.S., many people are leaving the labor force in stages. Rather than exiting after a long-term full-time job into complete retirement, they are taking additional or bridge jobs, working after retirement, or gradually scaling down their schedules. This session reviews current trends in patterns of retirement and provides an update on legislation to facilitate phased retirement. The implications of these changes for retirement benefit programs, life insurance, annuities, and health insurance are also discussed. The panel includes representatives from different practice areas within the actuarial profession.

MS. LOIDA RODIS ABRAHAM: Currently I'm the Long-Term Care Insurance Section chairperson.

MR. RONALD GEBHARDTSBAUER: I currently work for the American Academy of Actuaries and work with people in Washington, D.C. to help them understand the actuarial point of view on pension issues. Prior, I was the chief actuary of a government agency called the Pension Benefit Guarantee Corporation (PBGC) and I worked as a consulting actuary in the private sector.

MR. MARK J. WARSHAWSKY: I'm a non-actuary and am currently a visiting researcher at the National Bureau of Economic Research. Prior to that, I was Director of Research at the TIAA-CREF Institute.

†Mr. Mark J. Warshawsky, not a member of the sponsoring organizations, is visiting researcher at the National Bureau of Economic Research in New York, New York.

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

MS. ANNA M. RAPPAPORT: To start off, we'll have just a brief run-through on some of the issues defining changing patterns of retirement. We're going to talk about understanding retirement trends, a survey on employer human resources priorities, another survey on phased retirement, and then we will focus on how financial products and employee benefit plans might respond to the changing retirement patterns in the world today.

The three big-picture background issues are competition for talent, demographic changes, and changing retirement patterns. Data on the competition for talent is based on a 1999 Mercer survey (Chart 1). While things have changed some with the economic environment, these issues are still very much alive.

The responding employers (93 percent) told us that their top human resources priority was controlling the level of cost. If we were doing this today, it might be 98 percent or something like that. However, 92 percent of employers surveyed felt that attracting new talent was a critical issue. I think that would be reduced somewhat today, yet attracting the key bright new talent continues to be a high priority and we anticipate that it will continue to be a high priority going forward, particularly in highly skilled jobs.

One of the things we want to think about with regard to population aging is that people are living longer, and life expectancy continues to increase. The frail elderly are increasing in number. They are not necessarily a higher percentage of the elderly. In fact, as life expectancies increase, the period of healthy aging is going up in parallel.

Lower savings rates in the United States is a big issue. Elderly couples are a lot better off than individuals. About five percent of elderly couples are in poverty. However, among widows and divorced women, poverty rates are closer to 20 percent. More older men and women are working. We're going to look at that right now.

People are staying in the workforce longer. This data is from material that was presented by Joe Quinn. Joe Quinn is a leading researcher at Boston College and an economist who has long studied retirement patterns. His paper, "Retirement Trends and Patterns Among Older American Workers," was presented at the Retirement 2000 symposium in Washington, D.C., February 23-24, 2000. He says that the causes of changing retirement patterns in the U.S. are two-thirds structural and one-third cyclical, or related to the economy.

Some of the structural changes he points to include: the Social Security system is more age-neutral; pension plans have moved to designs that are more age neutral; the end of mandatory retirement; and fewer physically demanding jobs. We expect this to continue and we expect that people will want to work longer.

If we think about retirement incentives and what’s happening with retirement, we can think about this from two perspectives. The employee will look for the best economic result. So if there is a plan that strongly encourages people to retire at 62, they’ll probably retire at 62. Or if there is a plan that strongly encourages people to retire at 55, they’ll retire at 55; they’ll then go out and get another job after they’ve retired while they take that benefit.

Health and family needs are also very important. People make retirement decisions based on their own health, the health of their spouse, and the needs of their parents. People also have a desire to stay involved and have meaningful activities, which influences what they do. Employers are thinking about talent needs, and they have broad talent needs for many types of people. There are specific issues relating to specific skills. They’re also thinking about the cost of different types of workers and the increasing benefit costs among all workers. There’s an article in a new *Social Security Bulletin* based on a research paper done last year by the Society's Committee on Social Security on benefit costs by age. I recommend that to you as well.

Perceptions also drive actions by employers. Sometimes perceptions are as powerful a driver as factual research. Companies vary. Some make local decisions on employment. Sometimes overall company policy drives decision making, but other times decision making is very distributed.

If we think about trends from the employee’s point of view, a lot of people retire and take a bridge job. For example, I retire, get my money, and go get a job elsewhere. That’s okay for me, but if my employer wants that talent, it might be a problem for the company. I've spoken to people that don't want to lose skilled people to their competitors. It's a big concern. Bridge jobs are generally not at a career company. Some people choose to be self-employed or set up their own businesses and sometimes self-employed means they become contractors for their prior employer.

Employers have reduced early retirement subsidies in defined benefit (DB) plans and shifted to defined contribution (DC) and cash balance (CB) plans, which are more age neutral. This allows more flexibility for individual work schedules and is not a barrier to formal phased retirement. We have seen many companies rehire retirees. They generally don't go back to their same job full-time, but they're doing projects and working part-time on a different basis. This is sometimes a formal program, but often it is not part of a formal program.

People who work after retirement cite different reasons for doing so. Chart 2 is data from the Retirement Confidence survey, an annual study done by Matt Greenwald for the Employee Benefit Research Institute. Why do people work after retirement? The top and the bottom reasons are about wanting to stay involved and enjoying work. The middle reasons are about money. You could say, "It’s about money and it’s about what people want to do." It’s probably about money for a different group of people than those who want to stay involved in work.

Now, in going back to our analysis of bridge jobs, Joe Quinn's health and retirement study looks at people that are near retirement age and their movement into retirement (Chart 3). These are people age 55 to 65 and the same people have been studied every two years on a longitudinal basis. The group studied is a national probability sample. Of the 4,300 men, two-thirds of them, about 64 percent, were still working in the 1996 wave of the study. And of the total 100 percent, 41 percent were still in their long-term job and 23 percent had left their long-term job and had now moved into a bridge job. Eleven percent of the group that wasn’t working had been a bridge job as their last job, so 34 percent of the total men, either were in a bridge job or had been in a bridge job before leaving the labor force. There’s another 41 percent that had the potential to do that.

For the women, basically half were either in a bridge job or had been in a bridge job before leaving the labor force. Some of the people that are gone might come back again, so bridge jobs are very much a part of reality. When we think about people retiring from the point of view of the employer, the employer might see them as retiring in one step, but from the point of view of what people are doing with their lives, many of them are leaving in more than one step.

I’ve interviewed a few people and put together some information on what typical bridge jobs look like. One person, a retired training executive for a major company is continuing to work for his former employer as a consultant. He’s also got some other clients and he says, "Well, this is great. I can do the projects I want to do when I want to do them and on my own schedule." So he’s a retiree, but he’s basically rehired but doing other things.

The second example is typical of the sales forces in many industries including life insurance. I interviewed this man who sold boxes and packaging. He had been a regular commissioned full-time sales representative in a big company. Over the years he built up a little side business because his customers needed products that his primary company didn’t have, and he wanted to meet the needs of his customers. In his early 60s, he retired from the main company and got his profit sharing account. He and his wife continued to run the side business for another ten years. They built it up during that period and then when he was in his early 70s, he sold the side business with a provision for a one-year transition period. During that period he helped the buyer retain the customers and take over the business.

The next example is a retired building contractor whose bridge job was doing appraisals on a part-time basis. For most of these people and other people I’ve interviewed, the bridge job isn’t exactly what they were doing before, but it builds on the skills they developed over a lifetime.

How do retirement incentives link to bridge jobs? Early retirement windows and subsidies make early retirement attractive. There were many early retirement windows a few years ago; and then not many for a while. Recently, there have been more windows again, but they tend to be very targeted. When offered an early retirement window, many people decide that "I can get a lot better economic result if I retire and get a new job." It’s often easy in the case of a window, particularly if it’s a company that will probably downsize. People think, "If I don’t retire, I will probably lose my job anyway, so I might as well retire and get this extra money." Bridge jobs enable flexibility in employees’ schedules and their work. They enable employers to have flexibility in how they use employees when compared to having full-time, year-round workers. Often bridge workers are hired as temporary or project workers so that they can be used as long as needed.

