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TRUSTEES AND FACULTY RETIREMENT POLICIES

by

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I. Introduction

The 1987 Amendments to the *Age Discrimination in Employment Act* eliminated mandatory retirement for tenured faculty members at American colleges and universities effective January 1994. In effect, tenure had truly become a lifetime employment contract. Some in the academic community feared that voluntary retirements of tenured faculty would slow, decreasing opportunities for academic institutions to make new faculty appointments and to diversify their faculties along race, ethnic and gender lines. Others feared that a slowdown in retirements would lead to an increased proportion of senior faculty, many of whom might no longer be at their peak productivity as teachers and researchers, and would increase the institutions' salary costs.

Studies of the likely effects of mandatory retirement undertaken before it became effective concluded that the change in the law would likely effect only major research universities. Recent studies undertaken at four such institutions, Cornell, Duke, North Carolina and North Carolina State, confirm that the end of mandatory retirement has influenced faculty retirement rates at major research universities. In each case, the change in the law appeared to have little effect on the probability that faculty members retired prior to age 70. However, many of those faculty members who would have been constrained to retire at age 70 now appear to be postponing their retirement until later ages. Moreover, a broader study that used data from a nationally representative sample of 104 colleges and universities found that the postponement of retirement by faculty members who otherwise would have retired at age 70 is not confined to the major research universities. While often the faculty members who stay on beyond age 70 are among the most productive faculty at an institution, such findings have led some

institutions to think about how they might alter their faculty retirement policies to encourage those faculty members who are staying on past age 70 to retire by that age.

Other institutions are more concerned, however, about the large fraction of their faculty who are nearing retirement ages. Fueled largely by the historic patterns of enrollment, and consequent faculty growth during the last three decades, the American Professorate is aging rapidly. Data from the *1999 National Study of Postsecondary Faculty* conducted by the National Center for Education Statistics indicate that 44.4% of all tenured faculty were ages 55 and older in 1999. Similarly these data indicate that 16.9% of all tenured faculty members plan to retire within the next 5 years, with another 22.3% plan to retire within 6 to 10 years. While the percentages varied by type of institution (doctoral, 4-year other, 2- year) and control (public or private), a substantial fraction of faculty members in each category indicated that they plan to retire within 10 years.

Large numbers of faculty retirements in the years ahead will provide institutions with the flexibility to reconstitute their faculty along disciplinary and demographic lines. However, many institutions may worry about what the loss of so many faculty with long tenure, who have been committed to and led their institutions, will mean for the teaching and research programs of the institutions and their operations. They may also be concerned about whether they will be able to attract new faculty to replace their retirees during a period in which projected college enrollment increases nationwide will likely make the labor market for new faculty members very tight. Those institutions that are heavily invested in scientific research may also worry about the implications of the loss of senior faculty members who have the capacity to generate funded research and the

institutions' need to find funding for "start up" costs for new scientists. Hence many institutions will want to search for ways to slow down the rate of retirement of their senior faculty, or at least to find ways to utilize some of their retiring faculty members on a part-time basis after they retire.

Put simply, retirement of faculty provides both benefits and costs to academic institutions. The trustees of each institution need to make sure that in the years ahead their faculty members and their administration are thinking about how to best address the retirement process.

At the very least, trustees should have their institutions look at the demographics of their tenured faculty. It is straightforward for institutions to compute how many of their tenured faculty members are approaching retirement ages and, based upon information from the institution's recent past on ages at which faculty members retire, the likely number of faculty that will retire each year for the next decade. Given the distribution of fields of these faculty members, the finances of the institution, and the demands for new faculty hires in different areas, each institution can then decide how it would like to influence its flow of faculty retirements. These flows can be influenced by the policies that institutions develop to influence the incentives faculty members face to retire and to encourage emeritus faculty to participate in the life of the campuses.

II. The *Survey of Changes in Faculty Retirement Policies*

To aid institutions and their faculty members develop strategies to deal with retirement related issues, the American Association of University Professors' (AAUP) Committee on Retirement has conducted a *Survey of Changes in Faculty Retirement Policies*. Undertaken during the summer of 2000, the survey collected data from a large

national sample of colleges and universities to obtain information on the characteristics of regular retirement programs for tenured faculty, on the existence and nature of retirement incentive programs and phased retirement programs and on institutional policies relating to the treatment of retired faculty members. Financial support for the survey, which was cosponsored by the American Council on Education, the College and University Professional Association for Human Resources and the National Association of College and University Business Officers, was generously provided by the TIAA-CREF institute. Ultimately, 608 institutions representing public and private doctoral-granting, masters-granting, bachelors-granting and two-year institutions nationwide responded to the survey.

