



SOCIETY OF ACTUARIES

Process of Retirement—Key Findings and Issues

February 2004

Introduction, Background and Methodology

As the retirement system has shifted to a greater focus on defined contribution plans and personal responsibility, post-retirement risk management has grown in importance. Most of the emphasis in retirement planning has been on the pre-retirement period, but several years ago the Society of Actuaries recognized the need to focus on management of post-retirement risks and instituted a Retirement Needs Framework Project. For many Americans, the method of managing risk in retirement has included continued work during retirement.

As part of the Society of Actuaries' project, research on public attitudes has been conducted in 2001 and 2003 by Mathew Greenwald & Associates, Inc., and the Employee Benefit Research Institute (EBRI) on behalf of the Society of Actuaries. The purpose of these studies was to evaluate Americans' awareness of possible financial risks, how this awareness had changed since 2001 and how it impacts the management of their finances with respect to retirement. In the 2003 study, a section was added about the process of retirement. This report specifically covers the study of the process of retirement. This study covers people between age 45 and age 80, split between retirees and pre-retirees. The definition of retirement focuses on retirement from the individual's primary occupation. The discussion sections in this report includes input from the organizations who sponsored the studies.

All information in this study was taken from the 2003 Risks and Process of Retirement Survey, sponsored by the Society of Actuaries. The study was conducted by telephone interviews. Households were selected from a nationwide targeted list sample. There are 604 Americans age 45 to 80 in the sample, (303 retirees and 301 pre-retirees, unweighted). The margin of error for study results, at the 95% confidence level, is ± 6 percentage points for questions asked of all retirees or all pre-retirees.

It should be pointed out that the results of the 2003 Risks and Process of Retirement Survey apply to Americans, on average, and do not provide specific insights into behaviors and values of high net worth individuals. Only 2% of the sample report \$1 million or more in savings and investments. Four percent of pre-retirees and 3% of retirees report savings and investments of between \$500,000 and \$1,000,000. Fourteen percent of pre-retirees and 4% of retirees report household incomes of at least \$100,000. At the low income end of the spectrum, 12% of pre-retirees and 28% of retirees report incomes less than \$25,000.

Interest in Phased Retirement

A October, 2003 report from the Congressional Research Service “Older Workers: Employment and Retirement Trends.” sets the stage for why people are looking at the process of retirement today and why it is important to both retirees and active workers. The CRS report says:

“As the members of the “baby boom” generation – people born between 1946 and 1964 – approach retirement, the demographic profile of the U.S. workforce will undergo a substantial shift: a large number of older workers will be joined by relatively few new entrants to the labor force. According to the U.S. Bureau of the Census, while the number of people between the ages of 55 and 64 will grow by about 17.8 million between 2000 and 2020, the number of people who are 25 to 54 years old will not grow at all. This trend could have important effects on wage rates and economic growth because the labor force participation rate (the percentage of people either employed or unemployed but looking for work) begins to fall steadily after age 55. In 2002, 91% of men ages 25 to 54 and 76% of women in this age group participated in the labor force. In contrast, just 69% of men ages 55 to 64 and 55% of women ages 55 to 64 were either working or looking for work in 2002.”

“As more workers reach retirement age over the next several years, employers may try to induce some to remain on the job, perhaps on a part-time schedule. This is sometimes referred to as “phased retirement.” Several approaches to phased retirement – job-sharing, reduced work schedules, and rehiring retired workers on a part-time or temporary basis – can be accommodated under current law. Some of these approaches, however, require the individual to separate from the firm before returning under an alternative work arrangement. Under current law, a pension plan cannot pay benefits unless the recipient has either separated from the employer or reached the pension plan’s normal retirement age. Some employers would like to pay partial pension distributions to workers at the plan’s early retirement age and to limit participation to workers in particular occupational categories. However, targeted participation could cause a pension plan to violate the provisions of the tax code that prohibit retirement plans from discriminating in favor of highly-compensated employees.”

There is no standard agreed upon definition of phased retirement. Viewed broadly, it can include phasing out either by reducing schedule before retirement, changing duties or by working part-time in retirement. When people say they are retired and still working, this raises many questions of definition. This study seeks to help us understand what people are doing.

Phased retirement already exists informally.