I’m going to move on now to the Mercer phased retirement survey. In October of 2000 we surveyed employers for information on how they see their goals for older workers’ employment. We had about 230 responses to this survey. This is a study of Mercer clients and prospects. We asked them about the programs they are using to help people phase out and about rehiring of retirees.

Regarding the goals and strategies for hiring older workers (Chart 4), more than half of them said that they have no specific goals. But 30 percent of them said that they want to target workers with special expertise or key relationships. This ties into the finding that most rehiring of retirees is individual deals at present, and there are few formal programs. Only 16 percent say they want to encourage all older workers to stay on. Ten percent say they want to enable early retirement, which is a lot lower than the results we would have expected a few years ago. We also might have gotten somewhat different results if we were doing this now, a year later. But in the long term, people have recognized that they need to pay attention to workforce aging. Seven percent said they target other companies' early retirees as potential hires.

I interviewed a not-for-profit with thousands of employees. They said, "We’re connected to a religious organization. We can’t afford to pay as much as private industry. People who are very devoted to our cause and who have had good careers in other businesses and have retirement income, they come to work for us." About half of their work force is used in bridge jobs and the organization recognized that they were paying them less. The organization felt they were getting very devoted people and the arrangement worked out well for employer and employee.
Twenty-three percent of the companies said they had programs to help people phase out. Many had programs that were also used for part-time work options, such as reduced hours and schedules, special assignments, temporary work, and consulting work.

Fifteen percent said they used special job assignments as people are phasing out (Chart 5). Two-thirds of those people with such assignments said they had programs to help people mentor younger employees and transition responsibilities;

60 percent used these employees in research and development projects; 31 percent used them in training programs. As before, the employees phasing out were being used in areas that would build on their skills. Another thing that I heard in some of the interviews was, "We have this project, it's been sitting here for three years and we've wanted somebody to do it, but it's just stayed on a to-do list." That was the kind of job that they would give to somebody who was a rehired retiree.

What can employers do about this? Analyze their situation and diagnose what's going on, set goals and then build a program, starting not with the pension plan, but with job structures and assignments and with training people. Then we need the support of benefits and compensation structures and a supportive culture. Chart 6 focuses on the people who are rehiring retirees, and what they do. Sixty percent had formal policies with regard to rehiring retirees; 63 percent said they would rehire them on a part-time or temporary basis; 61 percent are contractors or consultants. Only 24 percent allowed rehired retirees to work full-time after a wait. There are a lot of legal issues with full-time rehire. Fifteen percent use retiree pools, which I think is a good arrangement.

I have comparative results and again this is from research by Mathew Greenwald and Associates. In 1999, AARP and EBRI surveyed 65 of 100 companies cited by *Working Mother* as best for working mothers. Forty of those companies said they would hire back retirees; 20 offer part-time work or flexible schedules. Only one had a formal phased retirement program.

Now, my read on this is lots of people are doing phased retirement, but very few people say they're doing it. It's very informal, yes, but they're really doing it.

Regarding retirement benefits for rehires, 51 percent of people are suspending benefits for both before and after normal retirement age; 21 percent of people are paying out money in lump sums (Chart 7). If the plan is paying out most of the money in lump sums, I don't care what it says, suspension is not really an issue. Nineteen percent said they don't suspend after normal retirement age.

Questions for the Panel

At this point we want to move into our interactive panel and talk about what's going on with regard to benefits and financial product responses to these trends.

My first question to the panel is: What benefit plans and products are most important in meeting post-retirement needs? Mark, can we ask you to start us off?

MR. WARSHAWSKY: Yes, I will start simply by making a few comments. This is almost a laundry list of things, and I know the other panelists will have some things to say on each one of them. Whether the retirement is a traditional sort of cliff retirement, where you're working and then all of a sudden you're not working, or whether it's a phased retirement or there's a bridge job, I think basically what the retiree is looking for is to replace what he or she had before, and that's a regular income and health benefits. They're also concerned about their housing situation and they're concerned about what's happening with their families.

As people age, obviously other considerations come up. Long-term care becomes an issue and then when we say housing it may not be where they lived all these years: it may be a retirement community. And posterity doesn't refer to school for the children anymore, it refers to perhaps leaving some sort of legacy or bequest, either to children or to charitable ventures. There's a transition that doesn't mean exactly the same thing as it meant when people were working, but the same needs are there. Just focusing on the regular income, I think that points to a very important need for some sort of life annuity either through Social Security, or through the employer pension. Those, I think, are the most important things, and I know the other panelists will have things to say about each.

MR. GEBHARDTSBAUER: Since I'm the DB pension actuary, I thought I would talk a little bit about what's available—DB plans. In 1975 just after ERISA was passed, 40 percent of Americans were in DB pension plans, whether or not the DB was the primary DB plan. Now it's getting very close to only 20 percent of the employees in the country. Meanwhile, primary DC plans, including 401(k) plans, have increased to the point where they cover about 25 percent of the people in the country, so they have surpassed DB plans. A DB plan asset has something that you can't get in those DC-type plans. For instance, in a DB plan you can actually get a higher return, sort of a stock rate of return, but not have the risk The employer bears more risk. In the old days, the funding rules allowed plan sponsors to smooth out the risk, but financial accounting standards (FAS) rules have actually made DB plans more of a risky proposition for employers. One of the things the Academy does is it tries to help people in Washington, D.C. understand how valuable the DB plans are and that with rules that don't create a level playing field, employers are no longer deciding what's really best for them or for the employees. They're looking at all the rules and saying, "The rules are making it difficult for me to have a DB plan, so a lot of employers are going to DC because of the rules and also because employees may appreciate the DC plan better." At least they did a couple of years ago, maybe they're not now. So when I talk about this level income and not having risk, you don't have to worry about the longevity risk because you get an annuity or level benefit that's payable for the rest of your life, no matter how long you live. There's also the investment risk.

In the last election a lot of people in the Social Security debate were also talking about having individual accounts so that Social Security would be less DB and more DC, and they said that Americans could handle risk. Of course, we've been through a great stock market, but I started giving a presentation about five years ago to explain issues in the Social Security debate and it also applies in the DB employer pension area. Chart 8, basically says, suppose I was to put four percent of my money away every year from age 35 up to age 65 and a little bit of expenses, and I'm going to invest this money in large cap stocks. It's sort of like an S&P 500 index. This chart will give you a little bit of an idea of what risk can be like. How much benefit you get is very dependent on which 35 years you are in the plan. You could be a good investor, or you could invest in the index and not get a good result, and it's not because you're a bad investor; it's just because you retired at the wrong time. The economy in certain years, like 1973 and 1974, was not favorable. The stocks went down, inflation went up, so after investing for 30 years and then retiring, this is what you would get. I actually used an indexed annuity because I was doing this for Social Security and so I wanted to have an equivalent benefit.

You'll see the same thing is happening now. Look at the last two years on Chart 8. I've added a couple of years. If you retired in the year 2000 after 30 years of turning 4 percent of pay into a DC or 401(k) kind of plan, you would get a replacement of about 40 percent of your pay. Add that on to Social Security, and things would be pretty good.

Suppose you were unfortunate enough to be in a cohort two years later and now you're retiring on January 1, 2002. I actually did this chart when the stock market was a little bit lower, but instead of having a 40 percent replacement rate, now you're only at a 22 percent replacement rate. I showed this on Capitol Hill to a lot of staffers. A lot of the employees in the federal government know they have this wonderful plan, it's a thrift savings plan, it's kind of like a 401(k) plan where they get a match, and that's what most of them think they have. They don't even know they have this wonderful DB plan that doesn't have the risk. They're just excited about the 401(k) plan, so I showed them. Here's what is going to come out of your DC plan. You could get 40 percent of pay or you could get 20 percent of pay, or if it's a bad economy, you could get 10 percent of pay replaced when you retire. What are you going to get? How can you plan on something like that? And it's not your fault. You just happened to retire at the wrong time.

