

# Career's End

A Survey of Faculty  
Retirement Policies

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BY RONALD G. EHREMBERG

There are almost as many ways to retire from the academy as there are types of schools. But, as a recent study shows, institutional planning can prevent unpleasant surprises.

**W**hen mandatory retirement for tenured faculty members ended in January 1994, some in the academic community feared that voluntary retirements would slow, decreasing opportunities for colleges and universities to make new faculty appointments and increasing their salary costs. Recent studies indicate that some faculty members who would have been constrained by law to retire at seventy have indeed postponed their retirements. Moreover, this postponement appears to be widespread and is not confined to major research universities.

Although some institutions have focused on ways to alter their policies to encourage retirements, others now worry more about the large fraction of their faculty who are nearing retirement age. The National Center for Education Statistics' *National Study of Postsecondary Faculty* reported that 44.4 percent of all tenured faculty members were fifty-five and older in 1999. On the one hand, faculty retirements give institutions flexibility to reconstitute their faculty in the years ahead. On the other, institutions that anticipate replacing many faculty in a relatively short time wonder about what the loss of so much institution-specific "human capital" will mean for their educational and research programs. Put simply, faculty retirements provide both benefits and costs to academic institutions, and each institution needs to decide how it should best address the process.



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To assist in this effort, the AAUP's Committee on Retirement, of which I am chair, conducted a survey in 2000 of changes in faculty retirement policies at a large national sample of colleges and universities. The goal was to obtain information on the characteristics of regular retirement programs for tenured faculty, on the existence and nature of retirement-incentive and phased-retirement programs for such faculty, on institutional policies relating to retired faculty, and on institutions' perceptions of the impact of the end of mandatory retirement on their faculty.<sup>1</sup>

We submitted the survey to the 1,447 U.S. public and independent colleges and universities with 75 or more full-time faculty members. We hoped to obtain responses from at least 150 institutions in each of three institutional categories: doctoral-, master's-, and bachelor's-granting colleges and universities. We also aimed for 75 responses each from two-year colleges with faculty ranks and from two-year colleges without faculty ranks. Ultimately, 608 institutions responded to the survey.

