

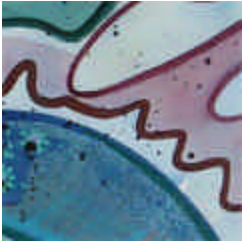
**ANNA RAPPAPORT CONSULTING**  
STRATEGIES FOR A SECURE RETIREMENT<sup>SM</sup>



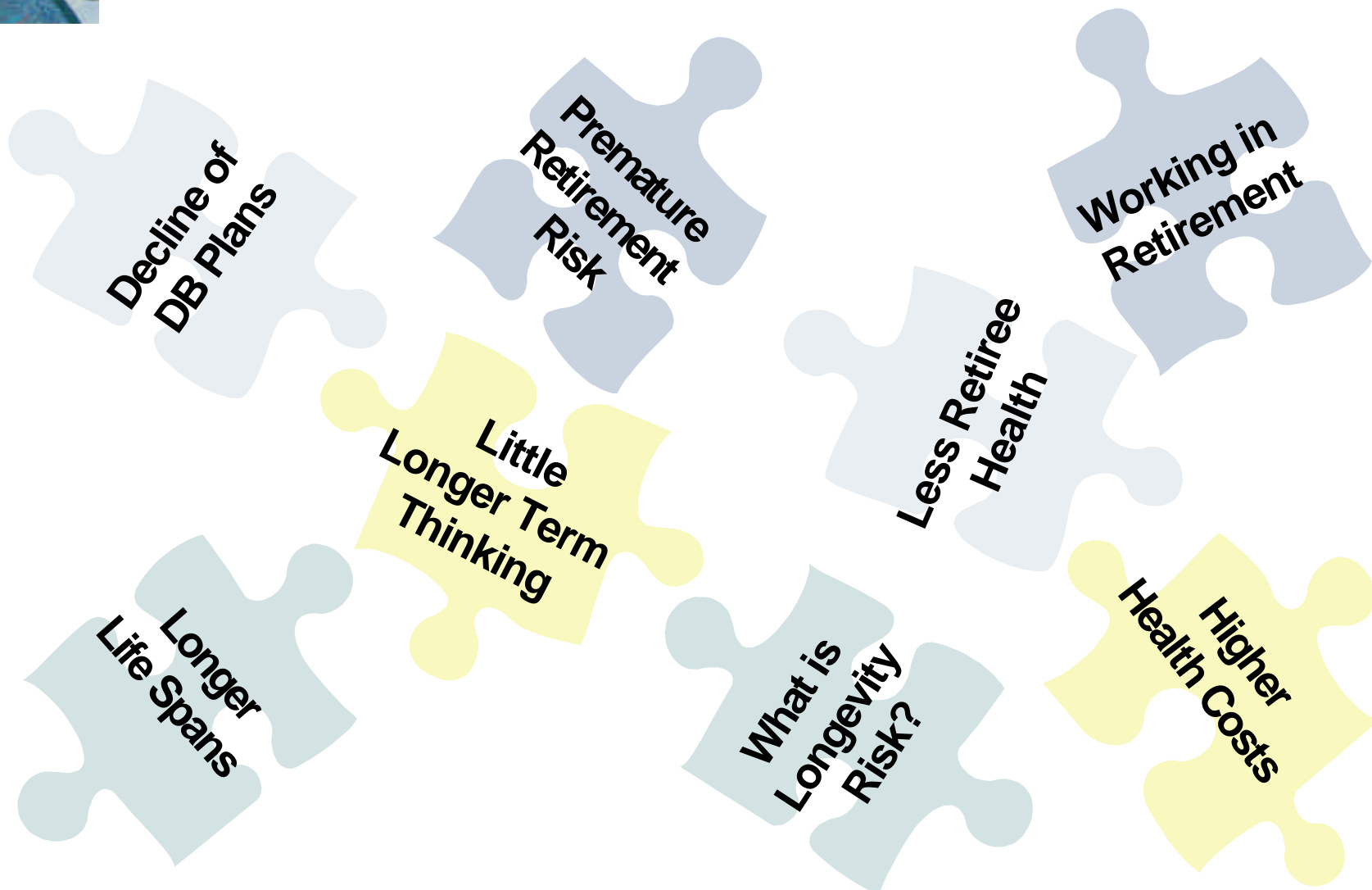
**Future of Retirement:  
Thinking about Phased Retirement**