Finding

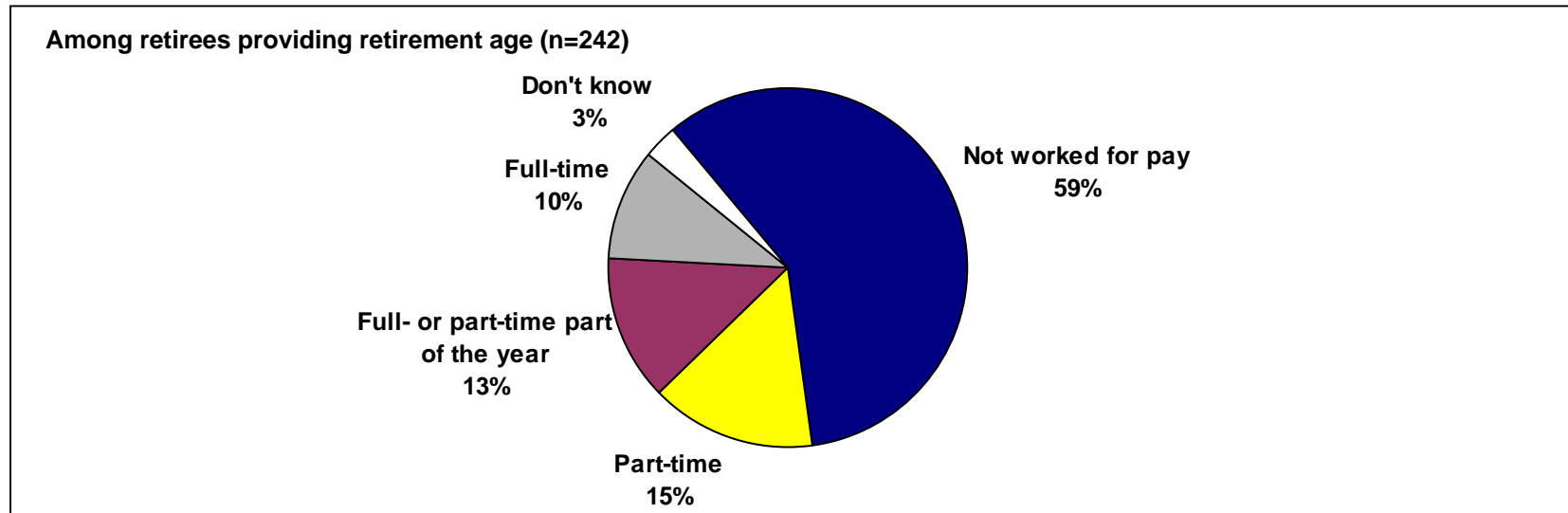
Many people who have retired from their primary occupation continue to be employed in the workplace. One in ten are working full-time, while one in seven each are working part-time or for part of the year.

Discussion

The definition of retirement is increasingly unclear, and for many retirement means continued work. Thirty-eight percent of the respondents who said they were retired from their primary occupation had worked for pay in the last year.

Some workers retire with the intention of continuing to work in some capacity. For others, intentions at time of retirement do not always provide insight into what happens. People's needs and interests change over time. Others may want to work but may not be able to find jobs that fit their needs, and still others may become disabled and unable to work despite a desire to continue.

In the past 12 months, have you worked for pay?



Phased retirement is likely to increase in the future.