Or suppose you decided in 1973 that you wanted to retire, and now you decide that's not enough income. I want more than 22 percent of my income replaced by my DC plan; I'll work a couple more years and then I'll retire after a couple more years of accruals. I'll be a little bit older, I'll get something bigger. Well, in fact, the stock market took you down, inflation went up and you would probably have a smaller benefit now. In a DB plan, of course, you work more years, you get a bigger benefit.

These charts are available on the Academy Web site (www.actuary.org). I've developed a Social Security kit and we encourage you to use it if you want to give talks on Social Security at your local library, Kiwanis Club, church, or wherever.

One of the things everybody said is, "Of course, I wouldn't stay in stocks when I'm reaching 65. I'm going to move into bonds." Chart 9 shows the replacement rate if you were smart and moved into bonds in your last ten years before retirement, and you'll see that it's still not perfect. In a DB plan you would have gotten 25 percent of pay, no matter whether you retired in 1970 or 1975 or whatever. You know what you're going to get, you can plan on it—25 percent of your pay would be replaced.

But here you've moved into bonds and you still are going to have that risk, but it would be pretty low and also you just can't make it an automatic decision. At 55 I start gradually moving over the ten years into bonds because you might be locking in a bad stock market. But as you see, it doesn't really help you that much when you try and move in—when you're in a good stock market and then the stock market plummets, like in '73-'74. Instead of getting 10 percent, now you're at 14 percent. So you're still subject to risks. Another thing people have said, "I wouldn't move over in the last ten years. I would put half my money in bonds and half my money in stocks." Chart 10 shows that had you done that, you would always have done worse. You might not have quite as much risk, so there's a little bit better ability to plan, but there is still a fair amount of variability. You'll notice it could go anywhere from seven percent up to 24 percent, so still you don't know what you're going to get at retirement and there still is a variability and it's always going to be worse, too. I guess we knew that.

Anyway, there are advantages to DB plans. If you want to convert your DC account balance to guaranteed lifetime income, you can buy an annuity. Depending on how long you live, how you do on your investments, how rapidly you spend your money, and the price of the annuity, you may be better or worse off than if you had managed the money on your own. A fixed annuity at the insurance company can only give you a bond return, not a stock return, but you know it will go for the rest of your life. Some people said alternatively, "I can do better myself; I will just pay myself what's called the minimum required distribution." "There was an article in *The Wall Street Journal* that said when that happens, you go back to work. At age 85 I don't know that you can go back to work. Maybe they were talking if you go back to work at 72, but I can't picture my dad going back to work, so there are some advantages to annuities. They don't give as much to your heirs. The minimum required distribution does, but if you don't have heirs, the annuity can make sense, especially now.

MS. ABRAHAM: It's interesting that Mark took the global view and talked about the various post-retirement issues and some of the things that we need. Ron talked about whether or not we're going to have enough income in terms of DB plans. So now, I'd like to focus on an item that could erode your well being, even if you had sufficient income to equal the standard of living or the quality of life that you had hoped for is the need for long-term-care insurance.

For instance, among people age 65 and older, there are statistics that show that nearly 72 percent will likely use some form of home care and about 49 percent over age 65 may spend some time in a nursing home. The national average cost for a nursing home stay right now is $55,000 a year and can run as high as $93,000 in some states. The average length of stay right now is two and a half years, but there are some people who stay as long as 18 years; and some people who stay as long as two months. But the issue is that even if you had sufficient income while you are well, if you didn't have some kind of long-term-care insurance protection, this is something that could erode the income that you had worked so hard to have during your retirement years.

I just put together a quick primer on long-term care, because we were trying to figure out how many people knew what long-term care insurance is. Basically it's insurance that funds people's care when they need help to perform the activities of daily living (ADLs). When we talk about ADLs, it's almost like the process when you start out as a baby and need help in the kind of things that you need every day in order to exist. Bathing, eating, dressing, toileting, transferring, and continence are the six basic ADLs, and there are more and different ones. Basically, this type of insurance usually provides some payment of benefits when someone can not perform at least two out of the six ADLs or is cognitively impaired and has incurred some expenses. Typically it requires some care from a licensed home health care agency,—adult day care, assisted living facility, nursing home, or even hospice care.

There are different models out there. There's the reimbursement model, which pays for actual expenses up to some amount, or there's the indemnity, which just gives you the flat amount as long as you're disabled. The benefit payment starts after an elimination period, which is like a deductible elimination period. Coverage is also available to provide inflation protection.
It's interesting that they used this program as an incentive to this phased-in retirement.

MS. RAPPAPORT: In planning for post-retirement risk, the traditional approach from the employer's perspective has been to think about replacing income for better large employers, replacing health benefits, and some provides for voluntary purchase of long-term care. But for most people, saving to provide for these expenses or buying insurance is really an individual issue and as we're moving more and more toward a DC world, we need to think about these post-retirement risks. The Society of Actuaries has had for the last few years a retirement needs framework project focused on post-retirement risks.

MR. WARSHAWSKY: I want to make some comments on something that Ron had said with regard to the demise of the DB plan. I understand where Ron is coming from, but I think one also has to have a view of the realities. One reality is that employers are uncomfortable with DB plans partly because of the burden of the regulations, but partly also because their employees don't appreciate them. The risks that Ron discussed are also a contributor. The individual bears these risks in a DC plan, vis-à-vis the employer in a DB plan. A lot of employers, certainly small employers, are not able or willing to bear those risks.

In a way it's amazing that small employers ever offered DB plans because I don't know what sort of risk pooling mechanism existed. But even for large employers, we live in a riskier world now. The last couple of months has increased our focus on risk. Even large employers that used to think they could shoulder the burden of the risk in a DB plan may not feel that way now. I also think from the employees' point of view, what Ron was showing certainly has some validity, but at the same time, I think what employees like and the risks in the current economy show that you don't know whether you're going to be with that employer for 30 years to get that wonderful benefit in a DB plan. You can be laid off tomorrow and you prefer having the money and the control over the money and vesting quickly in the benefit. I think those are realities as well. I think I'm more likely to explain why people have DC plans and therefore we have to deal with the reality of the people having those plans and the risks that go with them. Products have to be designed to reduce the risks or help people manage those risks given the reality of what exists. That's true both in the accumulation phase in terms of various investment products that aren't just equity products, but also other types of investments whereby one can diversify risk. It is also true in the distribution phase. I think Ron and I would agree on this point, that a life annuity whether it's a fixed annuity or a variable annuity or an inflation indexed annuity, while it may not represent the entire distribution of the retirement plan, it has to be at least a portion of that plan. Whether that's done through the employer or by the individual depends on the situation, but I believe Ron and I agree on that point as well.

MR. GEBHARDTSBAUER: With regard to employer risk, it's a new world today with the FAS rules. Prior to the FAS rules a company was not required to reflect market values as closely on company books. Funding rules still allow a plan sponsor to smooth market fluctuations out over time.

With respect to career patterns of employees, I definitely agree. Employees are changing jobs more often so the old traditional DB plan where an employee didn't get very much after five or ten years, but got a lot if he worked until age 55 and had 30 years of service, does not work for most people today. That pattern is something that only fits workforces like the federal government or big companies where people do stay 30 years. But now a lot of employers are moving over to CB plans. That is a partial way of making plans work well with more diverse career patterns.

MS. RAPPAPORT: One point that I would make on the issue about employees changing jobs more often—that's true to some extent, but I think that's more perception than reality because employees always changed jobs. I think we recognize more and care more about the employees changing jobs. Also employees change jobs more involuntarily in the last few years than they did at one time. This is particularly true of white-collar people, who were once less likely to be laid off than today. But sometimes we act as if there was universal lifetime employment in the past and now there's very little. The change is much less and I recommend that you look at some of the work that's been done by the Employee Benefit Research Institute to provide data on this issue.

