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ABSTRACT

The project reported here studied increased-benefit early retirement programs and mid-career change programs in academic institutions, business, industry, and government. The search and analysis had two objectives: (1) to assemble information useful to colleges and universities; and (2) to assemble information helpful to individual academics. The study focused on programs within institutions that were specifically designed to increase early retirements or mid-career changes. Over 40 special-incentive early retirees were interviewed. It is concluded that institutions may find advantages to carrying out an increased-benefits early retirement plan; however, the effects of mid-career change programs are unclear. (HSE)

A Survey of Institutional Practices and an Assessment of Possible Options Relating to Voluntary Mid- and Late-Career Changes and Early Retirement for University and College Faculty

FINAL REPORT

Prepared for:

National Science Foundation
Office of Planning and Policy Studies
Washington, D.C. 20550

November 1977

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Contract No. PRM-7624576

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EXECUTIVE SUMMARY

This project studied increased benefit early retirement programs and mid-career change programs in academic institutions, business, industry and government. The intent of the search for, and analysis of, such programs was twofold. First, it aimed to assemble information useful to colleges and universities seeking short-run solutions to staffing problems emanating from the slowing of institutional growth--solutions which would facilitate either the hiring of young academics, the reallocation of positions among disciplines, or the reduction of expenditures. Second, it aimed to assemble information useful to individual academics who might contemplate accepting an early retirement or career change option.

This study focused on programs within institutions (or firms or government) which were specifically designed to increase the levels of early retirement or mid-career change. In the case of early retirement programs, these included programs designed to provide special incentives for early retirement, such as increased early retirement benefits. Similarly, the study focused on institution-based programs for encouraging or facilitating mid-career change, rather than studying individuals who had changed careers without the aid or encouragement of their employers.

Early retirement was defined as leaving a position before the mandatory retirement age with some guarantee of a retirement income, either from the institution or from a retirement plan. The retirement benefit may be paid either before or after reaching the mandatory retirement age. Early retirement usually takes place no earlier than age 55 and sometimes as late as age 69 (if retirement is mandatory at age 70). Early retirement may or may not involve a move to another job. Mid-career change always implies a major shift in responsibilities or position, even when it does not involve a change in employers. In other words, moving from one university to another would not be considered mid-career change if one's responsibilities and position were no different; however, moving from one department to another within a university might be considered mid-career change. In this study we were concerned with career changes after age 40.

Selecting case institutions for this study proved to be somewhat difficult. We had great difficulty locating any mid-career change programs for faculty or for persons in the business world with similar educational attainments and responsibilities. We also had problems locating successful early retirement programs. Not all firms and institutions that report incentive early retirement options have actually made use of them. Moreover, some firms that have used the options have limited them to a particular class of employee which is not comparable to professors and researchers.

Administrators of increased benefits early retirement schemes in the following universities were interviewed for this study: the University of California; Colgate University; Indiana University; the Massachusetts Institute of Technology; the University of Pittsburgh; and Stanford University. We also interviewed program administrators in the following firms: A.E. Stanley Manufacturing; American Cyanamid; Bank of America; Campbell Soup; Caterpillar; Celanese Corporation; Consolidated Edison; Crocker National Bank; du Pont; Eastman Kodak; Exxon; General Foods; Honeywell; International Business Machines; IU International Management Corporation; International Nickel; J.C. Penney; Metropolitan Life; Monsanto; PPG Industries; Quaker Oats; Security Pacific National Bank; Standard Oil, Indiana; and Westinghouse. Information about the increased benefits early retirement options of 14 other firms was obtained from data collected by other researchers.

For information on mid-career change programs, we contacted representatives of all the firms listed above, plus United Airlines, American Airlines, RCA, Lloyds Bank (Los Angeles), and Boeing Aircraft. In addition, an overview of training efforts in business and industry was supplied by a representative of the American Society for Training and Development. Information was also supplied by the administrators of two fellowship programs: the Economic Policy Fellowships of the Brookings Institution and the Congressional Science and Engineering Fellowships of the American Association for the Advancement of Science. Finally, interviews were conducted with representatives of two university systems engaged in programs to retrain faculty for work in new academic fields: the State University System of Florida and the Pennsylvania State Colleges system.

Information on mid-career change and early retirement in the military and Civil Service was obtained through a search of the literature as well as conversations with representatives of the Department of Defense, the Retired Offficers Association, and the House and Senate Armed Services Committees.

Forty-two special incentive early retirees from three universities were interviewed for this study. In addition, we have interview data collected by one of the principal investigators during an earlier study (Patton, 1977). In total, we have interview data on 52 academic early retirees from four institutions. Most of the private firms refused to grant us access to their early retirees. As a result, we have interviewed the early retirees of only two firms, including a total of 18 respondents. With respect to mid-career change programs, we interviewed several persons who had participated in the faculty retraining programs in the Florida and Pennsylvania state systems.

Principal Findings

Early Retirement

1. The belief that there is a large bulge in the age distribution of American academics in the 50-60 age range, and that this is an opportunity for extensive early retirement, was not supported by examination of national data and selected institutional data. Faculty age tends toward a normal distribution, with greater concentrations at the younger ages. Although specific institutions and specific disciplines may have different age distributions, and therefore be exceptions, early retirement is not a way to create sizeable quantitative changes in the number of available faculty positions.

2. Although early retirement is unlikely to effect quantitative changes of great magnitude in the availability of academic positions, it can have significant qualitative impact in selected institutions and departments, by permitting a small number of significant new appointments, by facilitating the departure of a few individuals who desire to leave, and by creating a climate in which career options are broadened.

3. Academic institutions have relatively little experience with incentive (increased benefit) early retirement programs. A number of institutions which have formal programs have actually retired only a few individuals under those programs.

4. An incentive early retirement program will have different consequences for different institutions, depending upon their salary scales, the age distribution of their faculty, the accumulated years of service credit of the faculty, the amount of funds accumulated in pension accounts and other factors.

5. Interviews with incentive early retirees from four universities and two corporations revealed that half of these "early" retirees had retired at age 65 or older. Most of the early retirees had retired an average of 4-5 years before the mandatory retirement age.

6. Long-range planning for early retirement is rare. Fifty-eight percent of those interviewed had begun thinking seriously about early retirement only within four years of actually retiring.

7. The principal reasons given for choosing early retirement were, in order of frequency: financial feasibility (61%), a desire to pursue other interests (49%), and loss of interest in or fatigue from work (43%).

8. Among those interviewed, the availability of the special incentive to retire was most often mentioned by the youngest retirees (ages 55-59), which was also the group most likely to mention dissatisfaction with their work or organization as a reason for leaving.

9. Ninety-nine percent of those interviewed expressed satisfaction with the decision to retire early. The extent of their enthusiastic comments leads one to infer that this is not merely a rationalization.

10. Most of those interviewed felt they were financially well-off. Eighty-four percent claimed to have experienced no change in their standard of living after retirement.

Mid-career change

1. We found no academic retraining programs aimed at preparing professors for non-academic employment.

2. A number of academic institutions have initiated programs of retraining for tenured faculty, with the intent of moving them out of a low-demand specialty into a high-demand specialty within the same institution or system of institutions. These programs, in principle, reallocate existing resources in a more efficient manner, though they do not necessarily open new positions for young academics. The following points emerged from our study of these programs.

a. In all cases studied, the principal institutional expense was the retrainee's salary, and this was financed by retraining the retrainee on his or her regular budget line. Thus, the cost was born principally by the home department, school, or institution of the retrainee. In a few instances an allocation of additional funds was made toward a portion of the cost of a replacement faculty member.

b. In all cases studied the retrainee received reimbursement for the major costs of undertaking the retraining program, such as tuition and fees, and moving expenses.

c. Problems attendant upon moving an individual from one specialty to another were related to the "academic distance" moved. Movement to another specialization within the same discipline or professional field was relatively easy, while movements which involved a change of department or school encountered more resistance. Such moves also gave rise to issues of status and seniority.

d. Faculty members who were retrained were virtually unanimous in their approval of such programs, in spite of significant hardships which many of them endured in the process.

3. A significant number of academics who take part in internship and fellowship programs which involve a period of work in a non-academic setting choose to remain in the host organization or in a related non-academic

setting. This includes tenured faculty. Though career change is not the principal intent of such internship and fellowship programs, they nevertheless perform this function.

4. We found no business and industry programs of career retraining for high-level technical or managerial personnel--persons who could be considered comparable to faculty members in academia. Existing retraining programs are for lower skill levels.

Conclusions

By carefully setting benefit levels, by clearly stating the terms of an early retirement provision, and by approaching the appropriate potential retirees, an institution may find advantages to carrying out an increased benefits early retirement plan. While this scheme alone will not dramatically change the nature and composition of the institution's faculty or save the institution a great deal of money, it probably would permit a few important replacements. For a modest expense, a few poor performers could be encouraged to leave, which would permit the hiring of new faculty members during times when the staff otherwise would not increase. Furthermore, increased benefit early retirement could make it possible for some individuals who want to retire early to obtain the financial means to do so. In summary, saving money should not be the primary reason for adopting an early retirement scheme. Rather, if an institution wants to make a few qualitative adjustments, early retirement can help.

Mid-career change is another story. Institutional programs for faculty retraining are a recent development, and it is yet unclear what their effects might be. Again, it may be that programs to encourage mid-career change would be useful in making a few important adjustments but would not induce any dramatic changes in the faculty.

We recommend that each institution considering an induced early retirement or mid-career change option examine its current faculty age composition by field, its tenure-granting rates, its outmigration rates, etc., and use these findings to calculate the impact of various mid-career

change and early retirement options. An institution may find that its staffing problems will be ameliorated by the natural aging of the faculty during the next five to ten years, or it may find that one of the options would indeed be useful and worth its cost.

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1. INTRODUCTION

The Rationale for Career Options

The rationale for encouraging alternative career options for faculty stems from widespread budgetary stringencies and the so-called "steady state" condition under which the number of students and faculty members at an institution will remain relatively constant through at least the next decade.[1] During the steady state, expansion of one program typically takes place only if another program contracts. Despite all stringencies, enrollment shifts leave some areas of instruction with too many faculty members and others with too few, a situation which demands greater flexibility in staffing. In a university with a large percentage of tenured faculty, experiencing slow or no growth and few retirements, it is difficult to respond to these changing demands.[2]

To these problems add the consideration that some faculty members (perhaps a very small percentage) may become less productive and less interested in teaching as they advance in age; that some excellent faculty members may want to undertake different activities before they retire; and that in some fields the opportunity for an academic career is all but closed to recent graduates. It then becomes clear why some universities are examining plans to encourage early retirement or mid-career change. When faculties are not expanding, it is difficult to hire young professors--the very people upon whom a university depends to a substantial degree for new ideas and departmental rejuvenation. Further, the steady state and low turnover rate may make it difficult for a university to increase the number of women and minority faculty members at a rate it considers desirable.[3]

Our purpose is not to review the current state of academia and the implications of the steady state. Others have examined that in detail.[4] Suffice it to say that American higher education is now faced with a decline in college enrollments[5] and other problems that suggest the need for fewer new faculty members during the next decade at least.[6] Although new students might be recruited,[7] an increase in the demand for new college professors is not expected. Some institutions are now having a difficult time attracting enough clients to keep their current faculty body supplied with students.[8]

Some of the less prestigious campuses of the large universities[9] and some of the less selective small colleges may be especially hard pressed to attract students during the next decade.[10]

The manpower problem in higher education is compounded at many institutions by the relatively young age of the professorial force, persons who were hired en masse during the education boom of the 1950s and 1960s. Many of these persons, hired in their late twenties and early thirties, are a decade or two, or even more, away from retirement. Nonetheless, they may be in fields that are no longer in demand. The work histories of some of the current faculty members exacerbate the problem. While most faculty members were hired for a variety of purposes--teaching, research, student advising, administration--some of them performed perhaps only one task until recent retrenchments caused them to shoulder other responsibilities. A few of them are unequipped to perform these new duties. For example, as institutions have sought to attract new clienteles, some faculty members have been required to teach non-traditional students in off-campus programs and at inconvenient times. These new tasks have not been seen as desirable by all who have been asked to do them. While we may feel that faculty members should assume these new responsibilities, the fact is that some of them would rather not.[11] The nature of academia has changed, and these persons are not prepared to cope. Early retirement or mid-career change might be an answer to part of their dilemma.

Still another small group of faculty members includes persons who have run out of functions to perform. Although early in their careers they may have been able to teach, research, administer, advise students, and serve on committees, they now may be able to handle none of these roles. The steady state has affected administrative positions as well, so these persons cannot be "kicked upstairs." Again, early retirement or mid-career change might be an alternative.

There appear, then, to be a cluster of problems to which increased early retirement and mid-career change might be a solution. Increases in early retirement and mid-career change might be used to respond to changes in enrollment, changes in knowledge, numerical redundancy (too many faculty members performing the same task) and low turnover.

Just as early retirement and mid-career change cannot be viewed as a way to solve all of the above problems, they should not be viewed as the only way to solve any of these problems.

Some persons argue that if tenure were abolished, it would not be necessary to increase the levels of early retirement and mid-career change. Removing tenure, they claim, would permit institutions to rid themselves of unproductive faculty members and respond to changing demand. Others argue that making tenure more difficult to obtain would increase turnover and, by reducing the number of persons with permanent claims to positions, would give institutions greater flexibility in responding to changing demands. Although both of these arguments should be, and are being, investigated further, changes in tenure rules would have an effect only in the long run. In fact, these changes would have little impact upon opening faculty ranks to new employees.[12] Their main short-run impact would be to increase the level of conflict among young faculty members for the few slots now available. Increased turnover of faculty positions would thus take place only at the junior ranks. Although the long-run effect of eliminating tenure (since we assume there would be some type of actual or implied grandfather clause to protect current tenured employees)[13] might be desirable,[14] administrators who want to open more faculty slots in the near-term must look for a different policy.

Most universities have early retirement provisions as part of their regular retirement plans. Persons who have reached a minimum age, and who have contributed to the retirement system for a minimum number of years, may begin to draw an annuity, but less then they would draw if they waited to retire until the mandatory retirement age. For a variety of reasons (basically financial) to be explored later, few persons retire more than a couple of years early under this option. Thus institutions have considered increased benefit or incentive early retirement schemes. Under these arrangements, persons who elect to retire early are provided increased annuities, in some cases annuities that are as large as those that would be received at the mandatory retirement age. This financial incentive is intended to encourage more persons to retire early and in turn to release more faculty positions sooner than expected through regular early retirement options.

As yet, few institutions have implemented programs to encourage or facilitate mid-career change among their faculty. Two types of related programs are discussed in Chapter 4. The first type is internship and fellowship programs which sometimes lead to mid-career change, though this is not their objective. The second type is programs that retrain faculty for other disciplines or specialties. Because there has been so little experience with mid-career change programs in academia, or even in industry, most of this report, including the rest of this chapter, is devoted to early retirement alternatives.

The Many Purposes of Early Retirement

Faculty retirement is only one of many remedies one can prescribe for the steady state university. It should also be clear that early retirement is basically a short-term solution, and one that would have to be applied in combination with other policies. Realistically, early retirement cannot solve all of academia's problems, but it may be able to assist. As later chapters reveal, the major benefit of early retirement may not be financial savings but rather the release of "indentured labor." It can be used to free disaffected faculty members, persons who would be happier outside of the university but who remain because of financial need.

Early retirement, then, must be examined from several perspectives since it might be used to address several academic problems. It can be viewed as an academic policy, a move intended to free up the faculty ranks so that persons with needed skills can be recruited. In this vein it could be used by a chancellor, dean, or other administrator to shift resources to needed areas, to new or expanding fields, or to programs that need rebuilding. By encouraging the early retirement of academics in crowded or out-of-demand fields, an administrator can gain a few faculty positions to reallocate elsewhere. However, the ability to shift these resources to new areas is not always at hand.

Early retirement might also be seen as a fiscal policy. When viewed as an academic policy, early retirement is used to move existing resources to a new area, but the level of resources (faculty slots) is

maintained. In a case where an institution is faced with a budgetary shortage, early retirement might be looked upon as a way to reduce payroll costs, assuming the institution can continue to function with a reduced staff. Obviously this policy cannot be used extensively, as a staff can be reduced in size only so much.

Early retirement might also be seen as part of an employee benefit package. Since most institutions have early retirement schemes that permit persons who retire before the mandatory retirement age to draw a retirement annuity (one less, of course, than would be received at the mandatory retirement age), an increased-benefits early retirement plan might be seen as another type of employee benefit.

Offering an increased-benefits retirement plan to all employees, if most were to accept the offer, would be an expensive endeavor. An institution might conceivably package an increased-benefits early retirement scheme as a benefits program while using it as a management tool. It is, however, a poor candidate as a benefits package, because retirement is not a salient issue to most individuals. It would have to be heavily promoted to be effective.

The policy objectives of these types of early retirement schemes were not clear when they were first considered by colleges and universities, and their policy objectives may not yet be clear to many faculty members or administrators. Before early retirement is widely recognized as an academic or management policy, its purposes must be made clear to administrators and faculty members. Later chapters of this report discuss the alternative policy objectives in detail.

Economists continually remind us that "there is no such thing as a free lunch." This seems to be the case with early retirements. If an institution entices individuals to retire early, and thus increases the rate of retirements in the near-term, that institution may eventually experience a decrease in the retirement rate as it runs out of persons to retire early. Perhaps the institution could maintain inducements to early retirement, but that could be an expensive proposition. This should not suggest that an early retirement policy is necessarily bad. An institution might feel that it needs more retirements now, and it might be willing to

accept fewer retirements in the future. In some institutions the age distribution of academics may be causing few current retirements, so enticing some persons to retire early may have more positive than negative consequences. Such actions, of course, can be decided only by examining the specific age distribution for a college or university.

An unfortunate consequence of increased interest in early retirement might be to cause academics to view early retirement as an escape for the incompetent. Such a view would be inaccurate. While some persons who desire early retirement have declined in productivity, not all have done so. Most of those who have dropped off are still somewhat productive and certainly are not intentionally cheating the institution. Some highly productive employees retire early in order to pursue other alternatives while they still have the vigor. A terminology which stigmatizes early retirement will discourage persons from taking these actions and would be unhealthy for both individuals and institutions. Academics should be free to terminate when they desire, and perhaps institutions should not be burdened by persons forced to remain because of peer pressure or financial necessity.

This chapter is not meant to be a defense of early retirement. Rather, we feel the need to address the issue in a positive way because conventional wisdom suggests that retirement is at best a necessary evil.[15] The following chapters will show this is not the case for many academics. When beginning this research, we thought early retirement would not serve the need of the university, that early retirees would have experienced financial and social hardships, and that early retirees would regret their decision. We have had to reassess our position. From the perspective of the early retiree, deciding to leave the university before the mandatory age was typically seen as a desirable move. Few early retirees regret their decision, few have experienced financial difficulties, and most are satisfied with their condition in retirement. Further, even if increased-benefits early retirements do not serve an institution in financial terms, they serve it in another important way: some disaffected employees are permitted an exit. Of course, not all early retirees were unhappy with their university roles; there are many other reasons for retiring early.

The Range of Early Retirement Alternatives

Judging from our research, the variations on special incentive early retirement schemes seem unlimited. However, we have selected the following ten variations for detailed discussion:

1. Full-Salary Annuity
2. Severance Payment
3. Individual-Based Annuity
4. Group-Based Annuity
5. Individual-Based Annuity with Partial Employment
6. Group-Based Annuity with Partial Employment
7. Continued Annuity Payments
8. Severance Payment with Continued Annuity Payments
9. Liberalized Benefit Schedule
10. Continued Perquisites

The provisions of these alternatives are detailed below. Chapters 2-5 describe the examples in industry, academia, and government service from which these alternatives were derived. Chapter 8 discusses the fiscal implications of several of these alternatives (to illustrate the cost calculations which should be made by any institution considering an early retirement scheme); and Chapter 10 considers the effectiveness of all ten alternatives in light of a number of evaluation criteria.

Alternative 1--Full-Salary Annuity. Under this alternative, an organization pays a steep price to get some of its employees to retire early. During the period between an employee's early retirement and his mandatory retirement date, the organization pays him a supplement to the regular early retirement benefits which brings his total retirement income to the level of his full (or nearly full) salary. Also, by purchasing a supplemental annuity to take effect on the mandatory retirement date, the organization assures the individual a future retirement income at least equal to that which would have been received had he remained employed until the mandatory age.

Alternative 2--Severance Payment. An organization makes a limited, direct cash payment to an employee who leaves the organization before his mandatory retirement date. This settlement, which might be a multiple of the employee's annual salary, may be paid in a lump sum or over a one-year period. The departing employee might also receive an early retirement pension if he is eligible for one under the standard retirement plan.

Alternative 3--Individual-Based Annuity. Under this alternative, employees who retire early receive a level of benefits comparable to that which they would have received had they waited to retire at the mandatory retirement age and had they received normal (or nearly normal) salary advancements until that age. To accomplish this, the organization supplements the individual's regular early retirement benefits with direct payments. The organization also purchases a supplemental annuity to take effect at the mandatory retirement date, after which the direct payments cease. (Note that the difference between this alternative and Alternative 1 is that the early retirement income is equal to the projected mandatory retirement benefits, not the individual's pre-retirement salary.)

Alternative 4--Group-Based Annuity. Under the assumption that the more highly paid employees within a group of individuals in the same age and years of service category are those most highly valued, a group-based early annuity might be considered. This plan is similar to the individual-based early annuity except that the supplemental benefits provided both before and after the mandatory retirement age are established in relation to the median projected mandatory age benefits of all employees in the same age-service group, rather than one's own projected benefits. Compared to those employees above the median, those below the median receive a larger supplement. Therefore, the incentive for them to retire is greater than for the higher-paid employees, whom the organization might prefer to retain.

Alternative 5--Individual-Based Annuity with Partial Employment. This alternative is similar to the individual-based early annuity in that the individual is assured a retirement income after the mandatory retirement age equal to that which he would have received had he not retired early.

To accomplish this, the organization purchases a supplemental annuity to take effect on the mandatory retirement date. In addition, during the period between early and mandatory retirement, the retiree is retained in a part-time position which supplements his early retirement benefits. (There might be an upper limit, say 33% or 49%, on the amount of compensated employment allowed.)

Alternative 6--Group-Based Annuity with Partial Employment. As in Alternative 5, this scheme pairs part-time employment before the mandatory retirement age with supplemental benefits after that age. However, following the logic underlying Alternative 4, both the supplemental employment and the supplemental benefits are calculated in relation to the median projected mandatory age benefits for one's age-service group. Extending this logic even further, this alternative could be modified to provide supplemental employment only to those employees whose incomes are above the median, under the assumption that these are the employees the organization would most like to retain in a productive capacity.

Alternative 7--Continued Annuity Payments. An organization continues payment into the annuity fund, or otherwise supplements the future annuity of an employee who retires early. Such payment is continued to the mandatory retirement age. Note that under this option the early retiree defers all retirement benefits until he reaches the mandatory retirement age.

Alternative 8--Severance Payment with Continued Annuity Payments. This option is similar to number 7; but, in addition to the continued annuity payments, the early retiree is provided a severance payment. Thus the option is more like an early retirement scheme since the employee may not need to reemploy.

Alternative 9--Liberalized Benefits Schedule. Under this scheme, the normal benefits schedule for persons electing early retirement would be liberalized, typically through an across-the-board increase of all benefit rates.

Alternative 10--Continued Perquisites. Employees retiring early under this alternative would not forfeit certain perquisites--for example,

the use of an office, secretarial services, photocopying services, health services, etc., and membership in group health and life insurance plans. (Widespread appeal of this alternative, if not used in conjunction with other options, seems questionable.)

FOOTNOTES

[1]A succinct definition of "steady state" is next to impossible as the euphemism has taken on such varied meanings, many quite different from an economist's definition, and others that are simply inaccurate. For a critique of the misinterpretations, see Lyman A. Glenny, "The Illusions of Steady State," Change, vol. 6, no. 10 (December-January 1974-1975), pp. 24-28. We hope our use of the term, as it applies to colleges and universities, will be clear from the text. A comprehensive discussion of the concept of steady state can be found in Herman E. Daly (ed.), Toward a Steady-State Economy (San Francisco: W.H. Freeman and Company, 1973). For a discussion of the steady state in higher education, see John G. Kemeny, "The University in Steady State," Daedalus, vol. 104, no. 1 (Winter 1975), pp. 87-96. President Kemeny mentions early retirement as one of the possible ways to deal with the steady state, pp. 93-94. In regard to staffing problems see: W. Todd Furniss, Steady-State Staffing in Tenure-Granting Institutions, and Related Papers (Washington, D.C.: American Council on Education, 1973). Early retirement is again mentioned as one of the possible remedies to problems of the steady state, p. 9.

[2]The steady-state condition in education exists world-wide. It is perhaps at its worst in Great Britain. Harold Perkin, "The Financial Crisis in British Universities: Or How to live with 29 Percent Inflation," AAUP Bulletin, vol. 61, no. 4 (December 1975), pp. 304-308.

[3]For a discussion of the impact of low growth upon affirmative action, see Martin Trow, "The Implications of Low Growth Rates for Higher Education," mimeographed (Berkeley: University of California, Graduate School of Public Policy, June 1975), p. 14.

[4]Carnegie Foundation for the Advancement of Teaching, More Than Survival: Prospects for Higher Education in a Period of Uncertainty (San Francisco: Jossey-Bass, 1975); Martin Trow, "The Implications of Low Growth Rates for Higher Education," June 1975; and Walter Adams, "The State of Higher Education: Myths and Realities," AAUP Bulletin, vol. 60, no. 2 (June 1974), pp. 119-125.

[5]The growth trend for the next decade, as always, is uncertain. Enrollment predictions for the early 1970's, a much more stable time, were off as much as 10 percent. Guesses about enrollments for the late 1970's and early 1980's are more uncertain. While most forecasters see a gradual increase in enrollments in the near-term, the growth rate will certainly be less than that of the 1960's. Some estimates for the 1980's and 1990's show growth; others show decline. Future enrollments will depend upon demographic factors, which can be predicted with some accuracy, and college attendance rates, which have been difficult to predict but which will be even more difficult to predict in the future when a greater percentage of the college population is composed of older persons and part-time students. Even if these numbers were known, projections would have to consider the

capacity of the economy to absorb these college-educated persons. Incorporating the absorption rate into projections is discussed by Stephen P. Dresch, "Educational Saturation: A Demographic-Economic Model," AAUP Bulletin, vol. 61, no. 3 (October 1975), pp. 239-247. For a variety of enrollment projections, see: Carnegie Foundation, More Than Survival, 1975, especially Appendix B, pp. 141-147; Carnegie Commission on Higher Education, Priorities for Action: Final Report of the Carnegie Commission on Higher Education (New York: McGraw-Hill, 1973), Technical Note A, pp. 95-106; Richard Berendzen, "Population Changes and Higher Education," Educational Record, vol. 55, no. 2 (Spring 1974), pp. 115-125; and U.S. Department of Health, Education and Welfare, Projections of Educational Statistics to 1982-1983 (Washington, D.C.: U.S. Government Printing Office, 1974), Table 5, p. 24.

[6]The demand for new doctorates has been steadily declining and may reach zero within the next decade. Roy Radner and Leonard S. Miller, Demand and Supply in U.S. Higher Education (New York: McGraw-Hill, 1975). Also cited in Carnegie Foundation, More than Survival, pp. 11-13. See also Frederick E. Balderston and Roy Radner, "Academic Demand for New Ph.D's., 1970-90: Its Sensitivity to Alternative Policies," mimeographed (Berkeley: University of California, Office of the Vice President--Planning, December 1971); and Allan M. Cartter and John M. McDowell, "Projected Market and Institutional Policy Impact on Faculty Composition," mimeographed (Los Angeles: University of California, February 1975).

[7]Although their proponents do not like to admit the fact, some non-traditional or extended degree programs have been established in part to capture a new clientele. While few colleges and universities tried to recruit adults during the last ten years, most plan to do so during the next decade. Carnegie Foundation, More than Survival, 1975, pp. 96-100. The University of California launched its Extended University in part as a response to anticipated declining enrollments. Carl Vernon Patton, "Extended Education in an Elite Institution: Are There Sufficient Incentives to Encourage Faculty Participation?" Journal of Higher Education, vol. 46, no. 4 (July/August 1975), pp. 427-444. For an overview of recent experience with extended education see: Leland Medsker, Steward Edelstein, Hannah Kreplin, Janey Ruyle and John Shea, Extending Opportunities for a College Degree: Practice, Problems and Potentials (Berkeley, University of California, Center for Research and Development in Higher Education, 1975).

[8]Howard Clark, "Colleges Overexpanding," Oakland Tribune, November 11, 1974, p. 4.

[9]It is not necessarily clear that the bulk of the resources will go to the older established research campuses. Perhaps the prestige campuses will have to pay for the bad predictions which led to the establishment of the new campuses of the late 1960's.

[10]Carnegie Foundation, More than Survival, 1975, pp. 82-85.

[11]Patton, 1975.

[12]Cartter and McDowell, 1975, pp. 4, 20, 46.

[13]Abolishing tenure, even where institutions are faced with financial shortfalls, cannot be done overnight. Determining what makes a financial exigency may be difficult, and for certain, faculty rights and contractual agreements must be recognized. For a landmark case where tenure was abolished, and tenured employees were terminated because of financial difficulties, see: "The Bloomfield College Case," AAUP Bulletin, vol. 60, no. 3 (September 1974), pp. 320-330. The court ordered the terminated employees reinstated. The court decision was upheld and the college apparently will not appeal. "Bloomfield Decision Upheld," Academe, vol. 9, no. 4 (December 1975), pp. 1, 3. The AAUP has recognized that appointments can be terminated because of a "demonstrably bona fide financial exigency." See "Termination of Faculty Appointments because of Financial Exigency, Discontinuance of a Program or Department for Medical Reasons," AAUP Bulletin, vol. 60, no. 4 (December 1974), pp. 411-413.

[14]Whether the elimination of tenure would be good or bad for the quality of education has not been determined. Most institutions have some form of tenure, and tenure may still be needed to protect academic freedom. The issue certainly cannot be settled here. The interested reader should see: Bardwell L. Smith (ed.), The Tenure Debate (San Francisco: Jossey-Bass, 1973); and Commission on Academic Tenure in Higher Education, Faculty Tenure (San Francisco: Jossey-Bass, 1973).

[15]An argument against a mandatory retirement age can also be made. Some persons hold that individuals should not be forced to retire, that they should be permitted to work as long as possible. A counter argument might be supported by reference to the limited employment opportunties that now exist and the number of available slots that would be held by older academics if there were no mandatory retirement age. Mandatory retirement also causes persons to plan for the day when they will be unable to work, perhaps because of poor health, family responsibilities or dissatisfaction with their job. When a person is young, the idea of not working may be repugnant, and there may be little incentive to save for retirement. Because individuals do not tend to save for their old age, institutions, including the federal government, have established mandatory pension plans. These pension plans not only require persons to save for retirement, but in the instances where a mandatory retirement age is set, they define the time period during which an annuity must be accumulated. "The widespread reliance on public and private pensions rests on the premise that most people make only minimum individual preparations for retirement income." Juanita M. Kreps, "Economics of Aging," in Ethel Shansa (ed.) Aging in Contemporary Society (Beverly Hills, California: Sage Publications, 1970), p. 86. This seems to be the case in Great Britain as well. Dorothy Wedderburn, "Old People in Britain," in Ethel Shanas (ed.) Aging in Contemporary Society (Beverly Hills, California: Sage Publications, 1970), p. 101. The delegates to the 1971 White House Conference on Aging recognized this problem. "Too many individuals fail to plan for retirement or

plan too late." 1971 White House Conference on Aging, Selection Recommendations on Employment and Retirement (Washington, D.C.: U.S. Government Printing Office, 1971), p. 6. Those persons who are expected to have the most problems seem to plan the least, perhaps because they are discouraged and need assistance. James N. Morgan, "Trends in Early Retirement," The Aging Consumer (Occasional Papers in Gerontology, no. 8) (Ann Arbor: University of Michigan, 1969), pp. 41-45.

2. EARLY RETIREMENT IN INDUSTRY

Industry has found that the hidden payroll costs of maintaining inefficient older employees may be greater than an early retirement pension and that the separation-pay aspect of an early retirement pension makes it easier to reduce the work force. Businesses have taken steps such as general cost-reduction programs involving marginal performers, company-wide reduction of personnel because of business conditions or technological change, the shutdown of a specific department, and the weeding out of older, marginal performers.[1] Workers in industry also have been encouraged to retire prior to the mandatory retirement date through liberalization of retirement benefits, both from Social Security and from private plans. A number of labor unions have negotiated early retirement plans, most notably in the automobile and steel industries.

Today, 96% of the pension plans in industry provide for early retirement. Most plans require an early retiree to take the actuarially reduced value of his accrued benefits, the reduction being made to recognize the increased time during which the benefits will be paid. In 22% of the plans, however, liberalized benefits are provided to persons who voluntarily retire early.[2] These increased benefits are provided in several ways:

- A liberalized early retirement discount may be given, where the accrued retirement benefit is still reduced for each year the employee is under the mandatory retirement age but the reduction is not as severe as the standard actuarial reduction.
- The full benefit that would be received at the mandatory retirement age may be given, without any reduction for early retirement.
- The regular early retirement benefit may be supplemented until the early retiree reaches age 65, when he can draw an unreduced Social Security benefit.

These benefits may be general, in that they apply to all employees who meet the eligibility requirements for early retirement. On the other hand, they may be senior supplements, restricted to a class of employees who meet more stringent age and service requirements; or they may be company-option supplements, applicable only to employees who are asked to retire by the company. The general and senior supplements have grown in use during the

last decade, while the company-option supplement is more limited, found mainly in a few specific industries.[3]

An excellent survey of retirement practices in business and industry is available from Towers, Perrin, Forster and Crosby.[4] We reinterviewed selected firms from this study to determine their recent experience with incentive early retirement schemes and to seek information that might be useful for colleges and universities considering early retirement options. Table 2.1 summarizes these plans in industry.

Through our investigation we found that early retirement often is another name for termination and that termination programs generally apply to a wide range of employees. In some cases termination/early retirement programs apply to selected groups--usually high level managers and professionals. Few persons retire under these options, except in a few firms.

In general, we found that:

- A few large firms have instituted formal programs.
- Many firms have some special arrangement, though informal and not widely publicized; some are even "under the table."
- Some programs are temporary; others are "permanent."

Basically the early retirement or termination programs fall into the following categories:

- one-time payments (sometimes spread over a number of years);
- liberalization of the early-retirement actuarial reduction;
- a pension supplement, sometimes geared to expected Social Security income; or
- part-time reemployment, often a special task.

Few firms are guaranteeing cost-of-living adjustments although across-the-board adjustments have been made in many cases. Most firms do not see this as an essential part of an incentive early retirement program.

Business and industry have identified a number of necessary components for increased-benefits early retirement schemes, as noted below.

Table 2.1

Overview of Selected Incentive Early Retirement Programs in Industry

	Essence of Plan	Formal/ Informal	Temporary/ Permanent	Eligibility Requirements	Comments
B1.	Liberalized actuarial discount. No actuarial discount if age 60, 30 years of service. A Social Security Supplement is paid until early retiree begins to draw Social Security at age 62.	Formal	Permanent	Age 59, 30 years of service Age 60, 10-30 years of service	Special arrangements made for highly paid executives.
B2.	Two years salary paid monthly for up to four years or to age 65.	Formal	Temporary	Twenty-five years of service	Offered occasionally as need to reduce force arises.
B3.	Half of regular salary plus a pension supplement to the balance of the salary paid till age 62.	Formal	Permanent	Age 60-62, 10 years of service	Offered to salespersons primarily. Person is placed on 50% salary and put on consultation. At age 62 can draw an unreduced annuity.
B4.	Up to two years of salary paid over 12 months.	Informal	Permanent	Age 50-60, 15 years of service	Used to remove marginal employees. Replaced a supplemental annuity option (part of the actuarial reduction was eliminated).
B5.	Lump sum payment of a per percentage (50% to 100%) of current salary.	Informal	Temporary	Age 55	Intended for executives, top management
B6.	One year's salary paid over a two-year period or until age 65.	Informal	Permanent	Long service	Aimed at highly paid executives

	Essence of Plan	Formal/ Informal	Temporary/ Permanent	Eligibility Requirements	Comments
B7.	An unreduced annuity plus $200 per month payment At ages 55-59 till age 62 At ages 60-62 for 2 years At ages 63-64 till age 65	Formal	Temporary	Age 55, 30 years of service less two years for each year above 55	Used at all levels of employment. Many retired under this option.
B8.	No actuarial discount	Formal	Permanent	Age 62 or 30 years of service Age 60 and 30 years of service	Limited to hourly employees, clerical and managers. Intended to be a supplement until a person becomes eligible for Social Security.
	Supplement from early retirement till age 62. Then after the employee begins to draw Social Security, the supplement is reduced by about 50%.				
B9.	No actuarial discount plus 50% of Social Security benefits to 65; medical, life insurance continued.	Formal	Permanent	Age 62, 30 years of service	Available to all; 66% choose early retirement. Largest number in late fifties.
	Liberalized actuarial discount plus 50% supplement to age 62; life insurance continued.	Formal	Permanent	Age 55, 10 years of service	
B10.	Liberalized actuarial discount plus 50% Social Security benefits; medical, life insurance continued.	Formal	Permanent	Age 55, 15 years of service	Available to all; 55% choose early retirement. "Necessary as a competitive benefit, but of course you hope to induce marginal performers to choose it."

	Essence of Plan	Formal/ Informal	Temporary/ Permanent	Eligibility Requirements	Comments
B11.	No actuarial discount, modified medical, life insurance	Formal	Permanent	Age plus years of service = 85	Available to all, 50% choose early retirement, 66% hourly workers
	"Pre-retirement leave of absence": early retirement benefits plus Social Security equivalent to age 62	Informal	Permanent	Age 57, 15 years of service; exempt personnel	"Voluntary"--but initiated, approved, and packaged by management before employee is approached. Used for "division reduction of personnel and marginal employees in about 100 cases"
B12.	"Besides standard early retirement, there is 'discretionary retirement' which adds $250/month supplement to age 62 and no actuarial discount"	Informal	Permanent	Over 55, years + service = 80; exempt personnel	Used in plant closings; "occasionally" for individuals
B13.	No actuarial discount; liberalized actuarial discount	Formal	Permanent	Age plus years of service = 85; age 55-62	The provision has been in existence for many years
B14.	No actuarial discount; liberalized actuarial discount	Formal	Permanent	Age plus years of service = 75, age 58-62	Few people are taking this option (only 25% of firm's retirements are early)
B15.	No actuarial discount	Formal	Permanent	Age 62, 20 years of service	Available to all
B16.	No actuarial discount	Formal	Permanent	Age 58, 27 years of service	Available to all, hourly and salary; most retire at 62
	Liberalized actuarial discount	Formal	Permanent	Age 50, 10 years of service	

	Essence of Plan	Formal/ Informal	Temporary/ Permanent	Eligibility Requirements	Comments
B17.	Liberalized actuarial discount; modified medical, life insurance continued	Formal	Permanent	Age 55	Available to all office personnel; 50% choose it at various ages
	No actuarial discount	Formal	Permanent	Age 62 or age plus service = 85	80% choose early retirement, mostly at 62
B18.	Liberalized actuarial discount; medical, life insurance continued	Formal	Permanent	Age 55, 10 years of service	Available to all
	Early retirement plus lump sum payment equal to "severance or a little more"	Informal	Unofficial	Same	"You will retire or be terminated." Only applied to non-union, exempt personnel

A minimum age for retirement eligibility. A low minimum age results in an inadequate benefit level in most cases, but it may also provide a lifetime severance allowance for a relatively young employee. A low retirement age can also result in a burden on the system. In some cases, young retirees may compete for other jobs with job seekers who do not have pensions. Age 55 appears to be the youngest age at which most retirement plans in both industry and academia permit the payment of retirement benefits. Few firms encourage incentive early retirement prior to age 60, for reasons of cost and level of benefits.

A minimum number of years of service. In addition to fulfilling the same purposes as a minimum age requirement, this requirement serves to retain people who can continue to make a useful contribution. Few conventional early retirement plans permit retirement after fulfilling only a service-credit requirement, but both the minimum age for retirement and the number of years of service credit are continuing to be shortened. Although some retirement plans permit retirement benefits to be paid after only five years, the benefits would be quite limited, even if the employee had passed age 55. An increased-benefits early retirement scheme, if it is to encourage more than a few retirements, would have to be limited to persons with at least 10 years of service credit. Otherwise, the supplemental benefits would have to be substantial, to compensate in the benefits formula for the limited years of service credit and related employee and employer contributions.

Consent of the organization. When the eligibility requirements are liberal, the organization's consent is typically required. In some cases, the organization decides that an employee who might be eligible for early retirement benefits does not merit an increased pension, and in other cases, an organization might lose employees whose performance was at or above par, or could be in a position to pay a lifetime severance benefit to an employee who reemploys with another (possibly competing) organization. Organizational consent might be required at younger ages but not at older ages. Although organizational consent is often required, "window" options have made the option available to all persons in certain age-service cohorts.

Period in force. Some firms view these options as temporary, others as permanent. In practice, all are temporary since they may be revised. A possible problem exists with temporary programs. Persons may delay taking the option the first time offered, hoping the program may be available at a later time when they feel they will be in a better position to take it. Due to these postponed retirements, the net result might be only a slight reduction (or perhaps an increase) in the age of retirement.

Ease of funding. Basing an annuity supplement on a projection of future salary (or on present salary and stock-growth trends) is seen as somewhat risky. A multiple of current salary as a termination benefit is seen as more certain.

Means of financing the supplement. The provisions of ERISA and Sections 403(b) and 415 of the Internal Revenue Code demand special attention to the way in which supplements are paid to persons who terminate/retire. Under the IRS code there are limitations on the amounts that can be added to a person's annuity, and some supplements are not being paid as part of the firm's pension.

The key points seem to be the minimum age for eligibility and the minimum number of years of service credit. Institutional consent, over and above that implied in the design of the early retirement option, is less widespread. Few early retirement programs permit retirement prior to age 55, except where the employee has accumulated 20 or more years of service credit. In some of these cases, the employee may be approaching his full annuity, and a liberalized early retirement plan may not be necessary.

Early retirement must be financed in some manner, either by an institution or by continuing workers. The options include an influx of additional funds, a reduction in the number of employees, increases in the actuary tables, or a selective distribution of available funds among particular groups of workers. It would be possible for an institution to determine which specific employees have reached an age and length of service that would permit them to be retired with funds remaining to finance a net increase in the number of employees. However, these employees may not necessarily be the ones that the institution would like to retire. Further, selective early retirement may not be viewed as equitable. Instead, blanket availability of early retirement for age-service cohorts may be more acceptable.

How do firms decide upon the ingredients for their early retirement schemes? How do they establish the benefit levels?

We approached those firms that have had success with early retirement (in the sense that their incentive plans have caused people to retire early). Although we cannot reveal the names of specific firms, their experiences are instructive and enable us to suggest alternatives useful to academia.

Firm B1

This firm's formal early retirement program is a permanent arrangement available at the employee's discretion. In fact, this option may or may not be considered an incentive program. Employees who have reached age 58 with 30 years of service may retire early and receive a monthly pension, calculated like a normal pension but reduced one-half of one percent for each month between the retirement date and age 60. A person retiring after age 60 with 30 years of service does not receive an actuarial reduction. A person age 60 with 10 but less than 30 years of service credit receives a pension which is reduced one-third of one percent for each month before age 65 (the mandatory retirement age). Any person retiring before age 62 receives a Social Security supplement. This arrangement was negotiated by the union and is available to all employees.

In addition, this firm has an unpublicized scheme intended for management employees who "have gone stale" or who are "not able to cut it." If such a person is near the retirement age, the retirement options are pointed out to him. If it takes more to get him to retire, his manager may work out a "special" retirement arrangement. As a large firm, however, they can often relocate these problem employees.

This firm also has a separation-pay option which is used when there is a need for a cutback at a particular installation, but this is not an early retirement arrangement.

Although this firm did not have extensive experience with induced early retirement, it is interesting to note that over 60% of the firm's employees are retiring early, and most of the early retirees leave more than a year or two early. For example, in a typical month 60%

of all retirees retire early, and only 15% of these retire just one or two years early.

Firm B2

Like most firms, Firm B2's retirement plan includes a regular early retirement provision, where a person retiring before a certain age (age 60) has his pension reduced 3% per year for each year he retires early. In this system a person retiring at age 55 would receive a pension equal to 85% of his accrued annuity. The firm feels this arrangement is competitive with those offered by other firms in the industry. They are comfortable with this practice and feel it gives a reasonable turnover at the older ages. They are not sure that they want to provide "massive" incentives for early retirement.

During periods of severe manpower surpluses this firm has offered a "special separation allowance" to anyone with 25 or more years of service. Most of the persons who took the option were also at least 55 years of age. If the person retires early he receives two years pay spread over a four-year period (or until age 65). This option has been offered twice, both times for limited periods. Another offering will be made soon to employees at a specific installation.

Early retirement here is seen as non-selective. If a person is not performing well he is given job counseling, rather than being encouraged to retire early. The special early retirement provision is reserved for cases of excess labor supply.

According to management, employee reaction to the special, temporary program has been highly favorable. The firm feels they gained through the option, but they argue that it is difficult to track employee replacement, the cost of replacement, etc.

This firm was not sure how many people would take the special early retirement option. However, they thought people over age 60 could hardly afford to turn it down, as they would receive almost full pay under early retirement. Fewer people aged 55-60 took the option. The firm

believes that age is the best predictor of .cceptance; salary and rank seem to be less important.

A special separation payment was selected over higher lifetime benefits because it would be easier to keep the arrangement temporary. According to the firm, setting the level of the benefit involved a little magic. Considering existing early retirement incomes, the supplement seemed enough. More would have seemed over-generous, perhaps wasteful. Two years salary seemed right. Our informant feels that they would not have gotten a much higher yield if they had offered three years instead of two.