Finding

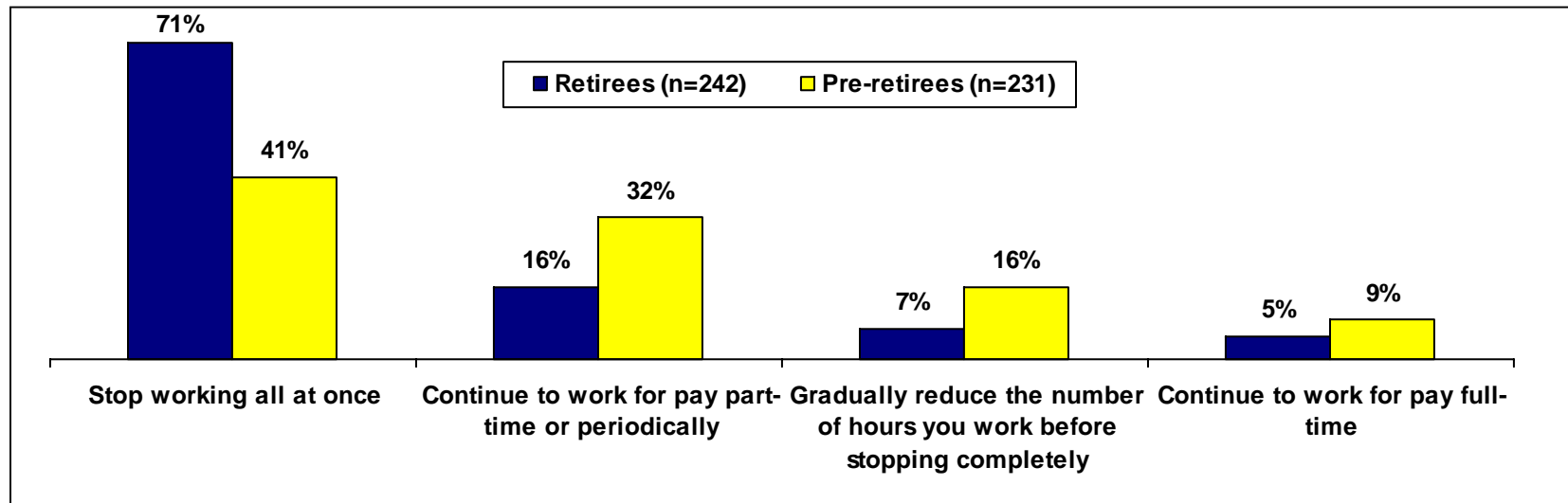
While seven in ten retirees say they stopped working all at once when they retired from their primary occupation, just four in ten pre-retirees plan to do so. Instead, one-third of pre-retirees plan to continue to work part-time or periodically, almost twice the proportion of retirees who actually chose this retirement path. Likewise, more than twice the proportion of pre-retirees say they will gradually reduce the number of hours they work before stopping completely.

Discussion

The demographic shifts, the shift to more personal responsibility, and the fact that many people do not have adequate retirement savings will mean that more workers will want to retire at later ages or phase into retirement.

Increased workloads in many jobs in the last decade also increase the importance of available phased retirement. As jobs become ever more demanding, more people are likely to want and possibly need a different balance to continue working.

Which statement comes closest to describing how you retired/plan to retire from your primary occupation?



Retirees who gradually reduced the number of hours they work report a variety of working arrangements.

Finding

One-third of retirees who gradually reduced the number of hours they worked in retirement say they continued to work for the same company at the same job, while almost one in ten worked at the same company but at a different job. For others, the gradual reduction in employment meant a change in employer: one third report working for a different company and one-fourth became self-employed.

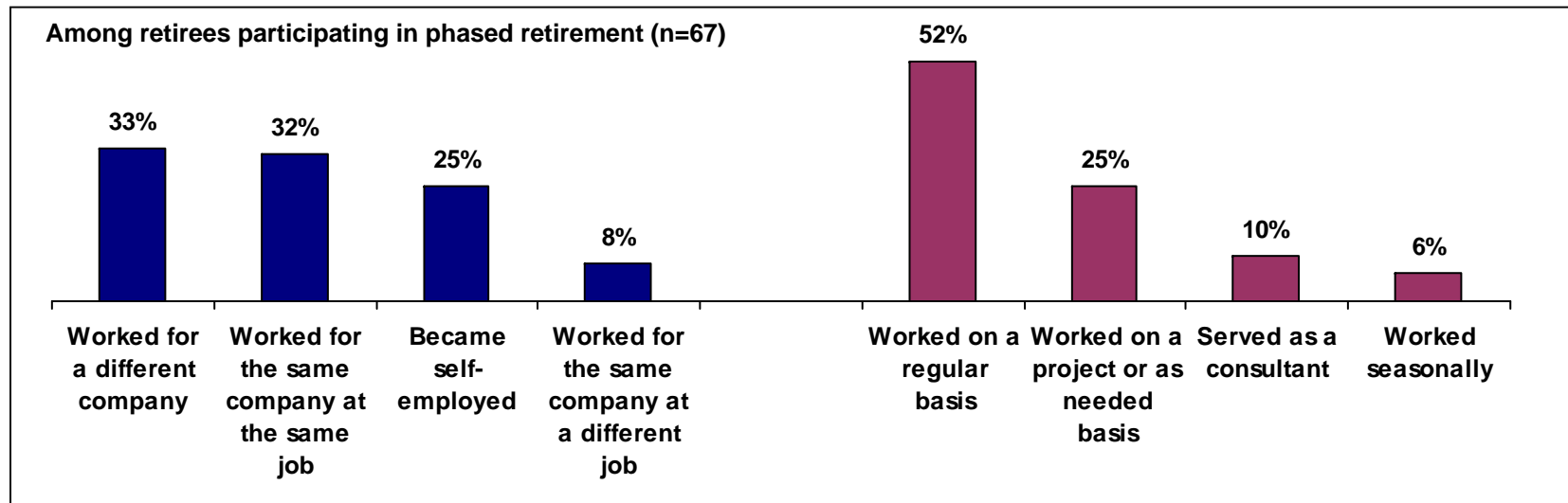
This reduced employment usually means working on a regular basis throughout the year on a reduced schedule. However, others must make adjustments, working on a project or as needed basis (25%), as a consultant (10%), or seasonally (6%).