Phased Retirement
My next question is: What changes, if any, would be desirable as we move to a period where people are phasing out of the work force in steps?

MR. GEBHARDTSBAUER: The Academy has been concerned that there's a law now on the books in the United States, and I heard from Rob Brown it's in Canada, too, that you can't get a pension at the same time you're working. It's called the "In-Service Distribution Prohibition." You can actually get a pension while working after age 65, or earlier, if the plan has an earlier than normal retirement age. In DB plans, and I think, 401(k) plans, you can get it down to age 59½. There was a bill before Congress that would allow you to get your pension in DB plans also at 59½ or if you've worked 30 years. That would help some, because right now some employees will say, "I might as well just quit the company now so I can get my pension and then I'll go work for the competitor." The employer isn't interested in that. Here's a valuable employee they'd like to keep around. Employers offered subsidies in the pension plan that really made sense back in the '80s when they were trying to encourage employees to leave, but they put them in there permanently instead of temporarily and so they're having a hard time taking them out.

So how can we work with this? Maybe we can add a third choice. Employees could stay and lose some of that early retirement subsidy, if the plan does have a big subsidy, or they can quit, take the subsidy and leave. Maybe a third choice would be something like a phased retirement. Some employees might like that because they're more valuable to a current employer than to the new employer. The new employer might not pay them as much because there's not as much value, so if they could get a little bit of a pension or in fact, this provision in the law would actually have allowed you to get 100 percent of your pension and a partial paycheck. There actually are more problems than just the in-service distribution rules.

You may want to only put a phased retirement provision into your plan as a temporary window and see how you like it, because if you put it in the plan permanently, the IRS will make it difficult to take away. In addition, you have to be careful about the nondiscrimination rules because if the people who can choose this phased retirement option or the people who are more likely to choose it (or do choose it) are your high-paid people, you have to worry about discrimination problems.

You also have to be concerned about the form of payment. Suppose you start phasing out and you choose a life-only benefit because you are not married then. Later at 65 when you permanently retire, you have a spouse. The IRS could say that you would have to give the spouse an option to get that as a joint and survivor benefit, or vice versa. Suppose when you initially phased out, you asked for a joint survivor because you were married and now you're not married or maybe you're married to someone else.

There are many details on fixing these rules so that you can handle phased retirement. The Academy has written a letter to Congress on this and you can see some of the issues in that letter on the Academy Web site.

MS. RAPPAPORT: Interestingly enough there are not a lot of formal phased retirement programs in industry, but there are quite a few in academic institutions. The way they have used them, is that people get partial pay and they get their pensions. They're very good deals for the faculty. This happens often. I was with a group working on retiree health for liberal arts colleges a week or so ago and was pretty surprised to hear them talking about their faculty issues. People were saying: "If we can get this tenured faculty member to retire, we can hire a junior faculty member for half the money and they can do the same work." The other place where phased retirement is being used is in the public sector with DROP plans. There's a lot happening there. DROP plans operate so that the plan puts the pension money aside during the deferred retirement period and accumulates it. The employee gets a lump sum when they retire later. From a value point of view, the employee is getting a pension and continuing to work.

FROM THE FLOOR: Ron, you were talking about nondiscrimination rules. One of the things that entered into my mind was that the more formal you make your program, the greater the risk to the employer that people are going to be able to choose phased retirement, when the employer does not want them to choose phased retirement. They'd just as soon terminate employment because they don't feel that the employee is offering any more value. Employers may want to pick and choose whom they continue under such programs. I'm wondering how much difficulty there is with some of the pension rules in formalizing a program and running into some of those risks.

MR. GEBHARDTSBAUER: Actually, Ellen Schultz of *The Wall Street Journal*, I think, wrote an article on this and that's why the bill has not been reintroduced into congress. A member of congress wanted to enable companies to have phased retirement programs thinking he was giving you this third option. You could still quit or you could still stay, but Schultz's concern was that employers would use this phased retirement program to encourage people to stay and then not get that early retirement subsidy. So she saw it as something that allows the employers to be devious, whereas the person who was proposing the bill was just giving this as another option and wanted this to be a positive thing, not eliminating the choice. The employee can still leave, so this was just giving the employee a third choice. In fact, that bill would have allowed you to get your full pension with the subsidy and still get a paycheck so it was definitely not a devious thing. It was intended to enable employers to do something good not only for the employer, but also for the employee.

MS. RAPPAPORT: I think there's been a reluctance to do formal programs, partly because of the law, but also because of the notion that people aren't at the stage of being comfortable and wanting to extend the program to everyone. So far they've been able to work out the situations that were important to their business through rehiring retirees and individual arrangements. But we see more and more work forces in organizations that have been in business for a long time. A good example is the federal government, it has so many people that are nearing retirement age that they're going to have critical issues with regard to their talent. A lot of individual arrangements will be a mess. A few individual arrangements might be okay, but there's a slippery slope as the number increases. So different solutions will need to be found. Now, Ron also mentioned higher paid, and another option is to not do anything in your qualified plans, but use your nonqualified plans to support phased retirement.

MR. WARSHAWSKY: Also, we're talking about government regulations here. There's another government regulation that I think has some impact on what we're talking about. I've done some work over the last few years on minimum distribution requirements from retirement plans. Minimum distribution requirements were put into place in their purest form for Keough plans in 1962, so there was a certain notion that we were talking about very well-paid largely male doctors and lawyers—I think it was mainly lawyers—who had these plans and the government was concerned that these people would stay on forever with their plan and it would accumulate on a tax advantage basis. So the government put into place minimum distribution requirements in which some money had to come out of the plan starting at age 70½, which at that time was the life expectancy. Also at the time, retirement plans were not part of the taxable estate. There were some good tax policy reasons for these rules, but over the years they got applied to more and more plans, bread and butter type retirement plans. Also there are now many more women in the work force and I think people work longer and longer, so I think the rules basically don't reflect that reality. Some of you may be familiar with some of the changes in IRS rules and I think they go part of the way to address the problem, but they don't go all the way. I think one very simple change that could be put into place is the age 70½, which is arbitrary and as I said, sort of reflects an old notion that you have to take money out of the plan at that age. I think one simple way of reflecting that reality is just to move that age up to age 75 or 76.

MR. GEBHARDTSBAUER: It sounds like a good thing, but one of the reasons why Congress doesn't do it is because of revenue. If you don't get the pension check coming out and you can wait until 75, they won't get taxes on them and that means less revenue for the government. They only look at the next ten years, they don't look way out into the future, so sometimes it's difficult to pass something which otherwise would seem like a good thing because it affects tax revenue to the government.

MS. RAPPAPORT: On the one hand the laws are there to protect the participants; on the other hand they're there to protect the revenue, and they are always fighting against each other and trading off. Do any of you have some ideas in terms of changes you'd like to see, or ideas with regard to this period when in fact we see that more and more people are leaving the workforce. Loida, what about long-term care products, how might they fit in?

MS. ABRAHAM: I was just thinking about an example the other day, when we got a special request from a corporation who wanted to fund the long-term care benefits for its CEO who was going to a sort of phased-in retirement. The corporation was going to pay for the advance funding of the long-term care premiums of the CEO I think, for five or ten years, and then thereafter the CEO at that point who would have been retired, would have then had to pay the subsequent premiums. It's interesting that they used this program as an incentive to this phased-in retirement.

MS. RAPPAPORT: For those of you who don't think this is a big issue, I have a little exercise for the people that are involved in pensions. Most businesses have some list, it might be 25, it might be 100, or it might be 200 top customers. For most business, it's a fairly small number of customers. For life insurance companies, there are a fairly small number of agents compared to the total list who sell much of the total business. And if you look at a list of those agents that are the top producers or the account representatives for the customers that are the top customers for your company, and look at how many of them are age 50 or over, I think it's going to be a sobering experience for lots of you. Additionally, you should identify the 200 people or the 100 people who are the key drivers of your business; the people that if they walked out of your company tomorrow, you'd be in big trouble. Again, in many companies, a lot of those people would be over age 50, and that's a sobering thought.