The early retirement offer was designed to be strictly voluntary. A letter was sent to eligible employees, reporting the program but pointing out that it was strictly voluntary. Managers also were informed that the program was voluntary, that there had to be no arm twisting. The firm claims that it received no complaints from employees who felt they were being forced to retire.

The program was considered well-received. Out of a total of 160,000 employees, 8,000 were eligible. Below 55, there was a 1% acceptance rate; for employees 55-59 the rate was 44% (1100 out of 2500); and at 60-64 the rate was 75% (675 out of 900). Acceptance rates did not vary by occupational category. Age was obviously the most important variable: over half of the persons eligible by having over 25 years of service were below age 55, but only 1% of these persons took the option. (It should be noted that persons under age 55 were not eligible for a pension.)

Unlike the procedure in some other firms and universities, electing this early retirement option was straightforward. The employee would submit a request for retirement through his manager, who would pass the request to personnel and the corporate headquarters, whereupon the details were taken care of for the employee. The employee was also requested to participate in an exit interview. This firm claims there was no bureaucratic maze involved in early retirement, that the employees elected the option, and that there was no reason to impose company consent.

Although this firm knows the persons who did not take the option, they have only limited data about why they decided to continue working. The firm attributes the rejection to the employees' family circumstances, particularly to outstanding financial commitments.

Overall, this firm is satisfied with its experience with increased-benefits early retirement. It met the firm's needs, and the firm feels that as long as the option is flexible it can work to the firm's advantage. However, management at this firm warned that the more often early retirement is encouraged the more it affects later retirement (by removing people who would later retire at the normal or mandatory age); further, it eventually comes to be seen as an employee benefit. Before offering this option again, this firm will ask whether it is worth the risk, especially in light of recent concerns about the discriminatory nature of these programs. (Note that this firm picked the number of years of service as the determining factor, not age.)

It might be noted that this firm tends to look after its retirees through personal contacts, inclusion of the retirees in company functions, etc.

Firm B3

Firm B3's early retirement plan (which the firm says is more properly an "inactive service" program) provides an early retiree with 50% of salary plus some money from consultation assignments. The program is aimed at salesmen and is available to persons aged 60-62 with 10 years of service (at age 62 an employee can retire with an unreduced pension). Between 50 and 100 persons have participated in the option, which is not available to everyone. It is a company option, offered to specific employees.

This firm is now considering another type of inactive service program, one that will apply more widely. Their intention is to devise a program which will cause more people to leave early, to move out certain persons, and to bring in young persons.

The option as it stands today is not generally known to employees of the firm. It is not mentioned in the firm's retirement booklet. The

firm reports that some persons are grateful to be on the program, but others are bitter. As our informant pointed out, this scheme is not really an "offer." Rather, it is a management decision, and employees take the option because the alternative to it is termination.

Because the firm is interested in causing more employees to retire early, it may modify its alternative. Already less than one-third of its retirees terminate at the mandatory age of 65. Most retire between 62 (when they may take an unreduced annuity) and 65. Very few now retire before 62, unless they are placed on the inactive service program.

Firm B4

This large firm differentiates between a person who retires after vesting (10 years of service required) and one who has 15 years of service and has reached age 60. The latter person is designated as an annuitant and is provided additional benefits, such as a continuation of life insurance. If an employee retires voluntarily before age 60, his pension is not supplemented.

An early retirement at the company option is supplemented. When the company terminates a person early, a severance allowance is paid in accordance with a formula that differs for annuitants and others. Up to two years salary may be paid to a person required to terminate early. The severance allowance is paid in installments up to 12 months, if the employee desires. The exact payment depends upon the employee's age and the number of years of service credit.

This option has been used in three instances: (1) where there has been a pure surplus of employees, (2) where there were ineffective performers, and (3) where an employee was doing a satisfactory job, but a manager wanted to place a new, more effective employee in the job. In all three cases the employee receives the same treatment.

The firm uses this option to zero in on poor performers, but they try to have people volunteer for the program. They offer the option to more than just those they want to retire early. So far, they have been able to cause the "right" persons to take the option.

In establishing the benefits levels, the firm tried to match what people would be getting under an old program which offered a supplemental annuity for life. Hospital insurance, family-income insurance, and product discounts are also provided.

The firm feels it has not saved much (if any) money under this alternative because most people have had to be replaced. However, the firm is satisfied that the option has succeeded in replacing marginal employees.

Firm B5

This firm has an informal, temporary program which provides a severance payment for a person the firm wants to transfer but who would rather not leave an area. The payment ranges from 50% to 100% of annual salary. The payment is determined individually for each person. For example, the firm found that it had a surplus of managers in a particular location. It tried to transfer the employees, but if they did not agree to the transfer they were terminated.

The benefit formula is roughly related to years of service and provides about a year's pay. The payment is usually made in a lump sum. Along with the payment is provided life insurance to age 65, medical coverage, and a supplement to medicare. The closer an early retiree is to age 65, the smaller the payment. This firm has not relied solely on this scheme to solve its manpower problems. Like several other firms, this organization is large enough to handle many of its problems with transfers. The firm has an active program of job placement, and when a person is identified as surplus the firm attempts to find a new position for the employee.

Special early retirements represent a small fraction of the firm's retirees. The firm has 20,000 employees on the retired roles, but only 75 have been incentive early retirements. This firm is concerned that making pensions too generous may drain away the good people, people who may rather travel, start their own businesses, or do volunteer work.

Firm B6

This firm has two plans. One is a normal severance allowance program that is granted to a number of individuals in various circumstances. It is used where a job has been eliminated or for cost reduction. The amount varies, depending upon the amount of service an employee has and how close he is to retirement. It tapers off at age 62. The second scheme is a special program, only occasionally granted, which is administered by a committee that controls salaries for the top 400-600 employees in the firm.

Early retirement is seen as a management option. In cases where a person is blocking organizational change, the firm may grant a more generous severance allowance in order to move the employee out. When necessary, these persons are paid up to one year's pay over a two-year period. The option exists to serve the needs of management. It is used very sparingly and selectively, and our informant stressed that there was no guarantee that an eligible employee will receive the option. In fact, only two or three employees per year are removed under this scheme. Like other larger firms, this one tries to relocate an employee before terminating him under the early retirement scheme.

Firm B7

In 1971, Firm B7 looked toward the future and anticipated a downturn in business. Hiring was reduced, business began to slack off, and the firm saw imminent layoffs.

Firm B7 would like to have employees believe they have a permanent job. However, upon examining employee distribution, the firm saw it would not be able to hire young employees, upon whom it had depended in the past. The corporate management felt that if they could not hire, they would face stagnation. On the other hand, they did not want to fire established employees.

"Management was willing to spend a few dollars to enhance retirement for persons in older age groups," our informant told us. This would

cause some employees to leave. Not all the vacated spaces would be refilled, so the work force would be reduced and layoffs would be avoided.

Persons who met certain criteria (age plus years of service totaling 85 at age 55, or one point less than 85 for each full year older than 55) were offered unreduced annuities plus $200 until age 62; persons 60-62 at retirement would receive the $200 for two years; and persons aged 63-64 would receive the $200 until age 65 (the mandatory retirement age).

Insurance coverage was also continued by the company. Group life insurance was continued in full force until age 66 when it would begin to reduce to a lifetime minimum. Basic health-care protection and major medical was maintained for life by the company. Individuals covered under the company's survivor-income plan or the survivor-benefit plan could maintain their coverage to age 65 by having their monthly share of the cost deducted from their monthly annuity payments.

This firm analyzed the acceptance pattern and found with a few exceptions that people were encouraged to retire about two years earlier than they had planned to retire. It seems as if persons who were planning to retire at 60 had begun to think about retiring at 58, and they elected this option. Persons who were planning to leave at 62 and take an early Social Security benefit saw the option as a way to retire at 60. People over age 62 seemed to decide to wait until 65 to retire. The average age at retirement dropped two years after the early retirement program was implemented.

The option was offered from top management on down. There was no pressure to take the option. All who fell in the eligibility category received a letter of explanation from the president of the firm, and the retirements were handled as routine retirements. The scheme was estimated to appeal to 1,700 persons, but was eventually taken by 1,720.

The firm feels that this option caused them "to lose a lot of good people, as well as those over the hill." There was some concern over losing talent when the option was first offered, but they were able to replace the early retirees without difficulty.

The firm is pleased with its program, and in the words of our informant, "it did not cost as much as it looks." He reports that if they

had had to replace the early retirees one for one, they would not have used this program. Instead, only 60% of the early retirees were replaced, and no salaried employees were replaced. Remaining employees were merely shifted around.

This early retirement program had another advantage in the eyes of the firm. It enabled them to continue hiring college graduates during a three-year period when their competitors were unable to do so.

Most employees were content with the offer. The firm received some complaints from persons who did not qualify. On the other hand they did not let anyone back out of the decision, and that caused a few problems. To avoid some complaints, anyone who had retired early during the previous year was given the benefit of the plan, if they met the eligibility criteria.

This company's experience shows that a successful program can be mounted quickly if needed. Following a request from the president's office, the program was designed in one month, formally placed on paper during the following two weeks, announced the next month to go into effect the following month, for a three-month eligibility period.

The largest acceptance rate was in the 58-62 age bracket. Management feels that people who were working at age 63 or older were working because they needed the salary, that their decision not to retire had been made years earlier, and their minds could not be changed. In terms of service, the highest acceptance rates were for persons with 28-30 years or more of credit. In order to encourage people to make up their minds about the option, the firm announced that the plan would be temporary and would not be offered again for at least five years. However, the firm does not feel bound by the past and may not offer the program again.

Firm B8.

This firm's formal early retirement program was instituted in response to union pressure, not as a way to remove employees. The option is intended to give people a benefit until they reach 62 when they may begin to draw Social Security. It is intended to permit long-service employees (persons with 30 years of service) to retire even though they

may not be 62 years of age. The option provides a pension supplement from the time of early retirement (for a person with 30 years of service) until age 62. At that age the supplement is reduced by about 50%.

In addition to this formal program, the firm has encouraged some people to leave through special pension arrangements. Others have been placed on quasi-consultant projects. Still others who were not yet eligible for an unreduced pension have been given one, to encourage them to retire early. This option is supposedly used very sparingly, even less in recent years. Instead, poor performers are counseled, moved to new positions, or encouraged to move to a new firm while they are young.

Firms B9-B12

Besides the incentive of no actuarial discount (or a liberalized actuarial discount) for early retiree pensions, these firms provide a supplementary benefit tied to Social Security. The link to Social Security serves three purposes: first, it makes possible an exact prediction of cost; second, it establishes a definite cut-off point (usually 62, occasionally 65); third, it enables the employee to connect the program with the retirement norms of the society.

Firms B13-B18

These firms illustrate the type of incentive early retirement schemes available at many firms. Employees whose age and years of service equal a particular number may retire early without having their pensions actuarially reduced. Persons who retire before achieving this number have their pensions reduced but do not suffer the full reduction. These options make it possible for some employees to retire early, but they do not seem to attract many persons. The additional pension benefit is apparently not large enough to cause people to stop working, at least not until age 62. As Firm B18 illustrates, however, sometimes unofficial pressure is added, making early retirement a euphemism for severance.

Summary

This section began with a distillation of the essential ingredients of these retirement plans. Those plans most effective in inducing early retirements were obviously the ones which paid the largest bonuses to persons who would quit. They were, in our opinion, also the schemes which were more carefully administered and the ones designed to respond to particular organizational goals.

FOOTNOTES

[1]Mitchell Meyer and Harland Fox, Early Retirement Programs (New York: The Conference Board, 1971), pp. 1-2.

[2]Mitchell Meyer and Harland Fox, Profile of Employee Benefits (New York: The Conference Board, 1974), pp. 52-55. See also Towers, Perrin, Forster and Crosby, Early Retirement for Executives: Practices, Attitudes and Trends (New York: Towers, Perrin, Forster and Crosby, 1974).

[3]Meyer and Fox, 1971, pp. 19-36. Contained in these pages is also a summary of the autoworkers' and steelworkers' early retirement plans.

[4]Towers, Perrin, Forster & Crosby. Early Retirement for Executives: Practices, Attitudes, and Trends (New York: Towers, Perrin, Forster and Crosby, 1974).

3. EARLY RETIREMENT IN ACADEMIA

In an effort to redress some of the problems of the steady state, a number of colleges and universities have initiated increased-benefits early faculty retirement plans. More than two dozen institutions have early retirement schemes that provide (in some circumstances at least) a supplement for income lost when a person retires early.[1]

Although many institutions have had early retirement plans for decades, these generally were options to retire early with a reduced annuity. Until recently, few institutions had made provisions for increases in early retirement annuities to permit or even encourage persons to retire before the mandatory age. During the growth years of the 1950s and 1960s, few institutions had reason to consider ways in which to cause employees to retire early; they were having a difficult time recruiting and retaining employees! Some institutions that had mandatory retirement provisions also had arrangements whereby over-age employees could be rehired on a year to year basis.[2] Most persons who wanted to stay on after mandatory retirement were permitted to do so. Besides, at many institutions, mandatory retirement was as high as age 70. Some institutions still have age 70 as the mandatory retirement age, and a few permit extensions beyond mandatory retirement, but in recent years the trend has been toward lower mandatory retirement ages and fewer extensions beyond the mandatory age.[3] The reduction in the retirement age in academia is consistent with the reduction experienced in the economy as a whole.[4] However, retirement ages in academia are still generally higher than those in industry, and a retirement considered "early" in academia might be considered "late" elsewhere.

In the early 1970s, Teachers Insurance and Annuity Association of America-College Retirement Equity Fund (TIAA-CREF) began to receive increased inquiries about early retirement. In 1972, TIAA-CREF prepared a document outlining a variety of provisions intended to supplement benefits for early retirees. These provisions were designed to make early retirement more attractive and to give the institutions more flexibility in adjusting to staffing needs. When TIAA-CREF published its brochure, a number of institutions had increased-benefits early retirement schemes.[5]

In late 1972, TIAA-CREF sent a questionnaire to the business offices of 2,533 institutions seeking information about their early retirement practices. The questionnaire asked about the provision of severance pay, gradual reductions in work loads, supplemental monthly retirement income, plus other benefits designed to encourage early retirements.[6] They had a 51% response, and among the 1,294 institutions responding, over 50 reported providing some type of severance payment--including lump sum payments, a year's salary, a percentage of accrued sick leave, or a contribution to the pension fund to bring the early retirement annuity up to the amount that would have been received at mandatory retirement.

A reduced work load option was reported by 44 institutions. This alternative was being used both as an incentive to phase into early retirement and as a way to supplement the incomes of persons retiring early at reduced benefit rates. Some institutions also provided all or partial fringe benefits as part of this option, including continued contributions to the pension fund until the mandatory retirement age.

Twenty-nine colleges reported programs that provided supplemental monthly retirement incomes for early retirees. Benefits (beyond those the early retirees would receive anyway) were provided by payments from current operating funds, through payments of additional premiums to individual annuities, through group annuity arrangements, and through special retirement funds and reserves. Other types of incentives included continued payment into Social Security, payment of health and life insurance premiums, and payment of pension fund contributions until the mandatory retirement age.

About the same time that TIAA-CREF administered its early retirement survey, the Office of Institutional Analysis at the University of Virginia did a similar survey of the 48 member institutions of the Association of American Universities.[7] The results were similar, but the University of Virginia study also reported about the plans of institutions then without early retirement arrangements and about changes in existing plans. The study uncovered plans for reducing the mandatory retirement age toward 65 in about half of the institutions,[8] and half of the institutions either already had, or were intending to implement, incentive-based early retirement plans.

A follow-up survey of the University of Virginia sample was conducted during 1975 by the Office of Institutional Studies at the University of Southern California.[9] This survey found that early retirement plans in universities had not changed much since the University of Virginia study had been conducted. The planned lowering of the mandatory retirement age at three institutions had taken place. While some of the sample institutions were still considering changes in their early retirement plans, few changes had been made. Four universities (Kansas, North Carolina, Pennsylvania and Princeton) had added early retirement programs, but eight either had dropped their early retirement plans or were using them sporadically (Clark, Cornell, Harvard, Iowa, Iowa State, McGill, Ohio State, and Texas). Unfortunately, the reporting institutions were able to provide little information about the effectiveness of their early retirement programs. Either they had not kept adequate records or their plans had been in operation only a short while.[10]

Other schemes were reported, including the cash severance pay option, either a lump-sum or a time-series payment. While this alternative apparently has been used on an ad hoc basis, it could be formalized, with the severance payment related to years of service or years remaining until mandatory retirement. The payment might be a percentage of annual salary. If the severance payments were made over a period of time, contributions to the employee's annuity program might also be made. Since a large lump-sum payment could result in a large tax obligation, the severance payment could be made to the employee's annuity and thus spread tax payments over the employee's retirement years.

Phasing into retirement through part-time employment was also discussed. Under this option, contributions to the employee's annuity would be continued at his full-time salary level so that the retirement income would be the same as that expected before switching to part-time employment.

Another scheme was proposed where the early retirement supplement would be provided persons retiring at least five years early and calculated in a manner that provided the largest supplement to persons retiring the earliest. Under this option, the annual lifetime supplement would be equal to a percentage of the early retiree's annual salary at early retirement

for each year of service credit times the number of years between the early and mandatory retirement ages.

These existing surveys provide sufficient data about the bulk of current early retirement plans in academia. Our interest in discovering the essential ingredients of incentive early retirement schemes led us to investigate in more detail the several plans in academia that have been successfully used to retire a number of faculty members before the mandatory age.

The five university plans we examined in detail are outlined in the following pages. In Chapter 6, we analyze the experiences of retirees under these schemes and the schemes of two business firms.

Institution A1

Until recently, early retirement at this institution was accomplished through an informal program. There were no precise regulations concerning the eligibility age for early retirement or the number of years of service required. The faculty member retiring early received approximately 75% of the annuity which he would have received at age 65, the normal retirement age. The cost of the supplemental annuity averaged about one-third the total salary, plus employee benefits which would have been paid to the individual had he remained on the faculty until age 65. Complex, individualized calculations were required to determine the amount of the annuity, which was dependent on the amount of the projected annuity at early retirement.

Recently, a standardized formula has been developed to simplify the calculation. It has been decided to offer the standardized early retirement annuity to staff members who will be at least 60 years of age and will have at least 20 years of service by July 1, 1977, with at least 10 years as a member of the retirement plan for staff members. The offer is being made only for early retirements to be effective either July 1, 1977; January 1, 1978; or July 1, 1978. The supplemental annuities will be purchased outside the regular retirement plan on a single-life basis with no spouse's benefit. The informal program for faculty early retirement will be continued for individuals in the age range from 55 to 60. Under both the formal and the informal program, the only restriction on employment is that the early retiree may not be reemployed at the university.

This university formalized its incentive early retirement plan for a variety of reasons: to provide an option for long-service employees who would otherwise be laid off; to provide long-service pensions for senior faculty and staff who wanted to retire for personal reasons; and to encourage marginal performers to retire.

Institution A2

At Institution A2, where the mandatory retirement age is 70, a faculty member may retire at any age between 65 and 70, and the early retirement benefit paid is equal to that which he would have received had he waited to retire until age 70, without a salary change. During the early retirement years, he receives benefit payments directly from the university, and the university makes full contributions to his annuity. When he reaches age 70, the university contributions cease, and the retiree begins to draw his annuity. Eligibility is limited to employees with at least 20 years of service and 18 years of retirement-plan participation.

Under the terms of the early retirement plan, any retiree who "resumes gainful employment" at the university or elsewhere while he is still receiving interim benefits directly from the university (i.e., prior to age 70) will forfeit those benefits as long as he is employed. There seems to be no standard interpretation, however, of what constitutes "gainful employment."

This university launched its early retirement plan two decades ago when it realized some people were reaching the mandatory retirement age with salaries which were too low to provide for an adequate retirement pension. Although age 65 had been intended as the "normal" retirement age, most people could not afford to retire before the compulsory age of 70. The university was concerned that it was penalizing long-service employees, so it devised what might be called a career-service supplement. The plan does have an element of inducement, but most people see it as a bonus for 20 years of service.

Institution A3

The scheme at this university involves early retirement plus part-time employment. It requires the consent of both the university (at several levels) and the individual faculty member. When a professor decides

to retire early, he receives the actuarial equivalent of the benefits due him under the normal early retirement program; these reduced benefits are supplemented by an annuity purchased by the university to go into effect at the mandatory retirement age (age 67). At age 67, the early retiree thus receives an annuity equal to that which he would have received had he remained employed until the mandatory retirement age but had he not received salary increases during that period. In order to supplement his income during the period between early retirement and mandatory retirement, the retiree is provided part-time employment to equal the supplemental annuity he will receive at age 67.

Institution A4

The plan at this institution was a response to the realization that the high proportion of tenured faculty members severely restricted the institution's ability to maintain an influx of new academics. An early retirement plan was seen as a way to increase the turnover rate of faculty positions.

The plan was based upon the premise that early retirement should be open to all older faculty members, at their own initiative, rather than being offered on an ad hoc basis to persons somehow identified as less productive. The designers of the plan reasoned that the best candidates for early retirement were those persons with lower than average salaries (compared with their colleagues in similar age and length of service groups). Thus, the plan calculates one's early retirement benefit on the basis of the median earnings for one's age and service category. The plan's designers argued that this would give a greater incentive to retire to the low-salaried employees. Although the plan has been in operation for several years, it has encouraged only a few persons to retire. The recent escalation in inflation rates seems to have been a major deterrent to acceptance of early retirement across the country, as well as at this university.

Institution A5

The mandatory retirement age at Institution A5 is 70. In 1971, however, an "accelerated retirement program" was implemented, not so much as a way to encourage people to retire early but as a means of supplementing the inadequate pensions that were being received by some retirees. The

program was first proposed in the faculty senate. The senate resolution (of November 20, 1970) reads:

> WHEREAS, it is desirable that all faculty members be financially able to retire at age 65,
>
> AND, it is desirable that faculty members be encouraged to voluntarily fix a date for retirement sufficiently in advance as to permit effective retirement planning,
>
> AND, it is desirable that chairmen and deans be able to plan for replacement of retiring faculty members,
>
> THEREFORE BE IT RESOLVED, that the Senate recommends change of the plan for contributions to the TIAA-CREF annuity in order to provide that after his 55th birthday and after submission of a letter to the University indicating the date of his retirement as not later than the end of the academic year nearest his 65th birthday, a faculty member may increase his TIAA-CREF contribution from 7½% to 10% to be matched by a like contribution by the University, with the understanding that there will be no further University contributions after the scheduled retirement date, even though the faculty member may elect to extend his service past the indicated retirement date.

This original resolution also contained a provision for increased contributions to the retirement fund for persons who had already turned 56. In some cases, the increased contributions would be made until the normal retirement at age 70. Later changes in the provisions of the option permit an employee to accelerate contributions to his annuity program during any ten-year period between ages 52 and 65, but not beyond age 65.

There is some confusion about the purpose of the option. Clearly a primary factor which led to its development was the concern for faculty members retiring on inadequate pensions or else remaining on the faculty until an advanced age because they could not afford to retire. But the scheme is also seen by some as a way to encourage less productive faculty members to retire early.

This program is unusual in that it requires the participating faculty member to "fix" his retirement date ten years in advance. However, the faculty member may elect to stay on past that date entirely at his own option (i.e., no university consent is required.) The only change is that no further university contributions will be made to his annuity program. The faculty member receives a notice to that effect, but there is absolutely

no "red tape" involved in staying on rather than retiring. If a person does retire and begin drawing his annuity, there is no restriction on employment at the university or elsewhere.

Over 400 faculty members have opted for the accelerated retirement program, but as of July 1, 1977 only 90 had reached their specified retirement dates. In the last several years, it is estimated that about one-third of those who have reached their retirement dates are continuing to work in their university positions, although they may be working part-time or for only an extra year. The fact that no attempt has been made to track participants in the program to see whether they do indeed retire says something about the extent to which this program is perceived as a means for encouraging early retirement.

Institution A6

Over the years, Institution A6 has increased its contribution to the faculty and administration retirement plan from 5% to 10%. About four years ago, it decided to contribute 15% to the plan for persons who had reached age 52. This decision was the result of at least three factors: (1) some persons were retiring after long service with a minimal retirement income; (2) some long-term employees were concerned that they had to retire soon on an inadequate income; and (3) some said they wished it were financially feasible for them to retire before age 68, the normal retirement age.

About two years ago, the Dean of the Faculty and the Vice President for Business and Finance discussed the possibility of an early retirement option and determined that it would be possible in some instances to make early retirement attractive for those who desired it. By paying a lump sum to TIAA-CREF, the university could purchase an additional monthly retirement income for the early retiree. In some cases, it would be possible to buy the equivalent of an age 68 retirement at age 65 or 66 for less than the equivalent of a full year's salary. This is how the option worked in the case of Professor X, as told by the Dean of the Faculty and the Vice President for Business and Finance:

> Professor X is 62 years old, he has taught at the University for more than twenty years and has taken advantage of the normal TIAA-CREF matching contributions toward his retirement. During

the last ten years (since he was 52) the University has contributed 15% of his salary and he has contributed 5%. He realizes that his retirement income will be increased each year he continues to work for the University, both by virtue of his continuing high level payments into the retirement program and by virtue of his making fewer years demand upon his cumulative retirement benefits. Professor X, however, is growing tired of students and finds his research and scholarly interests waning. Though he loves the University dearly, he would perhaps prefer to spend more time with his wife and grandchildren. The Dean of the Faculty discovered this to be his attitude as he interviewed each faculty member over age 60. The Dean made clear to Professor X that if he wished to retire earlier than the normal retirement age of 68, the University would attempt to help him reduce the economic penalty he would incur by that decision. In short, the University did not believe that he should continue his employment for economic reasons alone and that insofar as it was economically possible, the University would try to remove the economic incentive for continued work. Professor X said that he would like to explore the possibility and he consulted with the Vice President for Business and Finance to review his particular economic situation.

The Vice President for Business and Finance asked Professor X to review his financial situation and to estimate the amount of income he believed he would need to support him during retirement. The Vice President helped Professor X to estimate the probable retirement income from all sources and calculated the possible impact on that retirement income of Professor X retiring at different ages. The Vice President for Business and Finance wrote to TIAA and asked them to determine how large a contribution to Professor X's TIAA-CREF account would be necessary to guarantee the retirement income required. TIAA-CREF advised the Vice President that a contribution of $25,000 before July of the year Professor X was 62 years old would provide him with the needed retirement income beginning in June of the year he was 64 years old. In fact, it would be possible for Professor X to retire at 64 with the same monthly income he would receive at age 68. His total retirement income, which is non-taxable for the most part, would not be substantially less than his take home salary now...

The Vice President for Business and Finance calculated that at Professor X's expected level of compensation, about $25,000 per year, Professor X would cost the University $100,000 if he chose to continue his employment from age 64 to 68. A replacement for Professor X at the assistant professor level would cost the University about $12,000 per year, or less than $50,000 for the same four years. The savings to the University would be $50,000 less the $25,000 paid Professor X's TIAA-CREF account or a net of $25,000 over the next several years. It was clearly in everyone's interest to make the payment to TIAA-CREF in return for a letter from Professor X resigning as of June of his 64th year and this arrangement was made by an exchange of letters between Professor X and the Dean and a payment to TIAA-CREF.

This increased-benefits early retirement option was never formalized at Institution A6; in fact, it has been offered to only a few individuals. Currently, it is not being promoted or discussed on campus.

FOOTNOTES

[1]In a recent survey of fifty major universities that are members of the Association of American Universities, plus Williams and Dartmouth, the following twelve institutions provided some supplement for income lost because of early retirement: Michigan, Minnesota, Stanford, Toronto, Wisconsin, Williams, California, Dartmouth, Illinois, Indiana, Oregon and Washington. In addition, Princeton provides contributions to the retirement fund for a pre-determined period to build up an employee's early retirement annuity. See: Tincher, 1976. A number of institutions not in the above sample also have increased-benefits early retirement plans. See: Teachers Insurance and Annuity Association of America-College Retirement Equities Fund, "Survey of Early Retirement Practices of Colleges and Universities," mimeographed (New York: TIAA-CREF, 1973); Hans H. Jenny, Early Retirement, A New Issue in Higher Education: The Financial Consequences of Early Retirement (New York: TIAA-CREF, 1974); Stanford University, The Faculty Early Retirement Program (Standford, California: 1973); Subcommittee on Early Retirement, "An Early Retirement Plan for the University of Colorado," mimeographed (Boulder, Colorado: University of Colorado, 1974); Senate Committee on Faculty Benefits, "A Voluntary Program for Early Retirement," mimeographed (Urbana, Illinois: University of Illinois, 1973); and Herbert E. Coolidge and Alton L. Taylor, "Considerations for Faculty Retirement Policies in a Steady-State Condition: A Report to the Provost," mimeographed (Charlottesville, Virginia: University of Virginia, Office of Institutional Analysis, June 1973).

[2]Some institutions have had flexible-age retirement plans that permit extensions beyond the stated normal or base retirement age. Age 65 is the most often used base age, and 70 is usually the mandatory retirement age. When college faculties were expanding, these plans permitted persons to be flexible about when to retire. Now that college faculties have stopped growing, many flexible-age plans have become fixed-age plans since extensions beyond the base year are not being permitted. For an overview of flexible-age plans, see: Francis P. King, "Retirement-Age Experience Under Flexible-Age Retirement Plans, 1930-1970," AAUP Bulletin, vol. 56 no. 1 (March 1970), pp. 14-19.

[3]Coolidge and Taylor, 1973; and Tincher, 1976.

[4]The United States has experienced a long-term trend to earlier retirements. In 1947 90% of males aged 55 to 64 and 48% of those aged 65 and above were employed. By 1954 these figures declined to 89% and 41% respectively, and by 1964 to 86% and 28%. In 1974 they were 77% and 22% respectively. Manpower Report of the President (Washington, D. C.: U. S. Government Printing Office, 1975), Table A-2, p. 205.

[5]TIAA-CREF, 1972. This bulletin was also published as: William T. Slater, "Early Retirement: Some Questions and Some Options," Journal of Higher Education, vol. 58, no. 3 (October 1972), pp. 559-566.

[6]TIAA-CREF, 1973.

[7]Coolidge and Taylor, 1973.

[8]When New York University was faced with near financial collapse, it took a number of actions, including selling one of its two campuses, consolidating its two liberal arts schools, and terminating 200 of its 2,200 faculty members. It also lowered the mandatory retirement age from 68 to 65. To counter faculty opposition, increased retirement benefits were provided. The saving was estimated at more than $2 million a year. Roger M. Williams, "Back from the Brink at Washington Square," Saturday Review/World, June 29, 1974, pp. 34-36.

[9]Tincher, 1976.

[10]Ibid., especially, p. 12.

4. MID-CAREER CHANGE IN INDUSTRY AND ACADEMIA

Departure from a job before the normal retirement age for the general population (around age 65) is often a career-change phenomenon, even when, as in the military, it is called "retirement." As a response to the steady state in colleges and universities, career change is thus an option which can be used both in conjunction with early retirement and as an avenue for freeing positions in colleges and universities.

A substantial proportion of this career change will be involuntary, affecting academics who do not have tenure and who are let go before attaining that status. This, of course, is not a new phenomenon; even in the growth period of higher education, some proportion of those who did not attain tenure chose to leave academic life rather than opt for a position in a different institution.

Now that the golden days are over and the competition for employment is severe, both in and out of the academic world, a great deal of attention is being directed at issues of career development and career change. Change magazine recently issued a booklet entitled "A Guide to Career Alternatives for Academics."[1] Its opening sentences demonstrate that it is the untenured faculty member who is addressed:

> A growing number of teachers and administrators in higher education are currently searching for alternative careers. The reasons are many. A depressed economy, changing demographic patterns, reduced college budgets and enrollments all force many academics to career alternatives.

The focus of the present project and report is different. Although it has its origins in the same situation that has necessitated career change for junior academics, our intent has been to locate programs of career change for tenured faculty. Such programs would serve to stimulate and facilitate career change among persons who are not constrained to move to another career by the threat of unemployment.

It is clear that the formal employment security of tenured academics puts them in an almost unique position. Thus it is hardly surprising that the literature on career change and career mobility contains

practically no information on programs for this group. In a prior study (sponsored by the National Science Foundation) of "mid-life career redirection," most of the programs described are relevant only for blue-collar and lower-level white-collar occupations.[2] One significant career-change endeavor is encountered at an occupational and educational level comparable to that of college professors, but it deals with a non-comparable occurrence: the massive lay-off of engineers and scientists when Government-financed aerospace efforts were cut back. In any event, the principal finding from a study of programs to assist these engineers and scientists is relevant: retraining programs failed as vehicles for career change and reemployment; information services which directed individuals to alternative job opportunities were more effective.[3] This is similar to our own finding: programs which bring academics in touch with alternative careers are more likely to effect career change than are overt efforts to encourage such change. Our finding, of course, is in the context of tenured faculty under no constraint to change careers.

A program which formally combines early retirement with career retraining exists for air traffic controllers who are employed by the Federal Aviation Administration. Because of the stressful nature of their work and the extreme consequences of their errors, the law makes provision for their removal for "operational or medical" reasons and for retirement at age 56. The law also provides for retraining for a second career (generally expected to be in government service), with up to two years of full-time training at full pay and reimbursement of educational expenses.[4] Since this program is relatively new, there is not a great deal of experience with the placement of retrainees. However, at least one interested observer claims that the placement record for retrainees has been poor.[5]

Industry Experience

The experience of private industry with career retraining has been well documented in the volumes cited above.[6] During the course of the present study, we attempted to cover the terrain once more, but with exclusive attention to the retraining of highly educated, high-level technical or managerial personnel--persons who occupy positions that could be considered comparable, in industry, to those held by faculty members in academia. We failed to find any career retraining programs for persons

at this level.

It appears that there is little incentive for industry to retrain persons who have attained relatively high positions in a firm. If they become superfluous through obsolescence of their knowledge or the erosion of their creativity and energy, they are dealt with in the more traditional ways: terminated, retired early, or, if the firm is well-off or has a "full-employment" policy, moved to a slot in which they can do no harm until such time as they are eligible for regular or early retirement.

This is not to say that there are not training programs for highly placed personnel. On the contrary, some firms, especially in high-technology industries, have extensive programs, both in-house and through universities. But these are invariably upgrading programs, through which highly valued employees are made conversant with state-of-the-art developments in their own or related fields, in order to assure their continued value to the firm.

These generalizations stem from our contacts with all of the firms listed above in our discussion of early retirement options plus United Airlines, American Airlines, RCA, Lloyds Bank (Los Angeles), and Boeing Aircraft. In addition, an overview of the entire training effort in business and industry was supplied by Mr. Robert Craig of the American Society for Training and Development.

Academic Experience

We began the present investigation expecting to find few, if any, formal career retraining programs for academics. We reasoned that institutions had little incentive to get involved in retraining junior faculty members, whose contracts they could merely not renew, or tenured faculty, few of whom could be expected to give up secure positions in a contracting job market.[7] Furthermore, we know that a substantial minority of academics has always moved easily between academic and non-academic settings. Industry, government, philanthropic institutions, and non-academic research organizations regularly experience a two-way movement of personnel between their institutions and colleges and universities. Those who make these moves either require no retraining--because they already possess the requisite skills for operating in the new environment--or are sufficiently sophisticated about educational opportunities to acquire new skills without third-party intervention.

Our expectations were confirmed by our failure to turn up any formal retraining programs directed at the retraining of tenured faculty for different substantive areas or different work situations. However, our search did reveal the existence of two rather different types of programs which are relevant to our interests:

- internship and fellowhip programs, which are manifestly intended to achieve goals other than career change, but which as a by-product lead to career change for some of the participants; and
- programs which retrain academics for continued academic work in a different specialty or discipline.

Internship and fellowship programs will receive only cursory coverage in the present report, since they were initially outside the scope of work envisioned for this project. Additional work on the subject is being undertaken, however, since programs of this kind appear to achieve the ends, albeit inadvertently, of career change among tenured faculty. Retraining programs will be discussed in detail. Only a few such programs presently exist, although several are in the planning stage.

Internship and fellowship programs

A number of opportunities exist for professors on leave of absence to experiment with new kinds of work in new settings. Though the programs which support these activities are seldom manifestly directed toward career change as a goal (their overt goals are the enrichment of the professor's experience and capabilities or those of the host organization), a substantial minority of recipients are known to remain with the organizations in which they were placed or with similar organizations outside the academic world. Examples of such programs are the Economic Policy Fellowships of the Brookings Institution and the Congressional Science and Engineering Fellowship Program of the American Association for the Advancement of Science (AAAS). Other programs also exist.[8]

Because such programs are not intended directly to effect career change, they were not originally included in the present investigation.

A cursory look at some of them revealed, however, a significant career change impact, even among tenured faculty participants. For example, among academics who participated in the Congressional Science and Engineering Fellowship program of the AAAS during the academic years 1973-74, 1974-75 and 1975-76 (approximately 30 people), almost half have remained in non-academic, public policy positions. (Exact figures are not available at present, because of definitional problems and the need to ascertain the probable stability of a decision.)

Without further research on the selection process for these programs (including self-selection of applicants) and the decision process by which participants elect career change, it is impossible to assess these programs' relevance to the objectives of the present investigation. It is nevertheless possible to speculate about the advantages and disadvantages which such an approach to career change might have for the attainment of these objectives.

Since these programs are generally administered outside the institutions where professors are employed, the colleges and universities have little control over the selection of appropriate grantees. It is possible that the selection criteria used by funders and host agencies will be counterproductive from the perspective of an institution which would like to encourage career change: the former may select the most creative and promising candidates, while the latter would like to encourage career change among the least productive faculty members. If this were so, then only a desire to increase gross turnover among faculty members, or gross turnover in specific disciplines, would make it in the institution's interest to encourage and facilitate such trial periods of work in alternative settings.

On the other hand, it is possible that the people who elect to stay on in the new job may very well be creative individuals who, because of a change in their interests, would no longer be of as much value to their former academic departments, even though they may be of great value in their new positions. In either case, it is unlikely that this kind of program will be of much help to institutions in encouraging career change among their least-valued faculty members.

Retraining programs

A recent development is the institutional program for retraining of faculty members. These programs have emerged principally from institutional desires to reduce or abolish selected academic programs, while maintaining commitments to faculty members by retraining them for work in fields which are in demand. Although the program presently exists only in a few institutions, it is being planned or seriously considered in a number of others.

Although it is not precisely a career-change program, because the professor continues in the same institution or system, such retraining does give an institution the flexibility to reallocate resources to more productive use, and in a fashion which is likely to bolster the morale of faculty faced with the spectre of retrenchment.

Two such programs are presently operating on a scale large enough to make them of interest to this investigation: one is in the State University System of Florida, the other is in the Pennsylvania State Colleges.[9] Although the two programs have many similarities in operation, they differ in their origins. In Florida, the retraining program, like the retrenchment initiatives, originated in a central administrative office. In Pennsylvania, retrenchment originated centrally, but the retraining effort emerged from a complex series of interactions among the Secretary of Education, the faculty collective bargaining unit, and the Pennsylvania State College Educational Services Trust Fund. The money which the Trust Fund uses for retraining purposes came from the Commonwealth of Pennsylvania as a result of several labor relations decisions at the arbitrator's level.

A brief overview of the workings of the program in Florida can be acquired from the following announcement provided by the Personnel and Faculty Relations Office of the State University System:

FACULTY RETRAINING PROGRAM

Background

Recent studies project declining enrollments in institutions of higher learning across the United States for the next two decades. Studies by the Florida Board of Regents staff confirm

a declining rate of growth in student enrollments for several institutions in the State University System for the next decade. Starting in 1982, the State University System as a whole will decline in student enrollments for the next six to eight years. As a first effort to diminish the impact of the predicted steady state situation in higher education in Florida, the Florida Board of Regents has authorized that $45,000 out of the 1973-74 appropriated budget be made available for faculty development or retraining. These funds will be used for the specific purpose of aiding tenured faculty members in departments with declining student enrollments to prepare themselves in an academic area in which faculty manpower is needed.

Plan

Each university in the State University System, through the Office of the Vice President for Academic Affairs, will submit to the Chancellor's Office by 31 August 1973 a list of tenured faculty members the university wishes to sponsor for a retraining grant for 1973-74. The university will also submit to the Board curriculum vitae for each candidate, the proposed field of study, and the university(s) the faculty member will attend during the academic year 1973-74.

. Fifteen $3,000 retraining grants will be available for the entire State University System. Each grant will be used to pay the costs of a grantee's relocation, tuition, and other expenses occasioned by the temporary shift back to graduate study. Each person chosen by the Board staff to receive the grant will be released from all instructional and research duties for at least two, but not more than four quarters. Each grantee will receive full compensation from his/her university during the grant's duration. Each university will secure a signed statement from each candidate for a faculty retraining grant that he/she will return to his/her respective university or to any one of the institutions in the State University System following the grant period to teach for at least one year, or will reimburse the State University system one-half of his/her salary and the full sum of the grant. If the grantee returns to his/her university, the university will be obliged to relocate the grantee and his/her line to an appropriate department if his/her new competence warrants that change. His/her status as a tenured faculty member will not be affected.

A committee of three, named by the Chancellor, will be responsible for final selections of grant recipients. Announcements of grants will be made 12 September 1973.

Since this first-year announcement at Florida, there has been some decentralization of the selection process, with the formulation of

campus-wide screening committees at each of the constituent institutions of the state system. Other provisions of the Florida program, not listed above, are:

- Only tenured faculty are eligible (apparently, this provision was waived for the first two years of the program so as not to discriminate against the newer institutions in the system).
- In selected cases, the retrainee's institution is given $10,000 toward the cost of a replacement faculty member.
- In some cases, the one-year retraining period can be spread over more than one academic year, on a part-time basis.

The Pennsylvania State Colleges program operates almost identically, with the following differences:

- The program is not limited to tenured faculty members.
- Reassignment of the retrained faculty member is assumed to be within the same institution (the Florida program has provision for reassignment to another institution in the system).
- Program funds which pay expenses other than the retrainee's regular salary are administered by a formally distinct entity, the "Pennsylvania State College Educational Services Trust."[11]

Our research on the two programs described above also revealed the following facts and issues that are important to institutions which would enact such a program and to individuals who would participate in it:

Financing. Perhaps the most significant aspect of the financing of these programs is the fact that very little new funding is involved, since the major cost of the program is the retrainees' salaries, which continue to be paid out of regular budget lines. Though this appears to be a straightforward solution to the funding issue, it raises other issues that may affect the willingness of campuses, schools, departments, etc., to participate in the program out of their own, undoubtedly limited, resources. On the other hand, if a position is slated for abolition, there is little loss in temporarily allocating the budget line to retraining.

Indeed, there may be a net gain in increased morale among faculty members in general and within the affected department in particular.

Content of the retraining program. Retraining in these programs varied from retraining in an allied specialty within the same discipline to training for an entirely new, unrelated discipline. In some cases advanced degrees were earned, but this was not always a program goal. The content of the retraining program was worked out on an ad hoc basis for each participant. In one instance, the receiving department, with the consent of the retrainee, enlisted a faculty member from the same discipline at a respected neighboring institution to assist in designing the retraining program and to act as a mediator between the retrained professor and the receiving department. The arrangement worked well.

Application and decision process. Both of the programs studied began with a centralized application and screening procedure and have moved to a decentralized, campus-based initial screening. In each case there was a perceived benefit in retaining some degree of local autonomy in the selection of participants. In both cases, however, the prerogative of some central authority to allocate resources and grant final approval of lower-level decisions has been retained.

It is possible under some circumstances for systemwide, institutional, and departmental interests to differ about participation in the retraining program. For example, a department may be indifferent to the decision if it is slated to lose the position in any case. An institution within a system may be opposed to retraining if it operates with a fixed faculty allocation (participation in retraining thus means having some faculty members on leave with pay). The system's central office may favor the retraining because the additional costs are small and the prospect of increased future productivity is attractive.

Although the programs formally receive applications on the initiative of interested individuals, third parties often initiate the process by encouraging a particular individual to apply. This "encouragement" sometimes has consisted of notice that one's position was to be abolished. Many of the Pennsylvania State Colleges participants got involved in this

way; and, although the "retrenchment" of these positions was eventually retracted, many of the individuals continued in their plans to retrain.

Placement. Placement is rarely a separate process. Generally, candidates for retraining are selected only if a new placement, in part or in whole, has already been negotiated. Sometimes, however, details about joint appointment, courses to be taught, seniority, etc., remain to be decided even after the major decisions about retraining and placement have been made. These are potential trouble spots. When, as is true in most academic institutions, a person may join a department only with the consent of that department, some mechanism for negotiating transfers of faculty members needs to be worked out. In the two programs we have studied, we can only say that these transfers seem to have been arranged on an ad hoc basis.

The Pennsylvania State Colleges program encounters some special difficulties due to the existence of both tenure and seniority, and a difference of opinion among the parties to the collective bargaining agreement about the meaning of these provisions. Some maintain that they are identical, while others assert that tenure adheres to a faculty member's position within the institution while seniority adheres to the individual within his department. The view taken has implications for the status of a transferring faculty member among his new departmental colleagues.

Depending upon the position taken, such issues raise the specter of conflict between the interests of the retrainee and those of other members of the receiving department. We found that in some instances the matter was so difficult to resolve that the retrained faculty member remained formally in the old department but served either full or part-time in the new department, with provision for compensating each department in proportion to the professor's level of effort.

Any institution considering such retraining programs must be sensitive to similar complications arising out of its own contractual arrangements with faculty members or with faculty bargaining agents. One should also realistically expect to encounter difficulties in the early stages of such a program, stemming from the disciplinary and departmental modes of academic organization and a perspective generally not receptive

to individuals crossing these lines in mid-career. Support, on the other hand, is likely to come from the increased acceptance of the notion of "faculty development" as a legitimate activity of academics and their institutions.