Discussion

This is a very important issue for policy makers and the business community. Approaches to phased retirement are evolving, and most people are inventing their own options. Today, few formal phased retirement programs exist and the policy environment does not accommodate such programs easily – except in universities and the public sector, both of which are subject to somewhat different laws.

Understanding choices made by current retirees will help in building a better future.

When you retired, which statement comes closest to describing what you actually did?



Pre-retirees plan to retire at a later age than current retirees.

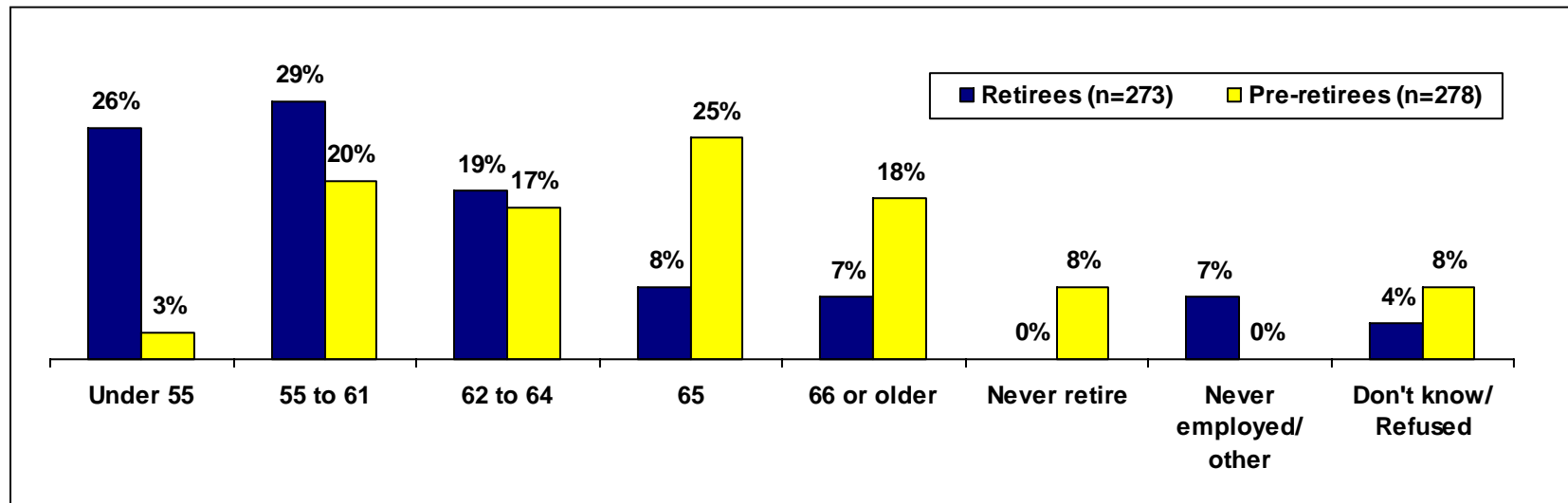
Finding

While almost half of current retirees say they left their primary occupation before age 60, half of current pre-retirees plan to stay in their current occupation until age 65. In fact, 51% of pre-retirees plan to remain in their current occupation until they are at least age 65. Just 15% of retirees report having waited that long to retire.

Discussion

Retirement age has declined over the past decades. Pre-retirees' expectation of retiring at ages older than those at which current retirees retired would represent a significant change in retirement patterns. This change in expectation could be due to several factors. Most pre-retirees do not work for a single employer, minimizing the build-up of a defined benefit pension. In addition, the decline in defined benefit plans and employer-sponsored post-retirement medical insurance may be driving pre-retirees to work longer. However, pre-retirees may also be expecting to retire at later ages because they are not anticipating health, economic and other risks that may force them to retire earlier.