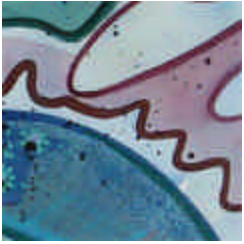
**Presented by Anna Rappaport**

Conference Board Working Group  
January, 2007



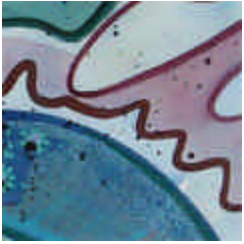
# The Big Picture Today





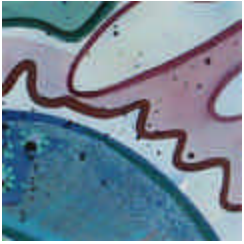
# Puzzles around longer work

- ✍ **More than 7 in 10 people say they want to work in retirement**
- ✍ **About 4 in 10 people retire earlier than planned**
  - **Don't plan for premature retirement risk**
- ✍ **Higher age displaced workers take longer to get jobs**
- ✍ **Other research indicates that older applicants get fewer call backs**
  - **Age discrimination? Will this change as population ages?**
- ✍ **Future: unknown effect of longer work on retirement patterns**



# Our Goals Today

- ✍ Think about future patterns of retirement and where phased retirement fits in
- ✍ Understand forces driving change and uncertainty
- ✍ Share predictions and opinions
- ✍ Move on path to creating a different future



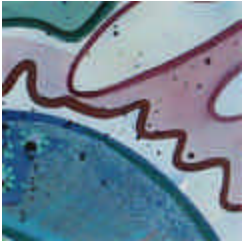
# Agenda

- ✍ Context
- ✍ Practical Issues and case studies
- ✍ Scenarios
- ✍ Opinions



## Context: World after PPA

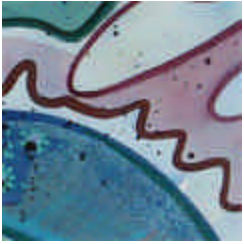
- ✍ Pension Protection Act allows pensions from defined benefit plans to be paid after age 62 to people still working
  - Only applies to “general programs” that are offered in qualified plan and meet non-discrimination rules
- ✍ Major change: No
  - More phased retirement involves rehiring retirees
  - Age 62 is “too late” for some organizations
  - Preference in some organizations to “pick and choose”
- ✍ Legal situation today
  - Continued uncertainty surrounding retiree rehire
  - Don’t know what regulations will say
  - No change for people with only defined contribution plans



## Context: Definition of Phased Retirement

- ✍ No accepted definition—may permit partial or full pension payments
- ✍ Allows mature workers to work on reduced or modified basis before retirement (phasing pre-retirement)
- ✍ Allows rehire of retirees (phasing post-retirement)
- ✍ Modified work may mean change of schedule, place or duties
- ✍ Can be formal or informal arrangement
- ✍ Perspective of employer, policymaker and individual differ

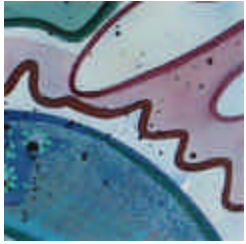
Question: Is all “working in retirement” a form of phased retirement?



# Context: Demographics

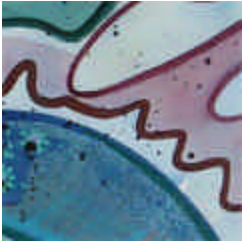
- ✍ New ways to think about life cycle
  - Third age: period between full time work and total retirement
  - During transition period
    - ✍ Some work and more leisure
    - ✍ Supplement earnings with retirement resources
    - ✍ Looks like traditional cyclical life plan
- ✍ Key trends
  - Living longer
  - Healthy longer but not forever
  - Boomers: better education than groups before





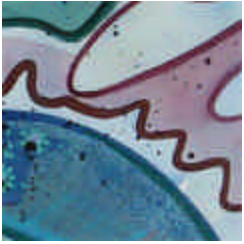
## Context: Probability of Living to 80, 90, 100 Projected to 2025

