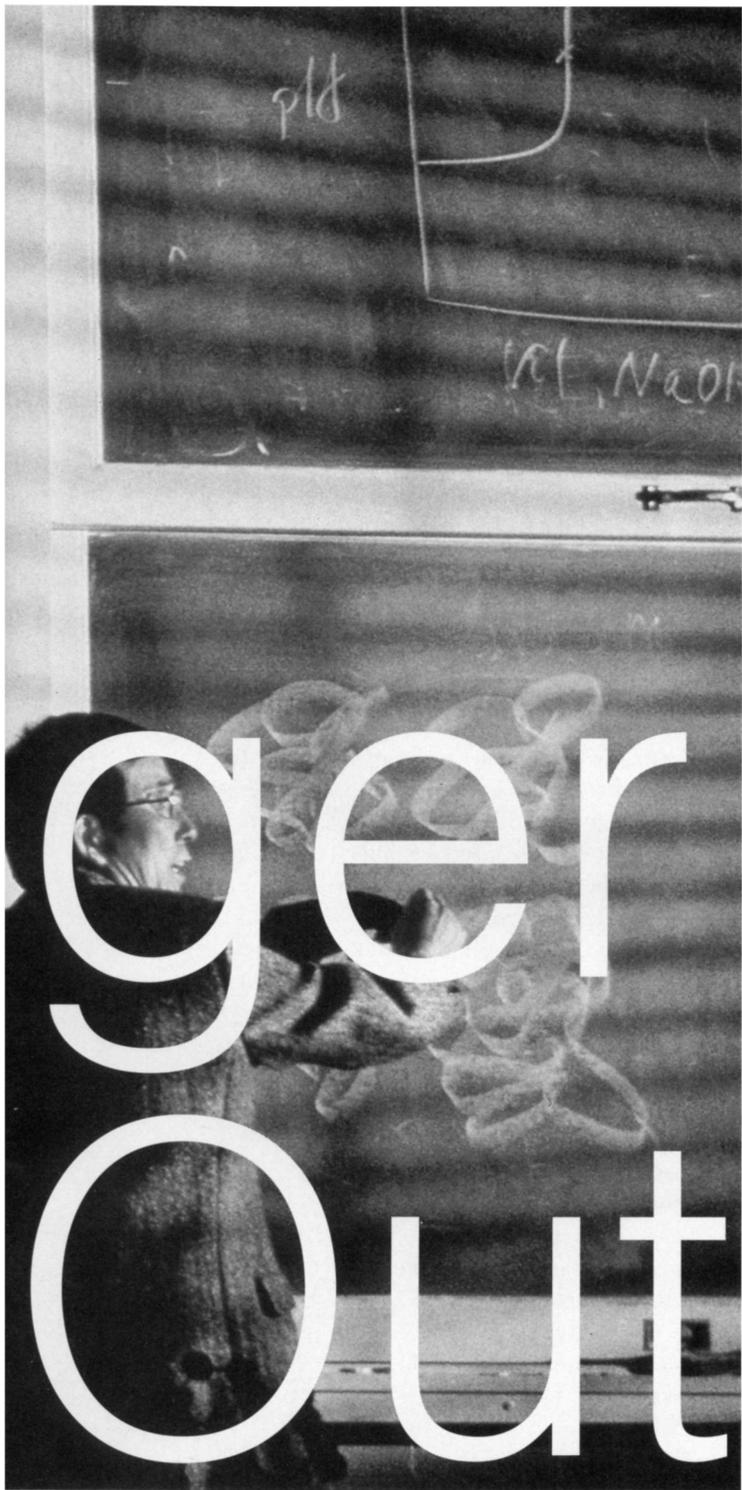


How One Institution Is D the End of Mandatory Re



BOB KRIST/TONY STONE WORLDWIDE

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By Ronald G. Ehrenberg

WHY SHOULD ACADEMIC institutions or their faculty care about the end of mandatory retirement for tenured faculty, which became effective in January 1994? From the perspective of an individual tenured faculty member who wants to continue her career beyond age seventy, the elimination is a welcome event. In the past, faculty members who wanted to remain active after reaching seventy had to negotiate

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their status with institutions that were under no legal obligation to allow them to continue. Now, however, tenured faculty members have the legal right to continue indefinitely in their tenured appointments.