The following are selected cases of retraining from the programs we have studied (all names are fictitious).

James Brown is a faculty member in the History Department. He has a Ph.D. from a major institution. Because of a drop in demand for his specialty, he returned to the institution from which he received his doctorate to retrain and receive a master's degree in the areas of speech, theater arts, film and communications. Originally, he had been slated to transfer to the English Department at his institution, but the agreement broke down for some reason. Instead, Brown worked out an agreement with the Communications Department whereby he would teach some of their speech courses. He still has no formal agreement with the Communications Department and is officially still in the History Department, while teaching courses in speech. He hopes, ultimately, to transfer formally to the Communications Department.

Robert Smith is a mathematics Ph.D. whose department was forced to cut back on faculty. He decided to pursue further studies in computer science which had been an interest and which he saw as a growth area. He negotiated an agreement with the Computer Science Department and then arranged to spend five months at the institution from which he had received his Ph.D. He did not enroll as a degree candidate, but was a kind of "scholar in residence." This permitted him a greater freedom in course selection than formal student status would have allowed. He now teaches computer science courses almost exclusively.

William Johnson was a full professor in the History Department, when enrollments had been declining. As an undergraduate years before, he had majored in chemistry but had been forced to leave the field because a lung ailment prohibited laboratory work. Instead he went into history and maintained an interest in the history of science. His interest in chemistry was known to Johnson's dean who was excited both about retraining and about interdisciplinary approaches to education. The dean was looking for a

spectacular success story in retraining that he might use both in negotiations with the statewide administration and with departments at his own institution. He believed that Johnson could provide that success and approached him with the idea of retraining into chemistry (the lung ailment was no longer a problem). Johnson agreed and embarked upon a one-year course of study leading to a master's degree in chemistry. He also negotiated an agreement with the Chemistry Department whereby he would teach a number of introductory courses for them.

Albert Green was a senior faculty member in the Modern Language Department. Even before his system formally undertook a retraining program, he saw the handwriting on the wall; fearing a significant retrenchment in his department, he resolved to acquire new competencies. His background in linguistics and philology and his modern language skills led to an interest in the intercultural aspects of communication. For one year he pursued advanced part-time studies in communications, and he has since transferred to the Communications Department at his institution.

FOOTNOTES

[1]Ana L. Zambrano and Alan D. Entine, "A Guide to Career Alternatives for Academics," New Rochelle, N.Y., Change Magazine Press, 1976.

[2]Anthony H. Pascal, et al, An Evaluation of Policy-Related Research on Programs for Mid-Life Career Redirection, 2 vols. Santa Monica, California, Rand Corp., 1975.

[3]Pascal, et al, Vol. 2, pp. 140-144.

[4]M. J. Fox, Jr. and E. G. Lambert, "Air Traffic Controllers: Struggle for Recognition and Second Careers," Public Personnel Management, Vol. 3, No. 3 (May-June 1974) pp. 75-80.

[5]Personal communication from Mr. Michael Simons of the Professional Air Traffic Controllers Association. It should also be noted that the FAA has undertaken work aimed at counseling retrainees and studying the dynamics of the career change process.

[6]Pascal, et al.

[7]One could argue that a humane response to the plight of junior faculty who could not expect to get tenure or to find non-academic jobs without assistance might engender more active institutional concern. We surmise, however, that failure to so respond is due not only to the fiscal stringencies to which colleges and universities are now subject, but also to a peculiar normative situation: the "up or out" tradition of academic career progression makes it easy to attribute failure to attain tenure to the individual academic: since some continue to be promoted, the others must be less deserving.

[8]For listings of such programs see the following: A Selected List of Major Fellowship Opportunities and Aids to Advanced Education for United States Citizens, Washington, D.C.: National Research Council, 1976; A Directory of Public Service Internships: Opportunities for the Graduate, Post Graduate and Mid Career Professional, Washington, D.C.: National Center for Public Service Internship Programs, 1976.

[9]More accurately, this would be "the Pennsylvania State Colleges and University" since one of the 14 institutions (Indiana University of Pennsylvania) has the "university" title.

[11] Information about the Florida and Pennsylvania retraining programs can be obtained from the following:

Mr. Fred Vallianos
Office of Personnel and Faculty Relations
State University System of Florida
107 W. Gaines Street
Tallahassee, Florida 32304

Professor Theodore J. Walwik
Pennsylvania State College Educational Services Trust
Slippery Rock State College
Slippery Rock, Pennsylvania 16057

5. EARLY RETIREMENT AND MID-CAREER CHANGE IN THE FEDERAL GOVERNMENT*

The Civil Service

The Civil Service Retirement and Disability Fund includes nearly all civilian employees (all appointive and elective officers and employees in or under the executive, judicial and legislative branches of the United States Government and in the municipal government of the District of Columbia). Postal Service employees are also covered by the Civil Service retirement system and its regulations.[1] In 1976 almost 1.5 million people were drawing Civil Service retirement benefits.[2]

In 1920, when the Civil Service Retirement Act became law, there was an abundance of superannuated employees. Many were in their eighties and nineties. At that time the goal of the newly formed retirement system was "to remove the aged and the disabled from Government's active work force, and to do this in a socially acceptable way."[3] Although this is still the fundamental objective of the retirement program, and although the system does not contain an incentive early retirement aspect,[4] Civil Service employees have shown a tendency toward earlier termination. The average retirement age dropped from 61.2 in 1964 to 58.1 in 1974. At the same time average years of service rose from 22.4 to 26.1 years. There has been a marked increase in involuntary retirements at young ages (with reduced annuities) during the past ten years, and there has only been a negligible number of mandatory retirements at age 70 with 15 years of service.[5]

An employee must fulfill certain conditions before he is eligible for what the Civil Service retirement system terms "optional retirement." For the first type of earlier retirement, he must meet one of three minimum conditions of age and service:

- age 62 with 5 years of service;
- age 60 with 20 years of service; or
- age 55 with 30 years of service.[6]

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*This section was written by Gretchen West-Patton.

Having qualified in one of these categories, the employee's annuity is then determined in the regular manner, the amount depending primarily upon length of service and average pay during the three highest salary years.

As mentioned earlier, an employee may also retire involuntarily. Involuntary retirement can occur when the agency is making a major cut in force, when a particular position is dissolved, or when an office or agency is liquidated.[7] In any of these situations the annuity is reduced by 1/6 of 1% for each full month (2% a year) the employee is under age 55. Early optional retirement is also available for employees whose duties are in law enforcement, firefighting, and air traffic control. These people can retire without reduction under age 55 after they have met certain specific requirements.

Retirement due to disability is another type of retirement that may take place at a younger age if an employee becomes totally disabled and is unable to satisfactorily and efficiently perform the duties of the position he occupies. He must also have completed at least five years of civilian service. In order to take advantage of this provision it is not necessary to prove that the applicant is disabled for all kinds of work.[8]

At the request of the Subcommittee on Retirement of the Senate Committee on Post Office and Civil Service, a survey was conducted in 1964 of still living Civil Service annuitants who had retired in 1956, 1959 and 1962 under the "55-30" optional retirement provision. (A search of the literature has not uncovered a more recent survey.) A total of 3,002 persons responded, more than a 91% return. These respondents were generally positive about their early retirements (68.0% responded "certainly would" and 24.1% responded "probably would" to the question "If you had to do it over again under the same conditions, would you still retire when you did?").[9] This favorable response was elicited despite the fact that these people had retired with a permanent reduction in benefits as required at the time of the survey.[10]

There were many reasons given for retiring early. The most commonly cited was a desire to quit while there was still time and health to enjoy retirement (22.6%). Economic reasons (a higher paying job, a better financial situation with annuity plus outside earnings, a desire to qualify for Social Security) followed with a 21.8% response. Dissatisfaction with job, working conditions and supervision received 17.9% of the responses, and health

or family reasons got 13.6%. A small number (4.3%) cited organizational reasons that included the necessity of taking an unwanted job, being a victim of reduction in force, or being urged by the agency to retire. In answer to the question, "Have you actually worked at something else since you retired?", 57.3% responded positively. Economic necessity ranked high (45%) as a reason for working again, and most of the post-retirement jobs were in the clerical or administrative fields, with unskilled, semi-skilled and technical employment next most frequently reported.[11]

The Military

In the military, promotion and retirement are intricately bound together. Personnel are regularly considered for promotion from one grade to another. Promotion is automatic to second lieutenant (in the Army, Marine Corps and Air Force) and ensign (in the Navy). After that point it becomes a competitive Selection Board process. In a telephone discussion, Colonel Alger of the Officer Personnel Management Section, Office of the Deputy Assistant Secretary for Military Personnel, Department of Defense stated, "We are faced with the potential of having more fully qualified people than we really need, so we must go for the best qualified." If a person is not promoted within a certain time period or number of selection decisions, he is "separated" from the service. The common term for this is "up or out." The military, then, is a closed system in the sense that people are not moved in laterally; a person must build from the entry level.

Military retirement is governed by the U.S. Code. The original law was passed in 1947, and there have been piecemeal changes since. The promotional steps or tenure points that comprise the "up or out" and other aspects of retirement are described in the sections of the U.S. Code that deal with the Army, Navy and Marines, and Air Force.[12] These tenure points are as follows.

Army, Air Force, Marine Corps: First Lieutenant to Captain
Navy: Lieutenant Junior Grade to full Lieutenant

A person is separated if he fails selection twice. The separation compensation is received in a lump sum; there is no vested interest.

Compensation is based on the number of years of commissioned service (usually five to seven years).

Army, Air Force, Marine Corps: Captain to Major
Navy: Lieutenant to Lieutenant Commander

Again an officer will be separated if he fails selection twice. The separation compensation is usually received in a lump sum; there is no vested interest. Compensation usually is based on 10 to 14 years of commissioned service.

Army, Air Force, Marine Corps: Major to Lieutenant Colonel
Navy: Lieutenant Commander to Commander

This selection is made around the 15th or 16th year. If an officer fails to be selected twice, he must be retired by his 20th or 21st year of commissioned service. At this point there is a guarantee of being allowed to remain until retirement eligibility (after 20 years). The pension received is 2½% of base pay times the number of years of commissioned service. Thus at 20 years a person may receive 50% of base pay. The maximum is 75%.

Army, Air Force, Marine Corps: Lieutenant Colonel to Colonel
Navy: Commander to Captain

This selection is made around the 22nd year. Again, a person can not fail selection two times. If he does so, he must be retired by his 28th year if he is in the Army or Air Force or by his 26th year if he is a Navy or Marine Corps officer. The pension rate remains the same as in the third step, although the base pay of course will be higher.

Army, Air Force, Marine Corps: Colonel to Brigadier General
Navy: Captain to Rear Admiral (lower half)

Around his 25th career year an officer faces this selection. Army and Air Force officers encounter two types of selection: temporary and permanent. If an officer gets a temporary appointment, he must retire at 30 years with the permanent grade of Colonel. If he gets a permanent appointment, he retires at 30 years service or five years in the grade, and he retains the grade of Brigadier General permanently. The Secretary of

Defense, with the approval of the President, may defer a certain number of officers until age 60.

Army, Air Force, Marine Corps: Brigadier General to Major General
Navy: Rear Admiral (lower half) to Rear Admiral (upper half)

In the Navy this is a pay grade step rather than a promotional one. The appointment to upper half is automatic. Naval officers retire at 30 years or three years in the grade, although a certain number may be deferred from four to five years. Marine officers are bound by law to retire if they do not make the grade. If they are selected, they retire at 35 years of service or five years in the grade. Army and Air Force officers must also retire at 35 years in the grade. However, some may be deferred to age 60 or even age 64.

Army, Air Force, Marine Corps: Major General to Lieutenant General and General
Navy: Rear Admiral to Vice Admiral and Admiral

These positions are appointive and not governed by the selection process. The President, aided by the Secretary of Defense, nominates candidates who must then be confirmed by the Senate. All these appointments are temporary. An officer will only wear the grade while serving in a particular job ("billet") that requires it. Otherwise, an officer reverts back to his permanent grade. At this level, Marine Corps and Naval officers must retire at age 62, although there are certain deferments to age 64. Army and Air Force officers retire in accordance with their permanent grade.

There are a number of exceptions to the above rules all along the way, for example in the case of medical personnel.

An important point to note is that there are fewer and fewer slots to be filled as one goes higher in rank. Promotion opportunities become more difficult since there are many more qualified people than there are jobs. For example, a naval captain, with four years at Annapolis and 24 years active duty as a commissioned officer, decided to retire at age 46. He saw little chance of being advanced to rear admiral. As he described it, the Navy has about 1,100 engineering duty officers. Each year only one or two, maybe three, make admiral. In his opinion, if he was going to have to leave the service and go into the business world, the younger the better.[13]

In a February 3, 1977, telephone conversation, Colonel Alger explained that, in general, in the Army, Air Force, and Marine Corps:

- The opportunity to make captain is 99%.
- The opportunity to make major is 80%.
- The opportunity to make lieutenant colonel is 60-70%.
- The opportunity to make full colonel is 50%.
- The opportunity to make general is 9-10%.

In any event, 40 is the maximum number of years of commissioned service that a person can attain. Colonel Vick, of the Retired Officers Association, stated in a telephone conversation on February 3, 1977, that if an individual retires upon completion of a normal career (after 20 years), he may be as young as in his early forties. Between 40 and 50 is the normal retirement age.

What causes these young retirement ages? The answer is twofold. First, men ordinarily begin their military careers when very young; officers are usually in their very early twenties. A person may choose to retire voluntarily after only 20 years since he will receive full retirement benefits at that time. A voluntary retirement indicates that the officer is serving at the pleasure of the Secretary of Defense and must ask the Secretary's permission to retire. However, many of these relatively young men are retired because they have been separated from the service through "up or out" before they have a chance to progress very far through the ranks. As noted earlier, as one goes higher, there are fewer positions to be filled. The less qualified are terminated, and it is contended that through the "up or out" system the military can "maintain a young, vigorous force."[14] One very pertinent fact, though, is that those who are retired are also relatively young and vigorous.

"Up or out" also indirectly causes many voluntary retirements. An officer may choose to retire voluntarily because he realizes that he has been performing inferiorly and will not be promoted at the next step. Perhaps to save face or because he determines that the extra year or so he gains toward military retirement by staying until he is involuntarily separated

will not compensate for what he could earn in civilian life, he decides to leave before he is told he must leave.

Is this to be considered early retirement? The answer, in our opinion, is no. As described before, most military men retire between 40 and 50; military pensions are paid on the average at age 42.[15] These ages are considered "early" only outside the military. Indeed, there is some question concerning the correctness of using the word "retirement" in connection with these separations. Perhaps the term "mid-career change" more properly applies. The military itself has seemingly recognized this distinction. Although the military does not presently conduct an organized pre-retirement counseling service, there was at one time an official pre-retirement counseling program. It was discontinued in 1974 because the Government Auditing Office indicated that such a service was not properly a function of the military. That program had two parts: (1) Project Referral, a computer-based resume referral system; and (2) Project Transition, a system of counselors in the base organization who advised potential retirees and worked with private industry and federally supported on-the-job training programs.

At this time, the Retired Officers Association has an employment service for all its members (they come from all branches of the armed forces). The Association conducts a national resume referral service. It also offers two booklets: one gives advice about career planning, and the other is a practical guide for establishing a second career. What the military service now does officially is to hold pre-retirement briefing sessions. During these meetings, retirement pay is explained and usually some attempt is made to offer suggestions about establishing a second career.[16]

It is obvious that the military retirement scheme is unlike any other. Most civilians do not work in jobs that offer promotions as frequently as a military career. Nor does their continuing to work depend so completely upon their ability to rise in rank. Normal retirement age is considered to be 65; in the military the average age is 42. The military recognizes the need for second-career planning for its retirees. This is not true for retirement in the private sector.

Problems with the Civil Service and Military Programs

Apart from the basic differences in the mechanics of the retirement processes of these two systems, there are other dissimilarities. The Civil Service retirement system is a contributory one. Seven percent is deducted from the basic pay of each member of the retirement system. (The deduction rate from basic pay for covered law enforcement officers and firefighters is 7½%.) Contributions are made by the employing agencies in amounts which match the deductions from their employee's pay. In the military there is no contribution of any kind from active-duty servicemen.

Federal civilian employees are not covered by Social Security. Military personnel are fully covered under Social Security. Furthermore, there is no integration of the military pension with Social Security; that is, the pension is not reduced by some proportion of the Social Security benefit.

What the military and Civil Service retirement systems do have in common is a dilemma also shared by a growing number of American cities: skyrocketing pension costs.[17]

Representative Les Aspin of Wisconsin has referred to federal pension promises as "the secret national debt,"[18] and Forbes has called the U.S. Government pension fund "a time bomb ticking away."[19] Between 1965 and late 1975, outlays on pensions for retired military and Civil Service personnel had increased 500%, but the number of beneficiaries had grown only 116%. By 1985, Government officials have estimated that the cost could approach $45 billion annually.[20] Military pensions took only $1.2 billion or 2½% of the Fiscal Year 1964 defense budget. In Fiscal Year 1977 these pensions cost $8.4 billion or 8½%. By the year 2000 military pensions are expected to reach a high of $34 billion per year.[21] Even discounting for inflation, these costs will place a heavier burden on the taxpayer.

The trend toward lower retirement ages at which full retirement benefits are available is a major consideration in rising pension costs.[22] In the case of troubled municipal governments, early retirements and resulting long-term pension payments have been pinpointed as the most costly of pension provisions. Finding useful work for employees about to retire is a solution being considered by some cities.[23]

There have been sharp reactions to the astronomical pension costs and number of early retirements in the military and Civil Service. Areas of particular criticism are as follows.

Cost-of-living increases. Since 1970 Congress has authorized cost-of-living boosts for federal Civil Service, military and most other federal retirees. This scheme provides that every time the Consumer Price Index (CPI) goes up 3% over the last previous raise and remains at least at that level for three months, pensions will be increased by the highest increase of those three months. An additional 1%, named the "kicker" or add-on, was enacted in 1969 to make up for the time lag between a rise in inflation and its reflection in pension checks. This cost of living aspect plus liberal age/length of service retirement requirements was instrumental in causing Government workers to choose to retire early since in many cases their pensions would rise faster than their wages would if they stayed on the job.[24]

This situation was adjusted somewhat during the last days of Congress in 1976 when legislation was approved eliminating the "kicker" from all federal pensions. In the new plan, retirees will receive semi-annual increases: the December-June rise in the CPI will be included in the checks for September and subsequent months; the June-December increase will be handled beginning with the March checks.[25] Lag time is reduced, and overpayment is avoided.

The "second career syndrome." The Civil Service and military retirement processes are releasing persons who are not aged but are in the prime years of their working lives. Retired Government employees are entitled to work at other jobs and continue to receive their federal pensions. A great many civil servants work for several years in private industry after retirement and earn sufficient credits to receive Social Security pensions which are added to their federal stipends. In 1972 a survey conducted by the U.S. Civil Service Commission revealed that 42.9% of Civil Service retirees received both Social Security checks and their Government pensions.[26]

Recall that the usual age for retirement is between 40 and 50 in the military. These men, in all likelihood, must continue working for a number of reasons--to support young families, or to send older children to college. They are also young enough that the need to be occupationally and intellectually active is very strong.

Pay-freeze on upper-echelon civil servant salaries. A larger number of Civil Service employees in the "supergrades" have been taking advantage of early retirement in the past. One of the underlying reasons for this trend involves the ceiling placed on their salaries by the arbitrary rule that top Civil Service pay cannot exceed the lowest level established for appointive posts. These retirees have been termed members of the "Asterisk Club," that title being derived from the asterisk on the federal pay chart which for six years put a top level of $36,000 on salaries for high-level career officers. This caused many upper-level employees to earn the same salaries in spite of differences in rank, experience and responsibilities. These people are retiring at younger ages because, while executive pay is frozen, the previously discussed cost-of-living increases in pensions are more than adequate. This combination of wage freeze and cost-of-living adjustments produces what Business Week refers to as "a nonsense result."[27] Once an executive has reached age 55 with 30 years of service it could actually cost him money to keep on working.[28]

Criticism of the military "up or out" and generous pension provisions. The first U.S. military retirement act was established by Congress in 1861, and it allowed military men to separate from the service at full pay after 40 years of duty, or if they were incapacitated. It was enacted at the beginning of the Civil War to enable President Lincoln to rid himself of aged Army and Navy officers. The military still views "up or out" as necessary to maintain a young, vital organization and to minimize stagnation at the top. Opponents of the system view it as undesirable because it forces the retirement of so many young people. They contend that there is no reason why those who are non-combatants (e.g., data processors, clerical workers, cooks, etc.) must move through that particular kind of retirement system. It is maintained that these people could serve adequately in their ranks and positions for any number of years until the needed number of years for retirement is reached. However, the military feels that there is only a fine line of difference between those who should be affected by "up or out" and those who should not. It is their argument that bakers, cooks, clericals, drivers, engineers, etc. can all be called upon to serve in combat situations.

The Defense Officer Personnel Management Act (DOPMA) is an attempt by Congress to revise the existing statutes concerning promotion. The bill

was first introduced late in the 93rd Congress; during the 94th Congress it was introduced in the House. However, it never got out of Subcommittee in the Senate, and it will be resubmitted. There is controversy surrounding it. The Senate is concerned about retirement funding in an inflationary environment. The members want to be sure that DOPMA will be cost-effective. The Senate has voiced their objections to "up or out," and the military has been asked to make some compromise in this respect.

Hand in hand with DOPMA but dealing more directly with military retirement benefits is the Retirement Modernization Act introduced by the Department of Defense. In a telephone conversation with Mr. Spense of the House Armed Services Committee on February 3, 1977, it was explained that, in essence, this legislation attempts to "deliberalize" the current military retirement system, with some compensating provisions added. It tries to eliminate the "all or nothing" approach to retirement which the military takes.

The main idea is to encourage military people to remain in service for 30 years. At present the benefit formula is the number of years in uniform times 2½% of final base pay. The Retirement Modernization Act recommends that instead of getting 2½%, a retiree should get 3% for each year beyond 24 years. This would help discourage those overly-early retirements. The legislation would preserve the 20-year service element, but between the completion of 20 years and the time when a person would have completed 30 years, his retired pay is reduced from 50% to 35%. At the time when he would have completed 30 years, he would receive 50%. This bill would also help those with 10 or more years of service get either a deferred annuity or a lump sum.

The legislation also suggests dropping the practice of computing terminal pay on the basis of the last paycheck. Final pay would be the average basic pay in the last year. Social Security benefits would also be affected by this act. When a military man became eligible for Social Security (the age is set at 62), his retired pay from the Department of Defense would be reduced by 50% of his Social Security entitlement (the Social Security entitlement would be based exclusively on his military service, not on any civilian work).

This piece of legislation died with the adjournment of the 94th Congress. It is the opinion, though, of spokesmen for the Senate Armed Services Committee and the House Armed Services Committee that something of this sort, maybe revised legislation, will be submitted to the 95th Congress.

United States Representative Les Aspin of Wisconsin has introduced a retirement reform bill separately from the one described above. Apparently he feels that that piece of legislation does not go far enough, and his scheme is somewhat more drastic. For example, his legislation would allow those retired involuntarily under the "up or out" system an immediate annuity. However, those retirees would be required to file a statement each year showing an earnings from civilian employment, and their retired pay would be reduced by one dollar for each two dollars of civilian pay. A careerist voluntarily retiring, with more than 20 but less than 30 years of service, would receive no retirement pay until age 60.

Many members of the military, of course, object to many of these changes. They hold that the more generous aspects of their retirement system are justified in light of the frequent hardships placed on military men. These include the danger to life and limb inherent in a military career, frequent moves, and long absences from families. Their arguments are countered by those people who maintain that many employees in private industry share the same type of hardships without such amenities. In any event, some plans suggest it could be possible for only those who actually experience such difficulties to be compensated.

Studies concerning retirement costs and possible alternative plans for the Civil Service and military retirement systems are being made by the staffs of Congressional committees as well as by the Defense Manpower Commission. There have been attempts to address legislation to these subjects. Rising costs concern not only the taxpayer, but the federal government and the Pentagon as well. Proposals for change are appearing. It is being suggested that retirement regulations should foster longer service and later retirement. The imbalances are obvious. Defense officials have stated that it is now possible for a serviceman to receive more total pay during retirement than while on active duty. There should be changes, they contend,

so more of a man's pay comes from the years he is on the job.[29] Phyllis Bacon of the Senate Armed Services Committee has pointed out that although legislation hasn't gotten anywhere yet, as all retirement systems come under closer scrutiny, there may be movement.[30]

Summary

The federal service has been dealt with at length in order to clarify some misconceptions held about the two major federal retirement systems. The first is that the Civil Service offers an incentive early retirement plan. The second is that the military's "up or out" process could help solve retirement problems in academia.

As the preceding pages have shown, the Civil Service and military do not want to encourage more early retirements. This would only place an even greater burden on an already troubled pension system.

The situation in which upper-echelon Civil Service employees found it more profitable to retire than continue working is similar to the situation of some persons at one of our academic case institutions who discovered that cost-of-living increases in retirement exceeded their pay increases.

Furthermore, the military's "up or out" system probably would not help academia solve its immediate manpower problem because of the time lag involved. In fact, an "up or out" process which included hefty annuity payments could place an unbelievable financial burden upon a college or university. One thing that can be learned from the military and Civil Service experiences is that business and industry may be right to use lump-sum severance payments to encourage early retirement--in that way the total cost of extra payment is known in advance.

FOOTNOTES

[1]U.S. Congress, House, Public Law 91-375, The Postal Reorganization Act, H.R. 17070, 91st Cong., August 12, 19[illegible] p. 14.

[2]"Pensions for Federal Workers: $17 Billion and Soaring," U.S. News and World Report, vol. LXXIX, no. 15 (October 13, 1975), p. 85.

[3]Andrew E. Ruddock, "Salute to Progress: Civil Service Retirement System 1920-1970," Civil Service Journal, vol. 10, no. 4 (June 1970), p. 20.

[4]U.S. Civil Service Commission, Bureau of Retirement, Insurance, and Occupational Health, "Survey of Voluntary Retirement Age Provisions of Selected Public and Private Employers," May 1975, Chart II, p. 1.

[5]Leonore E. Bixby, "Retirement Patterns in the United States: Research and Policy Interaction," Social Security Bulletin, August 1976, p. 9.

[6]Your Retirement System, Pamphlet 18: Questions and Answers Concerning the Federal Civil Service Retirement Law (Washington, D.C.: U.S. Government Printing Office, July 1975), p. 14.

[7]Bixby, p. 9.

[8]Your Retirement System, p. 15.

[9]Elizabeth F. Messer, "Thirty-Eight Years Is A Plenty," Civil Service Journal, vol. 5, no. 2 (October-December 1964), p. 24.

[10]Bixby, pp. 9-10.

[11]Messer, p. 24.

[12]United States Code, vol. II, 1970 edition (Washington, D.C.: U.S. Government Printing Office, 1971), pp. 1302, 1581-1605, 1809-1841, and 1991-2010. Supplementary information about military promotion and retirement was provided by Colonel Alger, Officer Personnel Management Section, Office of the Deputy Assistant Secretary for Military Personnel Policy, Department of Defense, telephone on September 30, 1976 and February 3, 1977.

[13]Israel Shenker, "A Navy Captain Finds a Job Ashore," The Retired Officer, vol. XXXIII, no. 1 (January 1977), p. 18.

[14]Colonel Minter L. Wilson, Jr., "Representative Aspin Continues Attacks on Military," The Retired Officer, vol. XXXIII, no. 1 (January 1977), p. 4.

[15]Les Aspin, "Guns or Pensions: A Study of the Military Retired Pay System," (Washington, D.C.: U.S. House of Representatives, November 1976), p. 5.

[16]Information concerning military retirement and pre-retirement counseling provided by Colonel Vick, Retired Officers Association, Washington, D.C., via telephone on February 3, 1977.

[17]See "Growing Burden on Taxpayers: Public-Employee Pensions," U.S. News and World Report, July 19, 1971, pp. 24-25; "Phantom Pensions," Forbes, vol. 115, no. 12 (June 15, 1975), p. 66; "City Pension Plans Go Deeper in the Hole," Business Week, no. 2398 (September 15, 1975), pp. 80-81.

[18]Aspin, p. 2.

[19]"Promises, Promises, Promises," Forbes, vol. 116, no. 4 (August 15, 1975).

[20]U.S. News and World Report, October 13, 1975, p. 85.

[21]Aspin, p. 2.

[22]Thomas P. Bleakney, " Problems and Issues in Public Employee Retirement Systems," The Journal of Risk and Insurance (March 1973, p. 39.

[23]"Who'll Pay the Billions for Those Generous Pension Plans?" U.S. News and World Report, vol. LXXIX, no. 8 (August 25, 1975), p. 50.

[24]U.S. News and World Report, October 13, 1975, p. 85.

[25]Aspin, p. 34.

[26]U.S. News and World Report, October 13, 1975, p. 86.

[27]"The Hidden Costs of Federal Pensions," Business Week, no. 2328 (April 27, 1974), p. 28.

[28]"When It Costs Money to Keep on Working," U.S. News and World Report, vol. LXXIX, no. 21 (November 24, 1975), p. 27.

[29]"Furor Over Military Retirement Pay," U.S. News and World Report, October 14, 1974, p. 106.

[30]Information provided by Phyllis Bacon, Senate Armed Services Committee, via telephone on February 3, 1977.

6. EXPERIENCES OF SPECIAL INCENTIVE EARLY RETIREES

As part of this study, we planned extensive personal interviews with individuals who had retired under special incentive early retirement provisions. Through these interviews we hoped to obtain a type of consumer report about induced or incentive early retirement. We were interested in finding out when and how the respondents decided to retire early, why they retired early, and how satisfied they are with their retirement decision. We also wanted to know whether and how early retirement had affected their financial well-being, their professional activity, and their general activity and happiness. Finally, we sought to know how they had prepared themselves for early retirement, what advice they would give to others who may be considering early retirement, and how they would evaluate the particular early retirement programs at their own institutions.

Potential respondents for the study were identified by the administrators of the special incentive early retirement programs at four universities and two corporations. (For reasons of confidentiality, these institutions cannot be identified in this report. They are referred to in this chapter by the codes established in Chapters 2 and 3--i.e., A1 through A4 for the academic institutions, and B1 and B2 for the businesses.) Although we requested the names of all persons who had retired under the special options--including only faculty or managerial and professional staff--institutions A1, A4, B1 and B2 preferred to make the first contact with potential respondents themselves, relaying to us only the names of those who gave their consent. In general, we intended to interview all the retirees whose names we were given. However, we took a 60% sample of the retirees from institution A2, since it had many more potential respondents than the other institutions.

Altogether we interviewed 70 special incentive early retirees, of which 52 were from the four universities (Table 6.1). Sixty of the interviews were conducted especially for this study, between October, 1976, and February, 1977. Ten were conducted in 1975 as part of a study conducted by one of the co-principal investigators.[1] The interviews averaged just under two hours and generally were conducted in the retiree's home or office. Twelve interviews were conducted by telephone, with no noticeable

Table 6.1

INTERVIEWEE PARTICIPATION BY INSTITUTION

Institution	Number of Special Incentive Early Retirees			Percentage of Potential Respondents Interviewed
	Retired from the Institution	Contacted for Participation	Interviewed	
A1	16	16	6	38%
A2	56	33	29	52%
A3	16	16	15	94%
A4	6	6	2	33%
B1	(*)	(11)	(9)	(*)
B2	(*)	(9)	(9)	(*)
Total	94(*)	71(20)	52(18)	55%(*)

NOTE: Numbers outside parentheses are of retirees from academic institutions.
Numbers inside parentheses are of retirees from business.
(*) These data were not available.

differences in length or depth of response. The interviews were structured informally, according to a topical outline. Nearly all the responses were open-ended and had to be coded later.

Forty-three percent of the retired faculty members were from the sciences (including the social sciences); 43% were from the professions, and only 14% were from the humanities; one respondent was a non-teaching librarian. The scientists included seven from engineering two each from chemistry and biological sciences; and one each from physics, zoology and plant physiology. In the social sciences, there were three economists, two anthropologists, one political scientist, one psychologist, and one historian. The professional fields included education, physical education, business, medicine, nursing, dentistry, public health, journalism, library science, and social work. The humanities included English, French, German, classics, and fine arts. No attempt was made in this study to select respondents by field, because of the relatively small pool of respondents. It should be noted that most of the interviewees had retired very recently. In fact, 69% of the academic retirees and 89% of the retirees from business had retired no more than two years before they were interviewed (Table 6.2). On the other hand, there were retirees in the study who had retired from five to ten years before the interview, and we have found no systematic differences between the responses of these retirees and those who had retired more recently.

Age and Years of Service

By modern American standards, the respondents for this study had not retired very early; in fact, nearly half (49%) were age 65 or older at the time they retired (Table 6.3). There is a marked difference between the average retirement ages of the corporate and academic retirees: i.e., 59.6 for the retirees from business, and 64.0 for the academic retirees. The latter group retired very near the age when most Americans expect to retire; 79% were over age 62 at the time of retirement, compared with only 17% of the corporate retirees.

The mandatory retirement regulations of an institution are obviously a factor in determining the age of retirement. Both the academic

Table 6.2

YEARS SINCE RETIREMENT

	Years						
Institution	<1	1	2	3	4	5+	Total
A1	0	4	0	0	2	0	6
A2	5	4	6	5	5	4	29
A3	10	4	1	0	0	0	15
A4	0	0	2	0	0	0	2
B1	(8)	(1)	0	(0)	(0)	(0)	(9)
B2	(0)	(0)	(7)	(0)	(0)	(2)	(9)
Total	15(8)	12(1)	9(7)	5(0)	7(0)	4(2)	52(18)

NOTE: Numbers outside parentheses are of academic retirees. Numbers inside parentheses are of retirees from business.

Table 6.3

AGE AT RETIREMENT

	Age					
Institution	55-59	60-62	63-64	65-66	67+	Total
A1	3	3	0	0	0	6
A2	0	1	0	24	4	29
A3	2	2	5	6	0	15
A4	0	0	2	0	0	2
B1	(2)	(4)	(3)	(0)	(0)	(9)
B2	(5)	(4)	(0)	(0)	(0)	(9)
Total	5(7)	6(8)	7(3)	30(0)	4(0)	52(18)

NOTE: Numbers outside parentheses are of retirees from academic institutions. Numbers inside parentheses are of retirees from business.

and the corporate retirees retired on the average four to five years before the mandatory age; however, because of the higher mandatory retirement age for most of the academic retirees (age 70 at institution A2 and age 67 at institution A3), the retired academics tended to be older at the time of retirement.

In spite of having retired at a younger age on the average, the corporate retirees tended to have been employed longer by the institutions from which they had retired; 72% of these retirees had 30 or more years of service[2] when they retired, compared with only 34% of the academic retirees (Table 6.4). This can be explained in part by the fact that academics are generally older when they are first retained by an institution.

The early retirement eligibility requirements set by an institution also help determine the age of retirement, as well as the accumulated years of service. The effect of such requirements on the early retirement decision is most evident where the decision is more strictly voluntary--i.e., at institutions A2, B1 and B2. Figure 6.5 shows that most of the early retirees from these three institutions retired almost immediately after meeting both the age and service requirements for special early retirement. At institution A2, where the early retirement eligibility requirements are 65 years of age and 20 years of service (plus 18 years of participation in the retirement plan), only 31% of the early retirees continued working after establishing eligibility on both criteria. At institution B1, where eligibility for the optimal early retirement is established after age 58 with 30 years of service, only 22% of the early retirees had gone beyond this point and very few had retired earlier. The special incentive arrangement at institution B2 is an "open window" which has been offered twice in the past five years, for a one-year period only, to anyone with 25 years of service. Under this arrangement, the early retiree gets half-pay for four years on top of his regular early retirement pension if he is age 55 or older. However, if he is under 55, he is not eligible for a pension under the normal retirement system and therefore he gets only the special severance payment. Only 33% of the early retirees had passed up the "open window" the first time they were eligible for both the special payment and a pension.

Table 6.4

YEARS OF SERVICE

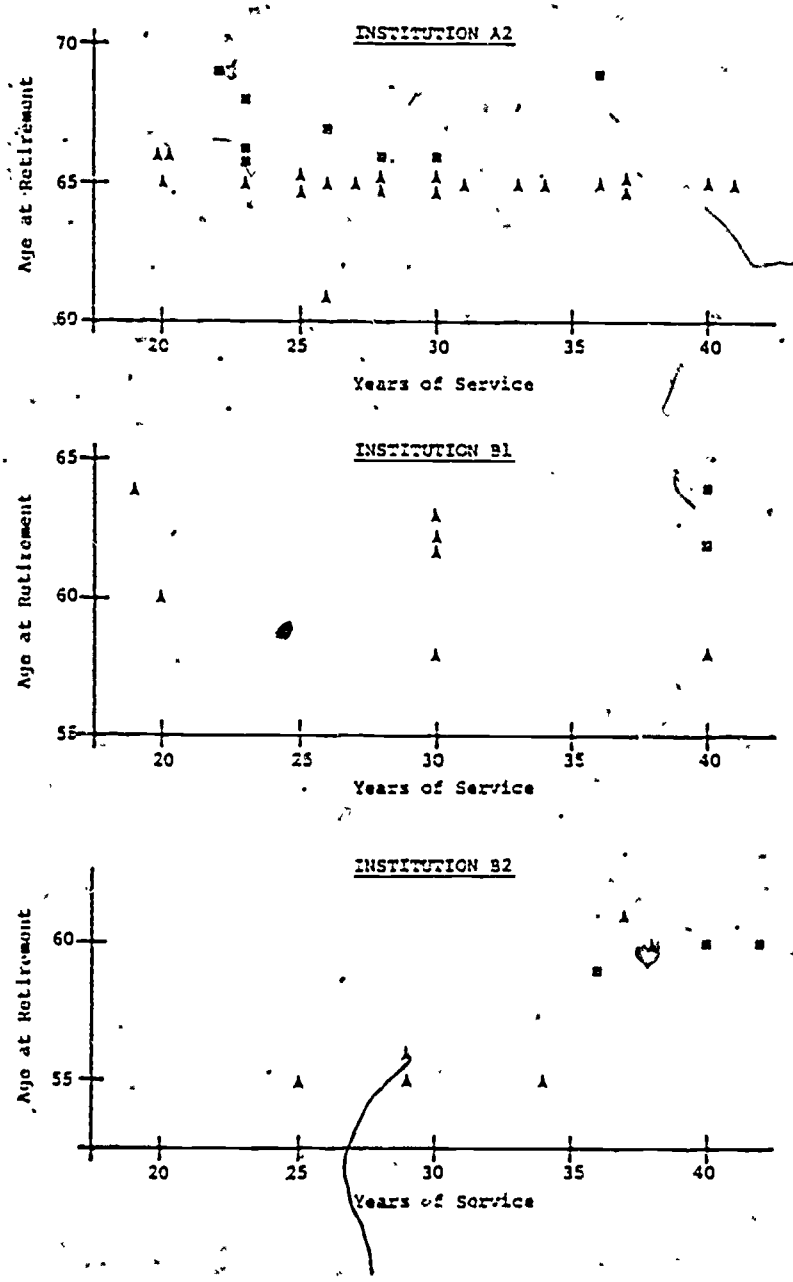
Age at Retirement	Years								
	15-19	20-22	23-25	26-29	30-32	33-35	36-39	40+	Total
67+	0(0)	1(0)	1(0)	1(0)	0(0)	0(0)	1(0)	0(0)	4(0)
65-66	0(0)	4(0)	6(0)	7(0)	4(0)	2(0)	4(0)	2(0)	29(0)
63-64	0(1)	2(0)	0(0)	2(0)	0(1)	0(0)	2(0)	0(1)	6(3)
60-62	0(0)	1(1)	0(0)	3(0)	0(2)	1(0)	1(2)	0(3)	6(8)
55-59	0(0)	2(0)	1(1)	2(2)	0(1)	0(1)	0(1)	0(1)	5(7)
Total	0(1)	10(1)	8(1)	15(2)	4(4)	3(1)	8(3)	2(5)	50(16)

MO = 2

NOTE: Numbers outside parentheses are of retirees from academic institutions. Numbers inside parentheses are of retirees from business.

Figure 6.5

DISTRIBUTION ON EARLY RETIREMENT ELIGIBILITY CRITERIA



Legend: A Retired soon after or before meeting both eligibility criteria.

■ Retired later.

NOTE: Respondents from institution B2 are recorded as A's (persons who retired soon after or before meeting both eligibility criteria) if they accepted the first "open window" for which they were eligible.

Table 6.6 shows the distribution of age at retirement by field for the academic retirees. It might appear that scientists are more inclined to retire earlier. Actually this result is due almost entirely to the fact that all six retirees from institution A1 were in the sciences and were strongly encouraged to retire at or below age 62.

The Decision to Retire Early

Few of the interviewees had made long-range plans to retire early. In fact, over half of them (58%) had begun thinking seriously about early retirement only within the four years before retiring, and 29% had been seriously considering it for less than two years (Table 6.7). Only 21% of the respondents had been planning to retire early for more than ten years. Among retirees of different institutions, those from institution A1, where the special incentive program is least voluntary and newest, made their retirement decision in the shortest period of time (less than two years for all six respondents). Of the retired faculty members from institution A2, where mandatory retirement is 70 and early retirement is 65 and the program has been in operation for over 20 years on a strictly voluntary basis, nearly one third said they had "always" expected to retire early.[3]

The reasons for retiring early were quite varied (Table 6.8) and although there were minor differences among institutions, there was hardly any difference between retired academics and retired corporate employees. That is, the rank order of reasons for retiring early, by frequency of mention, is nearly the same for retirees from academic institutions and retirees from business.

Most of the early retirees mentioned several factors which influenced their decision.[4] The most common reason (mentioned by 49%) was that they had already developed, or else wanted to develop, some interests outside their regular work-related responsibilities. Often the academics had in mind a specific project, such as finishing a book or a research project. Others said they retired to set new goals for themselves and enjoy a different lifestyle altogether. The next most frequently stated reason (mentioned by 43%) was that they had lost interest in or no longer enjoyed their work, or else they were fatigued by the pressures that

Table 6.6

ACADEMIC FIELDS OF RETIRED FACULTY MEMBERS

Age at Retirement	Sciences	Social Sciences	Humanities	Professions	Total
67+	1	1	0	2	4
65-66	5	6	4	14	29
63-64	1	1	2	3	7
60-62	4	0	1	1	6
55-59	3	0	0	2	5
Total	14	8	7	22	51

NA = one non-faculty librarian.

NOTE: This table includes only retirees from academic institutions.

Table 6.7

WHEN EARLY RETIREMENT WAS FIRST SERIOUSLY CONSIDERED

	Years Before Retirement							
Age at Retirement	<2	2-4	5-7	8-10	11-15	16-20	"Always"	Total
67+	2(0)	2(0)	0(0)	0(0)	0(0)	0(0)	0(0)	4(0)
65-66	4(0)	8(0)	6(0)	0(0)	0(0)	1(0)	9(0)	28(0)
63-64	1(1)	1(2)	0(0)	1(0)	0(0)	0(0)	0(0)	3(3)
60-62	3(3)	2(1)	0(2)	0(1)	0(0)	0(0)	0(1)	5(8)
55-59	4(0)	0(2)	0(1)	0(2)	0(0)	0(0)	1(1)	5(6)
Total	14(4)	13(5)	6(3)	1(3)	0(0)	1(0)	10(2)	45(17)

MO = 8

NOTE: Numbers outside parentheses are of retirees from academic institutions. Numbers inside parentheses are of retirees from business.

accompanied even the most enjoyable challenges. Many of the early retirees (31%) said they saw little reason to continue since they already had sufficient finances to retire comfortably. In a number of cases (30%) it was the special incentive arrangement which had encouraged the interviewee to retire early. (There was no double-counting on these latter two reasons. Thus, if one makes the likely assumption that the arrangement was attractive because it made early retirement financially feasible, and if one then combines the responses for these two reasons, being financially able to retire becomes the number one reason for early retirement.)

One fifth of the early retirees said a health problem or disability had contributed to their early retirement decision, and 17% said they felt they had worked long enough and deserved a change or a rest. A variety of other reasons were mentioned less frequently.

The reasons for retiring vary slightly by age at retirement:

- Those in the oldest age group (67 and older) are more likely to have retired in order to devote more time to other interests or create a new lifestyle for themselves. They are also more likely to have retired because they felt financially secure.

- Those in the 65-66 age group are more likely than the others to have retired because they were dissatisfied with the quality of their own performance.

- Those in the 63-64 age group are more likely than the others to have retired for health reasons.

- Finally, those in the youngest age group (55-59) are more likely than the others to have retired because they had lost interest in or were dissatisfied with their work (or felt there was too much pressure working). They are also more likely to have mentioned the availability or attractiveness of the special option as an inducement to retire. And they are more likely to have retired out of dissatisfaction or nonconformity with the management or focus of their department or organization.