MR. GEBHARDTSBAUER: I want to caution you. Sometimes informal programs can be operated so that they are illegal. For instance, if you're paying the person a pension and you rehire them, there's this IRS 20-point test that says the person is acting like an employee still, so now you're subject to the in-service distribution rules and you may have legal problems. So people who are doing informal programs might be interested in making sure that we get some of these rules fixed, so they can do that.

FROM THE FLOOR: I'm curious what age we're thinking about for phased retirement. A couple of my larger clients, mainly for the non-highly compensateds, have a 1,000 hour rule. You can work less than 1,000 hours a year and still draw your pension. We wrote it right into the plan in the last go-around for one of them and it's worked out pretty well, I think. Not perfectly, none of them ever do, but it's right in the plan and it's having an interesting impact. We're getting experienced nonlegal staff staying, some partners are saying that if that works for them, maybe it will work for me. The ages we're talking about are 65 to about 72. With the stuff that Anna has done through the years, I think she's always been talking about younger ages, so I'm just curious if we're thinking about moving the phase-out forward. In the medical area, I'm beginning to think instead of funding what I perceive as a very expensive bubble coming at us, maybe we should be looking more at ways to move toward European-style limitations on what we will fund in medical care for people.

MS. RAPPAPORT: With regard to age, I think it depends a lot on the kind of people we're talking about. Of course, U.S. Social Security has said that if you're 65 or over, you can collect your benefit and work and there are no limits on it, so the government's given us a precedent. I think it's the kind of job we're talking about. If we're talking about jobs that today require 24/7 commitment or even many jobs that were really 40-hour or 45-hour a week jobs a few years ago, more and more is being demanded of people and they're working very long hours. I talked with someone from a major company who said that he has people who are no longer willing to work these long schedules. If we had normal work schedules, they wouldn't want to do it, but so much is demanded of them that they're really thinking about mid-50s. I think that in the mid-50s, a lot of people that have very heavy commitments and people that have resources, might not want to leave the work force, but they might want to change the balance in their lives. I think we're talking about changing patterns of work for people starting more in their 50s than in their 60s, but it will vary.

MR. BRADLEY C. FOWLER: I think one of the reasons that informal programs are still more prevalent is that you've got a lot of flexibility with just plain pure comp and bonus arrangements. When you try to make it more broad-based, then you run into all these regulatory problems, so if you can manage it using direct comp and keep the people you want, there's an advantage there. I guess another observation, at least with a lot of the clients that I work with, is particularly now and over the last couple of years, there's been profitability problems. This issue is more of a problem of prosperity rather than a problem of trying to survive necessarily, so I'm still seeing clients doing the opposite—running window programs and after the window programs doing involuntary cutbacks, so the focus really hasn't hit this the same way that it's hit some other organizations. My sense is that we'll still see some of that. Also, with the elimination of retiree medical from a lot of the larger organizations, it's not necessarily gone entirely although it may be phasing out, it may be capped. A lot of the people that are in their 50s right now are still eligible for some part of it. Younger people in many cases aren't, but the absence of that is actually holding people in the work force if they're not eligible for it. Some of the kinds of bridge jobs that people might consider don't provide health care or very easy access to it, so that's kind of a reverse incentive to avoid phased retirement.

MS. RAPPAPORT: Access to health care is a key issue. I'd like to point you all to another study. The National Academy of Social Insurance (www.nasi.org) published a newsletter that includes a very interesting study by some people at Harvard of how Americans age 55-64 get their health care protection; how much of it is employer-provided and how much comes from Medicaid by income, by health status, and by employment situation.

MR. WARSHAWSKY: Your point about a lot of people not having medical care paid for after retirement is also important for a lot of the spendable income analyses that we do—replacement rates. What kind of replacement of income do you need in retirement? We've always said it's about 70 or 80 percent, but if the individual has to pay $2,000 into a Medigap policy every year and $2,000 in buying long-term care insurance, $4,000 in total, that's maybe 4 or 5 percent for someone whose retirement income is $100,000. So maybe that isn't a big deal for them, but for someone who's making $20,000 in retirement, $4,000 divided by $20,000, that's going to raise what you do need—not 80 percent now. You need 100 percent replacement in income. I guess if you're at the low-income level, you might say, well, I'll run out of money and I'll fall onto Medicaid, but I don't think that should be government policy. I think the government policy should want everybody to have post-retirement medical on their own without having to fall on Medicare. That's going to be a real problem in the future for Medicaid.

Innovations

MS. RAPPAPORT: I'd like to move into innovations now and ask: What recent innovations have there been in products and benefit programs?

MS. ABRAHAM: I want to talk about some new products we've developed at Hancock. We've developed combination products, annuity and long-term care and life long-term care. We basically have two types of annuity products—revolution annuity, which is basically a variable annuity with a long-term care rider, or the GPA care, which is a fixed annuity with a long-term care rider. There are two long-term care riders. There are the basic care solutions and the care solutions plus. The basic care solutions rider is a rider that offers several benefits, none of which are real insurance coverage. It offers waiver of the surrender charges, if the annuitant of the policy needs long-term care in an NH. It provides access to a discount program that we have that if people use certain providers, they get five percent, 10 percent off, or even as much as 35% off, which is something that we've negotiated with those providers. As long as you have a policy, if you need care, use their home health care agency or nursing home, you get a discount. It also offers an information referral service, one of the big issues for long-term care. Sometimes it's not the insurance coverage that's critical as much as just knowing what care is appropriate and where to get care. Access to quality care is a big issue for LTC. This particular rider by itself costs about ten basis points.

FROM THE FLOOR: When you said waiver of the surrender charges, is that just like if you had the variable annuity and you wanted to pull your money out of the variable annuity because you needed the money, so you have rules to the effect that if you pull out early you have to pay something?

MS. ABRAHAM: That is correct. If you were in a nursing home during that period and you wanted to surrender any benefits, there would be no charges during that period.

MS. RAPPAPORT: And Loida, we're talking the base annuity when it's still in the accumulation stage?

MS. ABRAHAM: That's correct.

MS. RAPPAPORT: So the money's been invested and it's accumulating and it hasn't been changed over to a monthly income yet?

MS. ABRAHAM: That is correct. In fact, the second rider offers you all basic care solutions plus insurance coverage. This rider provides that, should you need long-term care, it will provide you with a monthly long-term care benefit, but it doesn't actually pay it to the insured. It credits it to the fund value prior to it getting annuitized—this is a deferred annuity—so that at the time of annuitization, the annuity value actually increases as a result of that increase in the fund value by the benefits that got credited to that fund. It's usually about one percent of the initial premium for a variable annuity and it's one to three percent depending on the age for the account value for the fixed annuity. The program offers a two-year benefit period for long-term care. The interesting part about this product is that there is no underwriting at time of issue since the coverage doesn't start until seven years later. Since we're lumping it with an annuity, there is clearly some funding available during the first seven years, and in order to simplify the process for people who are interested in this product at a later age, one of the innovative things that we added was not to perform any underwriting. The cost of this particular insurance coverage is an additional 35 basis points.

Another interesting product that we've come up with is variable life insurance with long-term care. We call it UNISON. One of the things that we've heard about in some of the articles that we've read, is that some seniors in their later years have huge life insurance policies and really don't need them. Usually there's a need for life insurance in your 50s, but as you get older and you don't have a family to support any more, some people don't need life insurance and wish that instead they had long-term care. So we thought it would be great if we could develop a transformational product that went from being a life insurance contract to a long-term care insurance contract, and that's actually what we've done with UNISON. It provides a transformational product, almost like a convertible, where you have a death benefit that becomes a benefit pool available for either your long-term-care insurance and/or life insurance needs.