From the point of view of an academic institution, the elimination imposes two types of costs. First, to the extent that some faculty members at an institution postpone their retirements, the flow of new faculty into an institution will diminish. Fewer new hires means fewer faculty with fresh perspectives and ideas. Fewer new hires also reduces an institution's ability to diversify its faculty along gender, racial, and ethnic lines. And fewer new hires can make it difficult for an institution to shift faculty resources into exciting new areas of inquiry.

Second, retirements generate funds for salary increases for continuing faculty, because most full professors are replaced by lower-paid assistant professors. The difference between the salary of a retiring full professor and that of his replacement can be distributed to other faculty members in the form of salary increases. Postponement of retirements at an institution reduces the amount of such funds available in a year, and the institution must either make up the difference with other funds or reduce the salary increase that it provides for its faculty.

Cornell's Response to the End of Mandatory Retirement

AS AN ECONOMIST WHO STUDIES THE ECONOMICS OF higher education, I worried that the end of mandatory retirement at my institution, Cornell University, might create serious problems. When I accepted the position of vice president for academic programs, planning, and budget at the university, I did so with the understanding that this would be one of the first issues I would address. In fall 1996, the provost and faculty senate appointed a joint faculty-administrative committee to deal with the issue, with me as chair.

Our committee suspected that many Cornell faculty members might not want to retire for fear of breaking their ties to the university. In my own case, Cornell's former president had been so effective in protecting my academic freedom when several members of the university's board of trustees tried to block my promotion to full professor that I had developed a deep loyalty to Cornell.¹ My attachment to Cornell is not unique. Many faculty members at the university consider themselves lucky to live in an idyllic college town and work at an institution with such excellent students, colleagues, and research facilities. The turnover rate of tenured faculty at Cornell has historically been low; only about 1.5 percent of the tenured faculty leave the university each year for reasons other than retirement. This attachment to the university exists despite the fact that faculty salary levels at Cornell are not among the highest in the nation.

Adding to the committee's doubts about our colleagues' eagerness to retire were studies conducted before the end of mandatory retirement that suggested that the elimination would mainly affect major research universities, where faculty members are often so tied to their work that they cannot conceive of leaving their positions unless compelled to do so.² As a major research university, Cornell was cognizant of this prediction and worried what the change would mean for it.³

Cornell's Retirement Plans

CORNELL UNIVERSITY IS UNIQUE AMONG MAJOR AMERICAN research institutions in that it is a hybrid of private and publicly assisted colleges. Six of the colleges located on its Ithaca, New York, campus are private colleges that charge tuitions comparable to those at other selective private institutions. Faculty in these colleges may participate in the defined-contribution retirement programs of either TIAA-CREF or Fidelity. Under a defined-contribution program, the employer contributes a specified percentage of the faculty member's salary each year into a fund, which is then invested to provide benefits for the faculty member in retirement. The fund "belongs" to the faculty member, and as long as the return on the assets in the fund is positive, defined-contribution pension plans do not give faculty strong economic incentives to retire.

The faculty at Cornell's publicly assisted colleges—Agriculture and Life Sciences, Human Ecology, Veterinary Medicine, and Industrial and Labor Relations—are covered by benefit programs provided to the State University of New York campuses by the state of New York. They have a choice of participating in a defined-benefit retirement plan sponsored by the state or a TIAA-CREF defined-contribution plan.

Defined-benefit retirement plans provide retired faculty members with an annual benefit that usually depends on their salary and years of service. Such plans offer incentives for retiring, because the later one retires, the fewer the years that the retirement benefit payment will be paid. Besides that, the plans often specify maximum-benefit percentages, which, after some point, eliminate much of the increase in annual retirement benefits that comes from working an extra year.