Asked, "Whom did you talk to about when to retire?", both academic and business retirees most often mentioned spouses and next most often mentioned superiors (Table 6.9).[5] Twelve percent of the respondents said they had discussed their decision with no one. The retirees who discussed their decision with the retirement system were noticeably few

Table 6.8

REASONS FOR RETIRING EARLY

Age at Retirement	To devote time to or develop other interests; to change general lifestyle	Decreased interest in or satisfaction from work; too much pressure working	Able to financially; finances good enough, as good, or even better	Availability or attractiveness of special early retirement options	Health problems, disabilities or perceived dangers to health	Worked long enough; ready for a rest or a change	Dissatisfaction or non-conformity with mgt. or focus of dept./org.	Dissatisfaction with quality of my own performance	Encouragement from spouse	Pressure from a supervisor	To free a position; to turn over responsibilities to younger person	To leave at my "peak"; to retire on my own initiative	Had to retire anyway from administrative post	Inconvenient commute	To move to another climate	To obtain more flexible university work schedule	Total
67+	3(0)	2(0)	3(0)	0(0)	1(0)	1(0)	0(0)	0(0)	0(0)	0(0)	0(0)	0(0)	0(0)	0(0)	0(0)	0(0)	10(0)
65-66	15(0)	11(0)	6(0)	9(0)	5(0)	7(0)	3(0)	6(0)	3(0)	2(0)	2(0)	4(0)	4(0)	1(0)	1(0)	2(0)	81(0)
63-64	4(1)	3(2)	2(3)	2(0)	3(1)	1(1)	1(0)	1(0)	1(0)	0(0)	0(0)	0(0)	0(0)	0(0)	0(0)	0(0)	18(8)
60-62	3(6)	2(1)	2(2)	0(3)	1(1)	0(1)	0(2)	0(0)	1(2)	2(1)	0(0)	0(0)	0(0)	0(0)	1(1)	0(0)	12(20)
55-59	1(1)	3(6)	2(2)	3(4)	1(1)	0(1)	2(0)	1(0)	0(0)	1(0)	1(1)	0(0)	0(0)	0(2)	0(0)	0(0)	15(18)
Total	26(8)	21(9)	15(7)	14(7)	11(3)	9(3)	6(2)	8(0)	5(2)	5(1)	3(1)	4(0)	4(0)	1(2)	2(1)	2(0)	136(46)

NOTE: Numbers outside parentheses are of retirees from academic institutions. Numbers inside parentheses are of retirees from business.

Table 6.9

SOURCES OF ADVICE ON WHEN TO RETIRE

Age at Retirement	Retirement System	Superior	Friends/ Colleagues	Other Retirees	Spouse	Other Family Members	Other Sources	Nobody
67+	0(0)	0(0)	0(0)	1(0)	2(0)	1(0)	0(0)	1(0)
65-66	5(0)	11(0)	10(0)	2(0)	16(0)	5(0)	0(0)	6(0)
63-64	3(0)	3(0)	1(1)	0(1)	4(2)	0(0)	0(0)	0(0)
60-62	0(1)	5(6)	0(3)	0(3)	3(8)	0(2)	0(0)	0(0)
55-59	0(0)	4(3)	3(1)	1(2)	2(4)	0(1)	0(0)	0(1)
Total	8(1)	23(9)	14(5)	4(6)	27(14)	6(3)	0(0)	7(1)

MO = 4

NOTE: Numbers outside parentheses are of retirees from academic institutions. Numbers inside parentheses are of retirees from business.

(only 14%). This only means, however, that they did not seek advice from the retirement system on when to retire. Many did in fact go to the retirement office for information on financial matters and other details of the arrangement before making their decision.

Satisfaction with the Early Retirement Decision

Ninety-nine percent of the early retirees said they were either very satisfied or satisfied with their decision to retire early, and only one retiree said he was dissatisfied (Table 6.10). The overwhelming positiveness of this response (73% said they were very satisfied) might lead some to wonder whether the respondents were being entirely candid with us or whether they had rationalized their decisions to themselves. This seems unlikely, given their openness on many topics as well as their enthusiastic comments. For example:

> I can advertise retirement for anybody. I think it's great! (A1-1, science)
>
> Teaching at a university is a competitive struggle. You have to publish reports, keep producing, keep publishing. You're competing for students, for graduate students. Basically, retirement means you stop struggling for existence. It's nice to feel that I don't have to struggle...A positive factor in retiring is, for once, you are your own boss. Your time is your own; and, if you're interested in basic research, in a sense retiring earlier is like getting a faculty fellowship. It's like a sabbatical, but a sabbatical lasts only six months. What can you accomplish? You barely get into your research and then your nose is back to the grindstone! (A2-4, social science)
>
> I've lost something, but I anticipated that. And I've gained something. The loss is your contact with students...The gain, of course, is that your time is all your own. And also that I'm not trying to do something like lecturing that I'm not fit for. (A2-7, humanities)
>
> I had a strong feeling for some time, looking at my friends and other people, that the 60's are still good years, that you don't start developing problems until later and that if you have things you want to do, the best time to do them is in your 60's. And you can't do that when you're tied down to a position...And I had some other interests. I had a strong feeling that one should retire young enough to develop some new interests, too. Not to be solely dependent on your job for intellectual stimulation. (A2-13, profession)

Table 6.10

SATISFACTION WITH DECISION TO RETIRE EARLY

Age at Retirement	Very Dissatisfied	Dissatisfied	Satisfied	Very Satisfied	Total
67+	0(0)	0(0)	1(0)	3(0)	4(0)
65-66	0(0)	0(0)	9(0)	21(0)	30(0)
63-64	0(0)	0(0)	0(1)	4(2)	4(3)
60-62	0(0)	1(0)	0(3)	5(5)	6(8)
55-59	0(0)	0(0)	2(1)	3(6)	5(7)
Total	0(0)	1(0)	12(5)	36(13)	49(18)

MO = 3

NOTE: Numbers outside parentheses are of retirees from academic institutions. Numbers inside parentheses are of retirees from business.

We have made a considerable change of life, and we are enjoying it to the hilt...We're enjoying the outdoors immensely, becoming beach bums almost...Also, we haven't made a complete change from our former lives. I'm working on a book, and my wife has writing projects so it hasn't been a complete change of life. It's just that now when we write it's because we want to...We've had no reason to question the decision to retire early. As a matter of fact, the joy of it increases every day. (A2-24, humanities)

I'm quite satisfied. The major reason is I don't need to teach any longer. I've provided for my support well enough. And the other thing is I didn't particularly enjoy teaching. I didn't feel involved in it enough to want to continue. I had plenty of other interests to occupy myself, and teaching was sort of an interference. I looked forward to pursuing my interests and hobbies without having to stop and take time to teach. (A2-34, humanities)

It has enabled me to complete my book, which took me longer than I thought. Monetarily, the income has been O.K. I haven't missed the few dollars difference between my income and my salary...Oh, it's enabled me to do some other things besides the book: travel, which I've always enjoyed. I've certainly been pleased to be relieved of the pressures and difficulties of teaching...Students are quite different from the ones in our earlier classes...People sometimes say, "Don't you miss the students?" Well, in a way, but not to the extent where I wish I was back teaching them. (A2-35, profession)

I think it was an ideal situation, and I would go so far as to recommend that other faculty and staff consider it seriously. (Early retirement with part-time employment) permits the faculty member to gradually taper off his responsibilities and still maintain a financial status which is acceptable. So many times people work full-time up to a certain Friday night and after that it's nothing. It's a step function, and in many cases it's a disaster. It's too abrupt a change. (A3-4, science)

It's a tremendous release of tension...It's turning a new page, in a way...Americans are too conditioned to strive for success, for a big paycheck. Life's too short to just wear yourself down and not be able to reap the other benefits of life besides drawing a huge salary. I think the key to the thing is whether you think you're making a contribution and living up to your own expectations. It's important not to fool yourself about this just in order to pull down a fat paycheck. (A3-6, profession)

I enjoy the freedom...I know of a lot of cases where people didn't live very long after they retired, where they worked up to age 65. If you enjoy your work so much, and if it's the

only thing you have, that's not so bad. But, if you have other things you would like to do, but you're waiting until age 65 to get the full retirement benefits and then you never live to reap the advantages of those benefits, then you've had it. (B1-8, supervisor)

I've told many of the people I managed: this is the only way to go, and I really believe that. Some people don't have something to do, but I have so much to do I just can't understand how I found time to work eight hours a day. (B1-12, supervisor)

The point is, you don't have the pressure of thinking, "I've got to get up. I've got to get dressed. I've got to go to work and face that stack of papers that was there yesterday." I like the feeling of independence, that I can do what I want for a change and not what I'm forced to do. As a result, I've done various things that I couldn't do before. (B2-3, manager)

I couldn't be happier about that decision. That doesn't mean I don't have problems in my life, but none in that direction. (B2-5, market analyst)

The interviewees were also asked, "If you could make the decision over again--under the same circumstances but knowing what you now know--would you retire at the same time, earlier or later?" Only five of the early retirees said they would retire later if they had it to do again, and four said they would retire sooner (Table 6.11). Of the academic retirees, 96% said they would retire at the same time or earlier than they did.

When asked, "Would you have retired earlier under the right conditions--that is, is there anything the University (or the Company) could have done to encourage you to retire earlier than you did?", most of the early retirees said, no, they would not have retired earlier even if the conditions had been different (Table 6.12). Those who gave reasons said they would not have been psychologically ready for retirement or were too involved in their work. On the other hand, about one-third of the early retirees said they would have retired earlier if the conditions had made it financially feasible--for example, if the special option had been available to them earlier or if the annuity had been larger. The retired corporate employees were somewhat more likely than the retired faculty members to say they would have retired earlier if given sufficient financial incentive.

Table 6.11

WHAT RETIREMENT DECISIONS WOULD BE IF MADE AGAIN

Age at Retirement	Would Retire Earlier	Would Retire Same	Would Retire Later	Total
67+	1(0)	3(0)	0(0)	4(0)
65-66	1(0)	27(0)	2(0)	30(0)
63-64	1(0)	4(3)	0(0)	5(3)
60-62	0(1)	6(5)	0(2)	6(8)
55-59	0(0)	5(6)	0(1)	5(7)
Total	3(1)	45(14)	2(3)	50(18)

MO = 2

NOTE: Numbers outside parentheses are of retirees from academic institutions. Numbers inside parentheses are of retirees from business.

Table 6.12

WHETHER EARLY RETIREES WOULD HAVE RETIRED EVEN EARLIER UNDER DIFFERENT CONDITIONS

Age at Retirement	No	Yes	Total
67+	2(0)	1(0)	3(0)
65-66	20(0)	10(0)	30(0)
63-64	4(1)	1(1)	5(2)
60-62	4(6)	1(2)	5(8)
55-59	3(2)	1(5)	4(7)
Total	33(9)	14(8)	47(17)

MO = 6

NOTE: Numbers outside parentheses are of retirees from academic institutions. Number inside parentheses are of retirees from business.

Financial well-being

The early retirees seem to be faring well financially. According to 84% of the respondents, there has been no change in their standard of living since retirement (Table 6.13). Although their gross income is lower, they say their "spendable" income is higher. There are no more deductions for Social Security. They don't have to pay income tax on their Social Security checks or on income from their own after-tax contributions to retirement funds. Quite often their major expenses, such as a mortgage on the house and the children's living and educational expenses, are behind them. Furthermore, the money they once spent on clothes, lunches away from home, and commuting can now be reallocated.

Compared to the academics, proportionately more retirees from business were apt to say their standard of living is higher than before retirement. This is largely due to the nature of the incentive early retirement at institution B2. Because retirees under this program get half-pay for four years on top of their earned retirement benefits, their total income in the four years following retirement is usually as good or even better than before.

Although many of the early retirees are concerned about the potential effects of continued inflation, a large majority (95%) said that, so far, they have been able to live as well or better than they had expected (Table 6.14). Compared to retirees in other age groups, those in the 65-66 age group were most likely to have underestimated their standard of living after retirement.

Professional activity

Early retirement does not necessarily mean an end to professional activity, especially for academics. Sixty-one percent of the early retirees in this study said they had been employed at one time or another during their retirement (Table 6.15). Although a few persons had held full-time jobs, most of those who reported employment had worked part-time or on intermittent or short-term tasks.[6] The retired faculty members were much more likely to have been employed than the retired corporate employees.

Table 6.13

HOW STANDARD OF LIVING COMPARES WITH PRIOR STANDARD OF LIVING

Age at Retirement	Lower than Before	Same	Higher than Before	Total
67+	0(0)	4(0)	0(0)	4(0)
65-66	1(0)	25(0)	4(0)	30(0)
63-64	1(0)	4(3)	0(0)	5(3)
60-62	0(0)	6(6)	0(2)	6(8)
55-59	0(0)	5(4)	0(3)	5(7)
Total	2(0)	44(13)	4(5)	50(18)

MO = 2

NOTE: Numbers outside parentheses are of retirees from academic institutions. Numbers inside parentheses are of retirees from business.

Table 6.14

HOW STANDARD OF LIVING COMPARES WITH EARLIER EXPECTATIONS

Age at Retirement	Lower than Expected	Same	Higher than Expected	Total
67+	0(0)	3(0)	0(0)	3(0)
65-66	2(0)	13(0)	12(0)	27(0)
63-64	0(0)	4(2)	0(1)	4(3)
60-62	0(0)	3(6)	2(2)	5(8)
55-59	1(0)	3(3)	1(4)	5(7)
Total	3(0)	26(11)	15 (7)	44(18)

MO = 8

NOTE: Numbers outside parentheses are of retirees from academic institutions. Numbers inside parentheses are of retirees from business.

Table 6.15

EMPLOYMENT SINCE EARLY RETIREMENT:
BY AGE AT RETIREMENT

Age at Retirement	Never Employed	Employed Intermittent/Short-term	Employed Part-time	Employed Full-time	Total
67+	2(0)	2(0)	0(0)	0(0)	4(0)
65-66	13(0)	11(0)	6(0)	0(0)	30(0)
63-64	0(3)	1(0)	6(0)	0(0)	7(3)
60-62	0(5)	2(2)	3(0)	1(1)	6(8)
55-59	0(4)	1(1)	3(2)	1(0)	5(7)
Total	15(12)	17(3)	18(2)	2(1)	52(18)

NOTE: Numbers outside parentheses are of retirees from academic institutions. Numbers inside parentheses are of retirees from business.

Only one third of the corporate retirees had been employed since retirement, compared with 71% of the academic retirees. Age also seems to be a deciding factor. All the academics under age 65 had been employed, compared with 56% of those over age 65.

Whether a respondent had been employed since retirement also varies by institution, partly because of the average retirement age at each institution and partly because of the differing employment regulations for early retirees (Table 6.16). Only 48% of the early retirees from institution A2 had been employed, compared with 100% of the retirees from the remaining academic institutions. Besides being the oldest of the retirees (on the average), the early retirees from institution A2 technically are forbidden to accept "gainful employment" while receiving their early retirement checks from the university. (Many, but not all, of the retired faculty members from institution A2 assume that this restriction excludes short-term or intermittent consulting activities.) In contrast, the early retirees from institution A3 are required to work part-time at the university (except in unusual circumstances) so that their early retirement pension plus their part-time salary will equal the full pension they will receive at the mandatory retirement age. There is no employment regulation for early retirees from institution A1 except that they cannot work for the university.

Retired academics in the sciences are more likely to have been employed than those in other fields (Table 6.17). Those in the humanities are least likely to have been employed. (Eighty-six percent of the scientists had been employed, compared with 57% of the professors from the humanities.) In part, this could be due to the relatively greater marketability of scientific skills, but age at retirement and institution also confound the issue. Besides being the youngest academics, nearly all the scientists were from institution A1, where there is no employment restriction, or from institution A3, where employment is required.

Current employment status follows much the same pattern as employment since retirement (Table 6.18). The biggest difference is that only half as many retirees from institution A2 are currently employed. This brings the total employed down to 43% from 61%.

Table 6.16

EMPLOYMENT SINCE EARLY RETIREMENT:
BY INSTITUTION

Institution	Never Employed	Employed Intermittent, Short-term	Employed Part-time	Employed Full-time	Total
A1	0	2	2	2	6
A2	15	13	1	0	29
A3	0	1	14	0	15
A4	0	1	1	0	2
B1	(8)	(1)	(0)	(0)	(9)
B2	(4)	(2)	(2)	(1)	(9)
Total	15(12)	17(3)	18(2)	2(1)	52(18)

NOTE: Numbers outside parentheses are of academic retirees. Numbers inside parenthesesare of retirees from business.

Table 6.17

EMPLOYMENT SINCE EARLY RETIREMENT:
BY ACADEMIC FIELD

Field	Never Employed	Employed Intermittent/Short-term	Employed Part-time	Employed Full-time	Total
Sciences	2	3	7	2	14
Social Sciences	3	3	2	0	8
Humanities	3	2	2	0	7
Professions	7	10	5	0	22
Total	15	18	16	2	51

NA = one non-faculty librarian

NOTE: This table includes only retirees from academic institutions.

Table 6.18

CURRENT EMPLOYMENT STATUS

Age at Retirement	Not Employed	Employed Intermittent/Short-term	Employed Part-time	Employed Full-time	Total
67+	3(0)	1(0)	0(0)	0(0)	4(0)
65-66	18(0)	7(0)	5(0)	0(0)	30(0)
63-64	1(3)	1(0)	5(0)	0(0)	7(3)
60-62	2(7)	1(0)	3(0)	0(1)	6(8)
55-59	1(5)	1(0)	2(2)	1(0)	5(7)
Total	25(15)	11(0)	15(2)	1(1)	52(18)

NOTE: Numbers outside parentheses are of retirees from academic institutions. Numbers inside parentheses are of retirees from business.

Most of the respondents are satisfied with the amount of time they are working, whether it is part-time, intermittently or not at all (Table 6.19). However, the two respondents who currently were working full-time said they would rather be working less. Except for them, satisfaction with the amount of paid work increases slightly with more intensive employment.

Of course, it is possible to stay professionally involved in other ways than being employed. One can also carry on independent research and writing projects, participate actively in professional societies, consult without pay and perform various volunteer activities related to one's field. Counting these activities as well as employment in one's field, 70% of the early retirees in this study had been professionally involved at one time or another during their retirement (Table 6.20). The percentage is again much higher for the retired faculty members than for the retired corporate employees (83% vs. 33%). All but one of the academic retirees who had not been professionally active were over age 65 at the time of retirement. Finally, although academics in the humanities had a much lower employment rate than academics in other fields, they are comparable to the other academics in overall professional involvement (Table 6.21).

Current professional activity follows much the same pattern as professional activity since retirement (Table 6.22).

General well-being and activity

The early retirees were asked how happy they were with their present lives compared with how they had felt about their lives in the few years before retirement. A majority (61%) of those responding said they were happier now than they had been before (Table 6.23). Virtually the same answer came from the academics as a group and the retired corporate employees as a group. Many said they were more contented and relaxed because they now have the freedom to do what they want when they want. Many are also glad to be away from the tensions and pressures of business or academia.

Table 6.19

SATISFACTION WITH CURRENT AMOUNT OF EMPLOYMENT

Current Employment Status	Unsure	Would Like Less	Would Like More	Satisfied	Total
Employed Full-time	0(0)	1(1)	0(0)	0(0)	1(1)
Employed Part-time	0(0)	1(0)	0(0)	12(2)	13(2)
Employed Short-term or Inter-mittently	0(0)	1(0)	1(0)	7(0)	9(0)
Not Employed	1(1)	0(0)	4(4)	19(9)	24(14)
Total	1(1)	3(1)	5(4)	38(11)	47(17)

MO = 6 .

NOTE: Numbers outside parentheses are of academic retirees. Numbers inside parentheses are of retirees from business.

Table 6.20

PROFESSIONAL ACTIVITY SINCE EARLY RETIREMENT:
BY AGE AT RETIREMENT

Age at Retirement	Ever Professionally Active?		
	No	Yes	Total
67+	0(0)	4(0)	4(0)
65-66	8(0)	22(0)	30(0)
63-64	0(3)	7(0)	7(3)
60-62	0(4)	6(4)	6(8)
55-59	1(5)	4(2)	5(7)
Total	9(12)	43(6)	52(18)

NOTE: Numbers outside parentheses are of retirees from academic institutions. Numbers inside parentheses are of retirees from business.

Table 6.21

PROFESSIONAL ACTIVITY SINCE EARLY RETIREMENT:
BY ACADEMIC FIELD

	Ever Professionally Active?		
Field	No	Yes	Total
Sciences	1	13	14
Social Sciences	1	7	8
Humanities	1	6	7
Professions	6	16	22
Total	9	42	51

NA = one non-faculty librarian

NOTE: This table includes only retirees from academic institutions.

Table 6.22

CURRENT PROFESSIONAL ACTIVITY

Age at Retirement	Active Professionally?		
	No	Yes	Total
67+	1(0)	3(0)	4(0)
65-66	8(0)	22(0)	30(0)
63-64	0(3)	7(0)	7(3)
60-62	1(5)	5(3)	6(8)
55-59	2(5)	3(2)	5(7)
Total	12(13)	40(5)	52(18)

NOTE: Numbers outside parentheses are of retirees from academic institutions. Numbers inside parentheses are of retirees from business.

Table 6.23

HOW HAPPINESS WITH CURRENT LIFE
COMPARES WITH HAPPINESS BEFORE RETIREMENT

Age at Retirement	Less Happy Than Before	Ambivalent	Same	More Happy Than Before	Total
67+	0(0)	0(0)	2(0)	2(0)	4(0)
65-66	1(0)	3(0)	6(0)	15(0)	25(0)
63-64	0(0)	0(0)	0(2)	0(1)	0(3)
60-62	0(0)	0(1)	1(2)	4(4)	5(7)
55-59	0(0)	0(2)	2(0)	3(6)	5(8)
Total	1(0)	3(3)	11(4)	24(11)	39(18)

MO = 13

NOTE: Numbers outside parentheses are of retirees from academic institutions. Numbers inside parentheses are of retirees from business.

Well, if you take the last five years before the retirement came up, I was really getting unhappy. I was frustrated. I knew I wasn't making my way the way I should have been making my way in the departmental structure. And I've really been happier since I started my leave and particularly since I've gotten out here. (A1-4, science)

I think maybe a bit more happy because I'm getting more done on the things I'm anxious to get done before I check in...Because of my experience over the years, I feel sort of egotistically that I have a calling to get them done. (A2-5, science)

Much more happy. Less tension, that's the main thing. And no more unnecessary worry about your duties and responsibilities...I used to feel sorry for retired people. I used to think they had been "put on the shelf." Now I go down there and I feel sorry for the ones who still have to do it, still have to publish and cater to the dean and so forth. (A2-8, profession)

I'd say I'm more happy now because I am free of those frustrations and responsibilities. They weighed heavily on me. I was probably overly conscientious...I honestly don't miss my administrative job. I don't miss my teaching. I look back on those years with satisfaction, but I look forward to the future with happiness. (A2-13, profession)

More happy. You know, most people won't admit it, but as you get older, it becomes more of a drag to get yourself into a classroom and be vigorous enough to impress the students. (A2-14, profession)

I'm very happy. I didn't like the late '60s and early '70s very much. They were very disturbing years in universities everywhere. I didn't like the tremendous enrollments, the complicated bureaucracies, the period of two to three years of belligerent student attitudes...If I compare right now with those last years, I'm far more happy. (A2-15, science)

Happier. Definitely. You know, one of the things that happens to a married couple when they've both been working is that, when they retire, they have more time to spend together, which may sound corny, but it's true. And of course you have your own family, your own married children, your grandchildren. There's quite a lot to fill up the days. (A2-24, humanities)

Well, I think I'm happier now than the few years before I retired, I think primarily because of the relief from pressure and commitments, having to work on schedule...It's better being able to choose people and things you want to do...And, when I was still at the university, working on the book after I retired, it was very satisfying to be able to concentrate on it instead of having to take two weeks off now and then before I could get back to it... And you lose so much steam when you have to break continuity in writing. (A2-35, profession)

I'm much happier now. I've got no problems, other than my bad back which I've had for years anyway. When the telephone rings, I know it's not a problem, somebody calling in sick or something.... I'm able to do what I want to do. When I don't want to do anything, I don't. When I want to do something, I can. (B1-2, supervisor)

Much happier. As I said, I wish I could have enjoyed this way of life for the last ten years instead of two...I'm very busy, but not as busy and strained as I was in the last few years with the company. That was a rat race. It was the nature of the job, the extreme pressure and tension of that job. Seventy or eighty hours a week. Always a briefcase full of work to do at home on the weekends...You can only go that pace so long until you think, "My god, I got to get out of it!" (B2-8, corporate executive)

About one-fourth of the respondents said there was no change in how happy they were with their lives. Most of these said they were just as happy as before but in a different way or for different reasons.

I'd say about the same but in a different manner. Previous to retirement, I had the interest and challenge of my work, particularly the teaching. Now it's taking things easier, doing what I want and not having to do it according to a schedule. I'm very happy not having to spend half an hour every day commuting. I think you can sum it up by saying, except for the fact that my retirement was involuntary, I'm enjoying it very much. (A1-3, science)

I'm just as happy as I was before. I'm not frustrated or unhappy. I liked my work. I enjoyed it very much while I was teaching, but I don't regret leaving it...I think I feel more relaxed and less under pressure now, but otherwise my mode of living hasn't changed very much. (A2-1, profession)

I'm happy now. I think it's just a different phase. (A3-6, profession)

I really wasn't discontented when I was working. I was reasonably happy. I am, of course, more relaxed now; and I can do more of the things that I wish to do...I'm more relaxed. That's the best way to describe it. As far as being happier or unhappier, I think that's about even. (B1-11, engineer)

Until you get off the treadmill, you don't realize how great another way of life can be...(but) I enjoyed my job so much. It was very creative, very interesting...See, I was pretty happy when I was working, and I'm happy now in different ways or for different reasons. I think it's about the same...I think it's more challenging. I think there's greater chance for unhappiness. (B2-6, manager)

Only 12% of the respondents were either ambivalent or less happy with their current lives. The most common complaints of these retirees were feelings of being sidetracked, nonproductive or bored. Also, several who were genuinely fond of their institution missed being in contact with it and knowing details about its affairs.

> I'm a bit perplexed occasionally with nothing to do. I enjoy routine. I like going to work, talking to people, working with graduate students. The trouble-shooting types of things that one does when one is a middle administrator; I enjoyed doing that. You never knew when you went into work what you were going to do...I enjoyed the unknown part...Problems could occur on the spur of the moment, which made the day interesting. (A2-20, profession)

> Parts of it I'm much happier with. If you talk about happiness though, it's a strange concept. Happiness is not necessarily the elimination of unpleasant things. They're different scales. I'm happy to not have the administrative details to worry about and take my time...I'm happy that I'm free to do what I wish... But I miss my colleagues. I miss the university. And I'm less happy in that respect...You know, when someone is being tortured and you free him, he's less uncomfortable. But happiness is an aspect you haven't dealt with yet. (A2-25, profession)

> Well, there are pluses and minuses. I must say I'm very satisfied with the way my life goes. I spend more time with my wife, which I enjoy. I have a much larger measure of freedom. I couldn't play quite so fast or loose with my time before I retired. On the other hand, I enjoyed what I was doing very much, and I think that in the nature of the case I miss--although not to the extent of making me unhappy about it--I miss the ongoing, day-to-day contact and knowledge of the affairs of the university. I'm very fond of the university, and I miss doing the things which kept me in contact with it. (A3-5, social science)

> It does take some getting used to...I'm still not quite adjusted... If you enjoy what you're doing, you put a great deal more into it than you may realize at the time. It can be very absorbing. And when you chop that off, there is a void left, and it is extremely hard to sit on your butt and do nothing...I think the only way you can honestly answer that is that both things are true: there are times when you'd no sooner go back to work than fly, and there are other times when you can become bored and wish you had something more demanding, more stimulating to do. It's a mixed bag. There are periods of ups and downs, and I'm sure that it's the same when you're working. (B2-4, manager)

> I really can't answer that because there are pros and cons working and pros and cons in retirement....I like golf, and I like tennis, and I like fishing, and I have plenty of time to do those things

now. Plus I do some consulting work on the side. I like the work, and I can keep my own schedule. And the cons are when you have not much to do. That's probably boredom, I guess you'd call it. When the weather's nice, I'm not bored. I have plenty to do. (B2-7, manager)

I miss being out of the mainstream. I miss not knowing as much about my corporation as I used to. I'm very business-oriented... I feel somewhat sidetracked, that I've sidetracked myself. On the other hand, the advantages are the things I'm doing that I couldn't do if I were working. (B2-9, manager)

Only a few retirees said they did not have enough to do that was interesting and challenging. Moreover, many retirees said they hardly had enough time to accomplish all that they wanted to do. Most were simply devoting more time to interests they had had all their lives. Others had developed entirely new interests.

About one third of the early retirees had changed residences since they retired (Table 6.24). This figure may have been higher if 37% of the early retirees had not been living already in areas which are often considered ideal for retirement--California and Florida, for example. On the other hand, many of the early retirees who remained in the North, especially the academics who stayed near campus, said they would not think of leaving benind their family and friends and professional associations. The early retirees who moved had various reasons for doing so. Some said they thought it was better psychologically to make a completely fresh start and set new goals for themselves in a new environment. Some moved for the change in climate, either because they or their spouses had a health problem or because they wanted the opportunity for year-round outdoor activity. A few were returning to their original hometowns or else were joining friends or family.

Preparations for Early Retirement

Since few of the interviewees had made long-range plans to retire early, it should not be surprising that a majority of the respondents had not prepared themselves specifically for early retirement--financially or in other ways.

Table 6.24

WHETHER PRIMARY RESIDENCE HAS CHANGED SINCE RETIREMENT

Age at Retirement	No	Yes	Total
67+	3(0)	1(0)	4(0)
65-66	20(0)	10(0)	30(0)
63-64	6(3)	1(0)	7(3)
60-62	2(7)	4(1)	6(8)
55-59	2(6)	3(1)	5(7)
Total	33(16)	19(2)	52(18)

NOTE: Numbers outside parentheses are of retirees from academic institutions. Numbers inside parentheses are of retirees from business.

Only 37% of the early retirees said they had made specific financial preparations for early retirement (Table 6.25). Most frequently, these retirees mentioned investments and savings as the means for preparing themselves financially. Of course, the fact that the other retirees had not made financial plans specifically for early retirement does not mean they had ignored financial planning altogether. In fact, nine out of ten early retirees mentioned dividends and interest among their current sources of income, although the principal source of income was almost always the retiree's pension.

Only 39% of the early retirees said they had made specific non-financial preparations for early retirement (Table 6.26). Most frequently, they mentioned that they had sought a place to relocate and/or had planned a move; many had made special trips to study retirement communities. Others mentioned that they had started phasing out of their work activities--not accepting new graduate students, cleaning out their files, training their successors, refusing new responsibilities, or even going on semi-retirement. Others said they had consciously developed outside interests and had lined up other activities for after retirement, and some said they had prepared themselves and their families psychologically. Two respondents said they had planned to take a long trip immediately after retiring in order to get themselves out of the "work habit." Another respondent "experimented" with retirement during his last sabbatical, living in the community he and his wife had chosen for retirement and engaging in the same activities.

It is important to note that most of the retirees who had not made specific non-financial plans for early retirement said they would not do it differently if they had it to do again.

Most (86%) of the respondents did not feel they had received any formal counseling regarding their early retirement decision or preparations they should make (Table 6.27). On the other hand, 93% of those who had not received counseling said they did not feel they needed it or could have benefited from it. Although many said it might be a good idea for other people, some said they doubted counseling could help anyone.

Table 6.25

FINANCIAL PREPARATIONS MADE SPECIFICALLY FOR EARLY RETIREMENT

Age at Retirement	None	Investments	Savings	Retaining Annuity from Other Job(s)	Purchase of Supplemental Annuity	Other
67+	4(0)	0(0)	0(0)	0(0)	0(0)	0(0)
65-66	16(0)	11(0)	9(0)	1(0)	5(0)	1(0)
63-64	1(3)	0(0)	3(0)	1(0)	0(0)	0(0)
60-62	5(6)	1(0)	0(1)	0(0)	0(0)	0(2)
55-59	4(3)	1(3)	0(1)	0(0)	0(0)	0(2)
Total	30(12)	13(3)	12(2)	2(0)	5(0)	1(4)

MO = 3

NOTE: Numbers outside parentheses are of retirees from academic institutions. Numbers inside parentheses are of retirees from business.

NON-FINANCIAL PREPARATIONS SPECIFICALLY FOR EARLY RETIREMENT

	Preparations Made?		
Age at Retirement	No	Yes	Total
67+	2(0)	2(0)	4(0)
65-66	12(0)	14(0)	26(0)
63-64	0(3)	1(0)	1(3)
60-62	4(7)	1(1)	5(8)
55-59	4(4)	1(3)	5(7)
Total	22(14)	19(4)	41(18)

MO = 11

NOTE: Numbers outside parentheses are of retirees from academic institutions. Numbers inside parentheses are of retirees from business.

Table 6.27

WHETHER FORMAL EARLY RETIREMENT COUNSELING WAS RECEIVED

Institution	No	Yes	Total
A1	4	2	6
A2	24	4	28
A3	6	1	7
A4	0	0	0
B1	(8)	(0)	(8)
B2	(6)	(1)	(7)
Total	34(14)	7(1)	41(15)

MO = 14

NOTE: Numbers outside parentheses are of academic retirees.
Numbers inside parentheses are of retirees from business.

Retiree Evaluations of the Early Retirement Programs

All but two of the early retirees were either satisfied or very satisfied with the provisions of their early retirement arrangements (Table 6.28). By far the largest number were very satisfied. Indeed, many of the respondents seemed to be enthusiastically in favor of the programs:

> I think the arrangement is eminently fair and attractive...I just hope the program becomes larger so that more people can retire early, not only for themselves but also for the benefit of the younger people. (A1-2, science)

> Beautiful. I think that--whatever scale you use--you put it right up there at the top. (A2-17, science)

> This plan was a godsend to me. It gave me the chance to get out early...I think getting the deal that we get is doing pretty well. You can't kick at that. I don't know of any more generous in the nation. I don't know of any other that allows almost five years of coasting at almost the same salary you had while you were there. (A2-21, social science)

> I think I was damn lucky. I mean, to have early retirement. As you say, there are only four schools that have it so you know I was lucky...One could always wish there were more money, but that would not be realistic. What they're doing now is extremely generous. (A2-23, profession)

> I think it's a good idea. It's a tremendous idea. I hope that they propagate this through all the universities. (A3-1, science)

> It's awful hard to beat that plan. (B1-12, supervisor)

> The special payment program itself is very good and basically quite simple and works very well. (B2-3, manager)

On the other hand, many respondents hesitated recommending the early retirement option to everyone. They said it definitely had to be an individual decision since everyone's standards are different. However, they generally praised the voluntary early retirement programs for the added flexibility they offer the individual.

> It's definitely a matter of individual choice. For some people, early retirement may be disastrous. (A1-2, science)

> I think it's good, at least for me. For somebody else, it might not be. (A2-3, profession)

SATISFACTION WITH THE PROVISIONS OF THE EARLY RETIREMENT ARRANGEMENT

Institution	Very Dissatisfied	Dissatisfied	Satisfied	Very Satisfied	Total
A1	0	1	0	5	6
A2	0	1	6	22	29
A3	0	0	0	7	7
A4	0	0	0	0	0
B1	(0)	(0)	(2)	(7)	(9)
B2	(0)	(0)	(0)	(9)	(9)
Total	0(0)	2(0)	6(2)	34(16)	42(18)

MO = 10

NOTE: Numbers outside parentheses are of retirees from academic institutions.
Numbers inside parentheses are of retirees from business.

I think it's a very good one as a matter of fact. It permits a great deal of flexibility. If you feel able and willing, you can teach on to 70. If you don't feel you can--for health reasons or otherwise--you can retire anytime between 65 and 70. (A2-16, social science)

As I say, it depends on the individual. In my own case, I felt it was very advantageous because it would allow me to do things that I couldn't do otherwise. Of course, every person has different standards, and it wouldn't be right for everyone. I think it's just another alternative in the retirement system that gives people a little more freedom. (A3-2, science)

For me it was an offer I couldn't refuse, but I can understand how many people couldn't accept it...You take some of the people on the clerical staff. Say they make $15,000. Then two years' salary spread out over four years isn't much of a kicker. (B2-7, manager)

Most of the early retirees seemed to be very realistic about, and sympathetic with, the reasons institutions have for implementing early retirement programs--that is, to increase faculty turnover, make room for younger people who may be more energetic and ambitious, free up positions for faculty with needed backgrounds or skills, get rid of some older people who may be less productive; and, in some instances, to save costs by replacing higher paid, older faculty with lower paid, younger faculty. The early retirees also seemed to recognize the high costs of some early retirement options, which the institutions must weigh against the benefits of these programs.

The dean's attempt to get faculty to retire early to make room at the bottom is a very solid plan, academically and pragmatically. It is very good for the university. (A1-1, science)

I'm really surprised at how generous it is because I have some fairly good ideas of how much this is costing the university out of their academic budget...On the other hand, they don't have to provide me with an office or secretarial services. (A1-4, science)

I think it's a nice deal. Of course, the fringe by-product is that other people can find jobs. For instance, we've increased the number of women in our department. A young woman got my job, for example. (A2-4, social science)

It is kind of expensive for the university. If they can't continue it, if it becomes too expensive for them, I think they should drop the regular retirement age to 65...I know

too many people who coast from 65 to 70. They get into a very high salary bracket, which they don't want to give up, but they lose their interest in research and in effective teaching, even in their students. (A2-13, profession)

I think the university financial arrangement is so exceedingly generous that I wonder how they really can continue with it. But I recognize that it is a benefit to loosening up some plans where the tenured faculty are very tight so by having an early retirement program there are opportunities for changes to be made...I suppose some of the people who are coming in to replace the retired faculty are at a lower salary so it isn't all loss and no gain. (A2-35, profession)

It does have the advantage of substituting younger people more quickly, especially if some of the older faculty members aren't so interested in being active in teaching anymore...Getting younger people onto the faculty is important because often they're the ones with new ideas and certainly with more ambition. (A3-2, science)

There's the university aspect you haven't mentioned. The university profits by getting rid of us old guys, which is realistic. Being able to replace professors who have lost usefulness, saving the big salaries, that's part of the package of this thing. (A3-4, science)

It does cost them a lot of money. They actually only get one-half of the salary savings back. The rest they have to pay into the retirement system. Of course, they still get the other half. I think this is a big advantage to the university. Also, I think an advantage to the university is that, given the physiology of age, most people after 60 or 65 are just not as capable of doing prolonged or intensive work as before. (A3-8, science)

I think a company can only offer as good an early retirement program as its financial conditions permit. And my own feeling is that a company isn't obliged to keep you forever in the style to which you've been accustomed. (B1-3, manager)

It provides the company opportunity to move people through the business and adjust their manpower resources. (B2-3, manager)

I think the company must have seen the advantages of making early retirement attractive in order to free up positions, get rid of some older people, many of whom are not as productive as they once were...Although the company has done these things which have benefited me, I think it has benefited the company, too. (B2-9, manager)

We asked the interviewees whether, despite their general satisfaction, they felt any changes should be made in the provisions of the arrangements or whether they thought any additional options should be offered.[7] Not many respondents had specific changes or alternatives to suggest. Also, in most instances, the suggested changes were specific to particular types of arrangements offered by one or more of the institutions. For example, 12 of the 29 retirees from institution A2 felt that the rule forbidding gainful employment during the early retirement period ought to be rescinded or at least made more flexible. On the other hand, a number of the other employees from institution A2 felt the rule was quite reasonable, given that the early retirees in effect were still receiving university salaries.

As another example, three of the nine retirees from institution B2, where the early retirement arrangement is a lump-sum severance payment paid out over four years, wished they could have had the option of spread-out or deferred payments. Primarily, they were concerned that the payment boosted them into a higher income tax bracket for the first four years of retirement, but they also mentioned that the tremendous drop in income after the fourth year could be a problem.

Although inflation seemed to concern a number of the early retirees, only six recommended that full or partial cost-of-living adjustments be added to the early retirement arrangements.

Five early retirees said they felt the special early retirement option should be available to a wider range of people--that is, to those in lower age or years of service cohorts. Also, several of the respondents from institution A2, where the mandatory retirement age is 70, felt the whole retirement system should be redesigned for mandatory retirement and maximum benefits at age 65. (Again, it should be noted that many of the other respondents would not have agreed with them.)

As a group, the early retirees were extremely well satisfied with the administrative handling of their early retirements (Table 6.29). However, the respondents from institution A3 seemed to be generally dissatisfied. They complained about their inability to get adequate information, the administrative staff's obvious lack of knowledge about the early retirement benefits, requirements and procedures; the awkwardness of

Table 6.29

SATISFACTION WITH ADMINISTRATIVE HANDLING OF THE EARLY RETIREMENT ARRANGEMENT

Institution	Very Dissatisfied	Dissatisfied	Satisfied	Very Satisfied	Total
A1	0	0	2	4	6
A2	0	0	6	21	27
A3	1	3	1	2	7
A4	0	0	0	0	0
B1	(0)	(1)	(1)	(7)	(9)
B2	(0)	(0)	(1)	(7)	(8)
Total	1(0)	3(1)	9(2)	27(14)	40(17)

MO = 13

NOTE: Numbers outside parentheses are of retirees from academic institutions.
Numbers inside parentheses are of retirees from business.

dealing with administrative staff at several levels--departmental, campus-wide, and central university; the awkwardness of dealing with two different systems--the retirement system and the academic structure; the profusion of confusing written agreements to consider; delays in the processing of retirement papers; and disagreements or misunderstandings over interpretation not only of the individual contracts but also of the university policy. In contrast, the other retirees made a point of saying that the opposite was true of their institutions--that is, the early retirements were handled very smoothly, very routinely, with a minimum of paperwork and a great deal of concern that the retiree fully understand the agreement. The programs at some of these institutions were just as new as the program at institution A3.

Summary

Early retirement apparently has benefited the respondents in this study. Almost all the early retirees are satisfied with their decision. Moreover, a majority said they are happier now than they were before retirement; and most said that retirement has had no negative effect on their standard of living. Nearly all the early retirees are satisfied with the way their retirements were handled.

These interviews weren't designed to determine the benefit of early retirement to the institutions involved. However, some tentative conclusions regarding the academic institutions might be drawn from the following facts:

- 40% of the retiring academics said they had lost interest in or had become dissatisfied with their work, or else felt the pressures of working were too great;
- 21% had health problems or disabilities;
- 15% said they were dissatisfied with the quality of their own performance; and
- 12% said they were dissatisfied with or could not adapt to the changing administration or academic focus of their departments or universities.

- Overall, 56% of the academics mentioned at least one of these reasons for retiring early, any one of which could have an adverse effect on a faculty member's productivity and effectiveness.

Although other factors (such as cost) must be weighed when assessing the benefits of early retirement programs to a university, it is clear that early retirement at least may benefit the university by providing some disaffected or less effective faculty a graceful exit.

FOOTNOTES

[1]Carl Vernon Patton. "Early Retirement in Academia: Making the Decision." The Gerontologist, Vol. 17, No. 4, 1977.

[2]"Years of service" as used in this chapter is not synonymous with "years of service creditable to retirement." Rather, it means the number of years of employment with the institution providing the early retirement benefits.

[3]In this vein, eight of the respondents from institution A3 were asked during a preliminary study whether they had planned to reture when they did, or had retired sooner or later than they had originally planned. Six out of seven respondents to this question said they retired sooner than they had planned.

[4]Note that this was an open-ended, rather than multiple-choice question. Individual respondents mentioned anywhere from one to five reasons for retiring early. A maximum of three responses per respondent were included in the analysis in order to eliminate minor reasons for retiring. This had minimal effect on the rank order of the reasons across respondents.

[5]Note that this was an open-ended, rather than multiple-choice, question. Also, there was no double-counting across categories.

[6]To be classifed as employment, an activity must have been remunerated with more than a token honorarium or paid expenses. A "full-time" activity must have been scheduled for five full days per week every week and must have continued for 30 days or more. A "part-time" activity, although it presumes less than five days per week, must also have been weekly and must also have continued for 30 days or more. "Intermittent/short-term" activities include all those which were not weekly or were less than 30 days in length. They also include all special projects and ad hoc tasks, whether or not they meet the other full-time and part-time activity criteria. There is no double-counting in the employment tables. Instead, "full-time" subsumes persons who had worked both full-time and in one of the other categories, and "part-time" subsumes those who had worked both part-time and on intermittent, short-term tasks.

[7]Note that this was an open-ended, rather than multiple-choice, question.

7. LEGAL QUESTIONS CONCERNING EARLY RETIREMENT*

In recent years there has been new federal legislation covering retirement plans. This legislation and subsequent court decisions have affected the activities encompassed by retirement plans and practices. Because of, and in spite of, these occurrences, there is an area of ambiguity surrounding legal issues in retirement as they pertain to institutions of higher education. Public and private institutions are differently affected by the existing legislation, and the subject is sufficiently in flux to warrant the exercise of caution in making assumptions about the applicability of specific provisions of the law to specific programs and institutions. Nevertheless, we will attempt to describe the present state of affairs as it applies to colleges and universities, as well as to point out some possible future developments.

Funding Requirements and Tax Implications

The term "retirement plans," for our present purposes, includes pension plans as defined and covered by the Employee Retirement Income Security Act of 1974 (ERISA), and other retirement plans not covered by ERISA. It is the latter category in which we are primarily interested since in them supplemental plans can be incorporated to make early retirement more attractive to certain employees. To put such supplemental plans in perspective, however, some discussion of pension plans covered by ERISA and the tax implications of qualification of plans by the Internal Revenue Service is essential.

Pension plans covered by ERISA

The Employee Retirement Income Security Act of 1974 (ERISA) defines the terms "employee pension benefit plan" and "pension plan" to mean "any plan, fund or program . . . established or maintained by an employer or by an employee organization, or by both, to the extent that by its express terms or as a result of surrounding circumstances such plan, fund, or program . . . provides retirement income to employees or results in a

*This chapter was written by Robert Lake.

deferral of income by employees for periods extending to the termination of employment or beyond, regardless of the method of calculating the benefits under the plan or the method of distributing benefits from the plan."[1]

Qualified pension plans. Pension plans that meet Internal Revenue Service requirements for the tax advantages described below are known as "qualified" plans.

First, liberal amounts contributed by an employer to a qualified plan are deductible on the employer's income tax return, for that year, just as the employer gets a comparable deduction for other types of compensation paid to employees. But where a qualified plan is concerned, the employer gets the deduction currently despite the fact that the employee may receive no benefits from the plan that year. Thus the employer may accumulate a fund for employees, and at the same time suffer no current tax disadvantage.