<b>Projection to 2025 – 1983 Mortality projected 40 years</b>				
<b>Survival Age</b>	<b>Female 65</b>	<b>Male 65</b>	<b>Both Survive</b>	<b>Either Survive</b>
survive to 80	0.84	0.69	0.58	0.95
survive to 90	0.52	0.30	0.16	0.67
survive to 100	0.14	0.04	0.01	0.18



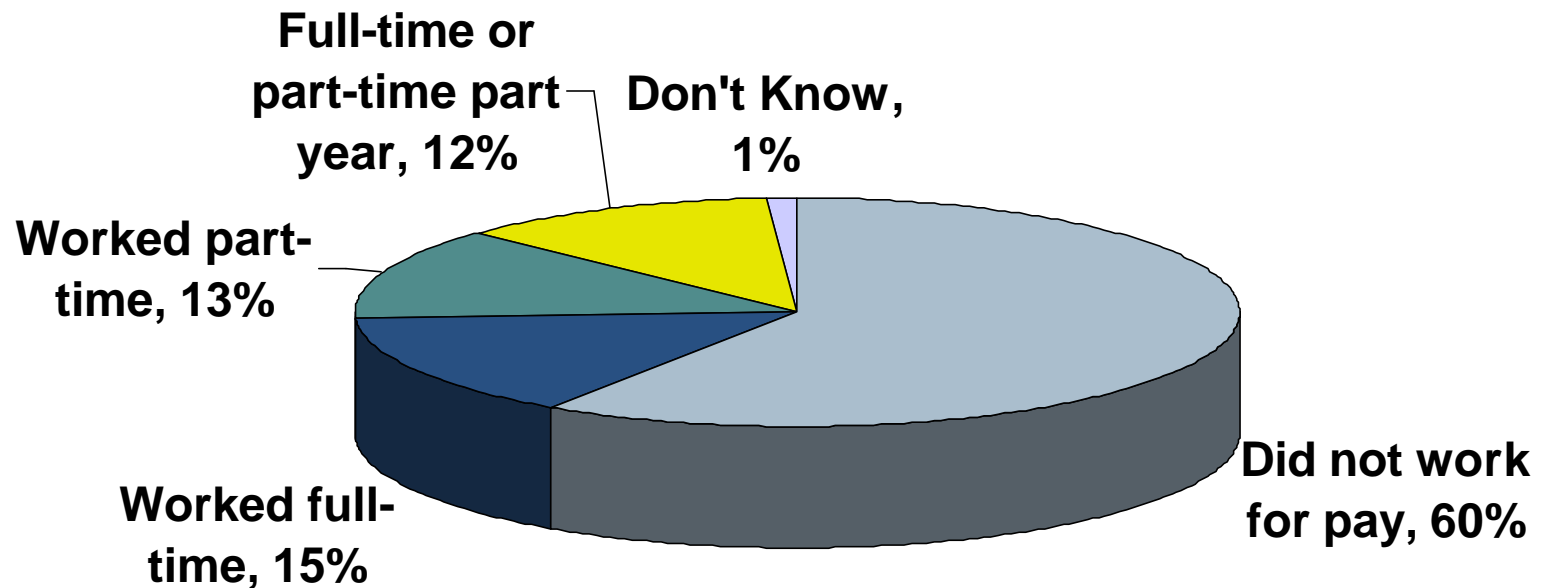
# Context: The work and retirement experience

- ✍ People say they want to work longer
- ✍ Many work after “retirement”
  - Often part-time or part-year
- ✍ Of those who are not in labor force at 50-61
  - 67% of men are disabled
  - 40% of women are disabled
- ✍ New job options and innovative practices are needed
  - Relationship alternatives
  - Restructuring of duties
  - Scheduling alternatives
  - Place alternatives

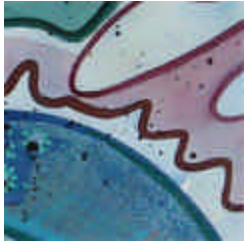


# Context: Work After Retirement

## Percentage of Retirees with Various Work Experiences (2004)



Source: Society of Actuaries, 2005 Risks and Process of Retirement Survey. Results based on 274 retirees who provided their retirement age.