It's economically advantageous—one process, one premium, one policy. It is for people who have both needs. You certainly don't want to buy this if you only have one or the other, but if you have both needs it does cover life insurance protection and investment income situations, since it is a variable life and there's coverage in the case of long-term care. In addition we added some of the "today" benefits that we talked about in the annuity feature, like information referral services. Just to give you an example of the cost, if you were to buy a variable life insurance from John Hancock for a male age 45, the cost would be $3,596. If you pay it all year for a ten-pay endowment it's $6,080. If you were to buy stand-alone long-term care, that would be $2,631 or $6,840. But if you were to do a combination, you would simply add $224 to that $3,596 or $368 to the $6,080, and I show similar figures for a female age 55, so you can see there's a huge economic advantage. Note that the pool does cover two risks.

MR. WARSHAWSKY: I have a paper on an idea to combine an immediate annuity with long-term-care benefits. The basic motivation for that is that because of both issues of underwriting and issues of adverse selection, you can get, I believe, a lower-cost product when it's integrated as well as being made available to more people. The problem with stand-alone long-term care insurance, particularly when it's sold at older ages, is that underwriting excludes or increases the cost to a very substantial number of the population. Some estimate that a quarter to a third of the population would not pass underwriting for long-term-care insurance, so that's a very significant part of the population that cannot get coverage.

At the same time, the issue in voluntary immediate life annuities is that the people who buy those annuities obviously are in very good health—that's the logical and rational outcome. Therefore the mortality experience and the way the insurance company has to price the product has to reflect that. So the idea is if you can combine the two coverages, you can offer it pretty much to everybody—maybe not those who would be an immediate claim, but those that otherwise could not pass underwriting. It's especially those people who also have lower life expectancies that could reduce the cost of the life annuity. In this paper we show that as long as the proportions of both the annuity income and the long-term care benefits are weighted appropriately, it actually can be fair to almost all groups. You have something that has a slightly lower cost and is also available to a lot more people.

This is an idea, it's not a product. I'm sure there are many issues, both regulatory and company-type issues of actually implementing this, but it's something that I put forward as an idea for further discussion. I think the advantage of it is when people have to provide for themselves to insure themselves against these risks, I think on the one hand people like choice, and on the other hand they also like convenience. In addition to providing convenience by having a couple of things packaged together, you can also provide some actual economic value in providing things together. I think that's a win-win situation.

MR. GEBHARDTSBAUER: In the area of new plans and products in the pension area, I thought I would get my chance to talk about CB plans. As Mark mentioned before, traditional DB plans often had a huge retirement subsidy at age 55 so it made sense to leave then and get that subsidy because if you continue working, you may actually get negative accruals thereafter. So with a little bit more turnover in certain industries, it makes sense to switch to CB plans.

I have to admit at one time I was the chief actuary at the Pension Benefit Guaranty Corporation (PBGC) working in the government and I saw the rules in the Internal

Revenue Code and they just seemed to be not written for CB plans; they're written for traditional DB plans. I just didn't know how to apply them to CB plans and they make it difficult for them. Since then I've left the government and I've seen from some of my work, I'm on the board of a big church, in fact there's several churches since they don't have to comply with the government rules, that actually have CB plans. This particular church in the early '80s had a DB plan, but had big unfunded liabilities, so they decided to drop the DB plan and go to DC. Well, immediately they realized that, like the problems I showed you earlier, with the DC plan you have these risks and they didn't want the ministers to have these risks. So with the DC plan that they have, they told me in my first meeting that they have a 6½ percent guaranteed rate of return each year, and I said that's a CB plan. But what helped me appreciate it is that we needed to change the rules to enable something like this. Here we have a church, a good organization where half the board is made up of participant employees and ministers, and half the board is outside people from the church. They've created something that is good, but the laws make it very difficult. The church has this cash balance plan, but if they had to comply with all the rules, they'd have whipsaw problems and things like that. Here's an example where you can get a DB plan that isn't pretty much age-neutral. You can give everybody the same percent of pay and give them better rates of return, but then you have problems with the laws.

Another new product, I don't know if you know this, but there are actually indexed annuities out there now that are indexed to the CPI and you can get them over the Web at www.annuitynet.com. I think Lincoln National is one of the places. However, I don't think you can sell it in New York. They haven't been able to get it approved.

One other area is in the law that just passed, it's called the Economic Growth and Tax Relief and Reconciliation Act of 2001 (EGTRA). There's now a government match, so if your employer has a 401(k) plan, some of the lower income employees can get a match from the government of 50 or even 100 percent of pay if they're very low income and so that may be a way of encouraging low income employees, if they have the money, to put more in, at least to get that match.

Finally, one area that was a big issue in Congress over the past few years is a lot of women who left the work force to have kids have come back to the work force. Now they're over 50, but they haven't accumulated enough for their retirement, so some of the rules have been changed for IRAs and 401(k)s. After age 50, the amount of money that you can put into your 401(k) or IRA is 50 percent more than when you were under age 50, and that goes into effect next year.

MS. RAPPAPORT: Many individuals are not doing a good job of providing for post-retirement security. What ideas might we have and what do we see in the future? I want to start this off with my dream. My dream is based on the notion of employee benefit plans and lots of lump sums coming out. We ought to have a way to have a portfolio where the portfolio includes not just traditional investments, but a variety of risk transfer mechanisms out of a single portfolio. I'm really pleased to hear about the integration of long-term care with life insurance and annuities, but I think potentially we have a ways to go to arrive at a more integrated portfolio product and that's what I hope we'll see in a few years. I'm also interested if anyone has comments about reverse annuity mortgages, which we've heard about for 20 or 25 years, but don't really see any action. So what do we think about the future and what are our ideas?

MS. ABRAHAM: More recently there's been some activity on reverse-annuity mortgages. I know that several companies have approached us at John Hancock with the concept of coming out with some type of product that linked reverse annuity mortgages to long-term-care insurance. The idea came about because last year there was a law passed that stated if you had qualified long-term-care insurance you could waive the charge from HUD for the reverse annuity mortgage cost of that fee. Although it was not substantial, it could be applied to the cost of long-term-care insurance. Some people thought that if you offered a reverse-annuity mortgage with a home equity line, that could help fund future LTC insurance premiums. With the high real estate values, this was thought to provide a huge potential source of income for some people that could help them with their future health care needs.

MR. GEBHARDTSBAUER: I just remembered one more idea in the pension area. There's a company out there, I think it's U.S. West, that has a plan. I think they have a DB and a DC plan and you can move money back and forth between the two plans. That may be helpful in this area because so many people are going toward lump sums and DC benefits that they just keep it in the plan, invest it in the plan, in the stock market, or whatever. Suppose eventually they want to move it over into the annuity side; they can move it over into the DB side and get a pension. So I think you have the money in the DB side while you're working; when you quit you move it over to the DC side and then you don't have to annuitize at 65; you can actually keep it on the DC side until a much later age and then you can move it over to the DB side and get annuity. I think at 72½, though, as Mark was pointing out, you have to start collecting a little bit of minimum distribution every once in a while.

MR. WARSHAWSKY: I just want to answer Anna's question by noting that individuals have been given a lot of choices and a lot of freedom and I think that's a very good thing, but they also need the understanding and wisdom to deal with that. Both for the actuarial profession and more broadly, I think notions of educational campaigns or information that can be provided is essential. And also I think there has to be the right incentives in terms of the assistance that can be provided to individuals by salespeople and advisors. A lot of times the incentive structures are such that they lead people to push one thing or another. I think we need to devise incentive systems that are consistent with the interests of the people they are trying to help. I think those are two broad themes that we need to be concerned about as we go ahead because I think that the individuals really need assistance. They need the support of their employers and the government, but they also need to rely on themselves.

MR. LAURENCE R. WEISSBROT: No one knows yet where it's going, but DC health care is becoming a big issue. One of the models has employers putting money into accounts for employees. Now, if you start this young and if you have a person who is healthy most of his or her life, that could accumulate to a fairly substantial amount of money. And if there is not a need for the health care, assumedly that healthy person during his or her working life is also going to be healthier in retirement, if that money is available to supplement retirement needs. That's another possible source. All the tax code questions, all the fairness questions, all the education questions haven't even been voiced yet, much less worked out, but it's just another issue, another possibility.