Second, the employees under the plan are not taxed while their benefit funds are accumulating. They are taxed only on benefits when the funds are actually received or made available. If received on retirement or termination of employment, a large amount may be taxable not at current income tax rates but at the lower long-term capital gains rates. That portion not eligible for capital gains treatment may qualify for 10-year forward income averaging.

Third, on death, the amount credited to an employee's account under the plan can pass to a beneficiary (other than an estate) free of estate tax, to the extent attributable to employer contributions. And the first $5,000 of the death benefit from a deceased employee's account (attributable to employer contributions) can go to his beneficiary free of income tax. Of course, the employee's contributions are recovered tax-free.

Fourth, an employee with a vested interest in a qualified plan usually need not pay any gift tax when the employee irrevocably designates a beneficiary to receive payments at the employee's death, to the extent the survivorship interest is attributable to employer contributions.

The basic requirements for pension plan qualification were generally not conceptually altered by ERISA. The terms of the plan must be

set forth in a written document. The plan must be intended as permanent and continuing. The assets of the plan sponsor (employer or employee organization) must be kept separate and protected so that the plan is operated for the exclusive benefit of the participants and beneficiaries. The plan must benefit employees in general and not merely a limited number of favored employees. A qualified pension plan may not discriminate in favor of officers, shareholders, and highly compensated employees as to coverage, contributions, or benefits. ERISA has enlarged the participation and vesting requirements in order to foster the accrual and preservation of benefits for all classes of actual and potential plan participants. The plan must provide definitely determinable benefits.

Non-qualified pension plans. Most pension plans that do not meet IRS requirements for qualified plans were nevertheless severely affected by the passage of ERISA in 1974. In contrast to Title II which amends the Internal Revenue Code of 1954 relating primarily to qualified pension plans, Title I applies to most employee pension and welfare benefit plans, whether qualified or not, established or maintained by employers engaged in interstate commerce or by employee organizations representing employees engaged in interstate commerce.[2] Title I, known as the Labor regulatory provisions, is concerned with the protection of employee benefit rights, and therefore contains provisions pertaining to participation, vesting, funding, reporting, disclosure, fiduciary responsibility, and enforcement of rights. In many respects these provisions are essentially the same as the IRS requirements for pension-plan qualification. Thus, except for the procedures involved and the subjection to scrutiny "inherent" in the tax advantages of "qualified" status, the regulation of qualified and non-qualified pension plans covered by ERISA mandates appears to be identical. Actually, the Labor Department has provided very little guidance on coverage of non-qualified plans under ERISA. Noting that many non-qualified plans are covered by Title I of ERISA, William D. Chadwick, Administrator of Pension and Welfare Benefit Plans for the Department, told an American Law Institute--American Bar Association meeting in October, 1976, that non-qualified plans are probably the most difficult type of plan to define.

An employer gets no deduction for a contribution to a non-qualified plan until the employee includes that contribution in his gross income. Generally, the employee need not report the income on his tax return until his right to the money is nonforfeitable. The benefits will be deemed forfeitable if the employee must continue on the job to receive them.

ERISA Sec 3(36) defines the term "excess benefit plan" as a plan maintained by an employer solely for the purpose of providing benefits for certain employees in excess of limitation on contributions and benefits imposed by Section 415 of the Incernal Revenue Code of 1954 on plans to which that section applies, without regard to whether the plan is funded.[3] Funded excess benefit plans are subject to ERISA, but are quite rare. Unfunded excess benefit plans are excluded from ERISA coverage on the grounds that employees who benefit from such plans need little, if any, protection by the law; because the plans are unfunded there are few fiduciary problems.

There are many occasions where a non-qualified funded excess benefits plan will fit in with the employer's policies. He can pick and choose the benefits and the employees to benefit; he can supplement the benefits of a qualified plan for handpicked employees; he need not treat all employees alike, always keeping in mind that only employees may benefit. Non-qualified arrangements can be made particularly attractive, especially if the employer is willing to forego tax deductions in order to defer employee liability to taxation until such time as the employee receives benefits under the arrangement.

As an alternative to the establishment of a trust, an employer may finance a funded excess benefits plan by the purchase of an insurance contract to provide assurance that the payment will be made. The proceeds are not made payable to the employee; they are paid to the employer. The employer doesn't get a deduction for the premiums paid but the proceeds are non-taxable to it when received and a deduction is available for the amounts paid out to the employee. The employee realizes no immediate income by reason of the insurance policy; the payments are, of course, taxed to the employer as compensation income.

Annuity plans for tax-exempt institutions. Qualification or non-qualification of pension plans becomes less important for many colleges and universities which qualify as tax-exempt institutions under Section 501(c)(3) of the Internal Revenue Code. According to the Code, exemption from federal income tax is available for:

> Corporation, and any community chest, fund or foundation, organized an operated exclusively for . . . educational purposes, . . . no part of the earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation, and which does not participate in (including the publication or distributing of statement), any political campaign on behalf of any candidate for public office.

Under Section 403(b) of the Code employees of such tax-exempt educational institutions are eligible to exclude from their current gross income amounts paid by their employer toward the purchase of an annuity or into a custodial account. The amounts so contributed are taxable to the employers only when received by the employees. The employees' rights must be nonforfeitable and the annuity must not be subject to the provisions of Section 403(a) of the Code relating to qualified annuity plans. If two or more annuities are established under Section 403(b) for one employee, they will be treated as one contract. A contract purchased under Section 403(b) may include provisions for life insurance, but only if the life insurance protection is merely incidental.

Previous law required the purchase of an annuity contract from an insurance company. However, ERISA permits amounts contributed to be held in a custodial account and invested in the stock of regulated investment companies (as in a mutual fund).

The yearly contributions which may be excluded from the employees gross income must not exceed his "exclusion allowance." The exclusion allowance is equal to 20% of the employee's includable annual compensation multiplied by his years of service, and reduced by the amounts which were contributed by the employer in previous years. However, ERISA added a new Section 415 to the Internal Revenue Code which sets some overall limits on contributions and benefits for qualified plans but provides relief for

Section 403(b) plans by means of three alternate "catch-up" provisions which allow higher contributions in later years to "catch up" for lower contributions in earlier years of employment. Excess contributions to a Section 403(b) annuity, above the exclusion allowance or the alternative "catch-up" provisions, will not disqualify the plan. But the excess will reduce the exclusion allowance and force the employee to include such excess in his gross income. An excess contribution to a Section 403(b) custodial account will be subject to a 6% tax on overfunding until the excess is eliminated.

While it is not our purpose to discuss this tax-sheltered annuity plan in detail, some significant tax benefits are available which should be considered by any tax-exempt educational institution in its retirement income program for employees.

Retirement plans not covered by ERISA

Two categories of employee benefit plans excepted from ERISA coverage are "governmental" plans and unfunded "excess benefit" plans. Also, there are various other lump-sum and annuity arrangements which are used to supplement early retirement income and which are not covered by ERISA.

Governmental plans. Plans established or maintained by the Federal Government, or by the government of any state or political subdivision thereof, or by any agency or instrumentality of either, for its employees, are exempt by the provisions of ERISA. Thus any governmental educational institution is free of ERISA regulation with respect to its employee benefit plans, at present. It should be noted that there have been some pressures on and in the Congress to make public employee retirement systems subject to federal regulation. Although some public employee retirement systems have been qualified (or considered qualified) by IRS, most are technically non-qualified.

Supplemental plans. The development of supplemental retirement income plans in colleges and universities has shown considerable imagination. Methods used to achieve benefits and other objectives have varied considerably from institution to institution. The tailoring of supplemental plans

to individual and unique institutional needs has made consideration of ERISA coverage on these plans very complicated.

Gratuitous payments to pre-ERISA retirees. Prior to the enactment of ERISA, September 2, 1974, many employers, some institutional, supplemented the income of retired employees by voluntarily making extra payments to them. The purpose of some such payments was to counter the impact of inflation on pensions which had been fixed when the employees retired. Under Department of Labor regulations[4] such payments do not constitute a pension plan, and are therefore exempt from ERISA regulations, if:

- payments are made out of the general assets of the employer;
- payments are made only to employees who were separated from the service of the employer prior to September 2, 1974;
- payments to such employees commenced prior to September 2, 1974; and
- each former employee receiving such payments is notified annually that the payments are gratuitous and do not constitute a pension plan.

Obviously, such gratuitous payments have no application for any employee who separated from employment on or after September 2, 1974.

Severance and supplemental payments. In April, 1976, the Department of Labor announced that its regulations were being revised to expand the definition of severance and supplemental payments to retirees that will not be considered as pension plans covered by ERISA. The changes were made in response to negative reactions to the previous rules which were motivating employers to discontinue many severance and supplemental payments because they were subject to ERISA participation, vesting, funding, fiduciary responsibility, and reporting and disclosure standards.

With respect to supplemental payments not covered by ERISA, the Department indicated its intention to extend the cut-off date from September 2, 1974, to permit supplemental payments outside a pension plan for persons who retire before the end of 1976. The payments must come from the employer's general assets and not be part of an employee benefit plan.

Supplemental payments cannot be communicated to an employee before retirement. The payments cannot be granted for more than one year at a time and there must be no legal obligation to make the payments. All recipients must be informed of these conditions in writing.

The Department intended, at the time of the announcement, that the definition of severance pay not covered by ERISA would be expanded to include payments made upon separation from service which do not exceed two years final annual compensation, or extend for a period of more than 12 months beyond normal retirement or elected early retirement. The payments must come from the employer's general assets and be identified as severance pay rather than a pension.

No such revised regulations have been seen, and the status of these policies is dubious.

Unfunded excess benefit plans. The question of whether an excess benefit plan (as defined above) is funded involves a number of factors, the most important of which is whether employee(s) under the plan have preferred status. If benefits are guaranteed or if an employee has a direct interest in an annuity or insurance contract, the plan might be considered to be funded, and subject to ERISA.

Nevertheless, many unfunded excess benefit plans exist and serve the purpose for which they are intended, without regulation by ERISA, or by agencies administering ERISA. Such plans are used with or without contractual obligations. Typically, an employer agrees to pay out of current general assets the difference between a pension benefit from early or normal retirement (plus sometimes Social Security) and some stated level of benefit objective. The payments become taxable income to the retiree when he receives them.

Legal Aspects of Age Discrimination

The Age Discrimination in Employment Act of 1967

The Age Discrimination in Employment Act of 1967 (Public Law 90-202) prohibits virtually any form of discrimination because of age in hiring,

discharge, compensation, terms and conditions of employment, employment referral, or advertising. Coverage is explicitly limited to persons who are 40 to 65 years old. The Act applies to employers with 20 or more employees engaged in an industry affecting commerce, to employment agencies, and to labor organizations. The term "employers" includes state and local governments and governmental agencies. The Act is enforced by the Secretary of Labor, who can conduct investigations, issue rules and regulations in administration of the law, and bring legal proceedings when voluntary compliance cannot be obtained.

A case brought under the Age Discrimination in Employment Act usually alleges a discretionary pattern which, if accepted by the court, shifts the burden of proof to the defendant to justify the particular practice involved by demonstrating that it is not prejudicial. For example, in the case of Schulz v. Hickok, 358 F. Supp. 1208 (N.D.C. 1973), a 56-year-old district sales manager was one of seven such managers discharged by Hickok during an 18 month period. During this period the average age of all district sales managers declined from 53 to 40. Hickok contended that it was attempting to revitalize its management and that the sales manager was only an average producer. The court held that a prima facie case (one which can be overcome only by contrary evidence) had been established. The sales manager was awarded damages and reinstated. In Wilson v. Kraftco Corp., 501 F. 2d 84 (5th Cir 1974), the fact that a 62-year-old employee who was not incompetent had been replaced by one aged 50 was found sufficient to establish a prima facie case. The court found that a prima facie case is established when the plaintiff shows:

- membership within the protected class;
- involuntary retirement;
- apparently satisfactory job performance; and
- replacement by a younger person.

One appellate court recently held that an employee may recover even if only one among several factors in the decision to discharge was related to age discrimination (Laugeson v. Anaconda Co., 510 F. 2d 307, 6th Cir 1975). However, even more recently, a federal district court held that

age bias, unlike race or sex discrimination charges, requires that the complainant prove that age was the determining factor in the employer's action, not simply one of many factors considered. The employer had found it necessary to reduce his work force and therefore induced two foremen in their late fifties to retire early. The foremen claimed age discrimination and contended that the employer saved money by discharging them instead of younger workers since they earned higher pay and would be in line for higher pension benefits if they remained on the job and retired at an older age. The court observed that the Age Discrimination in Employment Act "was never intended to be a panacea for all older workers terminated or not offered employment by an employer." The court said, "Both the legislative history and the Department of Labor regulations tend to support the proposition that higher labor costs associated with the employment of older employees constitute 'reasonable factors other than age' that an employer can consider when faced with possible termination of an older employee" (Mastie, et al. v. Great Lakes Steel Corp., U.S.D.C.E. Mich., No. 38681, December 20, 1976).

It is clear that an employer cannot discharge an employee simply because of his age. Pursuant to a consent decree between the Department of Labor and the Standard Oil Company of California, a subsidiary of Standard Oil paid approximately $2,000,000 to 160 former employees who were discharged simply because of their age (U.S.D.L. 74-248, May 16, 1974). But an exception in the Act permits differentiation based on "reasonable factors other than age", as in the Mastie case above. William Hamblin suggests in a recent paper that an employer may be able to overcome an initial statistical demonstration suggesting discrimination if he is able to substantiate the existence and use of objective evaluative criteria and thereby qualify for this exception.[5] In educational institutions, as in other organizations, higher salaries are generally paid to older, more experienced, persons. However, it would seem prudent not to rely solely on the proposition that higher labor costs constitute reasonable factors other than age; objective evaluative criteria should be utilized. But, as a further caveat, Hamblin cautions that "if an educational institution should suddenly tighten up its standards, and it can be shown that one important factor was financial (as related to years of service), then a faculty member who is being dismissed

and who is within the age range covered by the act may be able to successfully allege a violation constituting age discrimination."[6]

A more reliable, though still risky, exception to the Age Discrimination in Employment Act provides for differentiation in order to observe the terms of a bona-fide seniority system or benefit plan. An interpretive regulation of the Department of Labor seems to authorize involuntary early retirement irrespective of age if the retirement is pursuant to an acceptable overall plan. Many courts have found involuntary retirement programs unacceptable for other reasons. But in 1976 the federal district court for Hawaii took the position that the Hawaiian Telephone Company could force employees to retire early because the possibility of such action was part of the terms of a bona-fide retirement plan and because the plan would provide involuntary retirees with "substantial benefits." The court cited the exception in the Act which provides that it shall not be unlawful for an employer to observe the terms of any bona-fide employee benefit plan which is not a subterfuge to evade the purposes of the law. The court rejected the telephone company's reliance upon Brennan v. Taft Broadcasting Co., 500 F. 2d. 212, a 1974 decision in which the Fifth Circuit Court of Appeals has held that any bona-fide plan in effect prior to the Age Discrimination in Employment Act was automatically not a "subterfuge." The District Court for Hawaii said all bona-fide plans in effect prior to the Act were not automatically "grandfathered." A court must still look to see whether a plan, as applied, does discriminate. The court decided that the word "subterfuge" as used in the Act is applicable only if the employer "uses a retirement plan as a subterfuge to retire an employee without the payment of substantial benefits." The court concluded that the $120,000 received by the eight retirees in the short time between retirement and the court action constituted substantial benefits (Dunlop v. Hawaiian Telephone Co., 415 F. Supp. 380, U.S.D.C., Hawaii, No. 75-293 June 23, 1976).

New York City's plan to avoid discharging younger workers by compelling older workers to retire before the normal retirement age of 65 was ruled unlawful by the Labor Department, even though the workers' retirement income would have equalled their job pay (U.S. Labor Dept. Asst. Regional Director's letter to Mayor of New York, December 13, 1974). While an employer can require an employee to retire before age 65 in accordance with a bona-fide retirement

plan, the employer cannot require an employee who is not covered by the plan to retire before age 65 (Brennan v. Taft Broadcasting Co.).

One employer proposed to change his pension plan to permit involuntary retirement at the discretion of management. The Labor Department said it would "have reservations about the bona-fides of a plan that does not by its provisions spell out its conditions and limitations and instead is governed by an undefined policy entirely within the discretion of the employer." In such a case the actual operation of the plan would have to be examined to see if the law is being violated (Wage-Hour Div., Sp. Op., Wlt-289, October 10, 1974).

It is quite obvious from the cases briefly described above that the courts and agencies have interpreted these two exceptions to the Age Discrimination in Employment Act in very diverse and very narrow terms. Reliance upon any one case as justification for a particular involuntary retirement plan is risky. It will nevertheless be possible to provide imaginative benefit programs which will encourage employees to retire early voluntarily.

Constitutional guarantees

In addition to the Age Discrimination in Employment Act, some protection against involuntary retirement has been afforded by the courts through application of the "due process" and "equal protection" clauses of the Fourteenth Amendment and the "due process" clause of the Fifth Amendment to the Constitution. The Fourteenth Amendment limits the power of a state to restrict or deny certain individual rights:

> No state shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws.

In order to invoke these guarantees, the complainant must show that some state (governmental) action is involved. Obviously, faculty members of state educational institutions could show state action. Faculty members at private educational institutions would need to show some public service

such as performance of studies under government grants, or the provision of certain training which the state might otherwise be required to provide, in order to assert a cause of action under the Amendments. In the 1974 case of Roberts v. Catholic University of America, the United States District Court for the District of Columbia found a professor who was forced to retire at 65, under a plan in which he was a participant, unable to maintain an action for breach of contract against the employer university, in part because there was insufficient Federal Government involvement in the operation of the university to provide the employee professor with the basis to claim rights provided by the Constitution. The court relied upon an earlier ruling holding that there must be an influence on policy or decision making, rather than financial or tax aid, to amount to governmental involvement.

Most of the cases stressing a due process argument are based on the alleged unconstitutionality of an "irrebuttable presumption" that employees are incapable of working productively beyond a certain mandatory retirement age. There is some support for the thesis that age discrimination in employment involves a "fundamental" right. But the Supreme Court has thus far avoided consideration of the substantive issues involved in mandatory retirement laws and provisions.

Equal protection arguments relating to age discrimination may be heard if the particular court involved decides that age should be designated as a "suspect class." This term has been used to describe classifications such as race and national origin which are considered inherently suspect for discriminatory purposes. The Supreme Court has indicated the term to involve "an immutable characteristic determined solely by the accident of birth" which "frequently bears no relationship to ability to perform or contribute to society" and age distinctions may "have the effect of invidiously relegating the entire class . . . to inferior legal status without regard to the actual capabilities of its individual members" (Frontiero v. Richardson, 93 S. Ct 1964, 1973).

If the Court designates age as a "suspect class," it will apply a "strict scrutiny" test of the challenged law or regulation in the case to determine whether there has been a violation of the equal protection clause. The legislative or regulatory matter under scrutiny would have to withstand a "compelling state interest" characteristic (e.g., involving public health

or safety as opposed to economic or administrative considerations) in order to be sustained. If the Court does not designate age as "suspect," the test of discrimination reverts to examination of whether the law or regulation has a "rational basis." The "rational basis" test essentially means that the court notes whether the purposes of the legislative or regulatory matter are legitimate and whether the means to achieve its purpose are reasonably related to the ends being sought.

In mid-1976, the Supreme Court upheld the validity of a Massachusetts statute requiring retirement of uniformed state police officers at age 50 and stated that the statute does not violate the equal protection clause of the Constitution. The Court found no need to subject the statute to strict scrutiny because the class (uniformed state police officers over 50) neither has a fundamental right to public employment nor operates to the disadvantage of a suspect class. The Court said:

> ...while the treatment of the aged in this Nation has not been wholly free of discrimination, such persons, unlike say, those who have been discriminated against on the basis of race or national origin, have not experienced a history of purposeful unequal treatment or been subjected to unique disabilities on the basis of stereotyped characteristics not indicative of their abilities.

The Court applied the "rational basis" and found the statute rationally related to Massachusetts' objective of protecting the public by assuring the physical preparedness of its state police force (Massachusetts Board of Retirement et al. v. Murgia, S. Ct. No. 74-1044, June 25, 1976).

Interestingly enough, and closer to the instant study, in early 1976 the Hawaiian Supreme Court found the University of Hawaii retirement policy unconstitutional when subjected to a "strict scrutiny" test. A college professor was hired by a branch of the university when he was 55, obtained tenure after three years, and upon reaching age 65 in 1972 was denied continued employment. The retirement policy adopted by the Board of Regents permits a person over 65 to continue appointment on the faculty if "it is demonstrated that his services are needed by the university and that he is more competent for the position than any other person available." Such appointment is renewable annually but not beyond age 70. The professor was recommended by his department colleagues for continued employment

after they screened 45 applicants and found the professor more competent. But the chancellor denied the reappointment on the basis that a replacement was available. The professor sued and the district court found that although age ceilings for retirement are not prohibited per se under equal protection analysis, the mandatory retirement policy in question could not withstand strict judicial scrutiny in light of the "fundamental right to public employment." The court noted the similarity to the Massachusetts Board of Retirement v. Murgia case, which was then pending Supreme Court review, but found the professor's case easier to decide since the Hawaiian legislature (in the context of employment) had declared age to be an inherently invidious classification (a suspect class) along with race, sex, color, ancestry, physical handicap, marital status, or arrest or court record. The court rejected the university's arguments that the reappointment procedure is a proper means of preserving the state's funds by paying lower salaries to younger, less experienced, persons, or that it is a means of building morale among the younger faculty members. The court said the "inevitable relationship" between age and the ability to perform work did not justify the university's action (Nelson v. Miwa, et al., Hawaii, No. 5560, February 24, 1976).

Conclusion

Although the emphasis in this brief discussion of the due process and equal protection arguments has been on mandatory retirement legislation and regulation, whereas the instant study is concerned with discretionary early retirement and perhaps involuntary early retirement, the state of the common law is not confined to any fact situation. In some cases the rigidity of statutes is under attack by complainants; in other cases the discretionary authority of administrators is in question. Little more can be said than that educational institutions must exercise extreme care in inducing early retirement of faculty members and the institutions should obtain whatever assurances and security can be obtained so that early retirement actions do not generate litigants.

FOOTNOTES

1. ERISA Sec. 3(2).

2. The term "commerce" means trade traffic, commerce, transportation, ERISA Sec. 3(11) or communication between any state and any place outside the state.

3. A plan is funded if funds have been placed in trust or otherwise put beyond the reach of the employer in order to assure that the means to pay accrued benefits will be available. A plan is unfunded if no funds are put aside to pay obligations made to prospective beneficiaries and it is understood that payments to be made will be funded at the time of the payments.

4. Regulation 29 CFR Section 2510.3-2(e), (Federal Register for August 15, 1975, Vol. 40, No. 159).

5. William H. Hamblin, "Mandatory Retirement and Dismissal in Institutions of Higher Education--Legal Considerations Related to Age Discrimination," mimeographed (Los Angeles: University of Southern California, Office of Institutional Studies, 1976) p. 6.

6. William Hamblin, p. 9.

8. FISCAL IMPLICATIONS OF EARLY RETIREMENT ALTERNATIVES

When the academic institutions we have studied first discussed and considered adopting incentive early retirement plans, some of them overestimated their expected savings. Their overestimations derived from several misapprehensions. These included (1) underestimating the supplemental payment that would have to be made, either by omitting necessary components or by simply miscalculating it, (2) assuming that an employee who would be retired early would not need to be replaced, but later finding that the position would have to be refilled, (3) underestimating the salary that would have to be paid a replacement employee, and (4) failing to include the cost of recruiting the new employee in the cost estimation.

An institution seriously considering an incentive early retirement scheme must carry out a set of computations with data for its faculty at the same time it is defining the components of its early retirement option. In this way, the costs and benefits of various options can be seen and can be used by the institution in making a number of key decisions. For example, the institution must decide how large a supplement is required to encourage an employee to retire early--that is, must 100% of salary be paid the employee, or will 75% encourage him or her to retire early? What will this cost? The institution must also decide whether cost-of-living adjustments must be provided. What will they cost? Will the supplement be geared to the particular employee's salary, or might the supplement be related to the median salary of one's age and service cohort? These factors must be seriously considered by the institution while it is devising an alternative.

An institution must not assume that since an alternative worked for another college or university that it will work for it. Furthermore, an institution must not use cost figures produced for another institution. The costs and benefits for a particular institution depend upon the salary being paid the potential early retiree, upon either the number of years service credit (for persons in defined benefit plans) or the amount of funds accumulated in the potential early retiree's pension account (for persons in defined contribution plans), upon expected salary increases, etc.

Illustration of Cost Calculations

In order to illustrate the factors an institution should consider in examining the fiscal implications of an early retirement scheme, we have produced a set of cost calculations for several possible early retirement options, using data drawn from one of our case institutions. These examples illustrate the case where a supplemental payment and/or the price of a supplemental annuity is paid over a several-year period. A lump-sum payment, if made from general revenues during one year, would be financed in a different manner.

We will show several of the options discussed in Chapter 1, summarized as follows. Option 1--Full-Salary Annuity. A person who retires early begins to draw his regular early retirement annuity and also is paid the difference between his early annuity and his former salary. Further, the institution purchases a supplemental annuity to go into effect at the mandatory retirement age--thus assuring the early retiree an income at that time equal to his projected mandatory age annuity, assuming a 2% per year real salary increase. This is Alternative 1 in Chapter 1.

Option 2--Individual-Based Annuity. The supplement to the regular early retirement annuity, both before and after the mandatory retirement age, is related to the retiree's projected mandatory retirement benefits. The supplement is designed to provide him a total retirement annuity equal to the annuity he would have received had he remained employed until the mandatory retirement age and had he received a 2% per year real salary increase. This is Alternative 3 in Chapter 1.

Option 3--Group-Based Annuity. With this option, the supplement is equal to the difference between the retiree's own early retirement annuity and the median mandatory age annuity for his age and service group, assuming a 2% per year real salary increase for each person. This is Alternative 4 in Chapter 1.

Option 4--Individual-Based Annuity with Partial Employment. In this case the early retiree is provided a part-time position until he reaches the mandatory retirement age, at which time a supplemental annuity purchased by the institution begins to take effect. The amount of part-time compensation is either 49% of the retiree's former salary or

the difference between the retiree's projected mandatory age annuity and his early retirement annuity--whichever is lower. The supplemental annuity which takes effect at the mandatory age is designed so that, together with the retiree's early retirement annuity, it will equal his projected mandatory age annuity, again assuming a 2% per year real salary increase. This is Alternative 5 in Chapter 1.

Options 5 and 6--Continued Annuity Payments. These are two options where the early retiree defers all of his retirement benefits until the mandatory retirement age. Between the time he retires early and the time he reaches the mandatory retirement age, the institution either continues payments to his annuity fund or purchases him a supplemental annuity. Thus, at the mandatory retirement age, his total annuity is equal to what he would have received had he remained working and had he received a 2% per year real salary increase. However, between the time he retires early and the time he reaches the mandatory age, he receives no benefits at all. These two options are variations on Alternative 7 in Chapter 1.

In order to estimate the costs and benefits of the early retirement alternative, both mandatory age annuity benefits and early retirement annuity benefits were calculated for the potential retirees. For each age-service cohort the present mean salary was converted to an expected salary at age 67 by increasing it by 2% per year (assuming that 2% represents the average annual real salary increase)[1] from now until that age-service cohort reaches age 67. The single life annuity (SLA) that would be received if the employee retired at age 67 is calculated from the benefits schedule of one of our case institutions, as is the SLA that would be received if the employee retired at present.

Also calculated is the difference between the annuity received by the early retiree and that which he would have received had he delayed retirement until age 67. That figure is the Supplemental SLA (SSLA) required to bring an early retiree's pension up to the level of that received by a person who waits to retire at age 67. The total value of the SSLA is determined from the actuarial table. The present value of the SSLA is found by discounting at 6%. Since it is desirable to

purchase the supplemental annuity on a level basis (the same dollar payment during each year until the employee reaches age 67), the level annual cost of the SSLA is calculated by dividing the present value of the SSLA by its annuity value (a factor related to the time period during which the annuity will be purchased).

To calculate the costs of the group-based early annuity, each age-service cohort is divided into three subgroups representing the high-third, middle-third, and low-third wage earners. Then the value of the SSLA for members of each subgroup is calculated but is based upon the median salary for the entire age-service cohort.

The results of these calculations provide the basis for the cost analysis. For each alternative we determined: (1) the yearly supplement required to meet the salary objectives of the alternative, (2) the total cost per year required to retire an average employee, (3) the balance of the retired employee's salary line freed for hiring a new employee, (4) the salary for a full-time equivalent (FTE) assistant professorship that the freed salary line will finance until the year the early retiree reaches age 67, and (5) the annual income of the early retiree until age 67, when he begins to draw the single life annuity he would have received had he retired at that age.

Notes about the calculations

In deciding how to perform this cost analysis we made a number of decisions about which the reader should be informed. We made several decisions about how the computations would be carried out, the discount rate to be used, the minimum age at which one could elect early retirements etc. We believe these choices were appropriate and made the computations easier to understand. Further, we carried out a sensitivity analysis by varying some of these decisions, and while the amount of funds released and the number of persons replaced under each scheme varied, the alternatives still retained their relative rankings. An important thing to recognize, however, is that if an institution were to assume no cost-of-living adjustments nor salary increases when calculating expected mandatory age annuities, the amount of funds released under each alternative could be made to increase. While boosting this indicator, such a move undoubtedly will reduce the number of persons electing to retire early.

In each example we assume age 67 as the mandatory or normal retirement age. Other ages could be used, but age 67 approximates the average age at which university employees are forced to retire. (Calculating the average age of retirement or the average mandatory retirement age is impossible because of the lack of comprehensive data and because of retirement age definition problems.)

For each option we describe the impact upon employees retiring at age 62 (the lowest age at which Social Security benefits may be received), age 60, age 55 and age 50. We illustrate differences caused by varying the years of service credit from 17 to 32 years for the oldest age group and from 10 to 20 years for the youngest age group. When we illustrate the group-based annuity, we calculate the supplemental pension for persons in the high-third, middle-third, and low-third salary groups. In this case we depict the impact upon fewer service credit groups in order to keep the illustration of the option reasonable.

In a previous analysis we found that it was expensive to retire an employee less than 55 years of age or with less than 10 years of service credit.[2] Further, in most retirement systems, 55 is the earliest permissible retirement age. However, for illustration, we consider employees 50 years of age and above having at least 10 years of service credit. Practice suggests that persons who have been employed for less than 10 years are not eligible for supplemental early retirement benefits. In addition, there would probably be few among them whom a university would want to retire early. It is unlikely that academic employees hired during the last 10 years and approximately 45 years of age when hired were recruited into declining fields or are now "deadwood." Retiring a person who is younger or who has fewer years of service credit does not free sufficient funds to hire a replacement employee, if the early retiree is provided supplemental benefits. However, in other age and service cohorts the retirement of an employee would free sufficient funds to hire a replacement faculty member and even have additional funds remain. For example, a 62-year-old faculty member with 17 years of service could be retired via an individual-based early annuity and thus free sufficient funds for the hiring of a young faculty member. This is not to suggest that policy should be directed toward retiring these particular employees.

While this may seem desirable from a cost perspective, these employees may not be the ones best suited, from both the individual's and institution's point of view, for early retirement.

When the early retirement benefits were calculated, they were based upon the assumption that all persons would retire at age 67. However, some persons plan to retire before age 67. If increased benefits were provided for early retirement, it would be impossible to base one's benefits upon the planned age of retirement, for persons planning to retire early would reduce the level of their benefits if they admited they were planning to retire before age 67. Thus age 67 was used in all benefits calculations as the actual planned retirement age.

Cost calculations are based upon faculty mean salary, age, and service credit data from one of our case institutions The calculations are based upon the current actuarial tables[3] and benefit formulas in use at that institution. Calculations are performed in present value terms, using a discount rate of 6%.[4] For ease of computation and illustration, this analysis is performed for male faculty members only. (Calculations for females would be done using the actuarial tables that recognize the longer average life expectancy of females.)

When an employee retires early, his early retirement benefit is the acturarial equivalent of the normal retirement benefit. That is the actuarial tables reflect an adjustment made in the accrued pension to reflect the fact that the retirement pension must be paid over a longer period and would be based upon a lower level of contributions. When early retirement benefits are added to the normal retirement pension, their cost must be either absorbed by increased contributions via a revision in the actuarial table, or paid for through funds budgeted by the organization. The second approach was used here because it is an alternative that is immediately available to an institution and does not affect the contribution rates of other employees.

This cost analysis assumed that the replacement employees would be young assistant professors. In reality this might not be the case. The new faculty member might be a full professor, if he were needed to fill a critical position. On the other hand, a university might decide not to hire only young replacements because in doing so the age structure of the

university could be thrown out of balance in future years when these younger persons begin to move into older age categories. Hiring all young assistant professors may be an overreaction to the present state of having what some feel to be an oversupply of older faculty members. To correct the present age structure new faculty members might be hired into several of the younger age groups. Perhaps the bulk of new appointments would be made at ages 30-34, but new appointments might be made in the 40-49 age groups as well. This could tend to stabilize the number of persons entering the retirement ages from year to year. In the long run, such a hiring policy would result in more even numbers of new appointments being made from year to year.

The beginning salary for a new assistant professor is assumed to be $15,000 per year with an annual 4% increase. This salary level assumes that primarily new graduates will be hired. An assistant professor could be hired at a lower initial annual salary and then be given a greater annual increase.

Since it is next to impossible to predict what future inflation rates might be, inflation has been excluded from the calculations of the retiree's projected salary at age 67. The calculations are carried out in real dollar terms, and the two percent increase assumed for each year between the early retirement and mandatory retirement ages represents a real increase in income. In some cases, this assumed real increase may be too high; real increases for some older faculty members may be less than one percent or may even be negative percentage changes. To find early retirement acceptable financially, the early retiree may have to be assured of at least some protection against inflation. Although inflation has been excluded from our calculations of projected salary at age 67 (on which the early retirement pension and supplement are based), it has not been ignored entirely. We assume that the early retiree will receive cost-of-living adjustments on his pension and supplement during the early retirement period equal to the inflation rate that would have been assigned to his budget line were he to remain employed. This is a reasonable assumption since it is this budget line that is being used to finance both the early retiree's supplement and his replacement's salary during the early retirement period. Presumably, the replacement's salary also would be adjusted according to the same rate. After the early retiree reaches the mandatory

retirement age, however, his annuity would be adjusted only at the rate in effect for all members of his respective retirement system--if in fact annuitants are provided cost-of-living adjustments.

With all the options, the early retiree might suffer a reduction in eventual Social Security income unless he reemploys. This reduction could be substantial were the person to retire a decade early. The calculations for the continued annuity payments option assume that a person electing this option would move to other employment and thus continue to pay into Social Security. The calculations therefore do not assume continued contributions to Social Security by the institution. Were Social Security payments to be included, the cost to the institution would be increased by 5% to 6% per employee. If the institution were to ; both the employer and the employee contribution, the cost would be 11.7% per employee on the employee's first $15,300 of earnings, or about 5% to 6% of the employee's salary.

Results of the calculations

Full calculations for each option appear in Tables 8.1 through 8.6. Each table is based upon actual age, salary and service credit data from one of our case institutions. All tables are read in a similar manner. For example, in Table 8.1, Full-Salary Annuity, the present age, years of service credit and mean salary for each age-service cohort are given values. Placing these data into a benefits formula yields the single life annuity to which an average-salaried employee in each age-service cohort would be entitled if he retired early (see Column 4). In order to determine the single life annuity that the average-salaried employee would receive if he retired at the mandatory age, we need an estimate of his expected salary at age 67. This figure, found in Column 5, is produced by increasing the current mean salary by 2% per year until age 67. In Column 6, the single life annuity that he would receive at age 67 is reported, the figure being calculated from the benefits formula, assuming the employee had reached age 67, had received the expected salary increases, and had achieved an amount of service credit equal to that achieved by early retirement plus the number of years from early retirement to mandatory retirement.

In Column 7 the difference between the mandatory age annuity and the early annuity is reported. This is the supplemental annuity required at age 67. Since the supplement is being purchased before the

Table 8.1

FULL-SALARY ANNUITY

1 Current Age	2 Years Service Credit Now	3 Present Mean Salary for Age-Service Cohort	4 Single Life Annuity (SLA) Now	5 Expected Salary at 67, 2%/Yr. Real Increase	6 Single Life Annuity at 67	7 Supp. SLA Req'd. at 67 (SSLA) [6-4]	8 Value of SSLA at 67 [7x9.384]	9 Present Value of SSLA at 6% Discount	10 Level Annual Cost of SSLA [9÷Annuity Value]
								(.7473)	(4.4651)
62	32	$32,500	$22,880	$35,750	$28,600	$5,720	$53,676	$40,112	$8,983
62	27	30,400	18,058	33,440	24,612	6,554	61,501	45,960	10,293
62	22	29,500	14,181	32,450	20,152	5,970	56,027	41,869	9,377
62	17	33,500	12,529	36,850	18,646	6,117	57,402	42,897	9,607
								(.6651)	(5.9173)
60	30	30,200	18,120	34,730	27,784	9,664	90,687	60,315	10,193
60	25	28,600	14,300	32,890	24,207	9,907	92,967	61,832	10,449
60	20	26,700	10,680	30,705	19,067	8,387	78,704	52,346	8,846
60	15	26,400	7,920	30,360	15,362	7,442	69,836	46,448	7,850
								(.4970)	(8.8869)
55	25	29,100	10,193	36,957	29,566	19,373	181,796	90,353	10,167
55	20	29,000	8,700	36,830	27,107	18,407	172,731	85,847	9,660
55	15	25,600	5,760	32,512	20,190	14,430	135,411	67,299	7,573
55	10	25,000	3,750	31,750	16,066	12,316	115,573	57,440	6,463
								(.3713)	(11.1060)
50	20	29,200	5,840	40,880	32,704	26,864	252,092	93,602	8,428
50	15	26,400	3,960	36,960	27,202	23,242	218,103	80,982	7,292
50	10	25,000	2,500	35,000	21,735	19,235	180,501	67,020	6,035

Table 8.1 -- Continued

FULL-SALARY ANNUITY

11 Supplement Req'd. to Match Present Salary [3-4]	12 Annual Total Req'd. to Retire Employee [10+11]	13 Balance of Budget Line Released [3-12]	14 FTE Asst. Prof. at $15,000 Per ER for Duration	15 Annual Incentive ER (IER) Income (Total) [3]	16 IER as % of Current Salary [15:3]	17 IER as % of Regular ER Annuity [15÷4]	18 IER as % of Mandatory R Annuity [15÷6]
9,620	18,603	13,897	.93	32,500	100	142	114
12,342	21,326	9,074	.60	30,400	100	168	124
15,319	24,696	4,804	.32	29,500	100	208	146
20,971	30,038	3,462	.23	33,500	100	267	180
12,080	22,273	7,927	.53	30,200	100	167	108
14,300	24,749	3,851	.26	28,600	100	200	118
16,020	24,866	1,834	.12	26,700	100	250	140
18,480	26,330	70	.01	26,400	100	333	172
18,907	29,074	26	<.01	29,100	100	285	98
20,300	29,960	-960	*	29,000	100	333	107
19,840	27,413	-1,813	*	25,600	100	444	127
21,250	27,713	-2,713	*	25,000	100	667	156
23,360	31,788	-2,588	*	29,200	100	500	89
22,440	29,732	-3,332	*	26,400	100	667	97
22,500	28,535	-3,535	*	25,000	100	1000	115

*Negative Value

mandatory retirement age, its present value at age 67 must be determined. First, the supplement is multiplied by a factor (9.384) which produces (in Column 8) the value of the supplement at the mandatory retirement age. (The "value" of the supplement is the total amount of supplemental payments expected to be received by the employee from the time he reaches the mandatory retirement age until his death, which the actuarial tables assume to be 9.384 years later on the average.) Next, the values in Column 8 are discounted at 6% per year for the period from now until the employee reaches the mandatory retirement age. (For example, a dollar to be received five years from now, assuming a 6% discount rate, would be worth $.7473 today. One to be received seven years from now would be worth $.6651.) The present value of the supplemental annuity at age 67 is reported in Column 9.

It is assumed that the supplemental annuity will be purchased with funds from the retiring employee's salary line, and that it would be convenient to pay for the annuity in equal annual payments. Thus in Column 10 the level annual cost of the supplement is computed, assuming the supplemental annuity will be purchased through equal payments from early retirement to mandatory retirement. This figure is found by dividing the present value of the supplemental annuity at age 67 by the annuity value. (The "annuity value" describes the present worth of one dollar per year, from now until the early retiree's mandatory retirement age. For example, one dollar each year for the next five years discounted at 6% would equal $4.4651 today.)

Columns 1 through 10 provide, then, the basic data needed to determine the impact of the option. In Columns 11 through 18 the annual amounts needed to retire the employee are computed, and the amount of funds released per early retiree are reported. Also, the incentive early retirement annuity is expressed as a percentage of current salary, as a percentage of the early retiree's annuity, and as a percentage of his mandatory age annuity. (The "incentive early retirement annuity" is total annual income from the employee's regular early retirement and his early retirement supplement.)

The key columns to examine are: Column 12, the annual total amount required to retire the average-salaried employee; Column 13, the amount of funds released per early retirement for the mean salary in a given age and service cohort; Column 14, the proportion of an assistant professor that could be supported per early retiree; Column 16, the early retirement income as a percentage of current salary; Column 17, the early retirement income as a percentage of the regular early retirement annuity; and Column 18, the early retirement income as a percentage of the mandatory age annuity. Columns 12, 13 and 14 are of central concern to the institution; Columns 16, 17 and 18 are of central concern to the potential early retiree.

Table 8.2, Individual-Based Annuity, shows an option designed to provide an early retirement pension equal to the pension the early retiree would have received had he remained employed until the mandatory age and had he received salary increases equal to 2% per year. The early retiree draws his regular early retirement annuity, and the institution provides him the difference between that reduced annuity and the mandatory age annuity through a payment from his old salary line. In addition, the institution purchases a supplemental annuity from his old salary line to go into effect at age 67. The balance of the early retiree's salary line is available from early retirement to the mandatory retirement age, at which time the whole salary line becomes available. This balance could be used to hire a replacement employee.

The table shows both the annuity the employee would receive if he retired today without a supplement (in Column 4) and the expected annuity at age 67 (in Column 6). The supplement is shown in Column 7, and the present value of the supplement at age 67 is shown in Column 9. Columns 13 and 14 show the level of funds released and the proportion of an assistant professor's salary which could thus be financed for each early retirement at the various age and service levels. Of most interest to the potential early retiree are Columns 16, 17 and 18, which compare the incentive early retirement income with the retiree's current salary, his regular early retirement annuity, and his expected mandatory age annuity.