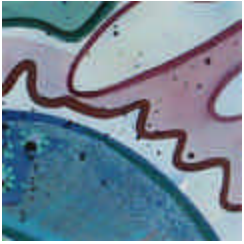


## Context: Pre-retirees expect to work longer

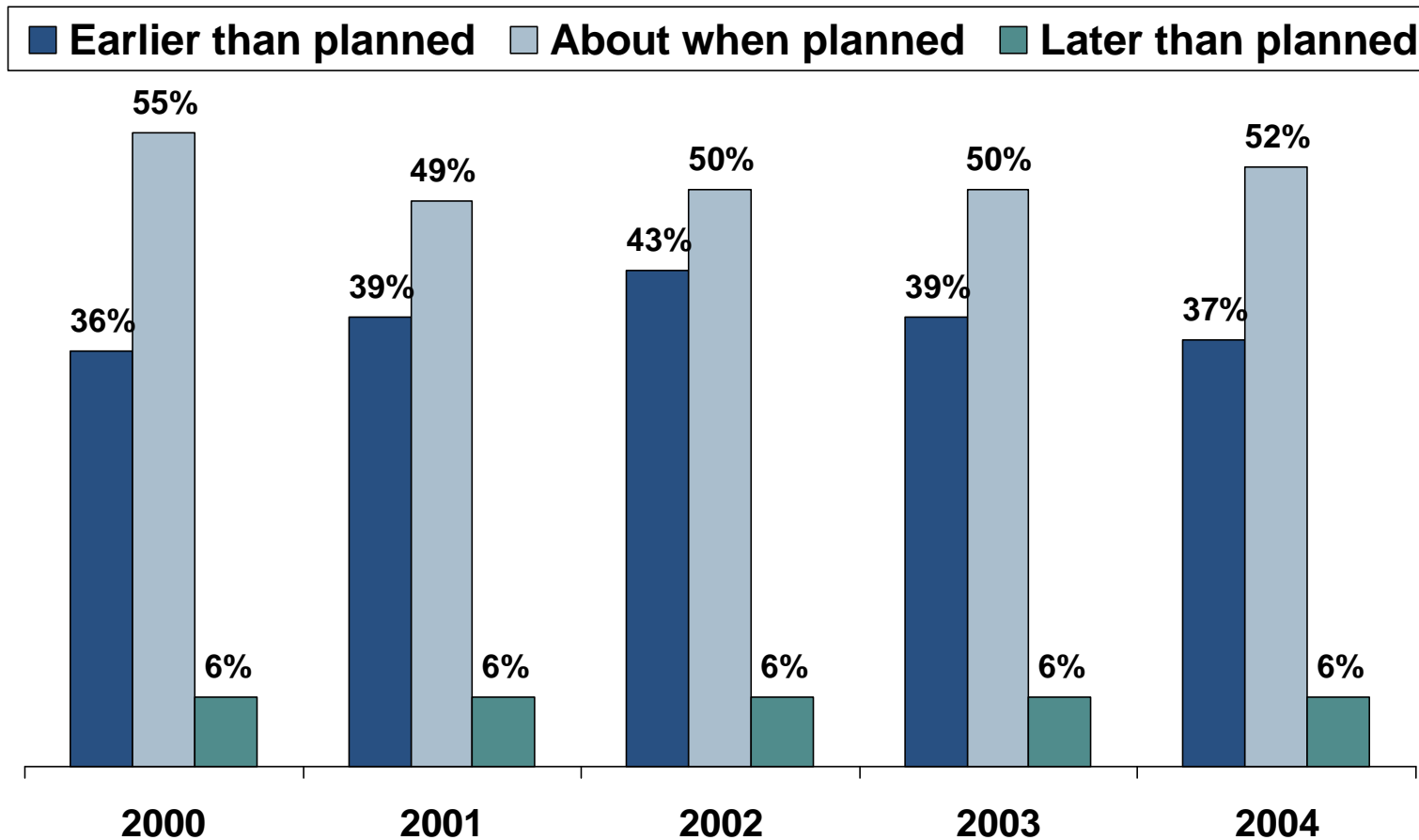
<b>How old were you when you retired/began to retire from your primary occupation?/At what age do you expect to retire from your primary occupation? (Among retirees and employed pre-retirees)</b>		
<b>Age Category</b>	<b>Retirees (%)</b>	<b>Pre-retirees (%)</b>
	<b>2005 (n=302)</b>	<b>2005 (n=253)</b>
<b>Under age 55</b>	<b>34</b>	<b>2</b>
<b>55 to 61</b>	<b>29</b>	<b>12</b>
<b>62 to 64</b>	<b>20</b>	<b>18</b>
<b>65</b>	<b>5</b>	<b>21</b>
<b>66 or older</b>	<b>8</b>	<b>20</b>
<b>Will not retire</b>	<b>--</b>	<b>13</b>
<b>Doesn't apply</b>	<b>3</b>	<b>--</b>
<b>Don't know</b>	<b>2</b>	<b>15</b>