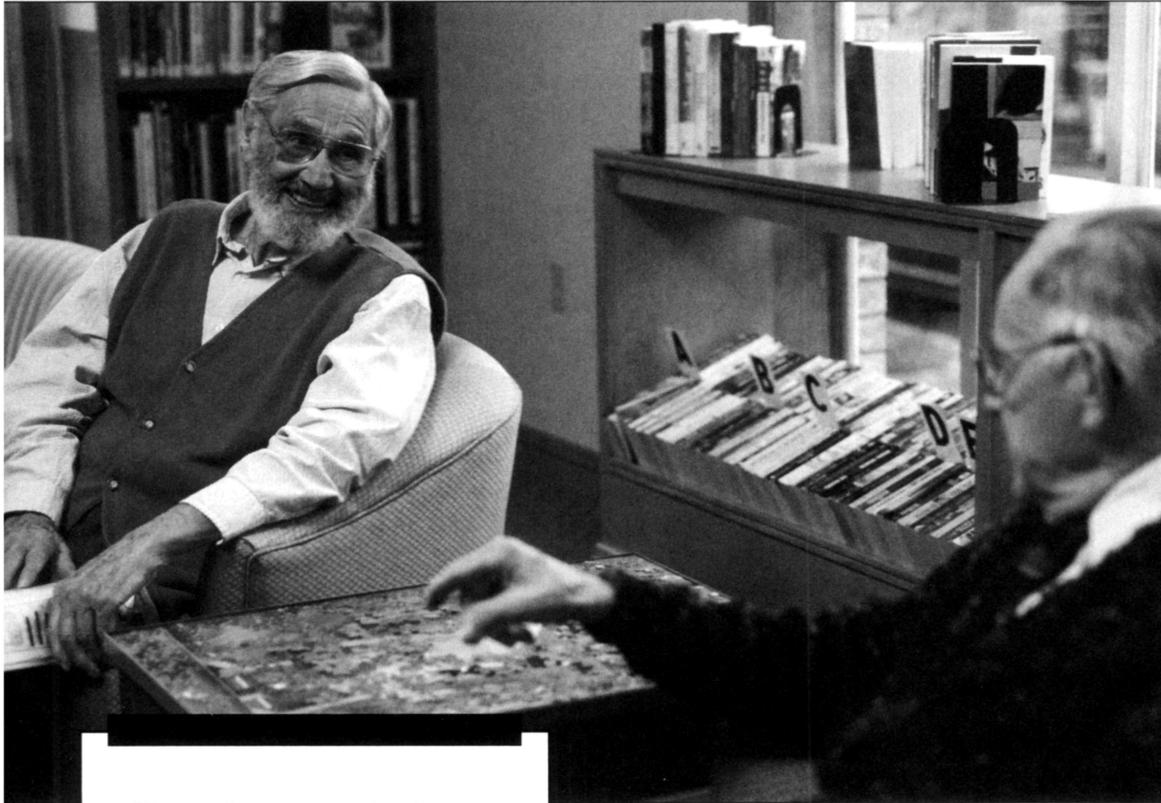
### **Common Types of Programs**

Retirement programs varied considerably among the institutions we studied. Most private colleges and universities had defined-contribution plans. Under such plans, the employer annually contributes a specified fraction of a faculty member's salary into a fund, which is then invested to provide retirement benefits. Sometimes the faculty member, to whom the fund "belongs," must also contribute. As long as the return on assets in the fund is positive, a defined-contribution pension plan does not provide a strong economic incentive to retire.

Employer contribution rates in our survey fell mostly in the 5 to 10 percent range. But some colleges and universities contributed larger amounts, and some institutions' contribution rates depended on a faculty member's age, years of service, or annual salary. When faculty members were required to make contributions to their retirement plan, the most frequent contribution rate was 5 percent.

The plans at public institutions were more diverse. Some had defined-contribution plans, while others had state-sponsored defined-benefit plans. Yet others offered both options, and some even had combinations of the two types of plans. Defined-benefit plans provide retirees with an annual benefit that usually depends on their salary, years of service, and sometimes age at retirement. Such plans offer incentives for retiring, because the later one retires, the fewer the number of years that the benefits will be paid out. In addition, many of these plans specify maximum benefit percentages (as a share of final earnings), which after some point eliminate much of the increase in annual benefits that comes from working an extra year.

In the article I contributed to the May-June 1999 issue of *Academe* ("No Longer Forced Out: How One Institution Is Dealing with the End of Mandatory Retirement"), I pointed



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out that 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 programs it initiated during the 1990s.

It is much more difficult and expensive, however, to build effective retirement incentives into defined-contribution programs, because additional contributions made by employers to encourage retirement are subject to federal and state income taxes in the year the contributions are made. It is easier, however, to create phased-retirement programs under defined-contribution systems. It should come as no surprise therefore that programs to encourage phased retirement are more likely to be present at private institutions.

Among institutions with defined-benefit retirement plans, the increment a faculty member receives for each year of service varies. The typical plan provides retiring faculty members with an annual benefit that is a multiple of their years of service times a measure of their “final” average salaries. For example, if a faculty member had worked at an institution for

thirty years and the multiple was 2 percent, the faculty member would receive a retirement benefit equal to 60 percent of his or her final average salary. Often, the final average salary is specified to be the average of the faculty member’s last three or five or her highest three or five years’ salary. Under some plans, if the faculty member retires before reaching sixty-five, the annual retirement benefit is actuarially reduced. And if the faculty member chooses an option that guarantees his spouse or other survivors continuation of some fraction of the annual benefit when he dies, the annual benefit paid out is similarly reduced.