A summary of the survey's findings is being published in the July 2001 issue of *Academe*. A more technical discussion of the findings can be found on the AAUP web page, www.aaup.org. Perusing this discussion will allow trustees to learn how institutions similar to theirs are confronting these issues. Trustees can also learn from the web site addresses listed there, that about 40% of the respondents to the survey provided, the details of the specific policies that other institutions are following. Hopefully, these materials will aid trustees, administrators and faculty groups develop appropriate policies at their own institutions. My discussion in this article highlights the types of information collected in the survey and the issues that trustees should be thinking about.

III. Retirement Incentive Programs: Enhanced Retirement Benefits and Buyouts

Most tenured faculty members at private colleges and universities are covered by defined contribution retirement plans. Under such plans, the institution contributes a specified fraction of each faculty member's salary each year into a fund, which is then

invested (along in some with cases with a required faculty member matching contribution) to provide benefits for the faculty member in retirement. The fund “belongs” to the faculty member and since delaying the retirement decision typically increases the value of the fund, defined contribution pension plans do not provide faculty members with strong economic incentives to retire.

The types of retirement plans available to faculty members at public institutions are more varied, but state-sponsored defined benefit retirement programs cover many faculty members at public institutions. Defined benefit plans provide retired faculty members with an annual retirement benefit that usually depends upon their salary, years of service and often age at retirement. Such plans offer incentives to retire because the latter a faculty member retires, the fewer the expected number of years that benefits will be paid out. In addition, these plans often specify a maximum benefit percentage, as a share of final earnings, which after some point eliminates much of the increase in annual benefits that a faculty member would receive from working an extra year.

It is easy to build retirement incentives into defined benefit pension programs by offering individuals credit for additional years of service if they retire before a specified age. The University of California system did exactly that in several recent programs. Inasmuch as the state retirement system was over funded at the time (had more assets than were needed to pay for promised pension benefits to current and future retirees), the cost of the retirement incentive program did not fall on the budget of the university. Similarly a recent retirement incentive program for SUNY faculty members covered by the state retirement system in New York State provided eligible faculty members with 1

months additional service credit for each year that they had been employed up to a maximum of 36 months (3 years) of additional service credit towards retirement.

It is much more difficult and expensive, however, to build effective retirement incentives into defined contribution programs. The reason for this is two-fold. First, the funds for such programs typically come, at least at private institutions, directly from the budget of the institution. Second, additional contributions made by a college or university into a faculty member's retirement account to encourage retirement under current tax law is considered taxable income to the faculty member in the year that the contributions are made. So retirement incentive programs for faculty employed under defined contribution retirement systems typically take other forms.

One of the forms that such programs take is negotiated buy-outs, or cash payments. Under such plans, if a faculty member meets the conditions that an institution sets (typically a combination of age and years of service requirements), the faculty member is eligible to receive a lump sum cash payment in return for agreeing to retire before he or she reaches a specified age. Sometimes the size of the payment is larger the younger the faculty member is at retirement to encourage faculty members to retire at earlier ages. At some institutions all faculty members who meet the eligibility conditions are automatically eligible to take advantage of the program, while at others administrative approval is required. Buyouts reported in the AAUP survey most often were for a year's salary or less, although a few institutions offered more than two years' salary. Before adopting such a program, administrators and trustees should do very careful calculations that weigh the costs and the expected benefits of such programs. Some institutions, including my own, have concluded that the costs of such a buyout program would far

exceed the benefits to the institution in terms of the increased flow of new faculty members that it would permit.

Trustees must also decide whether the program should be a “window program”, in which faculty are eligible to take advantage of it only during a specified time period (such as a calendar year) or whether the program should be an ongoing program that will last indefinitely. On-going programs make most sense when an institution is trying to address the long-run implications for it of the end of mandatory retirement. Window programs make sense if the institution is facing a short-run financial problem that it is trying to solve by quickly reducing its number of more expensive senior faculty. One caution, however, is that once a window program is adopted, it often sets in faculty minds an expectation that similar window programs will be adopted in the future. Hence some faculty planning to retire after a window plan has expired may postpone their retirements until the next window plan (of at least equal generosity) is adopted. This suggests that it is prudent for institutions to adopt only continuous on-going programs unless there is a compelling financial reason for them to have a window plan.