The defined-benefit plan for Cornell's state-assisted colleges, for example, provides a retiring faculty member with an annual retirement benefit equal to 2 percent of the average of the individual's three highest annual salaries multiplied by the individual's years of service. So a faculty member who retired after working thirty years would receive an annual pension benefit equal to 60 percent of the average of her three highest annual salaries. Annual pension benefits are, however, "capped" at 75 percent of salary, so that after thirty-seven and a half years of service to the university, additional years of service will not increase a faculty member's annual benefit (although increases in salary will).

It is easy to build retirement incentives into defined-benefit salary programs by offering individuals credit for extra years of

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service if they retire early. The University of California system did just that recently in several of its programs. 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. Over time, most faculty in the state-assisted colleges at Cornell have elected to participate in the optional defined-contribution program, which has made it difficult for the university to provide cost-efficient retirement incentives for these faculty members and for their colleagues in the private part of the university.

An Aging Faculty

LIKE MANY INSTITUTIONS OF HIGHER EDUCATION, CORNELL was confronting a "graying" faculty by the mid-1990s. Changes in the age distribution of the faculty and the tight financial environment in which all of the university's colleges were operating had come together to restrict the flow of new faculty into the university. The total number of new tenure-track faculty appointments in the university had peaked at 108 in 1987–88 and then fallen to only 48 in 1995–96. Put another way, in the aggregate, new faculty hires at Cornell fell by almost 60 percent between 1987–88 and 1995–96.

Historically, Cornell has grown its own "stars," concentrating its faculty hiring at the assistant-professor level and providing good opportunities for these new assistant professors to flourish and receive tenure. This strategy is designed to build a faculty of individuals committed to the institution, as well as to their own discipline, and willing to devote time to doing things that benefit the institution as well as their own careers. Over the last fifteen years, about 70 percent of all new faculty at the university have been appointed at the assistant-professor level. In spite of this emphasis on young faculty, the decline in the overall number of new hires has led to a decline in the number of younger faculty at Cornell. More than 15 percent of all faculty were under thirty-five in 1982–83, but by 1996–97, the under-thirty-five group had fallen to around 5 percent.

How did eliminating mandatory retirement influence the ages at which Cornell faculty retire? The mean and median ages at retirement for faculty in the private part of the university fluctuated without any discernible trend between 1982–83 and 1993–94, but since then the ages have increased by about three years. The comparable numbers for faculty in the state-assisted units show virtually no change. On average, the data suggest that faculty members at Cornell retire well in advance of their seventieth birthdays, so, at first glance, eliminating mandatory retirement seems not to have had a large impact on their retirement behavior.

But means or medians can be deceiving. Although many faculty members retired well before their seventieth birthdays between 1982–83 and 1996–97, about a third of the retirees from Cornell's private colleges left at seventy or older (retirees could, of course, be older than seventy only after January 1, 1994, when the law changed). Indeed, in February 1998, twenty-seven faculty members who were seventy or more were still actively employed in the private part of the university. (These faculty members had turned seventy after January 1, 1994, but had not

retired as of February 1998.) Over the same period in the state-assisted units, about 11 percent of the faculty members who retired did so at seventy or older; seven faculty members in this age group were still active in the units in February 1998.

Some of these faculty members are now employed under part-time phased retirement agreements. Under these agreements, faculty members legally give up their tenure and promise to retire within five years in exchange for part-time positions that pay them proportionate salaries but full-time benefits (including health insurance and retirement contributions). The inescapable conclusion is, however, that the abolition of mandatory retirement is leading to an increase in retirement ages for Cornell faculty. To the extent that faculty retire later, this reduces the flow of new faculty into the university. To take a simple numerical example, suppose a university employs 1,750 faculty. If each professor begins working at the university at age thirty, and each retires at sixty-five; an average of fifty faculty will be hired each year. If, however, faculty retire at seventy instead of sixty-five, annual hiring of new faculty will fall by one-seventh to about forty-three.