Table 8.3, Group-Based Annuity, as mentioned earlier, depicts the option where the supplement paid an early retiree is based not on his own projected benefits, but upon the median projected benefits of his age

Table 8.2

INDIVIDUAL-BASED ANNUITY

1 Current Age.	2 Years Service Credit Now	3 Present Mean Salary for Age-Service Cohort	4 Single Life Annuity (SLA) Now	5 Expected Salary at 67, 2%/Yr. Real Increase	6 Single Life Annuity at 67	7 Supp. SLA Req'd. at 67 (SSLA) [6-4]	8 Value of SSLA at 67 [7x9.384]	9 Present Value of SSLA at 6% Discount	10 Level Annual Cost of SSLA [9÷Annuity Value]
								(.7473)	(4.4651)
62	32	$32,500	$22,880	$35,750	$28,600	$5,720	$53,676	$40,112	$8,984
62	27	30,400	18,058	33,440	24,612	6,554	61,501	45,960	10,293
62	22	29,500	14,181	32,450	20,152	5,970	56,027	41,869	9,377
62	17	33,500	12,529	36,850	18,646	6,117	57,402	42,897	9,607
								(.6651)	(5.9173)
60	30	30,200	18,120	34,730	27,784	9,664	90,687	60,315	10,193
60	25	28,600	14,300	32,890	24,207	9,907	92,987	61,832	10,449
60	20	26,700	10,680	30,705	19,067	8,387	78,704	52,346	8,846
60	15	26,400	7,920	30,360	15,362	7,442	69,836	46,448	7,850
								(.4970)	(8.8869)
55	25	29,100	10,193	36,957	29,566	19,373	181,796	90,353	10,167
55	20	29,000	8,700	36,830	27,107	18,407	172,731	85,847	9,660
55	15	25,600	5,760	32,512	20,190	14,430	135,411	67,299	7,573
55	10	25,000	3,750	31,750	16,066	12,316	115,573	57,440	6,463
								(.3713)	(11.1060)
50	20	29,200	5,840	40,880	32,704	26,864	252,092	93,602	8,428
50	15	26,400	3,960	36,960	27,202	23,242	218,103	80,982	7,292
50	10	25,000	2,500	35,000	21,735	19,235	180,501	67,020	6,035

Table 8.2 -- Continued

INDIVIDUAL-BASED ANNUITY

11 Additional Compensation (Age 67 Annuity Minus SLA Now) [6-4]	12 Total Req'd. to Retire Employee [10+11]	13 Balance of Budget Line Released [3-12]	14 FTE Asst. Prof. at $15,000 Per ER for Duration	15 Annual Incentive ER (IER) Income (total) [4+11]	16 IER as % of Current Salary [15÷3]	17 IER as % of Regular ER Annuity [15÷4]	18 IER as % of Mandatory R Annuity [15÷6]
$5,720	$14,704	$17,796	1.19	$28,600	88	125	100
6,554	16,847	13,553	.90	24,612	81	136	100
5,970	15,347	14,153	.94	20,152	68	142	100
6,117	15,724	17,776	1.18	18,646	55	149	100
9,664	19,857	10,343	.69	27,784	92	153	100
9,907	20,356	8,224	.55	24,207	85	169	100
8,387	17,233	9,467	.63	19,067	71	179	100
7,442	15,292	11,108	.74	15,362	58	194	100
19,373	29,540	-440	*	29,566	102	290	100
18,407	28,067	933	.06	27,107	93	312	100
14,430	22,003	3,597	.24	20,190	79	351	100
12,316	18,779	6,221	.42	16,066	64	428	100
26,864	35,292	-6,092	*	32,704	112	560	100
23,242	30,534	-4,134	*	27,202	103	687	100
19,235	25,270	-270	*	21,735	87	870	100

* ve Value

Table 8.3

GROUP-BASED ANNUITY

1 Current Age	2 Salary Group	3 Years Service Credit Now	4 Present Median Salary	5 Own Single Life Annuity (SLA) Now	6 Own Salary at 67, 2%/Yr. Real Increase	7 Own Single Life Annuity at 67	8 Supp. SLA Req'd. at 67 (SSLA) (7 Median - 5)	9 Value of SSLA at 67 (8x9.384)	10 Present Value of SSLA at 6% Discount	11 Level Annual Cost of SSLA (10÷Annuity Value)
									(.7473)	(4.4651)
62	H[a]	32	$38,500	$27,104	$42,350	$33,880	$-1,134	0	0	0
62	M	32	29,500	20,768	32,450	25,960	5,192	$48,722	$36,410	$8,154
62	L	32	26,500	18,656	29,150	23,320	7,304	68,541	51,221	11,471
62	H	27	33,500	19,899	36,850	27,121	3,984	37,386	27,939	6,257
62	M	27	29,500	17,523	32,450	23,883	6,360	59,682	44,600	9,989
62	L	27	26,500	15,741	29,150	21,454	8,142	76,405	57,097	12,787
62	H	22	32,000	15,488	35,200	21,259	4,664	43,767	32,707	7,325
62	M	22	29,500	14,278	32,450	20,152	5,874	55,122	41,193	9,226
62	L	22	26,000	12,584	28,600	17,761	7,568	71,018	53,072	11,886
62	H	17	38,500	14,399	42,350	21,429	4,247	39,854	29,783	6,670
62	M	17	33,500	12,529	36,850	18,646	6,117	57,402	42,897	9,607
62	L	17	23,500	8,789	25,850	13,080	9,857	92,498	69,124	15,481
									(.6651)	(5.9173)
60	H	30	34,000	20,400	39,100	31,280	3,980	37,348	24,841	4.158
60	M	30	26,500	15,900	30,475	24,380	8,480	79,570	52,926	8,944
60	L	30	24,500	14,700	28,175	22,540	9,680	90,837	60,416	10,210
60	H	25	32,500	16,250	37,375	27,508	8,126	76,254	50,717	8,571
60	M	25	28,800	14,400	33,120	24,376	9,976	93,614	62,263	10,522
60	L	25	25,400	12,700	29,210	21,499	11,676	109,568	72,874	12,315
60	H	20	35,200	14,080	40,480	25,138	5,916	55,516	36,924	6,240
60	M	20	28,000	11,200	32,200	19,996	8,796	82,542	54,899	9,278
60	L	20	22,500	9,000	25,875	16,068	10,996	103,187	68,630	11,598
									(.4970)	(8.8869)
55	H	20	38,400	11,520	48,768	35,893	14,185	133,112	66,157	7,444
55	M	20	27,500	8,250	34,925	25,705	17,455	163,798	81,408	9,160
55	L	20	21,500	6,450	27,305	20,096	19,255	180,689	89,802	10,105
									..3713)	(11.1060)
50	H	20	37,300	7,460	52,220	41,776	26,476	248,451	92,250	8,306
50	M	20	30,300	6,060	42,420	33,937	27,876	261,588	97,128	8,746
50	L	20	20,300	4,060	28,420	22,736	29,878	280,356	104,096	9,373

[a] H = high-third, M = mid-third, L = low-third salary group

Table 8.3 -- Continued

GROUP-BASED EARLY ANNUITY

12 Additional Compensation (Age 67 Median SLA Minus SLA Now)	13 Total Req'd. to Retire Employee [11+12]	14 Balance of Budget Line Released [4-13]	15 FTE Asst. Prof. at $15,000 Per ER for Duration	16 Annual Incentive ER (IER) Income (Total) [7 Median]	17 IER as % of Current Salary [16:4]	18 IER as % of Regular ER Annuity [16:5]	19 IER as % of Mandatory R Annuity [16:7]
$-1,134	0	$38,500	2.57	$27,104[a]	70	100	80
5,192	$13,346	16,154	1.09	25,960	88	125	100
7,304	18,775	7,725	.52	25,960	98	139	111
3,984	10,241	23,259	1.55	23,783	71	120	88
6,360	16,349	13,151	.88	23,883	81	136	100
8,142	20,929	5,571	.37	23,883	90	152	111
4,664	11,989	20,011	1.33	20,152	63	130	92
5,874	15,100	14,400	.96	20,152	68	141	100
7,568	19,451	6,546	.44	20,152	78	160	113
4,247	10,917	27,583	1.84	18,646	48	129	87
6,117	15,724	17,776	1.19	18,646	58	149	100
9,857	25,338	-1,838	*	18,646	79	212	143
3,980	8,178	25,822	1.72	24,380	72	120	78
8,480	17,424	9,076	.61	24,380	92	153	100
9,680	19,890	4,610	.31	24,380	99	166	108
8,126	16,697	15,803	1.05	24,376	75	150	89
9,976	20,498	8,302	.55	24,376	85	169	100
11,676	23,991	1,409	.09	24,376	96	192	113
5,916	12,156	23,044	1.54	19,996	57	142	80
8,796	18,074	9,926	.66	19,996	71	179	100
10,996	22,594	-94	*	19,996	89	222	124
14,185	21,629	16,771	1.12	25,705	67	223	72
17,455	26,615	885	.06	25,705	93	312	100
19,255	29,360	-7,860	*	25,705	120	399	130
26,476	34,782	2,518	.17	33,936	91	455	81
27,676	36,622	-6,322	*	33,936	112	560	100
29,876	39,249	-19,949	*	33,936	167	836	149

[a] Presumably these persons could not be given incentive early annuities less than their normal early retirement annuities.

* Negative Value

and service cohort. Except for being computed for high, middle, and low income groups, this table is read in the same way as Tables 8.1 and 8.2.

Table 8.4 Individual-Based Annuity with Partial Employment, shows the outcome of an option that provides the supplement to the regular early retirement annuity through part-time employment (up to 49% of full-time). As with the other options, a supplemental annuity is purchased to make up the difference between the early retirement annuity and the mandatory age annuity, to go into effect at the mandatory age. Again, the table is read in the same way as the earlier tables.

Schemes more financially attractive to the institution (and thus less financially attractive to the employee) are illustrated in Table 8.5 Supplemental Annuity to Continue Annuity Contributions until Age 67, and Table 8.6 Continued Contributions to the Individual's Retirement Account. In essence both options involve an agreement from the institution to continue contributions to an employee's annuity account until the mandatory retirement age (again assumed to be 67) under the condition that the employee retire early. If the potential early retiree accepts the arrangement, his old budget line can be used to finance the continued retirement system contribution and to hire a new employee.

Table 8.5 shows the option for a defined benefit plan, Table 8.6 for a defined contribution plan. In both tables the potential early retiree is receiving a 2% per year real salary increase. In Table 8.5, where the annuity is based upon age, length of service, and highest salary, the difference between an early retirement annuity and a mandatory age annuity is computed. This difference is the supplemental annuity which must be purchased. The total cost, and the level annual cost, of purchasing the supplemental annuity are shown in the table. Again, the budget line released is calculated.

In Table 8.6, the defined contribution example, a different approach is taken. Here it is assumed that an institution continues both the employer and the employee contribution to the retirement fund. This combined contribution is assumed to be 20% of the employee's annual salary. Thus, 80% of the budget line is released for a new hire.

Table 8.4

INDIVIDUAL-BASED ANNUITY WITH PARTIAL EMPLOYMENT

1 Current Age	2 Years Service Credit Now	3 Present Mean Salary for Age-Service Cohort	4 Single Life Annuity (SLA) Now	5 Expected Salary at 67, 2%/Yr. Real Increase	6 Single Life Annuity at 67	7 Supp. SLA Req'd. at 67 (SSLA) [6-4]	8 Value of SSLA at 67 [7x9.384]	9 Present Value of SSLA at 6% Discount	10 Level Annual Cost of SSLA [9÷Annuity Value]
								(.7473)	(4.4651)
62	32	$32,500	$22,880	$35,750	$28,600	$5,720	$53,676	$40,112	$8,984
62	27	30,400	18,058	33,440	24,612	6,554	61,501	45,960	10,293
62	22	29,500	14,181	32,450	20,152	5,970	56,027	41,869	9,377
62	17	33,500	12,529	36,850	18,646	6,117	57,402	42,897	9,607
								(.6651)	(5.9173)
60	30	30,200	18,120	34,730	27,784	9,664	90,687	60,315	10,193
60	25	28,600	14,300	32,890	24,207	9,907	92,967	61,832	10,449
60	20	26,700	10,680	30,705	19,067	8,387	78,704	52,346	8,846
60	15	26,400	7,920	30,360	15,362	7,442	69,836	46,448	7,850
								(.4970)	(8.8869)
55	25	29,100	10,193	36,957	29,566	19,373	181,796	90,353	10,167
55	20	29,000	8,700	36,830	27,107	18,407	172,731	85,847	9,660
55	15	25,500	5,760	32,512	20,190	14,430	135,411	67,299	7,573
55	10	25,000	3,750	31,750	16,066	12,316	115,573	57,440	6,463
								(.3713)	(11.1060)
50	20	29,200	5,840	40,880	32,704	26,864	252,092	93,602	8,428
50	15	26,400	3,960	36,960	27,202	23,242	218,103	80,982	7,292
50	10	25,000	2,500	35,000	21,735	19,235	180,501	67,020	6,035

Table 8.4 -- Continued

INDIVIDUAL-BASED ANNUITY WITH PARTIAL EMPLOYMENT

11 Additional Compensation (49% Salary or Current Salary Minus Annuity)	12 Total Req'd. to Retire Employee [10+11]	13 Balance of Budget Line Released [3-12]	14 FTE Asst. Prof. at $15,000 Per ER for Duration	15 Annual Incentive ER (IER) Income (Total) [4+11]	16 IER as % of Current Salary [15÷3]	17 IER as % of Regular ER Annuity [15÷4]	18 IER as % of Mandatory R Annuity [15÷6]
$ 9,620	$18,604	$13,896	.93	$32,500	100	142	114
12,342	22,635	7,765	.52	30,400	100	168	124
14,455	23,832	5,668	.38	28,636	97	202	142
16,415	26,022	7,478	.50	28,944	86	231	155
12,080	22,273	7,927	.53	30,200	100	167	109
14,014	24,463	4,137	.28	28,314	99	198	117
13,083	21,929	4,771	.32	23,763	89	223	125
12,963	20,813	5,587	.37	20,883	79	264	136
14,259	24,426	4,674	.31	24,452	84	240	82
14,210	23,870	5,130	.34	22,910	79	263	85
12,544	20,117	5,483	.37	18,304	72	318	91
12,250	18,713	6,287	.42	16,000	64	427	99
14,308	22,736	6,464	.43	20,148	69	345	75
12,936	20,228	6,172	.41	16,896	64	427	62
12,250	18,285	6,715	.45	14,750	59	590	68

Table 8.5

SUPPLEMENTAL ANNUITY TO CONTINUE ANNUITY CONTRIBUTIONS UNTIL AGE 67*

1 Current Age	2 Years Service Credit Now	3 Present Mean Salary for Age-Service Cohort	4 SLA at 67 Based on Present Salary & Service but Age 67	5 Expected Salary at 67, 2%/Yr. Real Increase	6 Single Life Annuity at 67	7 Supp. SLA Req'd. at 67 (SSLA) [6-4]	8 Value of SSLA at 67 [7x9.384]	9 Present Value of SSLA at 6% Discount	10 Level Annual Cost of SSLA [9÷Annuity Value]	11 Balance of Budget Line Released Annually [3-10]	12 FTE Asst. Prof. at $15,000 per ER for Duration
								(.7473)	(4.4651)		
62	32	$32,500	$23,920	$35,750	$20,600	$4,680	$43,917	$32,819	$7,350	$25,150	1.68
62	27	30,400	18,070	33,440	24,612	5,734	53,808	40,211	9,006	21,394	1.43
62	22	29,500	14,927	32,450	20,152	5,225	49,031	36,641	8,206	21,294	1.42
62	17	33,500	13,099	36,850	18,646	5,547	52,053	38,899	8,712	24,788	1.65
								(.6651)	(5.9173)		
60	30	30,200	20,838	34,730	27,784	6,946	65,181	43,352	7,326	22,874	1.52
60	25	28,600	16,445	32,890	24,207	7,762	72,839	48,445	8,187	20,413	1.36
60	20	26,700	12,282	30,705	19,067	6,785	63,670	42,347	7,157	19,543	1.30
60	15	26,400	9,108	30,360	15,362	6,254	58,688	39,033	6,596	19,804	1.32
								(.4970)	(8.8869)		
55	25	29,100	16,733	36,957	29,566	12,833	120,425	59,851	6,735	22,365	1.49
55	20	29,000	13,340	36,830	27,107	13,767	129,190	64,207	7,225	21,775	1.45
55	15	25,600	8,832	32,512	20,190	11,358	106,584	52,972	5,961	19,639	1.31
55	10	25,000	5,750	31,750	16,066	10,316	96,805	48,112	5,414	19,586	1.31
								(.3713)	(11.1060)		
50	20	29,200	13,432	40,880	32,764	19,272	180,848	67,194	6,050	23,150	1.54
50	15	26,400	9,108	36,960	27,202	18,094	169,794	63,045	5,677	20,723	1.38
50	10	25,000	5,750	35,000	21,735	15,985	150,003	55,696	5,015	19,985	1.33

* This table is computed assuming that the supplement required will be equal to the difference between the expected annuity at age 67 and the SLA that would be received if the early retiree's account were left to accumulate until age 67. That is the SLA at age 67 is based upon the early retiree's present salary, present years of service, but age 67.

Note: Under this option the early retiree receives no supplemental payment from the university from early retirement to the mandatory retirement age. At the mandatory retirement age, the early retiree receives the annuity he would have received had he remained employed till the mandatory retirement age and received a 2% per year salary increase.

Table 8.6

CONTINUED CONTRIBUTIONS TO THE INDIVIDUAL'S RETIREMENT ACCOUNT

1 Current Age	2 Years Service Credit Now	3 Present Mean Salary for Age-Service Cohort	4 Expected Salary at 67, 2%/Yr. Real Increase	5 Years Till Person Reaches Age 67	6 Total Salary Now Till Age 67	7 Total Cost of the 20% Annuity Contribution	8 Present Value of the 20% Annuity Contribution	9 Balance of Budget Line Released[a]	10 FTE Asst. Prof. at $15,000 per ER for Duration
					(5.3)		(.8418)		
62	32	$32,500	$35,750	5	172,250	$34,450	$29,000	$26,000	1.7
62	27	30,400	33,400	5	161,120	32,224	27,126	24,320	1.6
62	22	29,500	32,450	5	156,350	31,270	26,323	23,600	1.6
62	17	33,500	36,850	5	177,550	35,510	29,892	26,800	1.8
					(7.58)		(.7941)		
60	30	30,200	34,730	7	228,916	45,783	36,355	24,160	1.6
60	25	28,600	32,890	7	216,788	43,358	34,431	22,880	1.5
60	20	26,700	30,705	7	202,386	40,477	32,143	21,360	1.4
60	15	26,400	30,360	7	200,112	40,022	31,782	21,120	1.4
					(13.68)		(.6891)		
55	25	29,100	36,957	12	398,088	79,618	54,864	23,280	1.6
55	20	29,000	36,830	12	396,720	79,344	54,676	23,200	1.6
55	15	25,600	32,512	12	350,208	70,024	48,266	20,480	1.4
55	10	25,000	31,750	12	342,000	68,400	47,134	20,000	1.3
					(20.41)		(.5997)		
50	20	29,200	40,880	17	595,972	119,194	71,481	23,360	1.6
50	15	26,400	36,960	17	538,824	107,765	64,627	21,120	1.4
50	10	25,000	35,000	17	510,250	102,050	61,199	20,000	1.3

[a]Eighty percent of the early retiree's budget line is released in each case. Like the option described in Table 5.5, the early retiree does not receive a supplement from early retirement to the mandatory retirement age, nor does he draw an early retirement pension.

Recall that in the illustrations of the other options the early retiree's early retirement income was compared with that at the mandatory age. In this example, this computation cannot be made as the early retiree receives neither an early retirement pension nor pension supplement.

Comparing the alternatives

The above options can be compared along several dimensions, including the funds released per early retiree, the replacements that may be hired, the early retiree's annuity income, and the institution's ability to "select" the early retirees.

Funds released per early retiree. Reduction of payroll costs and the replacement of older faculty members with younger persons are the two primary objectives of early retirement schemes. For each option, the payroll costs saved by the institution per person retired were calculated. In the case where an employee need not be replaced, these figures represent actual payroll savings. Where an early retiree must be replaced by a new employee, these figures represent the funds available for hiring a replacement.

Each alternative, for at least one age-service group, will release sufficient funds--or at least come very close--for the hiring of an assistant professor at the assumed salary of $15,000 per year. Option 1, the full-salary option, comes close to releasing sufficient funds for the hiring of a replacement only for persons aged 62 with 32 or more years of service credit. For persons aged 50, the cost is greater than the funds released. Option 2, the individual-based supplement, releases sufficient funds in two age-service groups. For persons aged 62 with 17 or 32 years of service sufficient funds are released. Almost enough funds are released for persons aged 62 with 22 and 27 years of service credit. No persons at age 50 or 55, no matter how many years of service credit, release enough money for hiring even one half-time replacement.

When we examine Option 3, the group-based supplement, we see that the higher paid employees tend to release more funds upon retirement than do lower paid employees. This is a result of the difference in base salaries paid these employees and the greater increases that are given the lower paid employees who agree to retire early. Among the lowest third

(in terms of salary), there is not one age group a- which an early retiree releases sufficient funds to hire a replacement. Within the mid-third of persons, two cohorts release enough money to hire a replacement. And within the highest third, all but the youngest age group release sufficient funds. Within the lowest third salary group, there are several cases of a deficit, one shortfall being over $18,000.

Option 4, the partial employment option, releases sufficient funds for the hiring of a replacement for only the oldest age-service group (actually only 93% of the $15,000). Since the current employee is rehired on a half-time basis under this alternative, the break-even point would be $7,500, enough money to hire a half-time faculty member as a replacement. This being the criterion, Option 4 is successful in four age-service groups.

Options 5 and 6, where only continued contributions to the retiree's annuity are provided, release the greatest amount of funds. In each case sufficient funds are released to hire a replacement. However, it is questionable whether there would be sufficient incentive under these options to cause employees to terminate early.

In the cases where an early retirement will not free sufficient funds to hire a full-time replacement, an institution that adopts such a program must value the contribution by a potential retiree less than it does the contribution to be provided by the retiree's part-time replacement. Of course, an institution could make a liberalized early retirement scheme available only to particular individuals if those employees were clearly the appropriate early retirees and if equity were not an issue.

The analysis to this point provides information for determining the payroll costs saved by the early retirement of a faculty member in a given age-service cohort. If a college or university is able to identify specific individuals for early retirement, this information may be sufficient. For various reasons, however, an institution might want to make liberalized early retirement available to a group of faculty members rather than only to specific individuals. In any event, the institution could reserve to itself the final decision in all cases in order to retain critical employees and assure sufficient lead time for the hiring of replacements.

Ability to hire replacements. I n institution decides to open voluntary incenti e-based early retirement to various age-service cohorts, it must know the percentage of each cohort likely to elect early retirement, in order to estimate the cost effectiveness of alternative plans. Since only rough estimates are available from the experiences of the few universities that have experimented with these schemes, localized estimates will have to be made.

In making these estimates an institution should recognize that the most efficient option--that is, the one with the highest replacement ratio--may encourage only a few early retirements. For example, Option 6 frees more than enough funds per early retiree to hire a replacement employee. However, there may be few persons who elect this option. On the other hand, Option 2 releases few funds per early retiree, but there may be more persons electing the option with the result that it causes more turnover. To use Option 2 an institution would have to be satisfied with less than a one-to-one replacement ratio.

Deciding which option will be most attractive to the greatest number of employees will have to be done locally. Obviously Option 1, the full-salary option, would be very attractive to employees--but very expensive to the institution. The reverse would be the case for Options 5 and 6. The choices appear to be among Options 2, 3 and 4. If part-time employment is an important criterion, then Option 4 should be seriously considered. The choice between Options 2 and 3 would depend upon historic salary practices at an ins tution (that is, do salary differences reflect merit?) and upon an estimate acceptance by current faculty members.

Early retirement annuity income. The economic ncentive to retire early can be measured by the relationship between the employee's annuity income from liberalized early retirement and his annuity income from normal early retirement. In only one case does the liberalized early retirement income not exceed the normal early retirement inc This occurs under Option 3 for the oldest and longest term employees earning above the median salary for their age-service group. Their own normal early retirement annuities would be greater than the incentive annuities based upon the

median salary for their age-service group. In practice, if these persons were to retire early, they would receive an annuity based upon their own salary rather than upon the median of their age-service cohort.

When the liberalized early retirement income is compared with the income expected at mandatory retirement, the increases are not as widespread nor so dramatic. However, the increased-benefits early annuities are close to the value of the mandatory age annuities, and indeed this match was one of the primary factors considered in the development of the alternatives. However, the retiree receives no income under Options 5 and 6 until he reaches the mandatory retirement age.

One of the major determinants of whether an employee will retire early is the level of the retirement income. If the difference between current income and anticipated retirement income is great, a potential retiree will be encouraged to continue working. In most cases, early retirees suffer a reduction in income. The true ratios are slightly greater than those presented since the early retiree's early retirement income is not reduced by contributions to the retirement system, and the first payouts from the retirement system (those representing the employee's contributions) are not taxable.

In terms of total retirement income, Option 1, which was designed to provide an early retirement income equal to one's pre-retirement income, is the most attractive for the lower paid retirees (indeed the alternative was so designed). However, few funds are released under this alternative. Option 4, the partial employment option, provides retirement incomes of at least two-thirds of current salary (except in the youngest age group) but these individuals must work half-time to earn about half of this income. Option 2 provides fairly high retirement incomes, compared with present earnings, for selected age and service groups. Persons with 20 or more years of service credit receive at least two-thirds of their present salary.

In terms of retirement income as compared with present income, Option 1 would be ranked first by most persons. Option 4 would be ranked first or second by persons who would like to continue working at their university, while Option 2 would be ranked second by persons who would rather not work after early retirement. Option 3 would be ranked first by

lower paid employees but last by the higher paid employees. From the early retiree's point of view, neither Option 5 nor Option 6 is likely to be very attractive. Since the retiree gets no supplement and must wait until the mandatory retirement age to draw his full pension, he would certainly be reluctant to accept either of these options unless he were very close to the mandatory retirement age, had some savings, or planned to reemploy.

Ability to select the retirees. Unless an institution identifies specific employees and "convinces" them to accept early retirement, there is little certainty that the appropriate persons will be encouraged to take advantage of the retirement scheme. If it can be assumed that within a specific age and service cohort the more highly paid employees represent the more valued ones, then the group-based scheme may be the most effective in terms of retiring the appropriate persons. Since retirement benefits are related to the median earnings level of the age-service cohort, the less valued employees are encouraged to retire while the more highly valued employees are encouraged to remain. With the individual-based early retirement scheme, just the opposite occurs.

The partial employment alternative falls between these cases. Since the scheme is intended to reemploy early retirees on a part-time basis, the benefits schedule is related to the individual rather than the group. Thus, the persons who elect this option are those assumed to be somewhat highly valued. One might argue that these are not the appropriate persons to retire on a part-time basis: the less valued employees should be retired partially and the highly valued employees should be retained full-time. This need not be so since the partial employment option can be used in conjunction with a complete retirement alternative, making it possible to retain at least some of the services of those employees who are in high demand for both campus and off-campus activities while retiring the less valued employees. However, it is not clear that employees in high demand want to retire early.

Other Possible Alternatives

Other alternatives intended to encourage early retirement have not been evaluated here. For example, certain employees may not be given annual salary increases as an attempt to encourage them to retire before the mandatory age. Another option might be to require all employees

to discuss their retirement plans with their superior at an early age, perhaps age 50. "Appropriate" employees might be encouraged to begin or increase payments into a supplemental retirement fund. The institution might even agree to make matching contributions if the employee agreed to retire at a certain date. Although such schemes might work, they are not evaluated here because they are administrative solutions that would apply to a very small portion of an institution's faculty and would have little impact upon turnover or faculty age composition.

Since the financial disadvantage of early retirement can be so severe if a person retires a decade or so early, partial retirement from perhaps age 55 through age 59 with complete retirement at age 60 might be seen as desirable. Again, few persons may decide to take this route, but it may be the best for some. If an institution provided part-time as well as complete early retirement options, the above route could be decided on individual bases. The direction of flow might be restricted to one-way, however. In order to calculate benefits and to plan for faculty staffing, faculty members would probably not be permitted to retire completely, then, if dissatisfied, to reemploy on a part-time basis.

The part-time employment option also might be considered because it would be the only way in which to encourage some persons who now plan to continue until the mandatory age to step down early.

Still another option that might be considered would be lowering the mandatory retirement age, for example to age 65. Extensions beyond that age might be permitted. On the surface this alternative may appear attractive. However, in the case of one of our case institutions, 20% of the faculty members now retire before age 65, 13% retire at age 65, and 9% retire at age 66. Thus, reducing the mandatory age to 65, while requiring 59% of the faculty to retire two years earlier, would have little impact upon the number of younger faculty members who could be hired. The released funds would be available only two years earlier. If an institution were to lower its mandatory retirement age, it seems reasonable to assume that the lower age might apply to only newly hired employees, or if applicable to older employees, might be optional and accompanied with a supplemental payment of some type.

Summary

From even a strict cost standpoint it is not easy to identify the best alternative. The choice depends upon the objectives of the institution. Moreover, there may be constraints on adopting the best alternative in the case of those state institutions which are involved with public employee retirement systems that are governed by state legislatures and include more than university employees.

Since these early retirement schemes may not free sufficient funds to replace early retirees with new employees on a one-to-one basis, one of the most critical things an institution must do is make an estimate of the marginal productivity of both potential retirees and potential new employees. If the sum of the marginal products of the potential new employees is greater than that of the potential retirees, an early retirement plan might be considered an economically viable means for faculty rejuvenation. The following paragraphs summarize the cost effects of the six options.

Option 1--Full-Salary Early Annuity. This alternative is undoubtedly the most favored option from the perspective of potential early retirees as they receive the same income in retirement as they would if employed. From the institution's vantage point, however, this may not be a highly desirable alternative because it would permit only a low replacement rate.

Option 2--Individual-Based Early Annuity. This alternative saves an institution the most in salaries and has a reasonable replacement ratio, but it may not be effective in retiring the appropriate employees--if financial consideration is the only factor at work. The benefits schedule is such that the more highly paid employees have the greatest financial incentive to retire early. This scheme provides a moderate level of retirement income, and the early retiree receives his or her benefits with no part-time employment required.

This option illustrates, however, that it can be expensive to provide increased annuities to persons more than few years from the mandatory retirement age. Providing an increased annuity to younger employees or to employees with shorter terms of service requires much of the potential early

retiree's budget line; in some cases, the costs exceed the budget line. Only when employees are approximately five years from the mandatory retirement age are sufficient funds freed to permit the hiring of replacement employees on a one-to-one basis.

Although this scheme may not save the institution a great deal of money, it should encourage the employee to retire early. The early retirees, even those with relatively short periods of service, receive annuities equal to two-thirds of their current salaries.

Option 3--Group-Based Early Annuity. This alternative saves the institution the least amount in salaries, but it may be able to retire the appropriate employees. Since early retirement benefits are related to the median earnings level of each age-service cohort, the less valued employees have the greatest incentive to retire early. This option rates low in terms of total retirement income provided employees.

Option 4--Individual-Based Early Annuity Plus Partial Employment. This alternative ranks high in terms of savings to the institution per employee retired. To the extent that those employees who elect to participate in this alternative are more highly valued, and might have retired completely if the option were not available, it is somewhat effective in terms of its ability to retain selected faculty members on a part-time basis. The income received by an early retiree ranges from 59% to 100% of current salary, but the early retiree must accept a part-time position in order to earn about half of that income.

Options 5 and 6--Continued Annuity Contributions. These two options are not directly comparable with the other options because they do not provide retirement income from early retirement to mandatory retirement. The institution would have approximately 80% of each early retiree's salary line to reallocate under this option.

A potential problem of these options should be noted. Since they may appeal only to persons who have arranged for reemployment, it is conceivable that they could increase the cost to the institution of a natural process. Today some people decide at mid-career to leave an institution and move elsewhere with no special compensation. Instead of encouraging more

people to move to another institution, these options may cause the institution to compensate those persons already planning to leave. The other options, it should be recalled, have a severance payment or increased annuity intended to cause people to stop working altogether by providing them an income in lieu of salary. Some persons electing these options may already have been planning to retire early, but the added benefits are expected to encourage additional persons to step down as well. Of course, under all methods it will probably be necessary for the institution to establish eligibility rules and to manage the early retirements so its manpower requirements are kept in balance.

The tables presented in this chapter are only examples of how early retirement alternatives can be compared for employees of various ages with different service and salary histories. Of course, an institution should expand these calculations to include persons nearer to and farther from retirement and with various years of service credit. Also, it is extremely important that these figures be computed with institution-specific data. It should also be recognized that these examples did not include a consideration of Social Security income. Further, they assume a supplementary pension will be paid to bring an early retirement pension to the level of a mandatory retirement-age pension. Obviously different calculations must be made for specific institutions. In addition, costs other than those of providing an increased pension should be considered. An institution will experience recruitment and hiring costs when it replaces the early retiree. While these costs would be incurred with mandatory retirements as well, they would be encountered earlier than planned under an early retirement scheme.

Detailed calculations for other options and for defined contribution plans may be found elsewhere by persons desiring to perform their own analysis.[5] The key factors to be kept in mind when replicating this analysis are:

1. Determine the level of benefits to be paid the early retiree.
2. Determine the mandatory retirement-age pension.
3. Determine the benefits the early retiree will receive from his or her early retirement pension.
4. Add to the expected benefits Social Security income if and when appropriate.

5. Calculate the additional payment to be made to the early retiree. Determine both:

   a. The additional payment to be made from early retirement to the mandatory retirement age.

   b. The additional payment to be made after mandatory retirement age.

6. Determine the cost to the institution of these additional payments. The cost will vary depending on whether the payment is made in one lump sum, whether an annuity is purchased for the early retiree, whether the payment for the annuity is made in equal-size installments or whether the payment is made annually from the institution's general funds. Consider:

   a. The payment from early retirement to the mandatory retirement age might be paid from the early retiree's salary line, with the balance of the salary line being used to pay a replacement employee and to purchase for the early retiree a supplemental pension that will go into effect at the mandatory age.

   b. The early retirement payment might be paid in one year if the institution has sufficient funds on hand to finance the transaction. The key point will be the size of the early retirement lump sum payment.

If an institution is able to determine the amount of an annual supplement to be paid an employee, it can purchase such a supplement from an insurance company with a one-time payment, or level annual payments. Clearly, an institution should seek additional advice on ways in which to finance supplemental annuity payments.

FOOTNOTES

[1]In earlier analyses we assumed an average salary increase of 4 percent. Four percent was probably too high a figure to assume for real salary increases, particularly with respect to older faculty members. Since performing those earlier analyses, we have examined salary trends more closely. Although the data were sketchy, we estimate that real rates (rates that do not include expected inflation) of about 3 percent for younger employees, and of 1 to 2 percent for older employees, might be more appropriate for near-term estimates.

[2]Carl Vernon Patton, "A Seven-Day Project: Early Faculty Retirement Alternatives," Policy Analysis, vol. 1, no. 4 (Fall 1975), pp. 731-753.

[3]An actuarial table states the cost at various ages by sex of $1.00 of pension income paid monthly for life at a given yearly interest rate. The tables are revised periodically to reflect changing economic and mortality conditions.

[4]Deciding which discount rate to use proves troublesome because of inflation. The literature provides little guidance. A paper dealing with the issue has been published; it lays out an argument for using either real interest rates and real prices or nominal interest rates and real prices. See: Steve H. Hanke, Philip H. Carver and Paul Bugg, "Project Evaluation During Inflation," Water Resources Research, vol. 11, no. 4 (August 1975), pp. 511-514.

[5]For further information on the same issue see: James D. Bruce, "Costs and Benefits of Early Retirement in Academia," paper presented at the 1976 Annual Meeting of the American Physical Society, New York, N.Y., February 1976; Teachers Insurance and Annuity Association of America--College Retirement Equities Fund, "Bulletin: Provisions for Early Retirement," New York, 1972; David S. P. Hopkins, "An Early Retirement Program for the Stanford Faculty: Report and Recommendations," Stanford, Calif.: Stanford University, Academic Planning Office, 1972; and Hans H. Jenny, Early Retirement, A New Issue in Higher Education: The Financial Consequences of Early Retirement, New York, TIAA-CREF, 1974.

9. IMPACT OF EARLY RETIREMENT AND MID-CAREER CHANGE ON FACULTY COMPOSITION

Universities and colleges became interested in ways to modify the composition of their academic staffs when they realized that the slowdown in expansion was beginning to reduce the number of new employees they could hire. Fears about an aging faculty were expressed, and it was commonly held that there was a "lump" of faculty members in the near-retirement age group (roughly ages 50-60). Some people held that these faculty members hired en masse during the education boom of the 1950s and 1960s would prevent the hiring of new employees.

The argument advanced was that early retirement could be used to induce faculty members in this large near-retirement cohort to retire. The result would be an increase in faculty slots available for new employees.

Is There an Age Problem?

At some institutions which we examined the age distribution table did contain a bulge in the near-retirement years; that is, there were larger percentages of employees in the 50-60 age group. If some were induced to retire, there would be additional slots available for new employees, without upsetting the faculty structure in years to come.

On the other hand, the age structure of the faculty at many other institutions took a more normal form, with greater percentages of younger employees. Looking at these data, one could advance the argument that the slowdown in hiring was due to the general reduction in the growth rate of higher education, not to an excess of near-retirees. To be sure, the percentage of young doctorates in institutions of higher education has declined,[1] but the decline cannot be related to an overabundance of faculty in the near-retirement years.

If there are not greater percentages of faculty members in the near-retirement years, then even highly effective early retirement schemes may have little impact. There simply may be too few people to attract to this alternative. Further, an induced early retirement today means one less mandatory retirement tomorrow. In order to address this question, we examined faculty composition data for the nation and for specific institu-

tions. We found in almost every case that faculty members are distributed in normal form; that is, there are greater percentages in the younger ages, with decreasing proportions in the older age groups--with no substantial bulges of faculty members at any age. Any slight bulges which do exist occur at the younger ages, when people are not eligible for early retirement.

These findings are illustrated in several sets of data we have recomputed. In terms of national data we have produced faculty age distributions both from Palmer's analysis of the 1972-73 ACE faculty survey[2] and from the computer tape of the 1975 Carnegie Survey of American Academics. The results are similar for both sets of data. Figures 9.1 through 9.4, based on the more recent Carnegie data, summarize the age distributions for all institutions and for selected categories of institutions: Research Universities I, Research Universities II and Colleges-Medium. For all types of institutions the faculty members are distributed with the larger percentages at the younger ages. Further, there are no bulges in the near-retirement cohorts (ages 52-61).

Of course these data may obscure differences among fields because they are aggregated. However, we further examined the data by field within selected types of institutions and found little deviation from this pattern. From the 1972-73 ACE data we produced age distributions for faculty members by field within the Research University I category. We have also used the 1975 Carnegie data to produce histograms by field for high-quality universities, high quality four-year colleges and medium-quality four-year colleges. The same finding results: large percentages of faculty members do not fall in the near-retirement age groups. Rather, the larger groupings, when they do appear, exist at the younger age groups. For illustration, the histograms by field for the medium-quality universities are presented in Figures 9.5 through 9.15.

Since we are working with aggregated data, differences in age distribution among individual institutions may be obscured. Nonetheless, these data suggest that incentive early retirement will have a limited effect upon the age structure of academia as a whole, even though it may have a stronger effect upon the age structure at a particular institution.

Figure 9.1

FACULTY AGE DISTRIBUTION
ALL INSTITUTIONS - CARNEGIE 1975 SURVEY

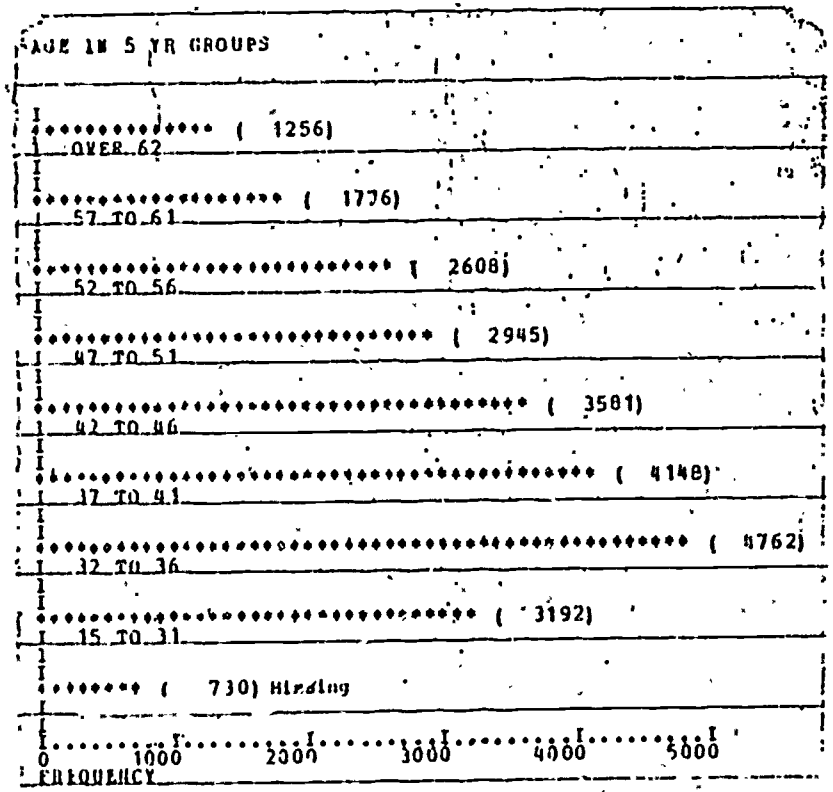


Figure 9.2

FACULTY AGE DISTRIBUTION
RESEARCH UNIVERSITIES I - CARNEGIE 1975 SURVEY

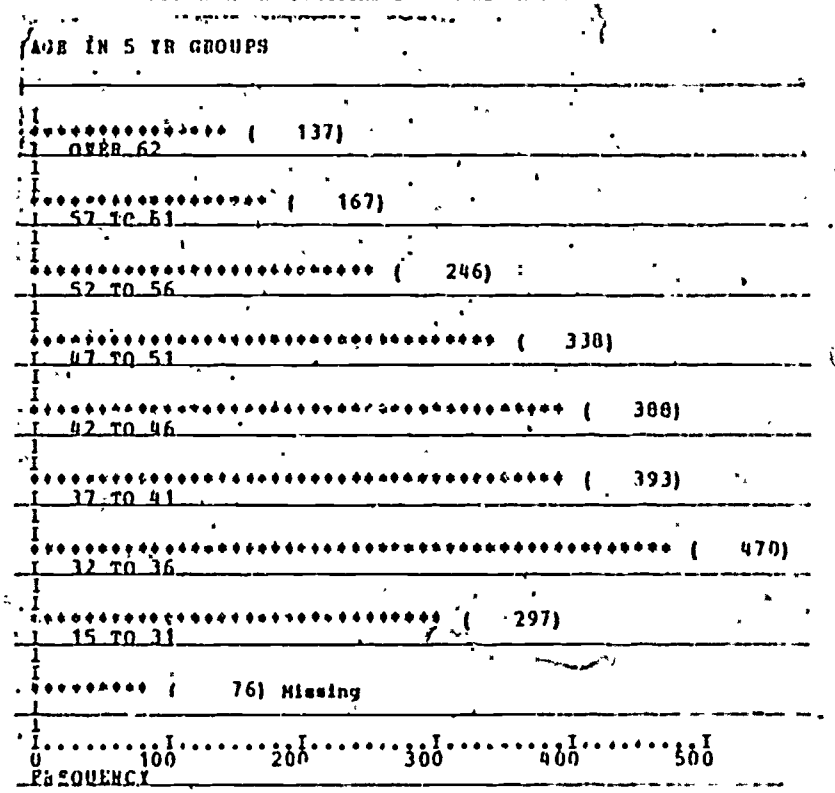


Figure 9.3

FACULTY AGE DISTRIBUTION
RESEARCH UNIVERSITIES II - CARNEGIE 1975 SURVEY

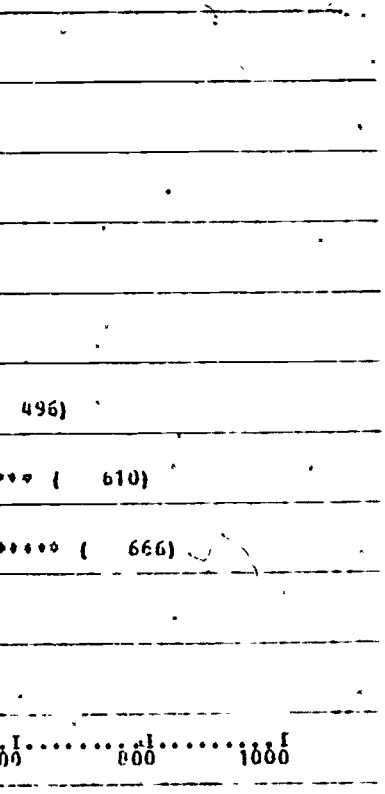


Figure 9.4

FACULTY AGE DISTRIBUTION
COLLEGES, MEDIUM QUALITY - CARNEGIE 1975 SURVEY

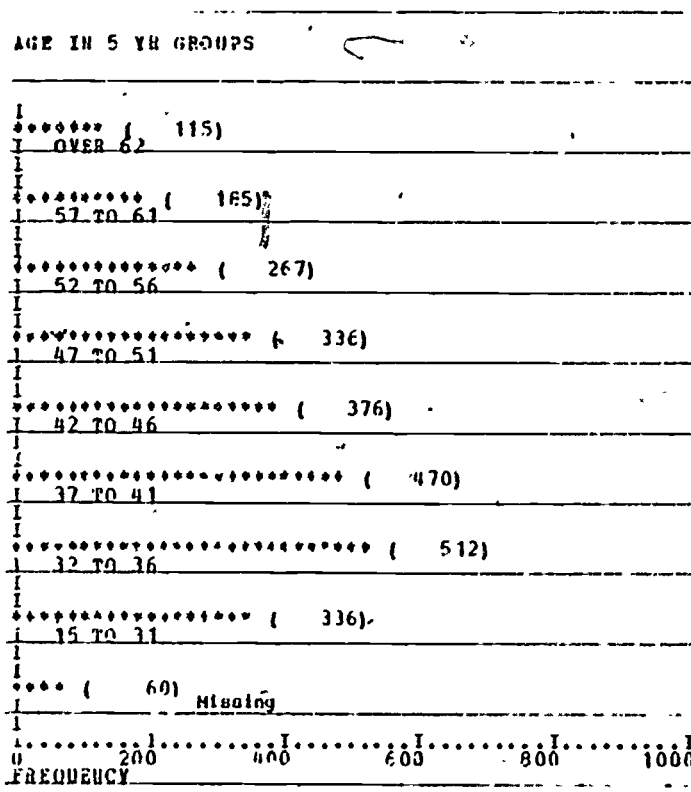
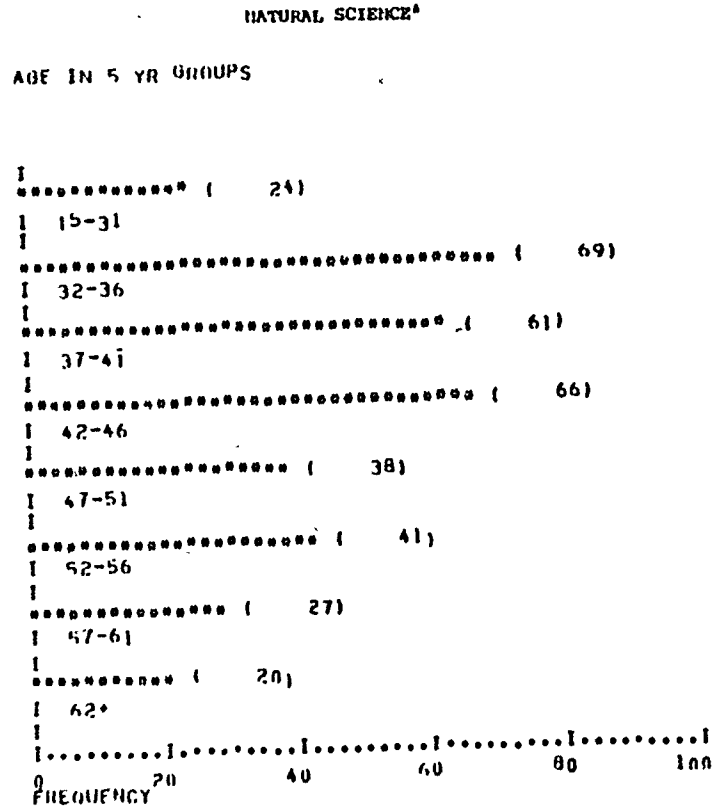


Figure 9.5

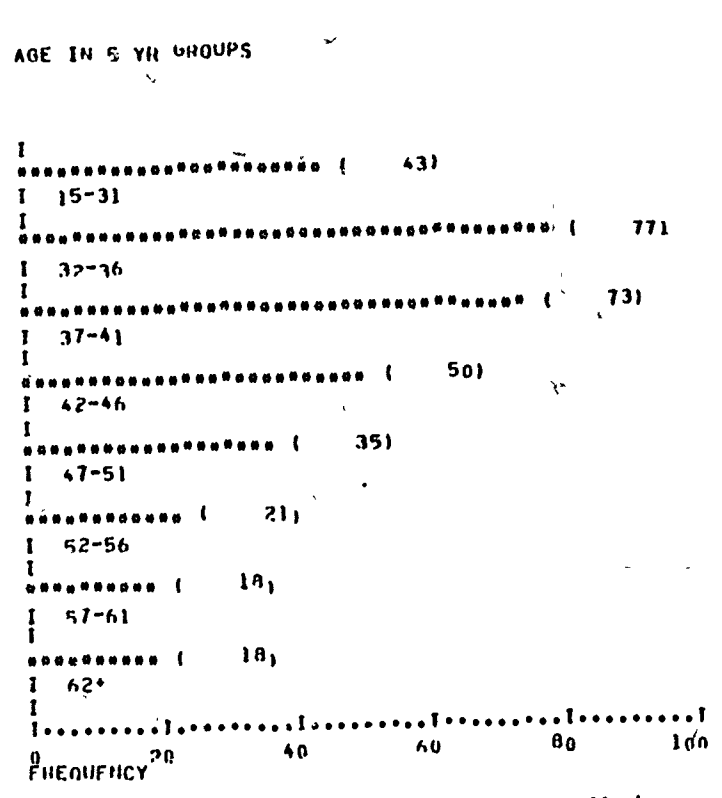
MEDIUM UNIVERSITIES - AGE BY DEPARTMENT
CARNEGIE 1975 SURVEY
NATURAL SCIENCE*



*As used here, Natural Science consists of the following departments: Biology, Geology, Environmental Science, Earth and Planetary Science, Meteorology, Nutrition and Food.