MR. GEBHARDTSBAUER: This goes toward my issue earlier about employers wanting to get out of the risk and it's going to the employees, I guess.

MR. FOWLER: Just a question. There's movement toward commodity-type annuity products. If you look at other aspects of the financial markets, a lot of the things that have really penetrated have occurred when the products became commodities like discount brokerage mutual funds. They're at the level where they take a sophisticated investor and a lot of detailed sales effort and only people that are quite sophisticated have got the ability to really understand them. Term insurance has gone a long way in that direction. People buy it over the Web now. Do you see annuities in some of the products that we're talking about here being able to move more toward becoming a commodity?

MR. WARSHAWSKY: I think Ron gave you part of the answer because I think he gave you a Web site address, www.annuitynet.com. There definitely are these mechanisms for purchasing annuities out there and the Web is a great equalizer, so I think that there's some development along those lines.

MS. RAPPAPORT: I participated in a panel at the annuity conference earlier this year. In the opening session we were talking about the future in terms of things like selling annuities over the Web. Annuities are too complex, there are too many product features and the attempts to sell them that way haven't gone very far. Maybe somebody in the audience can add to that. Fidelity certainly is one of the leading companies now in the immediate annuities. Maybe you want to talk a little bit about what you're doing on the annuity side.

MR. WILLIAM J. JOHNSON JR.: We're selling annuities through our investor centers and over the phone— immediate annuities, both fixed and variable. This year we probably will sell close to a billion dollars of immediate annuities. We aren't selling them directly over the Internet, but there is information out there for people.

MS. RAPPAPORT: And you are emphasizing, I think, money coming out of qualified plans and IRAs.

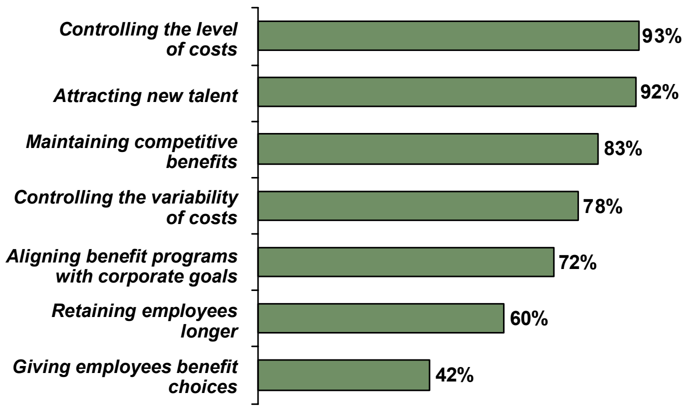
MR. JOHNSON: That’s right. The vast majority of our sales are qualified sales.

MR. WILLIAM A. BROWN: I noticed recently that Mr. Buffet and Berkshire Hathaway, among the various other things they do, offer annuities—single premium, immediate, and deferred—on the Internet. You can apply for and purchase them there.

Chart 1

The Competition for Talent

Workforce issues rated as critical or major by a large proportion of employers



Source: 1999 Mercer survey of multinational employers

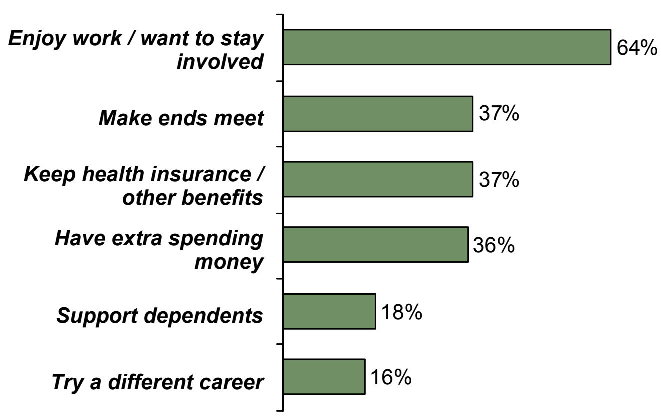
 3

Chart 2

Changing Retirement Patterns

Working After Retirement

Those who continue working after retirement cite many reasons for doing so



Source: 1999 Retirement Confidence Survey (EBRI & ASEC)

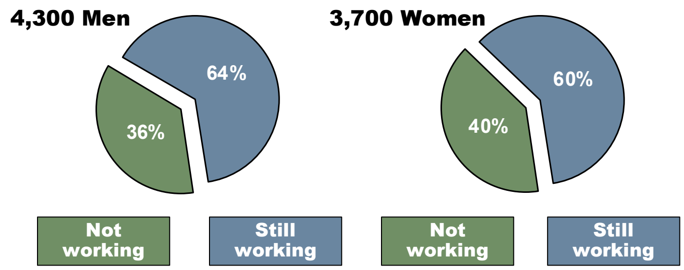
 8

Chart 3

Changing Retirement Patterns

Growth of Bridge Jobs

A 1996 study of 8,000 "career workers" aged 55-65 shows a high incidence of bridge jobs



	Last job held	Current job	Last job held	Current job
Full-time career job	25%	41%	17%	34%
Bridge job	11%	23%	23%	26%

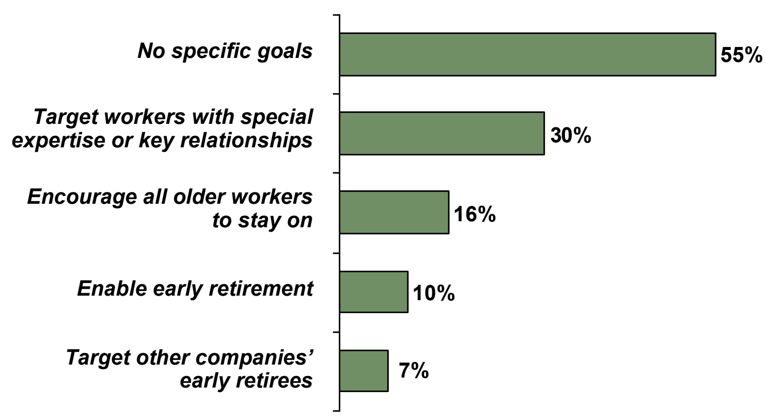
Source: J.F. Quinn, Boston College, 2000

 9

Chart 4

Survey Results

Goals and Strategies re Older Workers



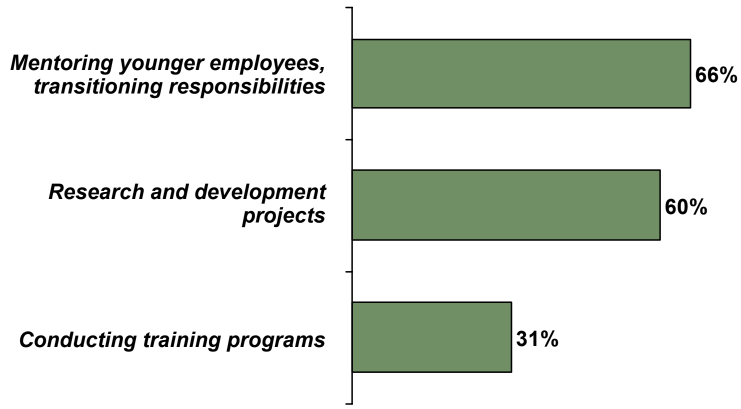
 14

Chart 5

Survey Results

Programs for Phasing Out

Most common types of special assignments
(used by 15% of respondents)