Source: Society of Actuaries, 2005 Risks and Process of Retirement Survey

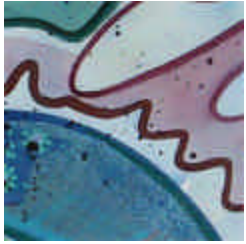
Presentation at Conference Board Working Group  
January 11, 2007



# Context: Expected vs. actual timing of retirement among retirees



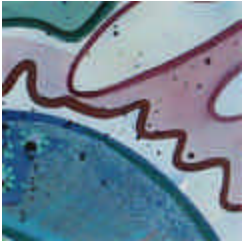
Source: EBRI/ASEC/Greenwald, 2000-2004 Retirement Confidence Surveys



## Context: Pre-retirees don't consider premature retirement risk

<b>What event or situation occurred at age X that leads you to say you retired at that age? (retirees) / What event or situation do you anticipate occurring at that age that leads you to say you will retire? (pre-retirees)</b>		
<b>Top mentions (multiple responses accepted)</b>	<b>Retirees (n=242)</b>	<b>Pre-retirees (n=231)</b>
<b>Stopped working completely</b>	<b>22%</b>	<b>20%</b>
<b>Health problems/became disabled</b>	<b>19%</b>	<b>5%</b>
<b>Company closed/downsized</b>	<b>11%</b>	<b>--</b>
<b>Started receiving pension</b>	<b>10%</b>	<b>18%</b>
<b>Switched to another career</b>	<b>7%</b>	<b>4%</b>
<b>Family member had medical problem</b>	<b>5%</b>	<b>--</b>
<b>Got tired of working/ready to retire</b>	<b>5%</b>	<b>2%</b>
<b>Had enough money to stop working</b>	<b>5%</b>	<b>19%</b>

Source: Society of Actuaries, 2003 Risks and Process of Retirement Survey

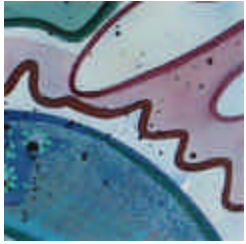


# Context: Earnings, Retirement Income and Risk

- ✍ For those with pensions, pensions are an important source of income
- ✍ For those with earnings, earnings are an important source of income
- ✍ 45% of over age 65 women alone have little in addition to Social Security
- ✍ Understanding of risk
  - Not changing much
  - Health care and long term care—biggest issues
  - Little focus on longevity risk
  - Personal experience bigger factor than statistics



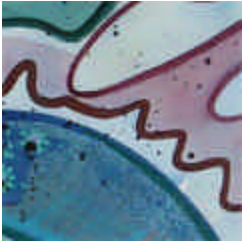




## Context: Importance of Earnings Ages 55 and Over

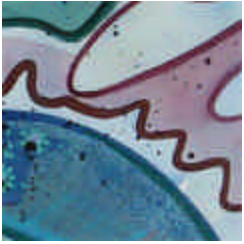
<b>Age Group</b>	<b>% with Earnings</b>	<b>Mean Annual Earnings</b>	<b>Median Annual Earnings</b>
55-64	66.5%	\$44,673	\$32,000
65-69	32.6%	32,792	19,428
70-79	16.2%	27,256	12,000
80 +	5.1%	21,101	10,000

Source: Debra Whitman and Patrick Purcell, CRS Report for Congress, November 7, 2005