Among the institutions surveyed, the annual

retirement benefit in defined-benefit plans varied between 1 and 2.5 percent of final average salary for each year of service, with the most frequent multiple being 2. For about a third of the institutions that provided information, the multiple could not be easily summarized by a single number. In some of these institutions, the magnitude of the benefits retirees were eligible to receive based on their years of experience, retirement age, and final salary had been reduced for successive cohorts of faculty. For example, the generosity of the defined-benefit system in which State University of New York faculty members could enroll depended on the date at which a faculty member was initially hired. Those appointed at more recent dates faced less generous promised retirement benefits than faculty members first employed years earlier.

More than 80 percent of the survey respondents reported that their institutions, in addition to providing a retirement-benefit program, offered seminars or other programs to encourage or assist faculty in planning for retirement. Two-year colleges were less likely to provide such programs than were institutions granting bachelor’s, master’s, or doctoral degrees.

### **Incentives for Retirement**

Slightly less than half of the respondents to the survey, 46.2 percent, reported that their colleges or universities have had one or more programs since 1995 that encouraged tenured faculty members to retire before seventy by providing financial incentives to do so. The advantage to the institutions implementing the programs is that if they induce faculty to retire earlier than they otherwise would, the freed-up faculty lines can be used to hire new faculty at lesser pay. Salary savings from hiring younger faculty to replace retirees can also be applied toward salary increases for the entire remaining faculty.

These incentive programs often take the form of increments to annual retirement benefits or lump-sum cash payments. The University of California system increased annual retirement benefits in its recent programs. Among the four-year institutions surveyed, private institutions were more likely to have incentive programs than were public institutions, and doctoral institutions were more likely to have such programs than were master's-granting institutions, which in turn were more likely to have incentive programs than were bachelor's-granting institutions. Sixty percent of the private doctoral-granting institutions reported having a retirement-incentive program.

Slightly more than a third of the institutions reported that their financial incentive programs were ones in which they had negotiated buyouts (cash payments) or other special arrangements on a college-by-college or case-by-case basis. Buyouts were again more prevalent among private than public institutions, and doctoral institutions were more likely to have such programs than were master's-granting institutions, which in turn were more likely to have them than bachelor's-granting institutions.

In just over half of the cases in which buyouts occurred, all tenured faculty members were automatically eligible to take advantage of the buyout if they met the institution's age, years-of-service, or age-plus-years-of-service requirement for eligibility. The remaining institutions required administrative approval. From a faculty perspective, programs that demand administrative approval make buyouts somewhat less than an entitlement. From an administrative perspective, they allow the institution to consider the benefits and costs to the institution of each proposed buyout and to refuse to approve one when the costs of doing so exceed the benefits.

More than half of the institutions that offered buyouts did so on an ongoing basis; at the others, eligibility for a special buyout required a commitment to retire within a specified time period (window). Ongoing buyouts are useful in helping institutions confront the long-run implications of the end of mandatory retirement. Buyouts available for only a specified time period are most useful when the institution's goal is to achieve short-term cost savings.

Interestingly, among the surveyed institutions that had had more than one plan since 1995, early plans tended to be window plans. Once a window plan is adopted and then expires, faculty members may believe that future window plans will be offered; they may therefore threaten to delay their retirements until a subsequent plan is adopted. If institutions want to encourage their older faculty members to retire, they are thus pressured to continually adopt window plans. It may make more sense for such institutions to focus on the long-term implications of the end of mandatory retirement and adopt ongoing plans instead.

Among institutions that gave lump-sum payments to retirees, 55 percent offered less than nine months' salary. Twenty-eight

percent provided nine to eighteen months' salary, and only 16 percent offered payments equivalent to more than eighteen months' salary. At a few institutions, the magnitude of the buyout declined with the age at which the faculty member retired. The relatively small proportion of plans in which the generosity of the buyout declined with age may reflect the legal uncertainty that was associated with such plans until the passage of the Higher Education Act Amendments of 1998.

At about ninety institutions, the financial incentive to retire took the form of an increase in the faculty member's annual retirement benefit rather than a one-time cash payment. As I noted above, current tax law usually treats additional employer contributions to defined-contribution pensions as cash payments, making them subject to federal income tax in the year they are made. As a result, increments in retirement benefits are offered mainly by institutions that have defined-benefit retirement plans.