At what age did you retire/do you expect to retire from your primary occupation?



But pre-retirees may be ignoring some harsh realities in planning for retirement.

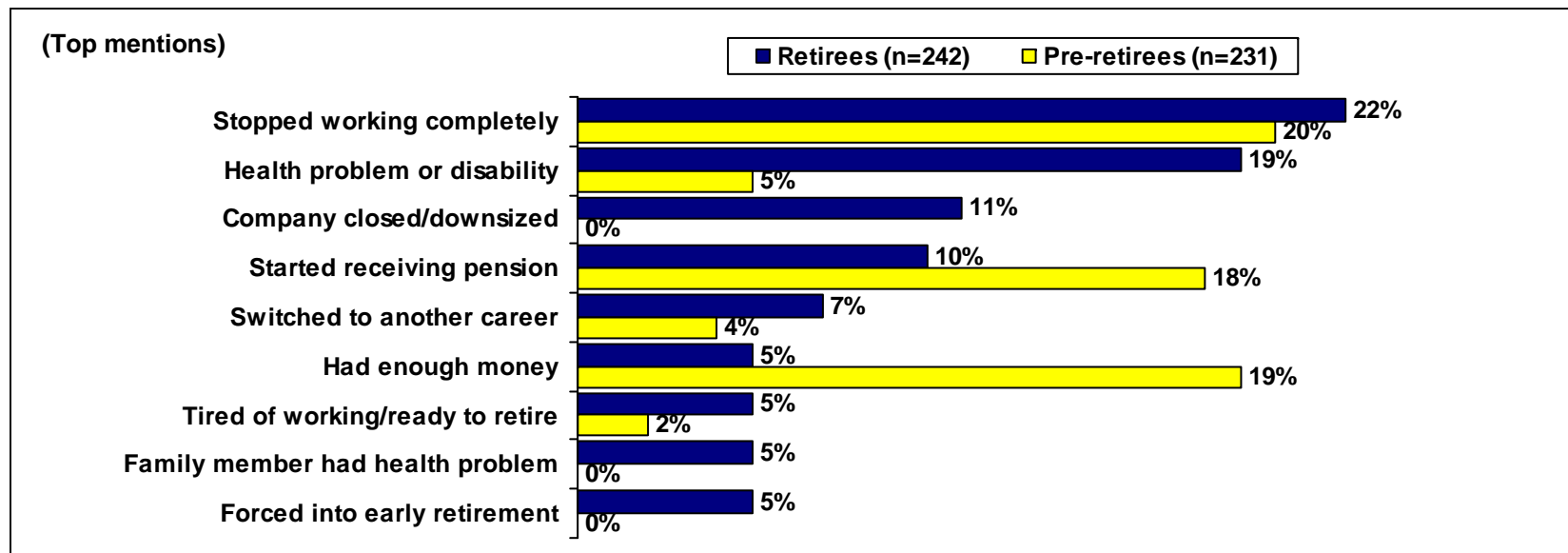
Finding

When asked an open-ended question about what event or situation would lead them to retire at the age that they plan, pre-retirees tend to cite such events as stopping work completely (20%), having enough money to stop working (19%), starting to receive a pension (18%), and meeting age or years of service requirements (12%). They tend to ignore the more negative experiences that were deciding factors for a great many retirees: a health problem or disability (19%), company closure or downsizing (11%), health problem of a family member (5%), and being forced into early retirement (5%).

Discussion

Pre-retirees do not appear to consider that they may not have control of their retirement date. The retirement system is evolving to focus on individual responsibility for retirement, through more defined contribution plans and less employer-sponsored post-retirement medical insurance. Previous generations of retirees who retired before they expected often had generous employee benefits to ease the transition into retirement. The change in financial responsibility highlights another risk for individuals who, in planning for their expected retirement, must also plan on retiring when they don't expect to.

What event or situation occurred/will occur that leads you to say that you retired/will retire at that age?



Health related matters are still most important, but financial considerations have become more important when thinking about when to retire.

Finding

When health is mentioned in a close-ended question regarding factors that lead to retirement, pre-retirees do tend to give it considerable importance. Nevertheless, pre-retirees are more likely than in 2001 to say that the amount of money they expect to have at the time they retire, keeping health insurance through their employer, and the eligibility age for Social Security are very important considerations when deciding when to retire.