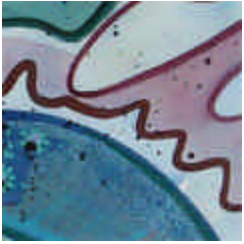
# Practical issues

- ✍ Best option for phased retirement
- ✍ Phasing a little vs. phasing a lot
- ✍ Example: bank teller
- ✍ Example: research scientist
- ✍ Defining your talent needs
- ✍ Bon Secour Health System
- ✍ YourEncore
- ✍ Contracting issues



# Best option for phased retirement

- ✍ Matched to your talent needs—jobs first, money second
- ✍ Things to think about
  - Formal vs. informal program?
  - Available to all or on selective basis?
  - Phasing pre-retirement, post-retirement, or both?
  - Offer options to phase a little, phase a lot, or both?
  - Types of flexibility
    - ✍ Job design, work time and location
  - How long should someone be allowed to phase?
  - Pay and benefits



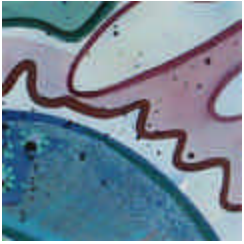
# Phasing a little vs. phasing a lot

## Phasing a little

- ✍ Usually regular schedule—reduced somewhat
- ✍ Regular employee with ongoing commitment, predictable income and health benefits
- ✍ Unlikely to get pension payments
- ✍ Modest total flexibility and same work options as offered to employees generally

## Phasing a lot

- ✍ Many schedule options including on-call, pool, seasonal work, job-sharing
- ✍ Most likely temporary or consultant; may not have regular commitment or salary, unlikely to have health benefits
- ✍ Likely to get pension payments
- ✍ Lot of flexibility and probably different work options



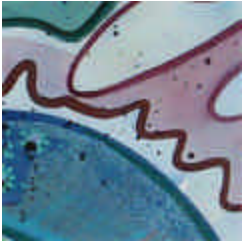
# Bank teller

## Phasing pre-retirement

- ✍ Works 3 or 4 days per week on regular basis as regular employee
- ✍ Works at regular work location
- ✍ In future can be paid partial pension after age 62

## Phasing post-retirement

- ✍ Work as fill-in during vacations or on-call during the year
- ✍ Work as temporary or through a retiree pool
- ✍ In a bank with multiple branches, may work at different locations
- ✍ Paid pension and appropriate compensation for work performed



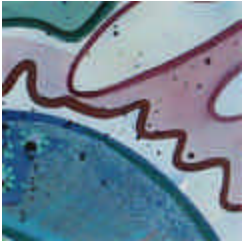
# Research scientist

## Phasing pre-retirement

- ✍ Move out of management role, take on mentoring of selected people and reduce number of projects
- ✍ Paid salary on pro-rata or agreed basis, rather than by project
- ✍ Potential for flexibility with regard to schedule, location and duties
- ✍ Could be paid partial pension after age 62 in addition to salary; at present, such payment is unlikely

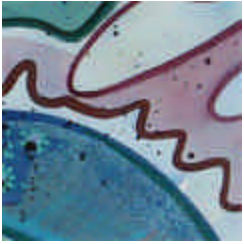
## Phasing post-retirement

- ✍ Serve as advisor, trainer, or team member on specific projects
- ✍ Paid pension and either partial salary, or paid by hour or project
- ✍ Time commitment as agreed on
- ✍ Potential for a lot of flexibility of place



# Bon Secours Richmond Health System

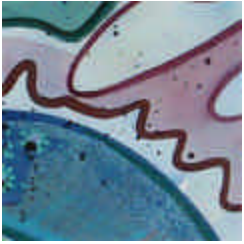
- ✍ Flexible work options commonplace—1/3 of 6,000+ employees work part-time
- ✍ Three methods of phasing into retirement
  - Retire at 65, but continue working part-time (to 24 hrs/wk) while collecting full pension
  - Work past 70.5 and get pension check regardless of schedule
  - Retire and return after 3 months absence—continue to collect pension
- ✍ Pension credit continues if 1000+ hours of work
- ✍ Health benefits offered if 16+ hours worked per week
- ✍ Of 165 employees over age 65, 60 have chosen phased retirement