Most faculty members nearing retirement at Cornell are highly productive, and the prospect that many will postpone retiring means that the university will continue to benefit from their skills. These extra benefits must, however, be balanced against the costs to the institution that delayed retirement brings: limitations on new faculty hires and on the pool of money available for faculty salary increases.

Retirements, as I have already noted, generate funds for faculty salary increases because most retiring full professors are replaced by lower-paid assistant professors. The difference between the salaries of the retirees and their replacements can be distributed to other faculty members in the form of salary increases. Calculations by my staff suggested that before the end of mandatory retirement, the typical professor could, in a given year, get a salary increase of more than 1.3 percent from the pool of funds created by replacing retiring full professors with new assistant professors—even though no new monies were available for salary increases that year. But if the full professors delayed retirement by five years, the annual increase would fall to close to 1 percent.⁴

Changing Expectations

IN 1996–97, 35 PERCENT OF THE CORNELL FACULTY (INCLUDING me) had been hired before 1978, when the mandatory retirement age for faculty was raised from sixty-five to seventy; all of us began our careers at Cornell with the expectation that we would retire no later than age sixty-five. The Cornell retirement and benefits packages, as well as Cornell's tenure system, were designed with that retirement age in mind. Twenty-seven percent of all faculty in 1996–97 were hired between 1978 and 1987, when the law eliminating mandatory retirement for faculty was enacted (although it did not become effective until 1994). All of these faculty began employment at Cornell with the expectation that they would retire no later than age seventy. Thus most faculty at Cornell at the time our committee began its deliberations had received the opportunity to remain employed for longer than they or the university expected when they were hired.

I assumed somewhat naively that these faculty members would think not only of the new rights to longer careers that eliminating mandatory retirement had granted them, but also of the costs it had imposed on the university. Most in fact did. But some faculty members told me that the change in the law had effectively granted them indefinite tenure and that they had no intention of retiring unless the university offered them an expensive buy-out arrangement. At least one faculty member also stipulated that he would not contemplate retiring until the university guaranteed it would replace him with someone whom he approved in his narrow specialty. While one would hope that in making retirement decisions, faculty who have had long careers with an institution would think about the institution's welfare as well as their own, that did not occur uniformly.

Cornell's New Policy

IT TOOK A YEAR AND A HALF OF DELIBERATIONS, REVISIONS, and consultations with faculty, administrators, and trustees before the committee's recommendations were finally adopted by the university in May 1998.⁵ The provost had instructed the committee to rule out the option of expensive buy-out plans. He did so because evidence from other campuses suggested that such plans are rarely cost-effective when the primary retirement system is a defined-contribution program. For one thing, buy-outs do not appear to induce a substantial number of retirements. Besides that, most faculty members at Cornell retire before age seventy, and any plan that paid them to retire before seventy would amount to paying them for doing what they would have done anyway. Hence the plan the committee recommended and the university adopted contained no buy-outs.

It did, however, have four key components to help faculty members and their departments plan for retirement. The first deals with financial planning over the life cycle. The committee and the administration did not want a lack of financial resources to constrain faculty members who wished to retire at seventy or younger. In the absence of funds to increase the university's contribution to faculty retirement plans, assisting faculty with financial planning over their life cycles is a cost-efficient way to help them make informed investment decisions about the assets in their retirement accounts.

A sad, but true, example helps to illustrate the importance of financial-planning assistance. One of the highest-paid faculty members in the university realized as he neared the age at which he might consider retiring that he did not have sufficient resources to retire. When he first joined the university, he had allocated all of the contributions to his retirement account to TIAA, which is invested mainly in bonds and income-producing properties; he had never thought about changing this allocation. Because he had allocated none of his contributions to CREF or other stock-market-related options, he had missed out on all of the large stock-market gains of the previous decade. Faculty members who are intellectual giants in their chosen areas of endeavor are not necessarily experts on financial matters, and providing them with some simple financial advice can have a high payoff.