Figure 9.6

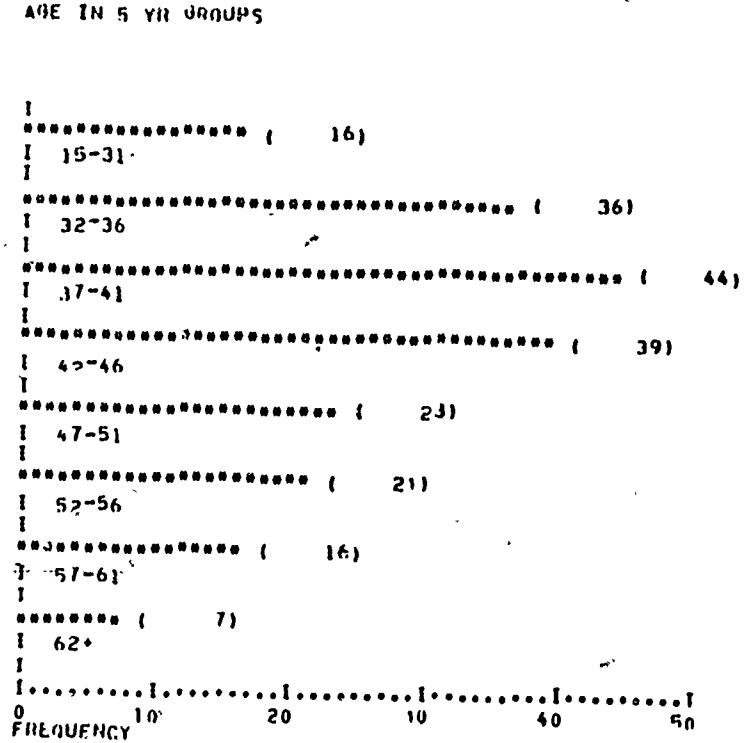
MEDIUM UNIVERSITIES - AGE BY DEPARTMENT
CARNEGIE 1975 SURVEY
PHYSICAL SCIENCE*



*As used here, Physical Science consists of the following departments: Physics, Mathematics, Chemistry.

Figure 9.7

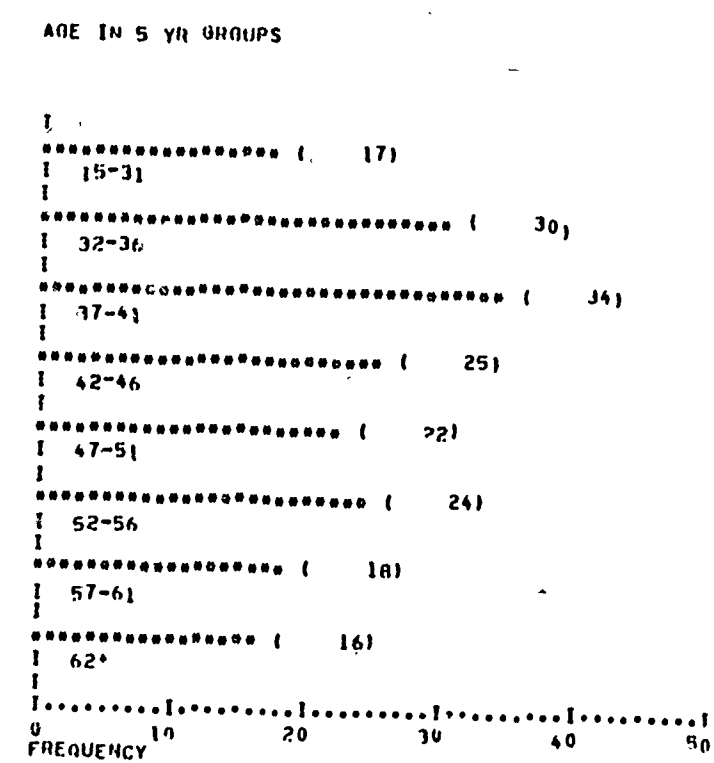
MEDIUM UNIVERSITIES -AGE BY DEPARTMENT
CARNEGIE 1975 SURVEY
APPLIED SCIENCE*



* As used here Applied Science consists of the following departments: Engineering (Civil, Mechanical, Electrical, Computer, Materials Science, Chemical, Ocean, Aeronautic, Astronautic, Nuclear); Architecture; Urban Planning and Engineering; Engineering Science.

Figure 9.8

MEDIUM UNIVERSITIES - AGE BY DEPARTMENT
CARNEGIE 1975 SURVEY
LANGUAGE/ARTS*



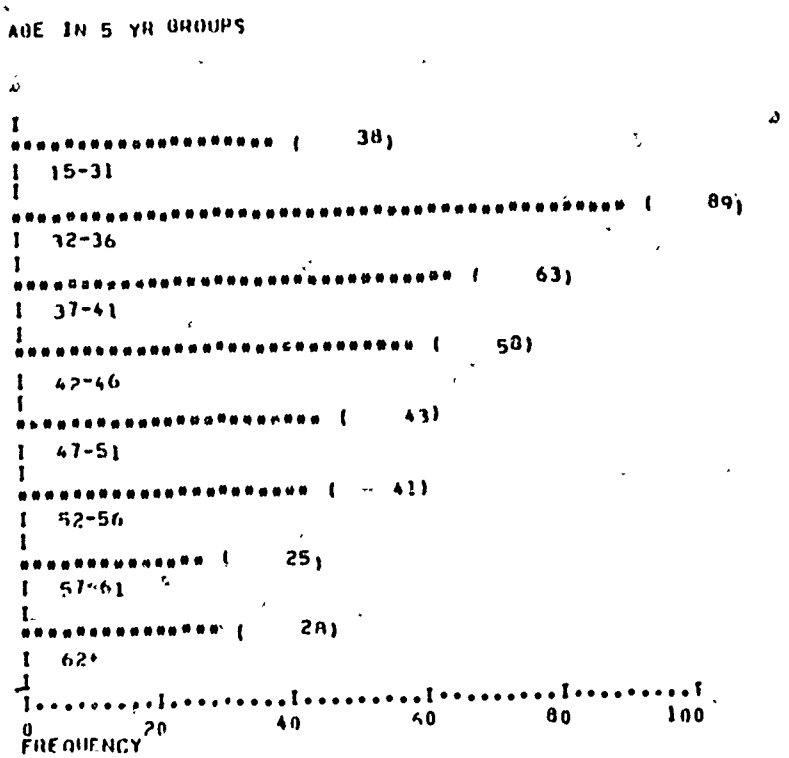
*As used here, Language/Arts consists of the following departments Art, Drama, Music, Speech, English, Russian, German, Romance Languages and Literature.

207 a

207

Figure 9.9

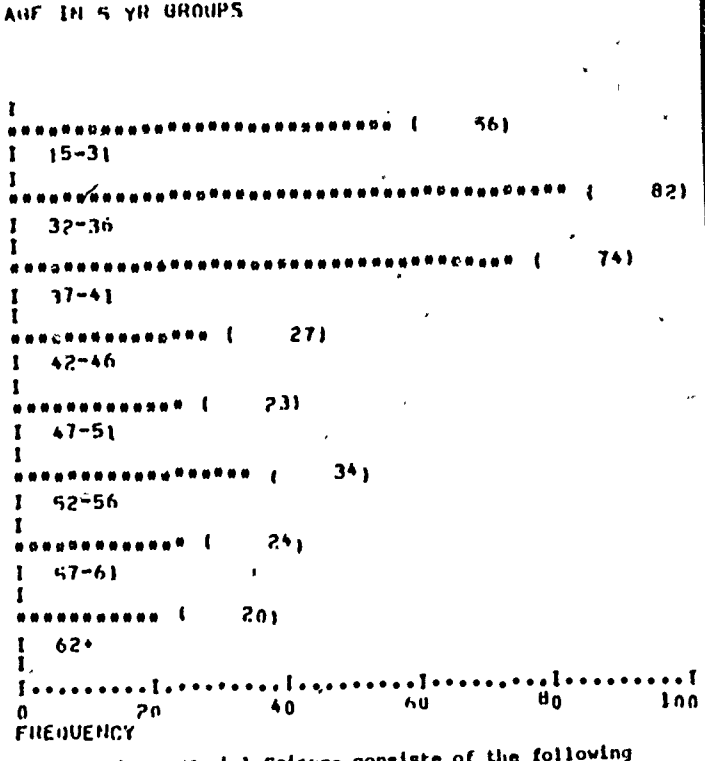
MEDIUM UNIVERSITIES - AGE BY DEPARTMENT
CARNEGIE 1975 SURVEY
GENERAL HUMANITIES*



*As used here, General Humanities consists of the following departments: Humanities, Philosophy and Linguistics, Religion, Ethics, Classics.

Figure 9.10

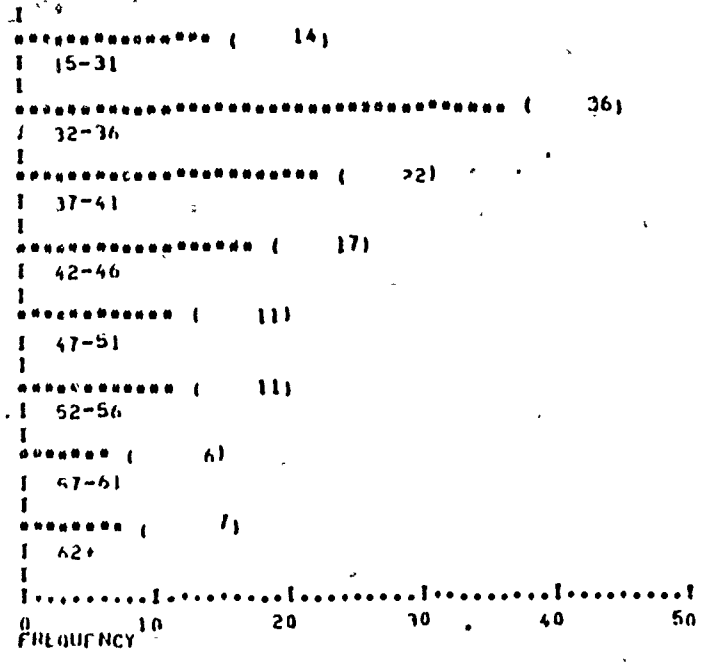
MEDIUM UNIVERSITIES - AGE BY DEPARTMENT
CARNEGIE 1975 SURVEY
SOCIAL SCIENCE*



*As used here, Social Science consists of the following departments: Anthropology, History, Sociology, Psychology, Black Studies, Asian Studies, Geography, Economics, Public Affairs, Political Science, Government.

Figure 9.11

MEDIUM UNIVERSITIES - AGE BY DEPARTMENT
CARNEGIE 1975 SURVEY
BUSINESS*



*As used here, Business consists of the following departments: Management, General Business.

Figure 9.12

MEDIUM UNIVERSITIES - AGE BY DEPARTMENT
CARNEGIE 1975 SURVEY
NO AFFILIATION

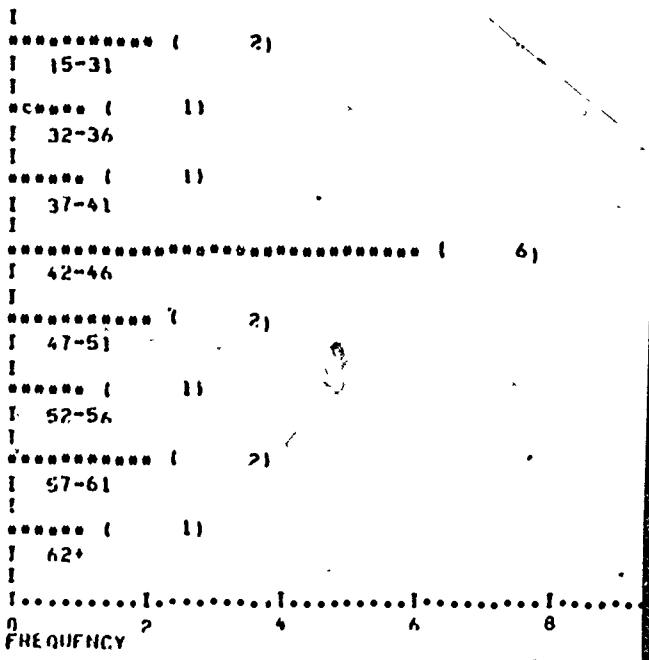


Figure 9.13

MEDIUM UNIVERSITIES - AGE BY DEPARTMENT
CARNEGIE 1975 SURVEY
EDUCATION

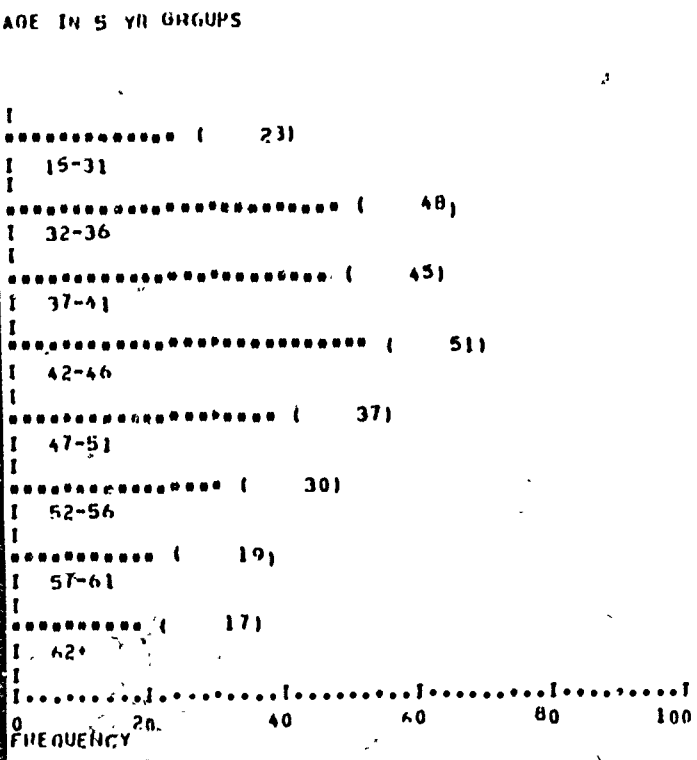


Figure 9.14

MEDIUM UNIVERSITIES - AGE BY DEPARTMENT
CARNEGIE 1975 SURVEY
MEDICINE AND LAW

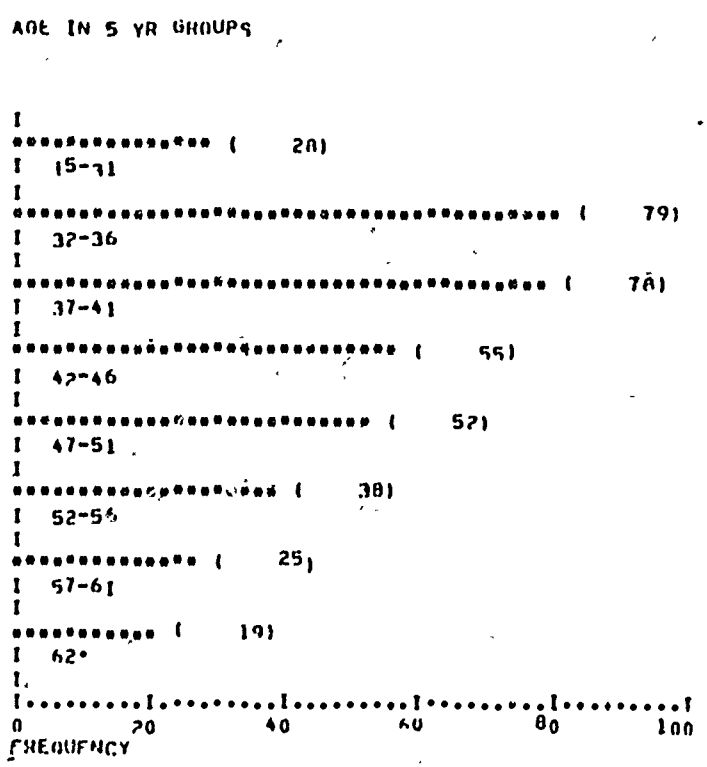
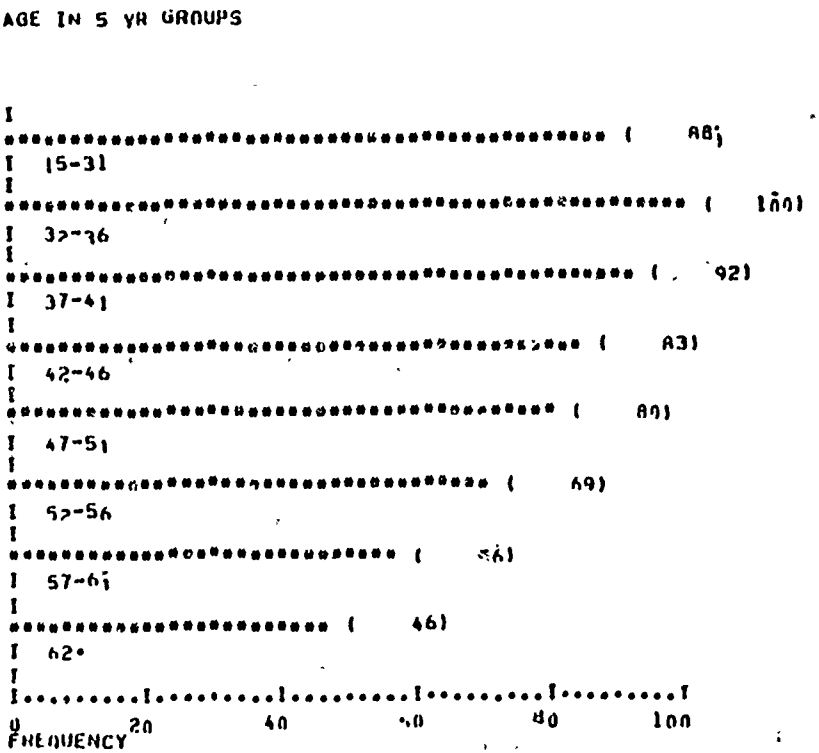


Figure 9.15

MEDIUM UNIVERSITIES - AGE BY DEPARTMENT
CARNEGIE 1975 SURVEY
OTHER PROFESSIONS*



*As used here, Other Professions consists of the following departments/ schools: Home Economics, Industrial Arts, Journalism, Library Science, Social Science, Social Work/Welfare, other fields.

In order to look beneath the aggregated data, we examined age distributions at several institutions where we were able to obtain faculty age data by field (MIT, Dartmouth, Stanford, and SUNY Plattsburgh). This is a limited, although diverse, sample, to be sure, but we again found no evidence of large percentages of potential early retirees. An exception occurs at Stanford, where special incentive early retirement was introduced several years ago. Several fields there, especially engineering, earth sciences, sciences and math, business, education, and social sciences have faculty distributions that suggest early retirement might be useful in opening the ranks to younger faculty members. Although we found no other faculty distributions of this nature in the data we examined, similar distributions may exist elsewhere, and increased early retirements may serve those institutions. However, little change would be seen in the overall age composition of American college and university faculties.

A Faculty Flow Model*

Colleges and universities interested in exploring the adoption of incentive early retirement programs would do well to test the impact of early retirement upon their institution through use of a faculty flow model.

These models now exist.[3] They describe a general aging trend of the faculty under the so-called steady state condition (where faculty size remains constant). The aging trend causes a reduction in the number of new hires that can be made, unless current faculty members can be encouraged to leave the institution for one reason or another. Current faculty members might be encouraged to retire early, young faculty members might be denied tenure at higher rates, mid-career change programs might encourage outmigration, or other forces might cause faculty members to leave academia for other pursuits.

For our purposes, it is important to note that in these models the retirement rates have to be boosted quite high to make much of an impact

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*This section was written by Robert K. Foertsch.

upon the hiring rate or the age structure of the faculty. The change which has the greatest impact appears to be the tenure rate. If young faculty members are denied promotion and thus are required to leave the university, high faculty turnover can be maintained. It is easy to see that causing faculty to retire a few years early has a limited impact, as these people would be leaving in a few years anyway. Further, when people are induced to retire a few years early, there is a temporary increase in the retirement rate, followed by a return to approximately the pre-early retirement program rate, as people who would have retired in years to come have left the faculty because of early retirement.

In order to test the impact of increasing the retirement rate or encouraging people to leave the university at mid-career, we produced a faculty flow model. Although other models are available, the detailed data needed for those models were not at our disposal. Instead, we developed a basic model to which we could apply our limited aggregate data. Our approach was to test the sensitivity of the model to changes in retirement rates, tenure denial rates, mid-career change rates, etc.

The following pages summarize the iterative process we used to test the impact of alternative rates upon both a normally distributed faculty population and a faculty population with a greater proportion of older members. The analysis begins with an investigation of the impact of various population change rates upon the normally distributed population. (The particular rates will be discussed later.) After testing the impact of each rate upon the base population, with all other rates held constant, the interaction effect of combining rates is investigated. Again, the normally distributed population is used. After identifying what we judge to be appropriate rates, the same procedure is followed, using the older population. Finally, we apply the "proper" rates--rates that caused increased turnover without skewing the faculty distribution--to both the normal and the older faculty distributions.

Features of the model

Our model was developed to project how a university faculty changes over time. Factors affecting faculty growth and change were considered in the formation of the model. These include (1) tenure denial, (2) death and retirement, (3) taking a position elsewhere (outmigration), (4) mid-career

change, and (5) new hires. The model is able to take total rates for tenure denial, outmigration, and new hires and apply them to a distribution among the different age groups. These distributions sum to unity and can be altered upon input.

The model utilizes a total tenure denial rate and a tenure denial distribution for the age cohorts 30-34 and 35-39. Limitations on available data forced us to develop our model in this manner. It was assumed that most tenure decisions were made on faculty members less than age 40. Further, it was assumed that a decision whether or not to award tenure was usually made within seven years. Thus, we decided that in our model two age cohorts would be subjected to the tenure denial rate distributions. Since most decisions on tenure are made before the faculty member reaches his late thirties, the model assigns more denials to the 30-34 cohort than the 35-39 cohort.

The empirical death and retirement rates are the most straightforward of all those used in our model. In the younger age cohorts these rates exclusively represent death rates, while in the older cohorts they represent a combination of both death and retirement. These rates are applied directly to the population in each age cohort.

In our model, the total outmigration rate is applied to the total population. This yields the total number of faculty members who will leave the population that year. This total number is then distributed throughout the entire population according to a distribution specified by the analyst. The total outmigration rate and the distribution of outmigrants can be changed independently of each other for analysis.

In an effort to bring as much reality into our model as possible, we have incorporated a mid-career change rate. Generally, after the tenure decision has been made, some faculty members have second thoughts concerning their careers, as evidenced in the outmigration rates. In addition, special incentives could be provided to make people leave the university between ages 40 and 50. We depict the results of such an inducement policy through hypothetical mid-career change rates.

The total new hire/replacement rate is applied to the total number of faculty members who leave the population. First we determine the percentage

of all outmigrants, tenure denials, mid-career changes, etc. to be replaced with new employees (e.g., 80% to 105%). In our model we assume a steady state and use 100%. This yields the number of faculty members to be hired. These new hires are then distributed among the age cohorts according to a distribution specified by the analyst. Since new hires to a faculty are usually young persons with advanced degrees, it stands to reason that the two youngest age cohorts should receive the most new hires (70%). In this analysis we used hire rates reported in recent ACE data.

The model accepts as input, in addition to the previously mentioned rates and distributions, a base population distributed by age cohort, the base year, and the number of five-year periods which are to be projected. The model is designed to accommodate differing combinations of rates, distributions and base populations. In addition, at the analyst's option, the population table, showing all changes in the population, and the population histogram can be printed at one year intervals. With still another option, the model will automatically set a scale for the population histogram or one may be specified.

Our analysis was carried out using adjusted rates from Cartter and McDowell and the Berkeley Faculty Flow Model.[4] We utilized a hypothetical base population from ACE data grouped according to the Carnegie classification of Research University I as reported by Palmer. This gave us base age distribution data in commonly accepted five-year groupings.

Effects of alternative tenure denial rates

Experimentation with our model revealed that the total tenure denial rate seemed to be the most sensitive. Figure 9.16 shows the input data specified for a projection using a normally distributed base year population. Figures 9.17a through 9.17d report projected distributions for three five-year intervals. The projection is produced by assuming a 1% annual total tenure denial rate combined with a 1% total outmigration rate and a 100% total new hire/replacement rate (steady-state model). The resulting population has a large number of faculty members in the oldest cohorts and a few in the younger cohorts. The bulk of the population has passed through the years of tenure decision unscathed and now represent a large group of faculty members aged 45-60 who are beginning to consider retirement.

Figure 9.16

NORMAL DISTRIBUTION: AGE PROJECTION ASSUMING LOW TENURE DENIAL

INPUT DATA

TITLE/HEADING : HYPOTHETICAL POPULATION TEST DATA #1

BASE YEAR : 1970 NUMBER OF FIVE YEAR PROJECTIONS : 3

TOTAL TENURE DENIAL RATE : 0.0100

TOTAL EXPERIENCED OUTMIGRATION RATE : 0.0100

TOTAL REPLACEMENT RATE : 1.0000

AGE COHORT	BASE POPULATION	NEW HIRING DISTRIBUTION	OUTMIGRATION DISTRIBUTION	RETIREMENT RATES	TENURE DENIAL DISTRIBUTION	MID-CAREER RATES
OVER 65	36.	0.0	0.0	0.3374	0.0	0.0
60 - 64	52.	0.0	0.0100	0.0663	0.0	0.0
55 - 59	73.	0.0100	0.0100	0.0166	0.0	0.0
50 - 54	117.	0.0200	0.0400	0.0107	0.0	0.0
45 - 49	132.	0.0400	0.0700	0.0069	0.0	0.0
40 - 44	159.	0.1000	0.1500	0.0044	0.0	0.0
35 - 39	161.	0.1300	0.2400	0.0028	0.4000	0.0
30 - 34	166.	0.3200	0.2800	0.0018	0.6000	0.0
UNDER 30	98.	0.3000	0.2000	0.0016	0.0	0.0
TOTAL	1000.					

Figure 9.17a

NORMAL DISTRIBUTION: AGE PROJECTION ASSUMING LOW TENURE DENIAL

HISTORICAL BASE YEAR 1976

POPULATION TABLE

AGE COHORT	BASE POPULATION	OUTMI-GRANTS	TENURE DENIALS	RECENT RETIREES	MID-CAREER CHANGE	RECENT HIRES	NET CHANGE
OVER 65	36.	----	----	----	----	----	----
60 - 64	52.	----	----	----	----	----	----
55 - 59	73.	----	----	----	----	----	----
50 - 54	117.	----	----	----	----	----	----
45 - 49	132.	----	----	----	----	----	----
40 - 44	169.	----	----	----	----	----	----
35 - 39	161.	----	----	----	----	----	----
30 - 34	166.	----	----	----	----	----	----
UNDER 30	94.	----	----	----	----	----	----
TOTAL	1000.						----

POPULATION HISTOGRAM

RESULTING POPULATION	AGE COHORT
36.	OVER 65
52.	60 - 64
73.	55 - 59
117.	50 - 54
132.	45 - 49
169.	40 - 44
161.	35 - 39
166.	30 - 34
94.	UNDER 30
1000.	TOTAL

THE SYMBOL 'A' REPRESENTS 10. ACADEMICS

Figure 9.17b

NORMAL DISTRIBUTION: AGE PROJECTION ASSUMING LOW TENURE DENIAL

FIVE-YEAR SUMMARY AT 1981

POPULATION TABLE

AGE COHORT	BASE POPULATION	OUTMI-GRANTS	TENURE DENIALS	RECENT RETIREES	MID-CAREER CHANGE	RECENT HIRES	NET CHANGE
OVER 65	36.	0.	0.	31.	0.	0.	-31.
60 - 64	52.	0.	0.	15.	0.	0.	-15.
55 - 59	73.	0.	0.	6.	0.	1.	-5.
50 - 54	117.	2.	0.	6.	0.	3.	-5.
45 - 49	132.	3.	0.	5.	0.	6.	-3.
40 - 44	169.	7.	0.	4.	0.	14.	3.
35 - 39	161.	12.	7.	3.	0.	18.	-3.
30 - 34	166.	14.	10.	2.	0.	44.	19.
UNDER 30	94.	10.	0.	1.	0.	52.	42.
TOTAL	1000.						0.

POPULATION HISTOGRAM

RESULTING POPULATION	AGE COHORT
41.	OVER 65
67.	60 - 64
110.	55 - 59
127.	50 - 54
163.	45 - 49
154.	40 - 44
150.	35 - 39
127.	30 - 34
52.	UNDER 30
1000.	TOTAL

THE SYMBOL 'A' REPRESENTS 10. ACADEMICS

Figure 9.17c

NORMAL DISTRIBUTION: AGE PROJECTION ASSUMING LOW TENURE DENIAL
FIVE YEAR SUMMARY AT 1986

POPULATION TABLE

AGE COHORT	BASE POPULATION	OUTMI-GRANTS	TENURE DENIALS	RECENT RETIREES	MID-CAREER CHANGE	RECENT HIRES	NET CHANGE
OVER 65	41.	0.	0.	36.	0.	0.	-36.
60 - 64	67.	0.	0.	19.	0.	0.	-20.
55 - 59	110.	0.	0.	9.	0.	1.	-8.
50 - 54	127.	2.	0.	7.	0.	3.	-6.
45 - 49	163.	3.	0.	6.	0.	6.	-3.
40 - 44	154.	7.	0.	3.	0.	15.	4.
35 - 39	150.	12.	6.	2.	0.	19.	-1.
30 - 34	127.	14.	9.	1.	0.	48.	23.
UNDER 30	52.	10.	0.	1.	0.	56.	46.
TOTAL	1000.						0.

POPULATION HISTOGRAM

RESULTING POPULATION	AGE COHORT
52.	OVER 65
101.	60 - 64
120.	55 - 59
157.	50 - 54
149.	45 - 49
153.	40 - 44
122.	35 - 39
89.	30 - 34
56.	UNDER 30
1000.	TOTAL

THE SYMBOL "A" REPRESENTS 10. ACADEMICS

Figure 9.17d

NORMAL DISTRIBUTION: AGE PROJECTION ASSUMING LOW TENURE DENIAL
FIVE-YEAR SUMMARY AT 1991

POPULATION TABLE

AGE COHORT	BASE POPULATION	OUTMI-GRANTS	TENURE DENIALS	RECENT RETIREES	MID-CAREER CHANGE	RECENT HIRES	NET CHANGE
OVER 65	52.	0.	0.	46.	0.	0.	-46.
60 - 64	101.	0.	0.	29.	0.	0.	-29.
55 - 59	120.	0.	0.	10.	0.	2.	-8.
50 - 54	157.	2.	0.	4.	0.	3.	-7.
45 - 49	149.	3.	0.	5.	0.	7.	-2.
40 - 44	153.	7.	0.	4.	0.	17.	6.
35 - 39	122.	12.	6.	2.	0.	22.	3.
30 - 34	89.	14.	7.	1.	0.	53.	31.
UNDER 30	56.	10.	0.	1.	0.	63.	52.
TOTAL	1000.						0.

POPULATION HISTOGRAM

RESULTING POPULATION	AGE COHORT
70.	OVER 65
109.	60 - 64
149.	55 - 59
148.	50 - 54
149.	45 - 49
121.	40 - 44
89.	35 - 39
93.	30 - 34
61.	UNDER 30
1000.	TOTAL

THE SYMBOL "A" REPRESENTS 10. ACADEMICS

The same base distribution was analyzed under alternative assumptions. Although we do not display the results, we ran the model with a 5% total tenure denial rate with everything else the same as with the first projection. We found a bi-modal distribution beginning to form. The upper portion centered around those aged 55-59 who had already been granted tenure during or before the base year. The lower portion centered around those aged 30-34 whose tenure decisions had not yet been reached.

The final projection assumed the implementation of a 9% total tenure denial, with the other rates held the same as in the two previous projections. This time the projected population exhibited a decisive bi-modal distribution. A large void in the middle age groups resulted from a large tenure denial rate to faculty in the tenure-decision years.

After analyzing projections done at the 1%, 3%, 4%, 5%, 7% and 9% levels, we decided to use a 4% annual tenure denial rate throughout the rest of our analysis, as it seemd to make the projected population more normally distributed, and as it approximates the average tenure denial rate at several of our case institutions.

The next task that was undertaken was to examine how the rates used for death and retirement affected population outcomes.

Effects of alternative death and retirement rates

For this portion of our analysis, the death and retirement rates for the oldest three cohorts were manipulated, while the rates for the remaining six cohorts were not changed. We analyzed three projections differing only by the death and retirement rates applied to the three oldest cohorts. The first assumed rates of 5%, 10% and 40% for the 55-59, 60-64, and 65-and-over age cohorts respectively; the second projection assumed 7.5%, 20% and 60% respectively for the same age cohorts; and the last projection assumed 10%, 30%, and 75% respectively for those cohorts.

It was determined that to cause a significant change in the composition of the population, the death and retirement rates for the oldest three cohorts had to be changed drastically. By drastically, we are referring to about a 10-15% increase in the death and retirement rate by age cohort. This represents a major policy decision to be made by the institution concerning mandatory retirement ages and incentives for early retirement.

Effects of alternative outmigration rates

We also analyzed the result of assuming an increase in the total outmigration rate. Populations were projected using a 1% total outmigration rate and a 3% total outmigration rate. These projections revealed that the model is sensitive to changes in the outmigration rates, and a bi-modal distribution of the population again results from increases in this rate. The combined effects of higher death and retirement rates coupled with the 3% total outmigration rate produce these results. Moreover, we feel that a 3% total outmigration rate is beyond that which can be expected in today's economy. For this reason a decision was made to keep the total outmigration rate at the 1% level throughout the rest of our analysis. (In most institutions the rate probably does not exceed 1.5%.) Rather than assuming a large increase in this rate (which applies to all age groups), one could instead effect changes in outmigration by inducing mid-career change for people in specific age groups--those ages at which outmigration will be worth the effort and money spent inducing people to leave.

Effects of alternative mid-career change rates

We next tested the model's sensitivity to changes in the mid-career change rate. We thought that this factor would affect the upper end of the population distribution over time, as well as have an immediate impact upon younger faculty members. We expected the number of older faculty members to decrease as a result of mid-career change, while the number of younger faculty would increase as a result of the greater proportion of new hires and replacements being made in the younger age groups.

Projections using 1%, 2%, and 3% respectively as mid-career change rates substantiated our hypothesis. For our analysis, we decided to use mid-career change rates of 2% since this projection yielded a fairly normal population distribution, and we hardly believe that a higher rate could be induced, no matter how much money a university or college might spend.

Effects of alternative rates on an older population

After obtaining rates by using our model on a normally distributed faculty, we decided to see what happens with a population which is distributed differently. We chose to use a faculty with a mandatory retirement age of 65, whose median age (45-49) was older than in the normally distributed

population. We used the distribution of one of our case institutions applied to a population of 1000 persons.

From previous experimentation we had found that total tenure denial and outmigration were the two most sensitive factors in our model. It was decided that regardless what the base population distribution happened to be these rates appeared appropriate. (See the previous discussion of tenure denial and outmigration rates.)

Figure 9.18 depicts the input data specified for projections using an older faculty. Alternative projections of this older faculty distribution were made using 1%, 2% and 3% mid-career change rates respectively. The 1% projection for a fifteen-year period is illustrated in Figure 9.19a through 9.19d. The projections describe a faculty beginning to grow younger as the result of the mid-career change rate. The faculty must pass through the mid-career change "filter." As a result, fewer of them move into the older age cohorts. This also yields vacancies which are usually filled by persons in the younger age groups.

The idea behind selecting the proper mid-career change rate is to move out a few faculty members before they enter the upper age cohorts while at the same time keeping the number of new hires in the younger cohorts at an even replacement level. We find it hard to imagine a mid-career change rate greater than 2-3%.

We produced projections using 4% total tenure denial, 1% total outmigration, and 3% mid-career change rates, while varying the death and retirement rates in the upper three age cohorts. The first projection, which used 5%, 10%, and 40% respectively for the three oldest age cohorts, resulted in most faculty members reaching the mandatory retirement age at 65.

The next projection, which used the 7.5%, 20%, and 60% levels, gave us a good distribution among the faculty population. The number of persons reaching the mandatory retirement age was cut in half, but the younger faculty age groups did not "bulge" since they still had to pass through the tenure denial and mid-career change "filters."

The final projection, done at the 10%, 30%, and 75% levels respectively, left us with only a fifth as many people reaching the mandatory retirement age as the first projection. In addition, the number of faculty

Figure 9.18

OLDER DISTRIBUTION: AGE PROJECTION ASSUMING 1% MID-CAREER CHANGE
INPUT DATA

TITLE/HEADING : HYPOTHETICAL POPULATION TEST DATA #1

BASE YEAR : 1976 NUMBER OF FIVE YEAR PROJECTIONS : 3

TOTAL TENURE DENIAL RATE : 0.0400

TOTAL EXPERIENCED OUTMIGRATION RATE : 0.0100

TOTAL REPLACEMENT RATE : 1.0000

AGE COHORT	BASE POPULATION	NEW HIRING DISTRIBUTION	OUTMIGRATION DISTRIBUTION	RETIREMENT RATES	TENURE DENIAL DISTRIBUTION	MID-CAREER RATES
OVER 65	0.	0.0	0.0	0.3374	0.0	0.0
60 - 64	30.	0.0	0.0100	0.0653	0.0	0.0
55 - 59	110.	0.0100	0.0100	0.0166	0.0	0.0
50 - 54	200.	0.0200	0.0400	0.0107	0.0	0.0
45 - 49	190.	0.0400	0.0700	0.0069	0.0	0.0100
40 - 44	160.	0.1000	0.1500	0.0044	0.0	0.0100
35 - 39	150.	0.1300	0.2400	0.0028	0.4000	0.0
30 - 34	110.	0.3200	0.2000	0.0018	0.6000	0.0
UNDER 30	50.	0.3000	0.2000	0.0016	0.0	0.0
TOTAL	1000.					

Figure 9.19a

OLDER DISTRIBUTION: AGE PROJECTION ASSUMING 1% MID-CAREER CHANGE

HISTORICAL BASE YEAR 1976

POPULATION TABLE

AGE COHORT	BASE POPULATION	OUTMI-GRANTS	TENURE DENIALS	RECENT RETIREES	MID-CAREER CHANGE	RECENT HIRES	NET CHANGE
OVER 65	0.	----	----	----	----	----	----
60 - 64	30.	----	----	----	----	----	----
55 - 59	110.	----	----	----	----	----	----
50 - 54	200.	----	----	----	----	----	----
45 - 49	190.	----	----	----	----	----	----
40 - 44	160.	----	----	----	----	----	----
35 - 39	150.	----	----	----	----	----	----
30 - 34	110.	----	----	----	----	----	----
UNDER 30	50.	----	----	----	----	----	----
TOTAL	1000.						----

POPULATION HISTOGRAM

	RESULTING POPULATION	AGE COHORT
A	0.	OVER 65
AAA	30.	60 - 64
AAAAAAAAAAA	110.	55 - 59
AAAAAAAAAAAAAAAAAAAA	200.	50 - 54
AAAAAAAAAAAAAAAAAAA	190.	45 - 49
AAAAAAAAAAAAAAAA	160.	40 - 44
AAAAAAAAAAAAAAA	150.	35 - 39
AAAAAAAAAAA	110.	30 - 34
AAAAA	50.	UNDER 30
	1000.	TOTAL

THE SYMBOL 'A' REPRESENTS 10. ACADEMICS

Figure 9.19b

OLDER DISTRIBUTION: AGE PROJECTION ASSUMING 1% MID-CAREER CHANGE

FIVE YEAR SUMMARY AT 1981

POPULATION TABLE

AGE COHORT	BASE POPULATION	OUTMI-GRANTS	TENURE DENIALS	RECENT RETIREES	MID-CAREER CHANGE	RECENT HIRES	NET CHANGE
OVER 65	0.	0.	0.	0.	0.	0.	0.
60 - 64	30.	0.	0.	9.	0.	0.	-9.
55 - 59	110.	0.	0.	9.	0.	2.	-8.
50 - 54	200.	2.	0.	10.	0.	3.	-9.
45 - 49	190.	3.	0.	6.	9.	6.	-13.
40 - 44	160.	7.	0.	3.	8.	16.	-3.
35 - 39	150.	12.	1.	2.	0.	21.	-14.
30 - 34	110.	14.	1.	1.	0.	51.	5.
UNDER 30	50.	10.	0.	1.	0.	61.	50.
TOTAL	1000.						0.

POPULATION HISTOGRAM

	RESULTING POPULATION	AGE COHORT
A	21.	OVER 65
AAAAAAAAAA	101.	60 - 64
AAAAAAAAAAAAAAAAAAAA	109.	55 - 59
AAAAAAAAAAAAAAAAAA	174.	50 - 54
AAAAAAAAAAAAAAA	147.	45 - 49
AAAAAAAAAAAAAA	111.	40 - 44
AAAAAAAAA	85.	35 - 39
AAAAAAAAA	91.	30 - 34
AAAAAA	61.	UNDER 30
	1000.	TOTAL

THE SYMBOL 'A' REPRESENTS 10. ACADEMICS

Figure 9.19c

OLDER DISTRIBUTION: AGE PROJECTION ASSUMING 10 MID-CAREER CHANGE

FIVE-YEAR SUMMARY AT 1986

POPULATION TABLE

AGE COHORT	BASE POPULATION	OUTMI-GRANTS	TENURE DENIALS	RECENT RETIREES	MID-CAREER CHANGE	RECENT HIRES	NET CHANGE
OVER 65	21.	0.	0.	18.	0.	0.	-18.
60 - 64	101.	0.	0.	29.	0.	0.	-29.
55 - 59	189.	0.	0.	15.	0.	2.	-14.
50 - 54	174.	2.	0.	9.	0.	4.	-7.
45 - 49	147.	3.	0.	5.	7.	7.	-8.
40 - 44	111.	7.	0.	3.	7.	18.	1.
35 - 39	85.	12.	15.	1.	0.	24.	-4.
30 - 34	91.	14.	22.	1.	0.	58.	21.
UNDER 30	61.	10.	0.	1.	0.	69.	59.
TOTAL	1000.						0.

POPULATION HISTOGRAM

RESULTING POPULATION	AGE COHORT
74.	OVER 65
173.	60 - 64
165.	55 - 59
135.	50 - 54
122.	45 - 49
75.	40 - 44
77.	35 - 39
109.	30 - 34
69.	UNDER 30
1000.	TOTAL

THE SYMBOL 'A' REPRESENTS 10. ACADEMICS

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Figure 9.19d

OLDER DISTRIBUTION: AGE PROJECTION ASSUMING 10 MID-CAREER CHANGE

FIVE-YEAR SUMMARY AT 1991

POPULATION TABLE

AGE COHORT	BASE POPULATION	OUTMI-GRANTS	TENURE DENIALS	RECENT RETIREES	MID-CAREER CHANGE	RECENT HIRES	NET CHANGE
OVER 65	74.	0.	0.	65.	0.	0.	-65.
60 - 64	173.	0.	0.	60.	0.	0.	-60.
55 - 59	165.	0.	0.	13.	0.	2.	-11.
50 - 54	135.	2.	0.	7.	0.	5.	-4.
45 - 49	122.	3.	0.	4.	6.	10.	-4.
40 - 44	75.	7.	0.	2.	4.	20.	11.
35 - 39	77.	12.	17.	1.	0.	33.	2.
30 - 34	109.	14.	25.	1.	0.	79.	30.
UNDER 30	69.	10.	0.	1.	0.	93.	82.
TOTAL	1000.						0.