# YourEncore

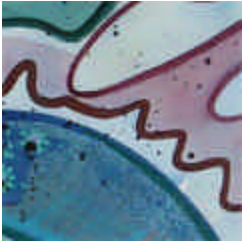
- ✍ Independently owned innovation and consulting company
- ✍ Corporate network—18 companies including Proctor & Gamble, Eli Lilly & Co, Boeing, General Mills, etc.
- ✍ Talent network—as of September 2006—1450 registered experts
  - 30% had at least one project in last year
- ✍ Experts are employees of YourEncore
- ✍ YourEncore provides brains, not just hands
- ✍ YourEncore manages projects
- ✍ Experts paid hourly and set schedules with YourEncore





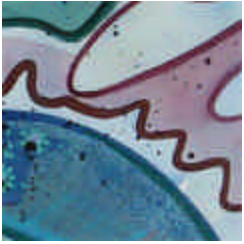
# Driving the scenarios: Big questions about future of retirement

- ✍ What is retirement?
- ✍ What is appropriate role of government, the employer and the individual? How should risk be shared? Can each party realistically meet their commitments?
- ✍ What are appropriate eligibility ages to start benefit payments (retirement ages)?
- ✍ How important is lifetime income?
- ✍ What risks should be pooled and how?
- ✍ Are there special issues for the boomers, a cohort in the middle of a transition?



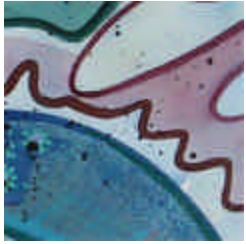
# Contracting issues

- ✍ Applies to people working after retirement as independent contractors
- ✍ Applies to same or different company
- ✍ Many organizations want standard contracts
  - Contract management groups do not understand issues
  - Suitable for contractors running technology
  - Require a lot of insurance, etc.
  - Not suitable for independent phased retirees
  - Need to educate contracting people or set up special category of people



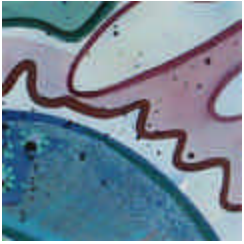
# Checklist for phased retirement

- ✍ Build the program on solid needs analysis, identifying talent issues and employee preferences
- ✍ Integrate with talent management strategy and align with culture
- ✍ Integrate with knowledge transfer
- ✍ Communicate with business units
- ✍ Align health and pension benefits
- ✍ Give supervisors and division managers enough discretion
- ✍ Keep paperwork well defined and easy
- ✍ Start small, evaluate and refine



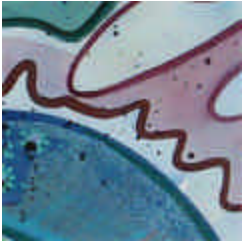
# Scenarios: Putting the Puzzle Together

- ✍ I – Continue Present Trends
- ✍ II – Increase Retirement Ages
- ✍ III – End of Retirement
- ✍ IV – Move to New Patterns of Retirement



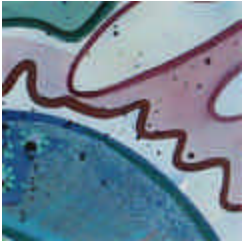
# I – Continue Present Trends

- ✍ **Role of retirement systems in society is unchanged**
- ✍ **Most people leave full-time labor force at 60-67**
- ✍ **About 50% work on some basis after they have left full-time work**
- ✍ **Big difference in pension benefits and assets by person**
- ✍ **Those who had long term jobs often have traditional pensions**
- ✍ **Older women alone least well off**
- ✍ **Big variation in experiences of those who try to get work**



## II - Increase Retirement Ages

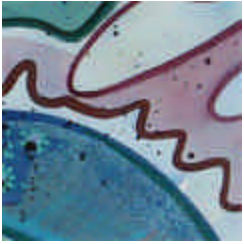
- ✍ **Role of retirement systems in society is unchanged**
- ✍ **Major increase in retirement ages**
- ✍ **No significant change in role of the family**
- ✍ **Pension implications**
  - **Enable phased retirement**
  - **Enable age 70 normal retirement ages**
  - **Total resources needed decline—shorter retirement period**
- ✍ **Increases labor supply at older ages**
- ✍ **Increases need for work options**
- ✍ **Increases need for disability benefits**