During our deliberations, we discovered that only about half of Cornell's faculty participated in tax-deferred supplementary retirement accounts. And only a minority of the faculty mem-

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bers who did participate contributed the maximum amount legally permitted. These accounts allow participants to invest in assets using before-tax dollars; the assets earn returns that are not subject to federal and state income taxes until withdrawals are made after retirement. Hence Cornell's policy recommends that faculty receive regular information on the benefits of tax-deferred savings and be informed that, because of the power of compound interest, savings early in the career will have a greater impact than

savings later in the career on wealth at retirement.

The second component of Cornell's new policy views retirement from the perspective of the academic unit and urges faculty to discuss their intentions with chairs or college officials as they approach retirement. Recruiting replacement faculty at an institution like Cornell often takes several years, and the ability of an academic unit to plan for its future depends on its having a sense of when its faculty members plan to retire. Faculty members who care about their institution should want to help it cope with the transition that their leaving will cause. The policy recommends that if faculty members do not initiate a discussion about their retirement plans on their own, departmental or college administrators should do so. At the same time, the policy stresses that retirement is a voluntary decision protected under federal and state law, and it urges all discussions about retirement to recognize this fact.

The third main part of the policy is a program to allow faculty to "phase" into retirement. As I mentioned earlier, the university had a long-established program for phased retirement, which allowed faculty in the private part of the university to move to half-time appointments for up to five years, during which time they received half salary but full benefits (including health insurance and retirement contributions). Upon signing an agreement to enter into the program, the faculty member voluntarily agreed to give up tenure and retire at the end of five years or less. The plan dated back to when the mandatory retirement age was sixty-five, and it needed to be revised to take into account the new law and faculty in the state-assisted colleges.

The committee recommended continuing the program but specified that seventy should be the maximum age at which faculty members could opt for it. We felt that the maximum age, which is permissible under recently enacted federal legislation, was needed to give faculty members an incentive to begin the retirement process voluntarily before reaching seventy. Some faculty leaders urged the provost to allow faculty members to move to half-time status without giving up tenure, but he rejected this idea because of the concern that it would delay, rather than encourage, retirement and hinder departments in planning for replacements for retiring faculty.

The fourth, and probably most important, part of the policy relates to improving the status of emeritus professors. The goal was for faculty to see becoming an emeritus professor as a nat-

ural and desirable stage of their career, rather than as being “put out to pasture.” The policy includes providing small research stipends to emeritus professors for five years, guaranteeing them shared office space, and increasing the opportunities for them to do part-time teaching. It also allows them to maintain all of the privileges of active faculty members, including supervision of graduate students and the ability to submit grant applications requesting salary support from external sources. On top of that, the policy explicitly provides for the representation of emeritus professors in the faculty senate and calls for enhanced status and funds for the emeritus professors’ association. It also encourages emeritus professors to get involved in volunteer activities on the campus and in the local community. Many emeritus professors had complained that the title “emeritus” had stigmatized them. So, following a policy developed at the University of California, Berkeley, a new rank of “graduate school professor” was established, and emeritus professors were made eligible for this rank for renewable five-year periods upon a vote of the faculty members in their fields.

Lessons for Other Institutions

IT IS TOO EARLY TO TELL HOW SUCCESSFUL CORNELL’S POLICY is going to be in helping the university maintain an adequate flow of new faculty and a sufficient pool of funds for salary increases for continuing faculty. But we do have indications that, at least in several areas, the program is providing real benefits to Cornell’s present and retired faculty members.

One of my responsibilities as vice president for academic programs, planning, and budgeting was space planning. So I negotiated for, and obtained, an office for the Cornell Association of Professors Emeritus (CAPE). This office was needed to symbolize the importance of emeritus professors to the university and to provide a work space for CAPE. The office will soon be moved to a suite adjacent to the dean of the faculty, who is an elected faculty leader, to stress the connection of the emeritus faculty to the faculty as a whole.