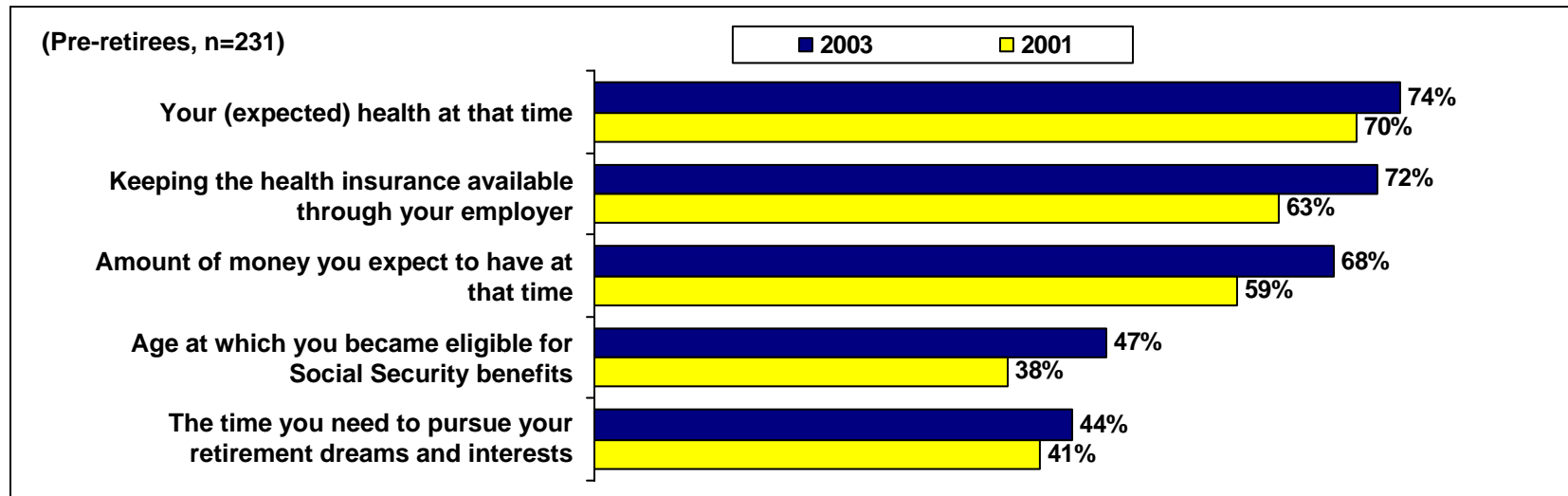
There are other indications that finances may have become more of a concern for pre-retirees than in the previous study. Pre-retirees are slightly more likely than in 2001 to say they will never retire (8%, up from 4%), and they are more apt to report having accumulated less than \$50,000 in savings (39%, down from 28%).

Discussion

Many people actually retire earlier than planned often due to health problems or loss of a job. Health benefits and money are the key enablers that make a retirement decision possible. Absence of health coverage is a barrier to retirement for many who would like to retire.

Other studies including the Retirement Confidence Study and recent American Association of Retired Persons (AARP) studies indicate that confidence about financial aspects of retirement is relatively unchanged, but that people are planning to retire later, usually in order to save more money for retirement.

How important are the following factors in your plan to retire at that age? (Percentage saying very important)



While retirees cite a variety of factors for reducing hours, pre-retirees most often focus on finances.