## III - End of retirement

- ✍ **Retirement systems and pensions disappear**
- ✍ **Major increase in labor supply at older ages**
- ✍ **Major increase in role of the family**
- ✍ **Increases need for work options**
- ✍ **Increases need for disability benefits**
- ✍ **Increases need for social safety net**
- ✍ **Greatly increases number of people in poverty/near poverty**

**Author's opinion: very undesirable result**

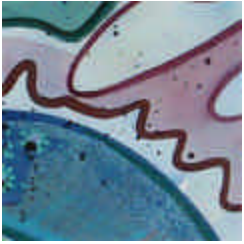


## IV - Move to new patterns of retirement

- ✍ **Many similarities to II—Increase in Retirement Ages**
- ✍ **Retirement is much more of a process**
- ✍ **Work options are critical**
- ✍ **Period of work at reduced level is normal—Third Age**
- ✍ **Increase in age of total withdrawal from labor force**
- ✍ **Increases labor supply at older ages**
- ✍ **Traditional final average pay plans are not a good fit**
- ✍ **Need methods to use retirement resources gradually while working**

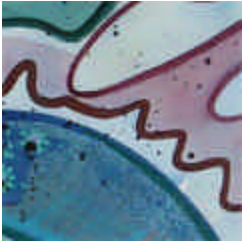
**Author's preferred scenario**





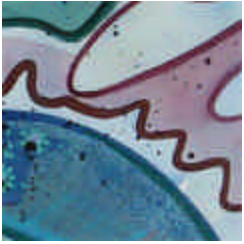
## Opinions: Work options and periods of work

- ✍ **Work options—individuals should position themselves for work options, but very important to build resources in case there are no opportunities**
- ✍ **Limits on period of work—age 75 or earlier is the practical limit of work for most people**
- ✍ **Working to higher ages much more likely if good work options are available**



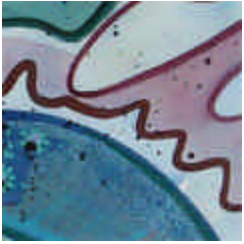
## Opinions: Limits on employee action

- ✍ **Many employees are not long-term planners**
- ✍ **Little change in gaps in knowledge over time**
- ✍ **Retirement systems should work well without employee action, many people will not make good decisions**
- ✍ **People much more likely to save if employer plan**
- ✍ **For DC plans, desirable options include**
  - **Auto-enrollment**
  - **Auto-increases in saving**
  - **Lifetime income payout as defaults**
  - **Balanced investment options**
- ✍ **Social Security and employer benefits for all remain very important**
- ✍ **Education is important, but it has its limits**



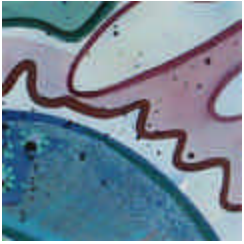
## Opinions: Labor supply and demand

- ✍ **Growth in labor force will slow**
- ✍ **Spot shortages are likely**
  - **Health care**
  - **Specialized occupations**
- ✍ **Do not expect a general shortage of labor**
- ✍ **Unclear whether older persons wanting to work will be able to find work**
- ✍ **Many people are working in retirement now and more say they want to in the future**
- ✍ **Fewer people likely to work than say they want to**
- ✍ **Work options are very important**



## Opinions: Important policy positions

- ✍ **Support organized retirement systems**
  - **Social Security with income payout**
  - **Employer sponsored DB and DC**
- ✍ **Support systems that work without employee action**
- ✍ **Facilitate and encourage phased retirement**
- ✍ **Strengthen disability benefits and recognize that later retirement means more disability benefits**



# Revisiting puzzles around longer work

- ✍ More than 7 in 10 say they want to work in retirement
- ✍ About 1 in 2 work after retirement
- ✍ About 4 in 10 retire earlier than planned
- ✍ Older applicants take longer to get jobs
- ✍ Many questions:
  - Will there be jobs?
  - What options will be available?
  - Can older workers get them?
  - What choices will they have?
  - What will people choose?