Often, institutions will credit the faculty member with a specified number of months of additional service for each year that he or she was actually employed at the college or university. For example, a recent retirement-incentive program at SUNY credited faculty members with one month's extra service for each year they had been employed, up to a maximum of thirty-six months of additional service credit.

At a few institutions, the financial incentive took the form of a terminal leave. From the faculty perspective, the advantage of a terminal leave over a cash payment is that benefits often continue to accrue while a faculty member is on leave. For example, if the leave is a year long, a defined-benefit system would credit the faculty member with an additional year of service toward retirement, and a defined-contribution system would allocate an additional year's contribution to the faculty member's retirement annuity. Sixty percent of the terminal leaves in our survey lasted nine months or less; at only one institution was the leave longer than eighteen months.

### **Phased-Retirement Programs**

Some faculty members find the prospect of abruptly ending their academic careers distasteful and choose instead to postpone retirement. One way to ease the transition into retirement is to permit faculty members to phase into it by working part time for a specified number of years before leaving the institution for good.

The benefits to faculty members of phased-retirement plans are obvious. The advantage to institutions include the salary savings they receive during the period of phased retirement, which may permit them to hire new faculty members earlier than would otherwise be possible; in addition, the institutions receive adequate lead time to plan for when the faculty members fully retire. Formal phased-retirement programs thus seem like a "win-win" situation—for both institutions and their faculty.

**More than half of the institutions that offered buyouts did so on an ongoing basis; at the others, eligibility for a special buyout required a commitment to retire within a specified time period.**

Surprisingly, only 27 percent of the colleges and universities that responded to our survey had formal phased-retirement programs. In almost two-thirds of those institutions, administrative approval was required for an individual to take advantage of the program; in the remaining institutions, all faculty members who met certain criteria were automatically eligible.

Colleges and universities with defined-contribution retirement systems were twice as likely as those with defined-benefit systems to have phased-retirement programs. As I noted above, an individual's annual benefit level under a defined-benefit system is typically based on some average of her highest earnings. Working part time for a few years before retirement may substantially reduce her annual pension benefit, because the salary increases she receives during the last few years of employment will typically not raise her part-time salary above her previous full-time salary. Thus the years in which her full-time salary would have been highest will not contribute to the average salary used in calculating her annual retirement benefit.

In contrast, annual benefits received under a defined-contribution system are based on a whole lifetime of contributions by the faculty member and the institution to the faculty member's retirement account, as well as the rate of return on these contributions over time. Contributions made near the end of an individual's work life will have relatively little effect on the individual's annual retirement benefit. Moreover, when phased-retirement agreements exist under defined-contribution systems, many institutions continue to make payments to the individual's retirement account based on the individual's full-time salary. As a result, there is no reduction in the faculty member's annual retirement benefit relative to what he would have received if he had continued to work full instead of part time.

About three-quarters of the surveyed institutions that offered formal phased-retirement programs specified minimum ages faculty members had to attain to be eligible to participate; the most common minimum age was fifty-five. Similarly, three-quarters of the programs also demanded that faculty members be employed at the college or university for a specified number of years. Most required at least ten years of service, but a significant number required fifteen or twenty years.

Almost a quarter of the institutions that had such programs also specified a maximum age that faculty members could attain and still remain eligible to participate. The most common ages specified were sixty-five and seventy. Placing a cap on the age at which faculty are eligible to participate in a phased-retirement program encourages those who are near that age to think seriously about whether they want to take advantage of the program.

Faculty members who enter into phased-retirement programs often receive special financial benefits. More than 80 percent of the programs surveyed continued to make full employer contributions to the faculty member's health insurance. About 20 percent provided additional retirement payments or credits. For faculty working under defined-contribution systems, the extra benefit usually amounts to institutional payments to the individual's retirement account based on more than the individual's pro-rata salary. Faculty working under defined-benefit systems often receive a full year's service credit toward retirement even though they are working only part time. More than 35 percent of the institutions that offered special benefits under phased-

retirement programs provided participating faculty members with additional salary payments. For example, a faculty member who reduced to half-time status received salary payments equal to 60 percent of his annual salary.