It has been a joy for me to watch the speed with which CAPE has begun working to help both emeritus and nonemeritus faculty. The association has compiled a list of volunteer opportunities on and off campus and developed information on finances and other matters that faculty need to know as they contemplate retirement. Indeed, the emeritus professors have begun to assume the role of peer-retirement counselors. An emeritus professor lecture series has even been started on campus and in a local retirement community.

In a program initiated by my wife, who is an assistant superintendent of the Ithaca City School System, several groups of Cornell retirees (staff as well as faculty) now serve as volunteers in our local schools. The impact of their efforts on Ithaca’s elementary school students, and the influence of the students on them, is extraordinary. Few families have three generations living in Ithaca, so benefits besides academic progress accrue from having volunteers in local schools. The students serve as surrogate grandchildren for the retirees, and the retirees as surrogate grandparents for the students.

Not every element of the new program evokes enthusiasm. For example, although compensation for part-time teaching by emeritus faculty is negotiated individually, it is usually lower

than the professors would have received on a per-course basis if they had not retired. Some faculty have threatened to postpone retiring because they view the compensation as inadequate.

I have tried to persuade colleagues who have raised this issue with me that they should consider their cut in salary as analogous to the gifts that alumni make to Cornell each year. Certainly, those of us who have been fortunate enough to spend most of our academic lives at institutions like Cornell should feel extremely lucky to have had such wonderful careers. While many of us lack the financial wealth that the university’s alumni often have, we do have extraordinary amounts of human capital. Our time as emeritus professors gives us an opportunity to donate that capital to the university, whether it be in the form of advising graduate students, teaching, serving on committees, or continuing our research. The reduced payments that emeritus professors get for teaching do not seem “out of line” when viewed in this way.

Perhaps Cornell’s situation is unique. Its faculty members, like their peers at other research universities, are motivated mainly by the love of what they do, not by money. In addition, Cornell represents the type of institution to which faculty members can easily become attached. Its location in a small community in which faculty can easily walk or drive to campus made it possible and important for us to design a mutually beneficial program that enables emeritus professors to remain vigorous parts of the community.

A successful program must offer retiring professors the opportunities to continue to do what they love. Thus the effectiveness of Cornell’s response to the end of mandatory retirement will depend on whether the institution shows that it truly values emeritus professors and creates an environment in which they can remain professionally active. Whether Cornell’s policies can be applied to other institutions is unclear. An institution that differs from Cornell in having many faculty members who are not as eager to continue their research, as satisfied with their relationship with the institution, or as interested in continuing to reside near it may need to stress different things than we did. What seems clear, however, is that no policy will prove effective unless both faculty and administrators are actively involved in developing and implementing it, as they were at Cornell. ✍

Notes

1. For a description of this incident, see Ronald G. Ehrenberg, *The Regulatory Process and Labor Earnings* (New York: Academic Press, 1979).
2. P. Brett Hammond and Harriet P. Morgan, eds., *Ending Mandatory Retirement for Faculty* (Washington, D.C.: National Academy Press, 1991); and Albert Rees and Sharon Smith, *Faculty Retirement in the Arts and Sciences* (Princeton, N.J.: Princeton University Press, 1991).
3. For a more detailed discussion of the environment in which the university found itself when mandatory retirement was eliminated, the process by which final policy recommendations were reached, and the policy that was adopted, see Ronald G. Ehrenberg, Michael W. Matier, and David Fontanella, “Cornell University Confronts the End of Mandatory Retirement” (paper presented at the TIAA-CREF Conference, “Retirement or Not? Examining Life After Mandatory Retirement,” Ithaca, N.Y., June 1998).
4. See Appendix B of the paper by Ehrenberg, Matier, and Fontanella mentioned in note 3.
5. The committee’s preliminary and final reports, as well as the provost’s final policy statement, are available on the Web <www.ipr.cornell.edu> under the heading “Occasional Reports.”