In a small number of cases, respondents to the AAUP survey reported offering their faculty members terminal leaves to encourage retirement. For example, under a terminal sabbatical leave policy currently in effect at Ithaca College, faculty members with twenty years of service who are between the ages of 60 and 65 are eligible for a terminal semester leave at full pay or a terminal academic year leave at 50% plus 1% per year of service (up to a maximum of 80%) pay. Faculty members electing to take a terminal leave continue to receive regular benefits, including institutional contributions to health insurance and their retirement program, during the leave period. In general, terminal

leaves are more expensive to an institution than providing an equivalent lump sum salary payment to retiring faculty members because of the extra costs of benefits associated with the leave program. However the benefits associated with a terminal leave may provide an increased incentive for faculty to consider retirement.

IV. Phased Retirement Programs

Some faculty members find the prospects of abruptly ending their academic careers very distasteful and this is likely to induce them to postpone retirement. Two ways that transitions into retirement can be made more gradual for faculty are to permit them to phase into retirement by working part-time for a specified number of years before they formally retire or to permit (and indeed encourage) them to teach part-time for a number of years after they have formally retired. For some institutions, the latter may prove to be an effective way of reducing the rate at which they need to make new faculty appointments during a time when large numbers of their faculty are approaching retirement ages.

An example of the first type of program is Cornell University's phased retirement program. This program permits faculty who are between the ages of 55 and 70 to work part-time for up to 5 years. A maximum age of eligibility of 70 is specified in the program to provide an incentive for faculty members who are near that age to seriously think about whether they want to take advantage of the program and begin the process leading to retirement. Faculty members who elect to participate in this program receive a pro rata share of their salary during the period but full benefits (including employer contributions to the health insurance plan and employer contributions to their retirement plan based upon their full academic salary). In return the faculty members make a

binding legal to commitment to retire (give up their tenure status) at the end of the part-time employment period. At Cornell, and at most institutions in which phased retirement programs exist, administrative approval is required for faculty members to be accepted into the program. Some institutions that have these types of programs provide faculty members taking advantage of the program with more than pro rata pay, for example 60% salary for 50% work.

An example of the second type of program is one that currently exists at the University of North Carolina System. Under this program, faculty members can negotiate an agreement in which they formally retire and start drawing retirement benefits from the state retirement system, while simultaneously being rehired to teach on a part-time basis for a fixed number of years. Again, administrative approval is required. Many other institutions, particularly doctoral ones, engage in negotiations with faculty approaching retirement ages and hold out part-time teaching after retirement as a perk to encourage retirement.

V. Other Post-Retirement Faculty Benefits and Perks

Retirement decisions of faculty also may depend heavily on how institutions treat their former faculty members in retirement and what factors faculty members at each institution care about. Is the title of emeritus professor automatically bestowed on retiring faculty or is it at the discretion of university administrators? Do retired faculty members value the opportunity to keep at least shared office space and does the institution provide such space to retired faculty? Do retired faculty have access to the institutions computer systems, to telephones, to clerical assistance and to on-campus parking? Can they continue to advise undergraduate and graduate students and supervise theses? Can they

continue to participate in faculty governance and serve on tenure and appointment committees? Are retired faculty members in the sciences who continue to be engaged in research allocated laboratory space using the same criteria that is used to allocate research space to the institution's other faculty? Can retired faculty continue to submit research grants through the institution? Finally health insurance is very important to faculty contemplating retirement. Does the institution allow retired faculty to continue to enroll in its group medical insurance programs and does it continue to contribute to these programs?

The answers to some of these questions, such as the conferral of the title of emeritus professor, involve no financial issues for the institution. The answers to others, such as the provision of lab and office space, as well as continued financial subsidy of coverage under the institution's medical insurance program, involve considerable financial costs. The appropriate set of policies is likely to vary widely across institutions. However, at each institution very careful consideration of the costs and benefits of each policy should be considered.

VI. The Role of Trustees

Senior academic administrators are often so preoccupied with the short-run academic and financial issues facing their institutions that they do not focus on longer-run issues that the institution should be addressing. The changing age structure of the faculty at each institution and the implications of this change for institutional retirement policies is an example of this type of issue. I strongly urge trustees to see that their institutions address this issue. Trustee involvement in issues of retirement, whether by simply pushing administrators to revisit their institutions' retirement policies, or by

serving on joint faculty/administrative/trustee committees that address these policies, will be an important in the years ahead. In particular, it is likely that more and more institutions will need to think about developing programs to permit phased retirement, or to encourage retired faculty members to teach part-time, as a way of meeting their faculty staffing needs in the years ahead.