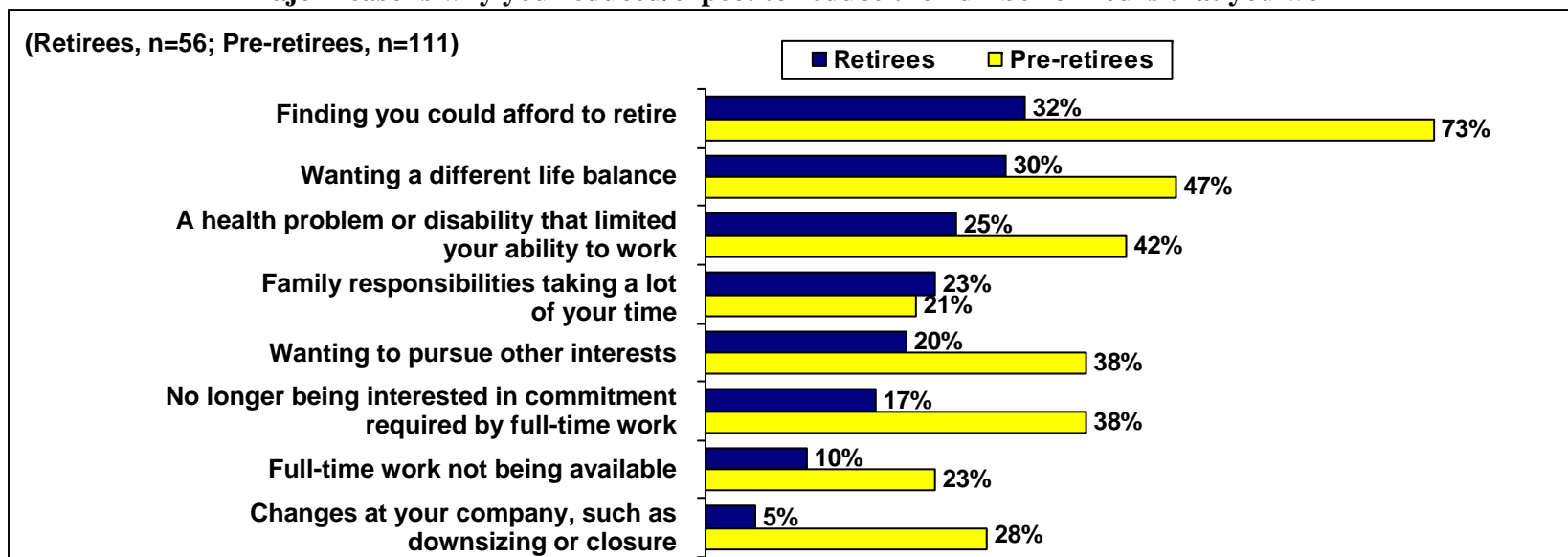
Finding

Only one-third of retirees say that finding they could afford to retire is a major reason they reduced the number of hours they worked, but almost three-quarters of pre-retirees anticipate that this will be a reason they cut back on their hours. Pre-retirees are also more likely to expect that other reasons will be major reasons for reducing their hours than retirees' actual reported experience. The exception is for expectation about commitments required for family responsibilities.

Discussion

Pre-retirees have a difficult time envisioning what may lead to their eventual retirement. They do acknowledge that factors beyond their control, such as health problems or lack of full-time work, may lead to their eventual retirement. However, they are optimistic that they will have control of their retirement process. Only 41% anticipate stopping all at once; 57% percent anticipate working in some fashion after retirement. The statistics below support that finding; pre-retirees are optimistic that they can choose the point to retire when they can afford it, when they want a different life balance or are no longer interested in full-time work, or to pursue other interests.

Major reasons why you reduced/expect to reduce the number of hours that you work



Many pre-retirees say they would alter their retirement plans if they could begin collecting part of their pension during a phased retirement period.

Finding

Among pre-retirees who expect to receive a pension from an employer, almost half say that if the law changed allowing them to cut back on their working hours, and begin collecting their pension, they would alter their plans for retirement.

Two-thirds of those who say they would change their behavior indicate that this type of change would cause them to begin to retire at a younger age, and one in ten believe they would retire at an older age. Still one-quarter say that although this change would impact their plans in some fashion, it would not alter the age at which they would retire. Among other changes that people say they might make are retiring gradually instead of all at once (45%) or spreading their gradual retirement over more years (18%).

If this law were changed so that you could cut back on your working hours and therefore get less pay, but at the same time start collecting some of your pension, would this change your plans for retirement?

Discussion

At present one of the major barriers to phased retirement programs are legal restrictions that prohibit in-service distribution of partial pensions from defined benefit plans subject to the Employee Retirement Income Security Act (ERISA) prior to normal retirement age. It is important that this issue be aired and that appropriate policy solutions be developed.

As noted previously in this report, many retirees are putting together their own phased retirement programs. And, pre-retirees are very interested in, and relying on, working into retirement. Today, workers in the private sector must do that by retiring from one employer to work for another, or to work for the same employer as a consultant or part-timer, to allow them to draw their pension.

Do you think you would start to retire at ...?



Conclusions

The way people are choosing to retire and the way it happens are changing. Retirement is increasingly a process. Formal phased retirement is a reality only for selected groups. Such programs are most common in academia and the public sector and uncommon in private business. In sectors where there are few formal programs, there are many informal arrangements.