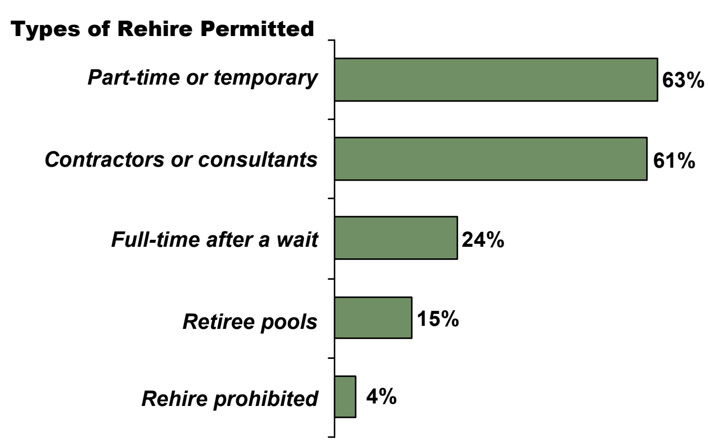
 16

Chart 6

Survey Results

Rehiring Retirees

Of the 59% who have a formal rehire policy



 17

Chart 7

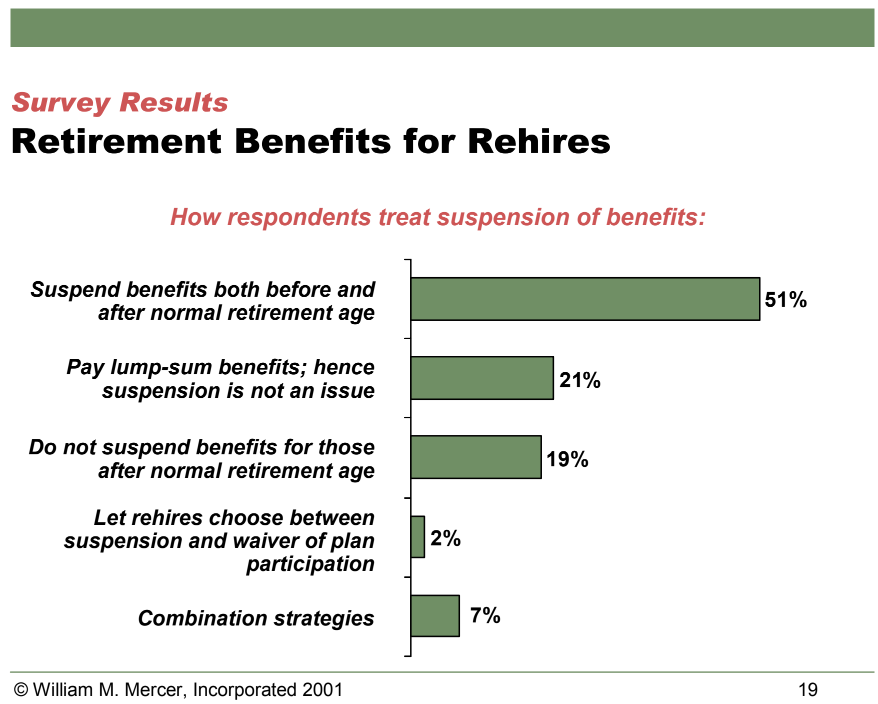


Chart 8

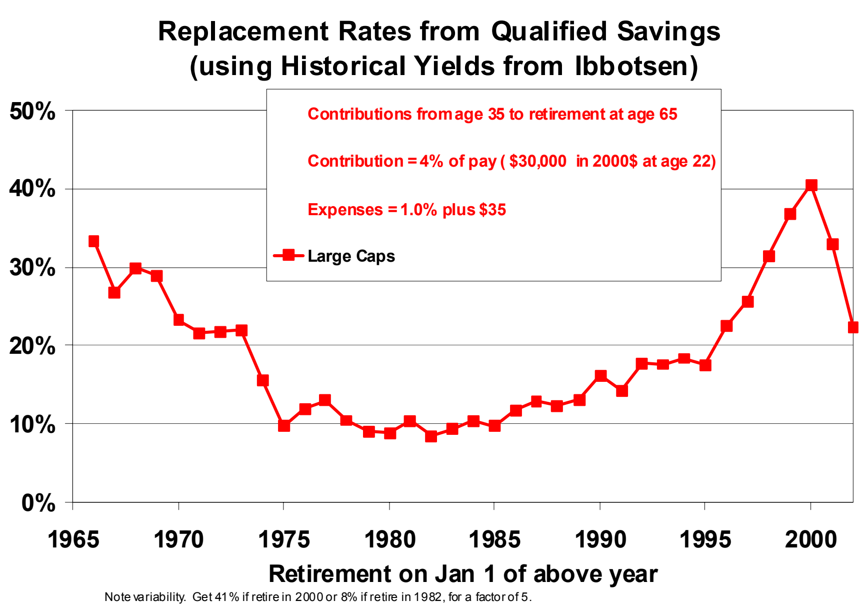
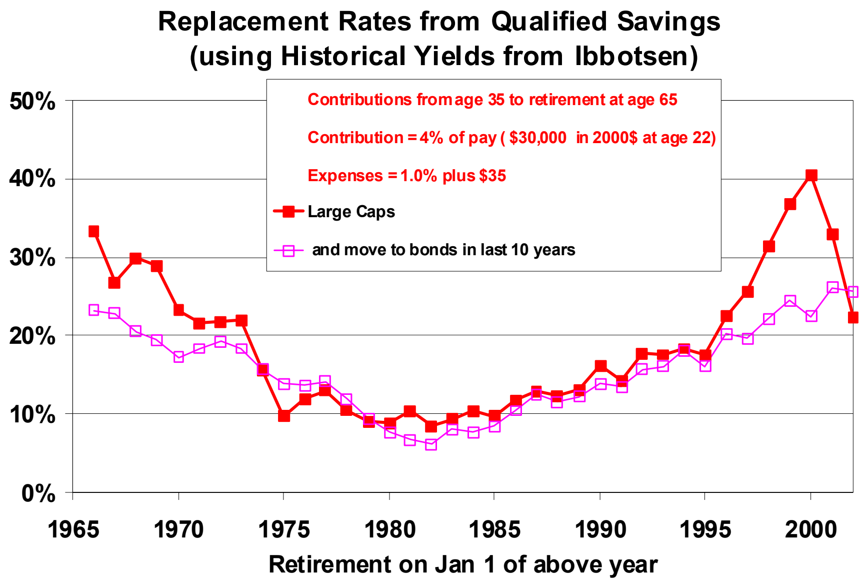
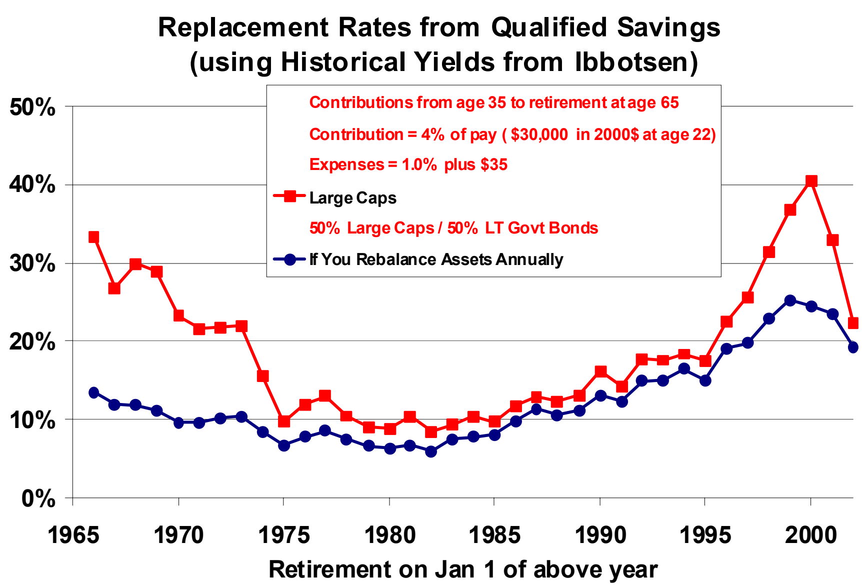


Chart 9



Why move to bonds in last 10 years? It varies less (factor of 5 versus 4), but it yields less 81% of the time.

Chart 10



Why diversify? It varies less (4x versus 5x), but always yields less too.