Faculty members who enroll in such plans typically must relinquish their tenure and formally agree to retire within a certain number of years. Nineteen of the surveyed institutions, representing 16.5 percent of those with phased-retirement plans, allowed tenured faculty members to work part time for as long as they wanted. Most other institutions with such programs specified a maximum number of years, typically three to five, that individuals could maintain their part-time status before relinquishing tenure.

### **Treatment of Retired Faculty**

Faculty members contemplating retirement often worry about more than the annual values of their pension benefits. Of great concern to most is their health-insurance coverage during retirement and its cost. Of equal concern to many is whether formal retirement will enable them to remain professionally active. Institutions thinking about altering their retirement policies need to address these issues.

About 80 percent of the respondents to our survey indicated that retirees from their institutions continued to be eligible for group medical insurance. But only 58 percent of the colleges and universities contributed to the cost of the retirees' health insurance. The failure of institutions to contribute to these costs may provide an incentive for faculty members to delay their retirements. Institutions whose faculty members are retiring at ages later than the institution believes optimal might want to consider whether the burden of sharing in retiree health-insurance costs might be more than offset by the benefits of being able to hire new faculty sooner.

Some faculty members approaching retirement worry about being "put out to pasture" and about their professional careers having to end. Anything that colleges and universities can do to assure such faculty members that they are valued and that retirement does not have to be the end of their careers may influence the faculty members' willingness to retire.

Many of those contemplating retirement would like to be able to continue to teach part time after they formally step down. All of the surveyed institutions permitted their retired faculty to do so, although about half of institutions indicated that only some retired faculty were allowed to teach. In about 30 percent of the institutions, tenured faculty could formally negotiate continued part-time teaching as a condition for their retirement. In the University of North Carolina system, for example, faculty members could negotiate an arrangement by which they formally retired and started drawing retirement benefits from the state retirement system while they were simultaneously rehired to teach part time for a fixed number of years.

About half of the surveyed public and private doctoral institutions engaged in such negotiations with their faculty members. Retired faculty teaching part time were paid about the same as other part-time faculty in 73 percent of the institutions. Twenty-one percent of the colleges and universities paid the retirees more, and a small fraction of institutions paid them less than other part-time faculty.

In almost 85 percent of the surveyed institutions, retired faculty members were eligible to have the title emeritus professor conferred upon them. In about half of these institutions, it was fairly routine for all retiring tenured faculty to receive the title; in the remaining half, the university administration conferred the title at its discretion.

About 35 percent of the institutions allowed their retired faculty to continue to supervise students' honors theses or dissertations, and another 12 percent permitted retirees to chair pertinent committees. Doctoral institutions offered such opportunities at a much higher rate than other colleges and universities.

Slightly less than half of the institutions surveyed provided office space to retirees, although the vast majority of doctoral institutions said they did. Two-thirds of the institutions gave retirees access to institutional computer systems and parking, while about two-fifths gave them access to telephones. But only 11 percent of the total sample provided their retired faculty with funds for professional travel (more than 20 percent of doctoral institutions did so).

Access to laboratory space is of particular concern to research scientists. Yet only 11 percent of the surveyed institutions assigned lab space to retired professors using the same criteria they relied on for tenured faculty members (such as volume of sponsored research grants generated over previous years). At doctoral institutions, where retiring scientists are more likely to be concerned about their access to lab space, the percentage was much higher, but it was still below fifty. Most doctoral institutions allowed their retired faculty members to continue to submit external research grants through the institution; other colleges and universities were less likely to permit their retired faculty to do so.