The American Academy of Actuaries, in a letter to the Internal Revenue Service dated December 30, 2002, presented a good overview of the situation. Following is an excerpt from that letter:

“Employee perspective: At present, many individuals are opting to leave the labor force in steps, in effect, creating their own personal phased retirement programs. There are several different ways that they do this: retire from one company and get a job at another, often part-time; retire and then get rehired, usually on a limited basis by the same employer; or phase out gradually before actually retiring. The 2001 Employee Benefit Research Institute (EBRI) Retirement Confidence Survey¹ indicates that employees often want to continue to work after retirement due to a combination of personal preference and economic need.

Individual circumstances vary. There are situations where someone is offered an attractive early retirement benefit (with or without an early retirement window), and prefers to retire and take the benefit but not leave the labor force entirely. Today employees have jobs that require a heavy commitment of time and energy, 50-60 hours a week or more. For such people, their full-time job is all consuming, and they often seek to retire as early as possible and move into a job with a more reasonable commitment. Others want more time off, have a hobby or interest they want to pursue, want to travel, or have care-giving responsibility so that adjusting their work schedule is very attractive. Others want more time off but do not want to be disengaged, and for them a reduced schedule can be an ideal option. Others would prefer retirement entirely, but cannot quite afford it, so they opt for retirement but supplement their income with some part-time work. In other cases, people retire, expecting that they have enough resources, and then discover that they would really like to have or need more financial resources.

¹ Employee Benefit Research Institute, EBRI 2001 Retirement Surveys: Retirement Confidence Survey (RCS), Minority RCS, and Small Employer Retirement Survey (SERS), EBRI Issue Brief Number 224, June 2001.

Conclusions (continued)

The EBRI survey also found that 26 percent of current retirees say they have worked either full-time or part-time since they retired. In addition, a 1999 AARP survey found that eight in ten baby boomers plan to work at least part-time during their retirement.² A recent Congressional Research Service paper³ noted that 20 percent to 40 percent of workers in their 60s are working part-time.

Employer perspective: Until now, except in certain occupations like nursing, the talent loss expected as the “Baby Boom” generation retires has not been a major problem. The situation is expected to change in the next few years, with the issues of retention of talent, transitioning knowledge, and mentoring newer workers becoming more important. There have already been many cases where companies have sought to keep individuals, often by rehiring retirees, in order to keep needed skills and talent. The issues surrounding the aging workforce also interact with other forces. For example: “U.S. defense agencies and aerospace companies are launching knowledge management programs in an effort to mitigate what some are calling a national disaster – the tremendous loss of expertise caused by a decade of budget cuts, downsizing and an aging workforce.”⁴

The regulatory environment: The current qualified plan rules do not facilitate, and in some cases impede, phased retirement. They also create uncertainty around the rehiring of retirees. Other rules create uncertainty with regard to the possibility of triggering age discrimination problems. The legislative and regulatory rules related to phased retirement issues need to be addressed in order to make phased retirement practical for both companies and employees. It should not be more attractive for employees to retire and go to work elsewhere than to stay with the current employers. As employers are limited in the options they can offer, all too often this is the case. We have noted below several of these issues and suggestions for resolution that will support an employer who wishes to implement a flexible phased retirement system.

² “Baby Boomers Envision Their Retirement: An AARP Segmentation Analysis,” Roper Starch Worldwide and AARP, February 1999.

³ “Older Workers: Employment and Retirement Trends,” Congressional Research Service, October 18, 2002.

⁴ “Industry’s Loss of Expertise Spurs Counterattack,” William B. Scott, Aviation Week and Space Technology, March 13, 2000.

Conclusions (continued)

Why Both Phasing Out and Rehiring Retirees are Important Options for Employees and Employers: A reduced schedule before retirement will work well for some types of jobs and fit well into employee preferences. In other cases, employers may prefer not to commit to continued employment but would want retirees to fill in as temporary help is needed or as projects come up that can be done on a consulting basis. Likewise, some employees may want to commit to ongoing work but at a reduced pace. Others prefer to leave their time available for travel and personal interests but are happy to work on an “as-needed” basis. All of these options should be available to employers as they structure programs, and they should be available without undue legal risk.”

This study provides new insights about how people are leaving the labor force when they leave gradually. It reinforces with new facts the fact that people are retiring gradually and the fact that many people end of leaving earlier than they wished to. Policymakers need to focus on how to adapt policy to encourage better options.

Note: The 2003 Risks and Process of Retirement & Survey report can be obtained from the Society of Actuaries (www.soa.org).