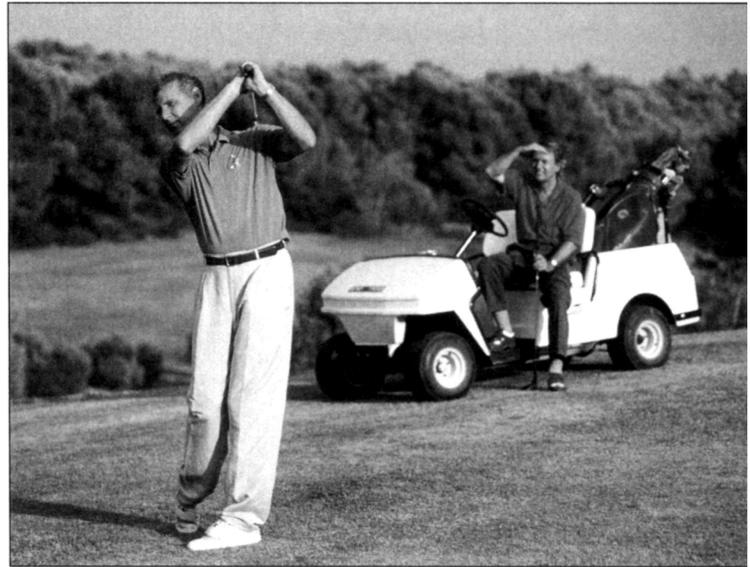
### The End of Mandatory Retirement

The federal law mandating the end of mandatory retirement was passed in 1987, even though it did not become effective for tenured faculty members at academic institutions until 1994. Twenty-six percent of the colleges and universities in our sample reported that mandatory retirement ceased at their institutions between 1987 and 1994; in other words, they ended mandatory retirement before the law required them to do so. Another 24 percent of the institutions terminated mandatory retirement as late as 1994. The remaining 40 percent ceased to have it before 1987. These institutions are in states whose laws prohibited it at an earlier date, or they had never had mandatory retirement or had decided at an earlier date to eliminate it. Thus many respondents to our survey have been operating without mandatory retirement for more than six years.

Most survey respondents did not believe that abolishing mandatory retirement had caused more tenured faculty members at their institution to remain in their positions beyond age sixty-nine. But the responses to this question varied widely across institutional types. Doctoral institutions were more likely to report an increased share of faculty staying on beyond seventy than were master's-granting institutions, which in turn were more likely to have more older faculty remaining in their positions than were bachelor's-granting institutions. Within each of these categories, private colleges and universities were

more likely than public institutions to say that faculty members older than seventy were increasingly staying on. It is therefore the private doctoral institutions that need to worry most about the implications of the end of mandatory retirement. This finding coincides with what earlier research has suggested.

For most institutions, however, the concern in upcoming years will probably not be how to encourage faculty retirement. Rather, it will be how to continue to draw on the skills of faculty nearing retirement in order to provide stability to institutions during a time of rapid change. National projections predict not only the need to replace retiring faculty nationwide in the years ahead, but also the need to hire large numbers of new faculty to fill positions created in some states by rapidly



expanding enrollments. To meet their teaching needs, more and more institutions may want to develop programs to permit phased retirements, or to encourage retired faculty to teach part time.

But no matter whether the goal is to encourage faculty retirement or continued attachment of older faculty to their institutions, the AAUP's Committee on Retirement hopes that the information provided by our survey will help institutions and their faculty to redesign their policies that relate to retirement. ✍

### Note

1. Financial support for the survey was provided by the TIAA-CREF Institute. The American Council on Education, the College and University Professional Association for Human Resources, and the National Association of College and University Business Officers cosponsored the survey. A complete copy of the survey, along with a more technical article that describes the sampling process and presents responses to key survey questions cross-tabulated by institutional type and form of control is available on the AAUP Web site <[www.aaup.org/retirepg.htm](http://www.aaup.org/retirepg.htm)>. Interested readers will also find Web addresses there for the 40 percent of respondents that provided references to Web sites containing details of their retirement policies. In addition, about 50 percent of the respondents indicated that they would be willing to share their responses with other institutions; these institutions' names are also listed at the AAUP Web site. Faculty or administrative groups interested in obtaining the responses to particular questions for a subset of these institutions can contact the AAUP <[aaupfcs@aaup.org](mailto:aaupfcs@aaup.org)> for instructions on how to do so.