POPULATION HISTOGRAM

RESULTING POPULATION	AGE COHORT
133.	OVER 65
151.	60 - 64
129.	55 - 59
113.	50 - 54
72.	45 - 49
72.	40 - 44
100.	35 - 39
137.	30 - 34
93.	UNDER 30
1000.	TOTAL

THE SYMBOL 'A' REPRESENTS 10. ACADEMICS

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members in the younger age cohorts was growing too quickly. Therefore, we decided to set the death and retirement rate for the oldest age cohort at 67% (splitting the difference between 60% and 75%) and to use 10% and 20% for the 55-59 and 60-64 age groups respectively. This was decided in an effort not to drastically change the faculty to a younger one by allowing large numbers of new hires to enter at the younger age cohorts.

Testing the impact of the "proper" rates

We produced projections using the 10%, 20% and 67% death and retirement rates. In the first projection we used the older faculty distribution as the base population (Figures 9.20 and 9.21a-9.21d). In the second projection we used a normal population distribution (Figures 9.22 and 9.23a-9.23d). The slight bulge in the 55-59 age cohort results because of the number of five-year projections carried out (three periods). If a fourth projection had been done, in each population the bulge would have disappeared after the death and retirement rates had been applied to the cohort. In each case, the population distribution smooths out as a result of the application of these rates. This result could enable an institution to plan more effectively for faculty staffing since year-to-year fluctuations in new staff requirements would be minimized. Further, this projection shows that an "old" faculty can be made younger, and a "young" faculty can be kept from aging, through the application of the "proper" rates.

Certainly this does not mean that these are the rates which should be sought at every institution. Rather, they describe the changes that can be brought about through specific changes in policy. The type of faculty desired will change from institution to institution and thus so will the desired retirement rates.

Increased retirement rates can cause substantial proportions of older cohorts to leave, but because of the small size of these cohorts and their proximity to the mandatory retirement age, these increased rates have relatively minor impacts upon the number of new hires that can be made. To make major changes, the rates would have to be boosted to ridiculously high levels.

Figure 9.20

OLDER DISTRIBUTION: AGE PROJECTION ASSUMING HIGH DEATH & RETIREMENT RATES

INPUT DATA

TITLE/HEADING : HYPOTHETICAL POPULATION TEST DATA #1

BASE YEAR : 1970 NUMBER OF FIVE YEAR PROJECTIONS : 3

TOTAL TENURE DENIAL RATE : 0.0400

TOTAL EXPERIENCED OUTMIGRATION RATE : 0.0100

TOTAL REPLACEMENT RATE : 1.0000

AGE COHORT	BASE POPULATION	NEW HIRING DISTRIBUTION	OUTMIGRATION DISTRIBUTION	RETIREMENT RATES	TENURE DENIAL DISTRIBUTION	MID-CAREER RATES
OVER 65	0.	0.0	0.0	0.6700	0.0	0.0
60 - 64	30.	0.0	0.0100	0.2000	0.0	0.0
55 - 59	110.	0.0100	0.0100	0.1000	0.0	0.0
50 - 54	200.	0.0200	0.0400	0.0107	0.0	0.0
45 - 49	190.	0.0400	0.0700	0.0069	0.0	0.0200
40 - 44	150.	0.1000	0.1500	0.0044	0.0	0.0200
35 - 39	150.	0.1300	0.2400	0.0028	0.4000	0.0
30 - 34	110.	0.3200	0.2000	0.0018	0.6000	0.0
UNDER 30	50.	0.3000	0.2000	0.0016	0.0	0.0
TOTAL	1000.					

Figure 9.21a

OLDER DISTRIBUTION: AGE PROJECTION ASSUMING HIGH DEATH AND RETIREMENT RATES

HISTORICAL BASE YEAR 1976

POPULATION TABLE

AGE COHORT	BASE POPULATION	OUTMI-GRANTS	TENURE DENIALS	RECENT RETIREES	MID-CAREER CHANGE	RECENT HIRES	NET CHANGE
OVER 65	0.	----	----	----	----	----	----
60 - 64	30.	----	----	----	----	----	----
55 - 59	110.	----	----	----	----	----	----
50 - 54	200.	----	----	----	----	----	----
45 - 49	190.	----	----	----	----	----	----
40 - 44	160.	----	----	----	----	----	----
35 - 39	150.	----	----	----	----	----	----
30 - 34	110.	----	----	----	----	----	----
UNDER 30	50.	----	----	----	----	----	----
TOTAL	1000.						----

POPULATION HISTOGRAM

RESULTING POPULATION	AGE COHORT
0.	OVER 65
30.	60 - 64
110.	55 - 59
200.	50 - 54
190.	45 - 49
160.	40 - 44
150.	35 - 39
110.	30 - 34
50.	UNDER 30
1000.	TOTAL

THE SYMBOL 'A' REPRESENTS 10. ACADEMICS

Figure 9.21b

OLDER DISTRIBUTION: AGE PROJECTION ASSUMING HIGH DEATH AND RETIREMENT RATES

FIVE-YEAR SUMMARY AT 1981

POPULATION TABLE

AGE COHORT	BASE POPULATION	OUTMI-GRANTS	TENURE DENIALS	RECENT RETIREES	MID-CAREER CHANGE	RECENT HIRES	NET CHANGE
OVER 65	0.	0.	0.	0.	0.	0.	0.
60 - 64	30.	0.	0.	20.	0.	0.	-21.
55 - 59	110.	0.	0.	45.	0.	2.	-44.
50 - 54	200.	2.	0.	11.	0.	5.	-0.
45 - 49	190.	3.	0.	6.	18.	9.	-19.
40 - 44	160.	7.	0.	1.	16.	23.	-4.
35 - 39	150.	12.	32.	2.	0.	30.	-6.
30 - 34	110.	10.	32.	1.	0.	73.	26.
UNDER 30	50.	10.	0.	1.	0.	86.	76.
TOTAL	1000.						0.

POPULATION HISTOGRAM

RESULTING POPULATION	AGE COHORT
9.	OVER 65
64.	60 - 64
190.	55 - 59
167.	50 - 54
142.	45 - 49
137.	40 - 44
92.	35 - 39
112.	30 - 34
86.	UNDER 30
1000.	TOTAL

THE SYMBOL 'A' REPRESENTS 10. ACADEMICS

Figure 9.21c

OLDER DISTRIBUTION: AGE PROJECTION ASSUMING HIGH DEATH AND RETIREMENT RATES

FIVE-YEAR SUMMARY AT 1986

POPULATION TABLE

AGE COHORT	BASE POPULATION	OUTMI-GRANTS	TENURE DENIALS	RECENT RETIREES	MID-CAREER CHANGE	RECENT HIRES	NET CHANGE
OVER 65	9.	0.	0.	9.	0.	0.	-9.
60 - 64	64.	0.	0.	43.	0.	0.	-43.
55 - 59	190.	0.	0.	78.	0.	3.	-76.
50 - 54	167.	2.	0.	9.	0.	5.	-5.
45 - 49	142.	3.	0.	5.	14.	11.	-11.
40 - 44	137.	7.	0.	3.	14.	27.	3.
35 - 39	92.	12.	18.	1.	0.	36.	4.
30 - 34	112.	14.	27.	1.	0.	88.	45.
UNDER 30	86.	10.	0.	1.	0.	104.	93.
TOTAL	1000.						0.

POPULATION HISTOGRAM

RESULTING POPULATION	AGE COHORT
21.	OVER 65
111.	60 - 64
158.	55 - 59
126.	50 - 54
124.	45 - 49
80.	40 - 44
105.	35 - 39
163.	30 - 34
104.	UNDER 30
1000.	TOTAL

THE SYMBOL 'A' REPRESENTS 10. ACADEMICS

Figure 9.21d

OLDER DISTRIBUTION: AGE PROJECTION ASSUMING HIGH DEATH AND RETIREMENT RATES

FIVE-YEAR SUMMARY AT 1991

POPULATION TABLE

AGE COHORT	BASE POPULATION	OUTMI-GRANTS	TENURE DENIALS	RECENT RETIREES	MID-CAREER CHANGE	RECENT HIRES	NET CHANGE
OVER 65	21.	0.	0.	21.	0.	0.	-21.
60 - 64	111.	0.	0.	75.	0.	0.	-75.
55 - 59	158.	0.	0.	66.	0.	3.	-63.
50 - 54	126.	2.	0.	7.	0.	6.	-3.
45 - 49	124.	4.	0.	4.	12.	12.	-7.
40 - 44	80.	7.	0.	2.	9.	31.	12.
35 - 39	105.	12.	24.	2.	0.	40.	3.
30 - 34	163.	14.	31.	2.	0.	99.	48.
UNDER 30	104.	10.	0.	1.	0.	117.	106.
TOTAL	1000.						0.

POPULATION HISTOGRAM

RESULTING POPULATION	AGE COHORT
36.	OVER 65
93.	60 - 64
120.	55 - 59
110.	50 - 54
81.	45 - 49
99.	40 - 44
152.	35 - 39
192.	30 - 34
117.	UNDER 30
1000.	TOTAL

THE SYMBOL 'A' REPRESENTS 10. ACADEMICS

Figure 9.22

NORMAL DISTRIBUTION: AGE PROJECTION ASSUMING HIGH DEATH & RETIREMENT RATES

INPUT DATA

TITLE/HEADING : HYPOTHETICAL POPULATION TEST DATA #1

BASE YEAR : 1976 NUMBER OF FIVE YEAR PROJECTIONS : 3

TOTAL TENURE DENIAL RATE : 0.0400

TOTAL EXPERIENCED OUTMIGRATION RATE : 0.0100

TOTAL REPLACEMENT RATE : 1.0000

AGE COHORT	BASE POPULATION	NEW HIRING DISTRIBUTION	OUTMIGRATION DISTRIBUTION	RETIREMENT RATES	TENURE DENIAL DISTRIBUTION	MID-CAREER RATES
OVER 65	36.	0.0	0.0	0.6700	0.0	0.0
60 - 64	52.	0.0	0.0100	0.2060	0.0	0.0
55 - 59	73.	0.0100	0.0100	0.1000	0.0	0.0
50 - 54	117.	0.0200	0.0400	0.0107	0.0	0.0
45 - 49	132.	0.0400	0.0700	0.0069	0.0	0.0200
40 - 44	169.	0.1000	0.1500	0.0044	0.0	0.0200
35 - 39	161.	0.1300	0.2400	0.0028	0.4000	0.0
30 - 34	166.	0.3200	0.2800	0.0018	0.6000	0.0
UNDER 30	94.	0.3000	0.2000	0.0016	0.0	0.0
TOTAL	1000.					

Figure 9.23a

NORMAL DISTRIBUTION: AGE PROJECTION ASSUMING HIGH DEATH AND RETIREMENT RATES

HISTORICAL BASE YEAR 1976

POPULATION TABLE

AGE COHORT	BASE POPULATION	OUTMI-GRANTS	TENURE DENIALS	RECENT RETIREES	MID-CAREER CHANGE	RECENT HIRES	NET CHANGE
OVER 65	36.	----	----	----	----	----	----
60 - 64	52.	----	----	----	----	----	----
55 - 59	73.	----	----	----	----	----	----
50 - 54	117.	----	----	----	----	----	----
45 - 49	132.	----	----	----	----	----	----
40 - 44	169.	----	----	----	----	----	----
35 - 39	161.	----	----	----	----	----	----
30 - 34	166.	----	----	----	----	----	----
UNDER 30	94.	----	----	----	----	----	----
TOTAL	1000.						----

POPULATION HISTOGRAM

	RESULTING POPULATION	AGE COHORT
AAAA	36.	OVER 65
AAAA	52.	60 - 64
AAAAA	73.	55 - 59
AAAAAAA	117.	50 - 54
AAAAAAA	132.	45 - 49
AAAAAAAAAAAA	169.	40 - 44
AAAAAAAAAAAAAA	161.	35 - 39
AAAAAAAAAAAAAA	166.	30 - 34
AAAAAAAAAAAAAA	94.	UNDER 30
AAAAAAAAA	1000.	TOTAL
AAAAAAAAA		

THE SYMBOL 'A' REPRESENTS 10. ACADEMICS

Figure 9.23b

NORMAL DISTRIBUTION: AGE PROJECTION ASSUMING HIGH DEATH AND RETIREMENT RATES

FIVE-YEAR SUMMARY AT 1981

POPULATION TABLE

AGE COHORT	BASE POPULATION	OUTMI-GRANTS	TENURE DENIALS	RECENT RETIREES	MID-CAREER CHANGE	RECENT HIRES	NET CHANGE
OVER 65	36.	0.	0.	36.	0.	0.	-36.
60 - 64	52.	0.	0.	35.	0.	0.	-35.
55 - 59	73.	0.	0.	30.	0.	3.	-28.
50 - 54	117.	2.	0.	6.	0.	5.	-3.
45 - 49	132.	3.	0.	8.	13.	11.	-10.
40 - 44	169.	7.	0.	4.	17.	27.	-1.
35 - 39	161.	12.	31.	2.	0.	39.	-7.
30 - 34	166.	14.	41.	2.	0.	86.	29.
UNDER 30	94.	16.	0.	1.	0.	102.	91.
TOTAL	1000.						0.

POPULATION HISTOGRAM

	RESULTING POPULATION	AGE COHORT
AA	17.	OVER 65
AA	42.	60 - 64
AAAA	111.	55 - 59
AAAAAAAAAA	117.	50 - 54
AAAAAAAAAAAA	152.	45 - 49
AAAAAAAAAAAAAA	146.	40 - 44
AAAAAAAAAAAAAA	154.	35 - 39
AAAAAAAAAAAA	169.	30 - 34
AAAAAAAAAAAAAAAA	102.	UNDER 30
AAAAAAAAAA	1000.	TOTAL

THE SYMBOL 'A' REPRESENTS 10. ACADEMICS

Figure 9.23c

NORMAL DISTRIBUTION: AGE PROJECTION ASSUMING HIGH DEATH AND RETIREMENT RATES

FIVE-YEAR SUMMARY AT 1986

POPULATION TABLE

AGE COHORT	BASE POPULATION	CONTI-GRANTS	TENURE DENIALS	RECENT RETIREES	MID-CAREER CHANGE	RECENT HIRES	NET CHANGE
OVER 65	17.	0.	0.	17.	0.	0.	-17.
60 - 64	42.	0.	0.	28.	0.	0.	-29.
55 - 59	111.	0.	0.	46.	0.	3.	-44.
50 - 54	117.	2.	0.	6.	0.	5.	-3.
45 - 49	152.	3.	0.	5.	15.	10.	-13.
40 - 44	146.	7.	0.	3.	15.	25.	0.
35 - 39	140.	12.	26.	2.	0.	33.	7.
30 - 34	169.	14.	33.	2.	0.	82.	27.
UNDER 30	102.	10.	0.	1.	0.	97.	86.
TOTAL	1000.						0.

POPULATION HISTOGRAM

	RESULTING POPULATION	AGE COHORT
A	14.	OVER 65
AA	65.	60 - 64
AAAAAA	111.	55 - 59
AAAAAAAAAAA	133.	50 - 54
AAAAAAAAAAAA	131.	45 - 49
AAAAAAAAAAAAA	130.	40 - 44
AAAAAAAAAAAAA	147.	35 - 39
AAAAAAAAAAAAAA	173.	30 - 34
AAAAAAAAAAAAAAAA	97.	UNDER 30
AAAAAAAAAA	1000.	TOTAL

THE SYMBOL 'A' REPRESENTS 10. ACADEMICS

Figure 9.23d

NORMAL DISTRIBUTION: AGE PROJECTION ASSUMING HIGH DEATH AND RETIREMENT RATES

FIVE-YEAR SUMMARY AT 1991

POPULATION TABLE

AGE COHORT	BASE POPULATION	CONTI-GRANTS	TENURE DENIALS	RECENT RETIREES	MID-CAREER CHANGE	RECENT HIRES	NET CHANGE
OVER 65	14.	0.	0.	13.	0.	0.	-13.
60 - 64	65.	0.	0.	43.	0.	0.	-44.
55 - 59	111.	0.	0.	46.	0.	3.	-44.
50 - 54	133.	2.	0.	7.	0.	5.	-4.
45 - 49	131.	3.	0.	8.	11.	11.	-10.
40 - 44	130.	7.	0.	3.	11.	26.	3.
35 - 39	147.	12.	27.	2.	0.	34.	-6.
30 - 34	173.	14.	80.	2.	0.	15.	29.
UNDER 30	97.	10.	0.	1.	0.	101.	80.
TOTAL	1000.						0.

POPULATION HISTOGRAM

	RESULTING POPULATION	AGE COHORT
AA	21.	OVER 65
AA	65.	60 - 64
AAAAAA	127.	55 - 59
AAAAAAAAAAAAA	116.	50 - 54
AAAAAAAAAAAA	117.	45 - 49
AAAAAAAAAAAA	133.	40 - 44
AAAAAAAAAAAAA	151.	35 - 39
AAAAAAAAAAAAA	170.	30 - 34
AAAAAAAAAAAAAAAA	101.	UNDER 30
AAAAAAAAAA	1000.	TOTAL

THE SYMBOL 'A' REPRESENTS 10. ACADEMICS

Summary

Our model shows that tenure denial and outmigration are the most sensitive of the rates. The other rates--mid-career change and death and retirement, as well as the distributions among the cohorts for new hires and outmigration--should be thought of as the "fine-tuning" in the effort to obtain a desirable faculty population distribution.

Administrators are reminded that although our model (through the proper selection of rates) yields a particular population, other factors must also be considered. For example, how can an institution realistically obtain a 20% death and retirement rate in the 60-64 age cohort? Certainly, it cannot control the death aspect of the rate. This leaves only retirement. A system of incentives must be established to make retirement an attractive alternative for 20% of that age cohort. This involves not only a policy change by the institution, but also financial planning to go along with the desired change. Clearly, in today's economy, a university cannot afford to make a wrong decision concerning the cost of such a policy change.

What can be seen from this exercise is that manipulating the proper rates can yield just about any population distribution an institution desires. Whether these rates can be obtained in practice is another question.

As we have discussed earlier, the total tenure denial rate is the most sensitive rate in our model. An administrator might think that by increasing the tenure denial rate a desired population distribution could result. We have seen, however, that when the tenure denial rate is increased to a high level, the population takes on a bi-modal distribution.

Other reasons that an institution might not consider a high tenure denial rate include: (1) it discourages faculty from coming to a university because of its policy of not granting tenure, and (2) the faculty population distribution will result in fewer faculty members in the middle-age cohorts since few are granted tenure. Going to the other extreme and choosing a low tenure denial rate is not the right approach either. A middle range for this tenure denial rate must be obtained in order to minimize difficulties and produce an institution's desired population.

In practice, too few older faculty members are affected by a policy which banks on high retirement rates. Basically, this is because of the expense involved in obtaining high retirement rates. We find it hard to believe that even those institutions where cost is no object will be successful in obtaining high rates of retirement.

We found in our analysis that the mid-career change rate seemed to work well for institutions which wanted to cut back the number of faculty approaching the near-retirement years. We do not know of any programs now in effect which induce substantial mid-career change. Although manipulation of mid-career change rates is possible in our model, in practice--even in an effective program--it may be difficult to obtain the rates which we have used.

An analyst might want to increase the outmigration rate beyond what we believe is the market-induced level. The result of this increase will not represent much change at the older faculty ages. We suggest keeping this rate at the market-induced level for almost all institutional analysis.

Working with these rates is, in many ways, like tuning a UHF television station. The total tenure denial and outmigration rates can get you near the mark, while the mid-career change and early retirement rates can be used in "fine-tuning" your faculty picture.

Possible changes in the model

Our model is intended to describe general changes in the distribution of faculty members, using rates and distributions describing academia in general. For a specific institution another model, one dealing with one-year age groups, years-to-tenure rates, promotion rates, etc., would be more appropriate. The model used in this analysis was merely intended for analyzing the results of different combinations of rate setting to test the impact of alternative policies on typical population distributions.

More sophisticated models have been developed, and an institution seriously considering early retirement options should analyze its proposed policies through the application of one of these models. At least one model is available to interested organizations: The University of Southern California Faculty Flow Model, available from the Office of Institutional

Studies, University of Southern California, and developed by Dr. Paul Grey.[5] The model is based on individual cases as opposed to age-cohort distributions of faculty. Instead of using a tenure denial rate, this model makes use of a probability distribution for the determination of tenure, and thus requires a record of tenure history. The model is applicable to schools with faculties of up to 200-250 persons.

A second model, developed by David S. P. Hopkins at Stanford, follows changes in the age cohorts of the faculty.[6] A Markov-chain process projection of faculty population distributions can only be done with rates obtained from historic data.

A third model, developed by R. G. Schroeder, also uses faculty age cohorts in making projections.[7] Through linear programming techniques, optimization of faculty use and salary costs can be obtained. This model has several inputs, perhaps the most interesting of which is student course demands. This demand is then reflected in the number of faculty members needed to teach in that particular field on a year-to-year basis.

We urge all those with further interest in these models to examine them and, where appropriate, make variations in them to suit their specific needs.

FOOTNOTES

[1]Frank J. Atelsek and Irene L. Gomberg, Young Doctorate Faculty in Selected Science and Engineering Departments, 1975 to 1980, Washington, D.C.: American Council on Education, 1976.

[2]David Palmer, "Basic Age Distributions by Field by Type of Institution," Storrs: University of Connecticut, October 20, 1976. (Mimeographed.)

[3]Allan M. Cartter and John M. McDowell, "Projected Market and Institutional Policy Impact on Faculty Composition," Los Angeles: University of California, February 1975. (Mimeographed.)

[4]Albert H. Bowker, Berkeley in a Steady State, Berkeley: University of California, Office of the Chancellor, September 21, 1973.

[5]Paul Grey, "College and University Planning Models." Los Angeles: University of Southern California, Office of Institutional Studies, January 1976. (Mimeographed.)

[6]David S.P. Hopkins, "Faculty Early Retirement Programs," Operations Research, vol. 22, no. 3 (1974), pp. 455-467.

[7]R. G. Schroeder, "Resource Planning in University Management by Goal Programming," Operations Research, vol. 22 (July/August 1974), pp. 700-710.

[8]David S. P. Hopkins, "Analysis of Faculty Appointment, Promotion, and Retirement Policies." Higher Education, vol. 3, no. 4 (November 1974), pp. 397-418.

10. CONCLUSION

The Promise of Early Retirement and Mid-Career Change

Early retirement's appeal has waxed and waned during the past few years. At first, early retirement was billed as a way to save money at the same time a faculty was revitalized, by replacing worn-out academics with new, vigorous ones. Whether anyone really believed this could be done is hard to say. In practice, institutions found they saved little money because the retiring person usually had to be replaced, and in some instances highly valued faculty left. Further, the practice of inducing someone to retire was challenged as tantamount to firing an employee. When word of these problems began to circulate, some institutions backed away from considering increased benefits early retirement.

At the same time though, a number of institutions, both public and private, inside and outside of academia saw induced early retirement for what it was: a way to encourage a few people to retire early. These organizations saw that by carefully setting benefit levels, by clearly stating the terms of the early retirement provision, and by approaching the proper employees in the right way, there was an advantage to carrying out an increased benefits early retirement plan. Certainly, this scheme alone would not dramatically change the nature and composition of their work force or faculty, nor would it save them a great deal of money, but it would permit a few important replacements. These organizations saw several advantages. On the one hand, for a modest expense, a few poor performers (who might be hurting morale) could be encouraged to leave, as opposed to being fired. This could permit hiring new employees with needed skills during times when staffs were otherwise not increasing. On the other hand, increased benefit early retirement could make it possible for some individuals who wanted to retire early (but who might not have enough years of service to produce a decent pension) to obtain the financial means to do so. In a few cases, even when replacement employees were hired, the organizations saved a little money; but almost unanimously these organizations point out that saving money should not be the primary reason for adopting an incentive early retirement scheme. Rather, if an organization wants to make a few qualitative adjustments, early retirement can help.

Mid-career change is another story. Few firms have programs to facilitate mid-career change among employees at higher levels of education and responsibility. Most retraining at higher levels is directed at highly valued employees whom the firm wants to retain. There is a general reluctance to make additional investments in unproductive employees who do not have tenure and who can be terminated, transferred or encouraged to retire. Institutional programs for faculty retraining are a recent development. These, however, are not career change programs per se, since the retrained faculty gen[illegible]lly continue within the same institutions or systems, though perhaps in different departments.

Our research suggests that early retirement and mid-career change are potentially useful tools to be used by academia in its attempt to encourage turnover in the faculty ranks. However, these tools are only two of several that should be used for this purpose. As our faculty flow model shows (and as the models used by others also depict), the early retirement rate has to be boosted quite high to make much of an impact on a faculty in quantitative terms. Similarly, induced outmigration in the middle-age groups has to be several percentage points per year to permit extensive hiring of new employees. We doubt that either the early retirement or the mid-career change rates could be boosted high enough in practice.

Extensive turnover can be induced by reducing the rate at which tenure is granted (or in our model increasing the rate at which it is denied), but there is a practical limit to the percentage of young faculty members that can be denied tenure. This is for two reasons. First, although high tenure denial rates will cause high turnover (even when faculty size is held constant), that turnover will be limited to the under-forty group. Second, excessively high tenure denial rates will undoubtedly have an effect upon the labor supply. Even graduates who have the ability and drive to advance may avoid entering academia if they see tenure denial rates set to maximize turnover.

Before jumping on the early retirement or mid-career-change bandwagon, institutions must be certain as to their needs, the price they are willing to pay for turnover, and how changes in the early retirement and mid-career change rates will affect faculty flow at their own institutions.

We recommend that each institution considering these options examine its current faculty age composition by field, its tenure-granting rates, its outmigration rates, etc., and use these findings to calculate the impact of various mid-career and early retirement options. An institution may find that its staffing problems will be ameliorated by the natural aging of the faculty during the next five to ten years, or it may find that one of the options described in this report can be helpful and worth its cost.

Summary Evaluation of Early Retirement Alternatives

Evaluation criteria

In order to judge the effectiveness of an early retirement alternative, it is necessary to consider it in relation to a set of evaluation criteria. The criteria derived during the design stage of this project still hold. They are:

Funds freed by the alternative. Will there be sufficient funds freed to hire replacement faculty members? For how long will these funds be available? Our research suggests that the benefits (in terms of cost savings) to institutions often were overestimated when early retirement programs were initiated. It will be essential to identify clearly the quantity of funds freed by each alternative.

The employee replacement rate. Another way to express the amount of funds freed is to translate those funds into the numbers of persons who can be replaced. This measure is not identical to the first criterion because here one considers the number of persons who select an alternative. While one option might free more funds per early retiree, another option, though releasing fewer funds per person, might appeal to more employees and thus free more faculty positions. While some institutions may view these options as ways to reduce their budgets, others may view them as ways to increase turnover. The employee replacement rate within departments and within institutions is thus an important criterion.

Retirement income and annuity level. From the perspective of the potential early retiree, the level of the retirement annuity is perhaps the most important criterion. The level of that income should be measured in

two ways: (1) early retirement annuity as a percentage of normal retirement annuity, and (2) early retirement annuity as a percentage of pre-retirement salary. An additional factor might be considered. Since some of the early retirement options include a part-time employment provision, the level of retirement income and of retirement annuity income must be distinguished. Under a particular option, a retiree may receive greater benefits but may be required to work part-time.

Administrative feasibility. Administrative considerations include the need (if any) for changes in pension legislation or basic personnel policy before a scheme can be implemented, the source of funds with which to finance the plan, the discretion to reallocate released funds, etc. A related question is whether the early retirement alternative can be used to select the right employee without undue disruption to the institution. Specifically, will deans and chairmen see early retirement options as sufficiently attractive that they will encourage the "appropriate" faculty members to investigate them? If a faculty member opts for one of these schemes, will the department benefit and not only in a financial sense? Further, are the alternatives reasonable when the age structure of the faculty is considered? In some cases there may be no age-structure problem. In other cases the normal sequence of events may correct low levels of retirement.

Legal feasibility. Any early retirement plan must be designed with cognizance of its present and potential legal implications. Will the proposed alternative invite charges of discrimination from persons who feel that they are being forced to quit working because of age? Such a suit (as we have discussed in Chapter 7) could be brought against an employer under the Age Discrimination Employment Act of 1967. How do the alternatives stand in relation to ERISA laws and to Sections 403(b) and 415 of the Internal Revenue Code? Specifically, how may the supplements be purchased and paid to the employee? What are the potential tax problems?

Political feasibility. Institutions considering early retirement alternatives must recognize that potential political problems exist. On the one hand, employee unions (or faculty associations) may react against an early retirement provision if it appears to infringe upon job security. On

the other hand, they may support early retirement as an employee benefit. Depending upon the nature of the pension system, approval of early retirement options might have to be obtained from external sources. For example, some universities and colleges must deal with legislatures that control retirement plans; in those cases early retirement provisions must not appear to be a gift of public funds.

Market feasibility. While each program alternative may appear desirable from a cost and administrative perspective, each may not be equally responsive to the needs of the labor market. Early retirement schemes that include part-time employment provisions must also be evaluated in terms of the ability of the labor market to absorb these persons. Another factor must be recognized: although an early retiree may not plan to reemploy on a part-time basis, the potential availability of employment, if needed, may influence the decision to accept early retirement.

Meeting the criteria

Although each institution will have to develop its own analysis of the pros and cons of various early retirement alternatives, we have attempted to evaluate the alternatives described in Chapter 1 by the criteria presented above. The ten alternatives discussed earlier include:

1. Full-Salary Annuity
2. Severance Payment
3. Individual-Based Annuity
4. Group-Based Annuity
5. Individual-Based Annuity with Partial Employment
6. Group-Based Annuity with Partial Employment
7. Continued Annuity Payments
8. Severance Payment with Continued Annuity Payments
9. Liberalized Benefit Schedule
10. Continuation of Perquisites

Table 10.1 summarizes the following discussion of the degree to which each of these alternatives meets the criteria.

Table 10.1

Evaluation Summary of Ten Early Retirement Plans

Plan	Criterion						
	Potential Funds Freed	Employee Replacement Rate	Retirement Income Level	Administrative Feasibility	Legal Feasibility	Political Feasibility	Market Feasibility
Full-Salary Annuity	Low	Low	High	High	Low	Low	NA
Severance Payment	Medium to High	High	Medium to High	High	High	Medium	Possibly
Individual-Based Annuity	Medium	Medium	Medium	Medium	Medium	Medium	Possibly
Group-Based Annuity	Medium	Medium	Medium	Medium	Medium	Medium to Low	Possibly
Partial Employment--Individual Annuity	Low to Medium	Low to Medium	High	Medium to Low	Medium	Medium to High	Yes
Partial Employment--Group-Based Annuity	Low to Medium	Low to Medium	High	Medium to Low	Medium	Medium to High	Yes
Continued Payment to Employee's Annuity	High	Low	No Interim Annuity	High	Medium	Medium	Yes
Severance Payment Plus Continued Payment to Annuity	Medium to High	High	Medium (Little Change)	High	Medium	High	Possibly
Diversified Benefits Schedule	Very Low	Low	Medium (Little Change)	Low	High	High	Possibly
Continuation of Perquisites	High Per Acceptance / Low Probability of Acceptance	Low	Medium (Little Change)	High	High	High	Possibly

Alternative 1--Full-Salary Annuity. This alternative frees few funds because the employee's salary is being continued. However, for long-term employees with substantial pension accumulations, a moderate amount of funds may be freed, and this is of course a plan with a high acceptance rate. Unless money is no object, however, few employees can be replaced under this option because few funds are released per employee. Of course, the employee who retires under this option has a high income replacement level. Such an option is easy to administer since the organization in essence selects people to participate. There may be legal problems because of the limitation on the amount of funds that can be added to one's pension at retirement. There may be political problems as well, since other employees may see this as a payment to an employee for poor performance. The question of market feasibility does not apply since the early retiree would not be reemployed, nor would he need to reemploy, because his retirement income would be substantial.

Alternative 2--Severance Payment. This alternative often frees a sizeable portion of the early retiree's salary line since the lump-sum payment may be equivalent to one year's pay. The employee replacement rate is high under this option for two reasons: (1) a substantial portion of an employee's salary line remains after this alternative is financed, and (2) the option typically appeals to a sizeable number of employees. This option produces a medium to low income replacement level since one year's salary is spread over several years. The option is relatively easy to administer, as eligibility criteria are easily defined and there are no problems such as finding part-time employment for the early retiree. There should be few legal problems, as the precedents for this type of payment have been clearly spelled out. Since the potential retiree will receive less than full salary at early retirement, there should be only moderate political difficulty with this option. However, some persons may still see this as a reward for poor performers. There may be possible market feasibility questions associated with this alternative, as some persons may resist acceptance of the option if they fear they may not be able to reemploy on a part-time basis should the early retirement income not be sufficient.

Alternative 3--Individual-Based Annuity. Although freeing fewer funds than the severance payment scheme, this option may free a moderate

amount of funds, depending upon how generous the supplemental payments are. The option also frees sufficient funds per early retiree to have a medium employee replacement rate. Because the supplement is paid for life, a medium retirement income level is achieved. There are some administrative difficulties with this option, for example, encouraging the "right" persons to take early retirement. There are no exceptional legal problems with this option, although an institution needs to consult counsel about the way in which to finance the supplemental payment. Again, there may be some political opposition to paying people to retire, but these persons will be trading a higher income from employment for the retirement annuity. Market feasibility may be an issue, as persons who fear they may not be able to obtain part-time employment after retirement (if needed) may reject this option.

Alternative 4--Group-Based Annuity. Like the individual-based annuity, this scheme frees a moderate amount of funds per early retiree and obtains a medium replacement rate. A higher replacement rate among lower-paid employees might result since this alternative would pay these persons comparatively higher annuities if they retired early. These early retirees would receive a medium level of retirement income since the supplemental payments would continue for life. There may be fewer administrative problems with this option since the structure of the benefits schedule may encourage the "proper" employees to volunteer for early retirement. There should be no exceptional legal problems, although the option may be less than politically acceptable. There may be opposition to paying the lower-paid employees larger supplemental annuities if they decide to retire early. There may be some concern about market feasibility if the early retirees feel they may need to reemploy eventually. In some fields reemployment possibilities are limited.

Alternative 5--Individual-Based Annuity with Partial Employment. This option provides a greater early retirement income to the early retiree, but this causes only a low-to-medium amount of funds to be freed for the hiring of a new employee. Consequently, only a low to medium employee replacement rate obtains. Although the employee's retirement income level may be high (perhaps even reaching 100% of his pre-retirement income), he must work part-time to obtain that income. Administering this option may

be troublesome, as the institution will have to arrange for an employee to be retired and then rehired (or some variation of this). No unusual legal problems should arise, and the major objection again should be the issue of paying someone to retire early. However, since the person is still employed on a part-time basis, this objection should be less severe as a political issue. Since the person is being reemployed, market feasibility is an issue. There must be something worthwhile for the reemployed person to do.

Alternative 6--Group-Based Annuity with Partial Employment. The evaluation of this option is similar to that of the partial employment plus individual-based annuity. A moderate amount of funds is freed. There is a low to medium employee replacement ratio. The employee receives a high level of retirement income. There are no unusual legal problems. Few political questions are raised, but there must be a market for the retiree's skills.

Alternative 7--Continued Annuity Payments. Since the only commitment the institution makes to the early retiree under this option is continued payment to his annuity, there is a great deal of funds freed per person. However, few persons are expected to elect this option, so the employee replacement rate is low. The early retiree receives no salary supplement (only a continued institutional contribution to his annuity program), so he receives no early retirement income. This should be an easy alternative to administer, as the level of additional benefits is modest and there are no salary supplements. The legal questions revolve around the way in which the payments are made to the employee's annuity account (counsel should be sought). This is a politically feasible alternative, as the additional benefits are modest and should not cause concern among other faculty members. However, this option may be acceptable only to employees who have the option of reemploying after retirement.

Alternative 8--Severance Payment with Continued Annuity Payments. Depending upon the size of the severance payment under this option, there may be a medium-to-high level of funds freed per early retiree. Because of the severance payment, this would be an attractive option and should produce a high employee replacement ratio. The early retiree's early retirement income would be modest and would depend on how the severance payment was

made. The option should be easy to administer unless there is difficulty in deciding the size of the supplemental payment. The legal questions are related to the way in which the severance payment and annuity payments are made. There may be a few political problems, depending upon the size of the severance payment. If the supplemental annuity is small, the option may appeal only to persons who are able to reemploy after retirement.

Alternative 9--Liberalized Benefits Schedule. This option frees few funds since in most cases any across-the-board benefits level could not be raised high enough (because of costs) to cause many people to retire early. Although a full salary line would be released per early retiree, there would be few new employees hired because few persons would elect this option. There would be little change in the level of retirement income with this option because increasing funds for all retirees results in little increase for any particular person. This would be a difficult option to implement because it would require modification in the basic retirement program, not merely an addition for certain persons. There would be no exceptional legal problems. The change would be politically acceptable since it would affect all employees. Market feasibility may be an issue if the early retirees terminate a number of years before the mandatory age. Some persons may do this only if they are somewhat confident that they could reemploy if necessary.

Alternative 10--Continuation of Perquisites. This alternative, though it would free close to 100% salary funds per acceptance, may not be sufficiently attractive to encourage additional persons to retire early. Consequently, there probably would be a low employee replacement rate. The option would have little or no impact upon the size of one's annuity, except as it might reduce one's out-of-pocket expenditures. It would be easy to administer since it would not affect the basic retirement plan. It contains few if any legal difficulties and should be politically acceptable since it would apply to all retirees. Acceptance of the option may depend upon market feasibility to the extent persons feel they may need to reemploy elsewhere.

What early retirees say

Almost all the early retirees we interviewed were satisfied with their decision. Moreover, a majority said they were happier now than they

were before retirement, and most said that retirement had had no negative effect on their standard of living. In addition, nearly all the early retirees were satisfied with the provisions of their early retirement arrangements, and most were satisfied with the administrative handling of their retirements.

These findings might be challenged by arguing that these persons were trying to justify their decisions. We disagree. In the first place, the interviewees were unusually enthusiastic in their comments about early retirement. Secondly, our finding about early retiree satisfaction agrees with the findings of other studies.[1] The respondents in our study were somewhat different in that they were induced or encouraged to retire early; but still, they had a considerable degree of control over their retirement decisions.

We are not suggesting that early retirement is for everyone, or that it should be forced on people. Academics frequently express a desire to continue working beyond the mandatory retirement age[2]; and our interviewees agree that early retirement may be right for some but disastrous for others. Nevertheless, we feel there may be many additional faculty members who could benefit from early retirement if it were offered as an option in more institutions.

What institutions say

Private firms, which have had much more experience than universities with incentive early retirement, are quite frank with their assessment of the option. They use it to trim the work force when necessary, to get rid of employees who are not maintaining productivity, and to fulfill other management goals. It is not that all firms are ruthless about using this option, but increased-benefits early retirement is quite often seen as a version of termination pay: employees are being paid to sever their relationship with the organization. In fact, business and industry tend to favor the one-time, lump-sum payment because it is a clear statement of what will be due the employee.

Firms that use incentive early retirement (often one-time offers available for a limited period) are generally satisfied with the arrangement.

Their complaints center on the uncertainty of the number of persons who will take the option and on the argument that poor performers should be fired rather than given a bonus for resignation. On the whole, firms see this as just another cost of doing business, and one that can be recouped through improved efficiency of operation.

Although hard data are difficult to come by, most firms report that the gain is worth the cost. Again, they report that this is not a way to save money, but a way to realign the work force. These firms stress that increased-benefits early retirement should be used with discretion and with a clear realization of what it will do. Most of the firms that have used incentive early retirement in the past report that they will use it again in the future, if necessary.

Increased-benefits early retirement is less widespread in academia, although regular early retirement (with an actuarial reduction) is available at most colleges and universities. Where incentive early retirement has been used, the experience has not always been satisfactory. There have been few acceptances of the arrangement at several institutions. When faculty members do accept, some institutions have found that it has cost more money than it has saved.

On the other hand, other institutions (with perhaps more realistic expectations) have found that induced early retirements have permitted important new appointments, have removed some unhappy employees, have improved morale, and have not cost a great deal in the process.

We should note that at one institution, where early retirements were arranged years in advance, some persons agreeing to retire early later changed their minds. Business and industry may have the right idea when they encourage an employee to make a decision during a short, fixed period. Although we recognize the importance of planning ahead, trying to fix a person's early retirement age a decade or so early may not be a fruitful endeavor.

FOOTNOTES

[1]Richard E. Barfield and James N. Morgan, Early Retirement: The Decision and the Experience and a Second Look (Ann Arbor: University of Michigan, Survey Research Center, 1970). Elizabeth F. Messer, "Thirty-Eight Years Is A Plenty," Civil Service Journal, vol. 5, no. 2 (October-December 1964), p. 24.

[2]L. Gernant, A Study of 814 Retired Professors in Michigan (Kalamazoo: Western Reserve University, 1971). J. M. Mulanaphy, 1972-73 Survey of Retired TIAA-CREF Annuitants (New York: Teachers Insurance and Annuity Association--College Retirement Equity Fund, 1974). P. Roman and P. Taietz, "Organizational Structure and Disengagement: The Emeritus Professor," Gerontologist (vol. 7, 1967), pp. 147-152. A. R. Rowe, "Scientists in Retirement," Journal of Gerontology (vol. 28, 1973), pp. 348-350. A. R. Rowe, "Retired Academics and Research Activity," Journal of Gerontology (vol. 31, 1976), pp. 456-461.

APPENDIX

DISSEMINATION AND PROMOTION

In previous research and throughout the present project we found that few academics were aware of their pension benefits. When informational brochures had been sent to individuals they were often unaware that they had received them. Even faculty members very near retirement were uncertain of their pension benefits. In a few cases they thought they were eligible for benefits (such as Social Security) when, in fact, they had never contributed to that program and were therefore ineligible.

At present, retirement is being discussed more often (and earlier in one's career), but it is still an unpopular topic. There are few takers, for example, when a retirement preparation program is offered. Mid-career change is discussed even less frequently, and since there are few formalized options, discussions about mid-career change are bound to be vague and perhaps misleading.

As part of this study, we were requested to produce two brochures: one aimed at potential early retirees and career changers, and one directed at administrators. While dissemination plans are not yet firm, some approaches are self-evident. Each brochure will be written for a specific audience (faculty members or administrators), each group will be advised about the brochure prepared for the other, and both brochures will be made available to anyone who requests them. Furthermore, under conditions to be announced by NSF, copies of this technical report will be available.

At about age 50, people begin to reassess the age at which they plan to retire. Further, if early retirement is to be effective in opening up the faculty ranks to new employees, persons need to be encouraged to retire between age 55 and 60. It is essential, therefore, to get the early retirement brochures to persons nearing age 50.

On the other hand, if mid-career change is to be effective in opening the faculty ranks, and indeed if persons are to have enough work years left to make a change possible, the largest audience should be those under the age of 50.

The way in which faculty members receive the brochures is quite important. Industry and academia have used a number of approaches to informing employees about early retirement: general announcements have been sent to all employees, specific individuals have been notified of the availability of the option, and a number of variations of these have been tried. Although NSF cannot single out "appropriate" individuals for early retirement, individual departments might do so. It is, however, essential that local use of these brochures not be seen as a move to <u>force</u> certain people to retire. This, in fact, is how early retirement has been perceived at some institutions.

We know that the most effective way to encourage someone to retire is to have the matter brought to the individual's attention by his superior. On the other hand, we desire that early retirement remain a <u>voluntary</u> decision. Given this dilemma, we should embark on a dissemination program which puts brochures into the hands both of individual faculty members and of key "supervisory" personnel, such as deans and department chairmen. A number of options for doing this are enumerated below. These can be used in a variety of combinations, depending upon cost considerations and other priorities.

Distribution Options

I. Mailing to individuals

A. Mail faculty brochure to individuals, using selected institutional lists (e.g., Ph.D. granting institutions) and selected faculty lists (e.g., AAUP, TIAA-CREF). This strategy will also reach persons not in the target group, since there is no easy way to produce an age-specific mailing list. Because of overlapping lists, it will also produce some duplication. It will, however, result in very wide distribution.

B. Mail administrators' brochure to retirement officers, key administrators (e.g., vice-president for academic affairs, deans) and department chairmen, at all or selected categories of institutions.

II. Bulk mailing for further distribution

A. Mail faculty brochures to pre-selected campus distribution points (e.g. library). This is best done in combination with a general announcement that the brochures are available at that place (see "Advertising," below).

B. When mailing individual copies of administrators' brochure, include multiple copies of faculty brochure and request that they be distributed to faculty members in appropriate age categories.

C. Contact central administration of institutions and ask if they would be interested in distributing faculty brochures within their institution.

D. Contact other organizations and request that they act as distribution points for the faculty brochures. Examples are local chapters of a faculty organization or union and professional associations in fields of special interest to NSF. Both this and the

preceding options have the advantage of being cheaper than direct mailing to individuals. To be effective, however, they should include a set of "instructional materials" on appropriate distribution procedures to individuals, so that the central distribution point does not become only a central dumping point.

E. Contact organizations of college and university administrators and request that they distribute administrators' brochures to their members. Although an option, this is probably less efficient than direct mailing for this target group, since the numbers are smaller than for the faculty brochure, and the high-priority institutions are easily identified.

III. Advertising

A. Place advertisements which offer to mail a faculty brochure directly to the individual. Ads placed in media such as the Chronicle of Higher Education, the AAUP Bulletin, and discipline-specific media can offer to mail a brochure on request. This is an expensive option but assures that the most interested individuals will receive the brochures.

B. Place advertisements which announce the availability of the faculty brochures at campus distribution points. This would be used in conjunction with one or more of the bulk mailing approaches described above. It would increase the effectiveness of the bulk mailing and would lessen the probability that someone at the campus distribution point would merely dump the brochures.

D. Place advertisements which announce the existence of the faculty administrators' brochures and solicit distribution points. In this approach, the advertisement would merely be a prelude to one of

the bulk mailing and local dissemination approaches described above.

IV. Educational and scholarly activities to promote the brochures

A. Journal articles. The co-principal investigators of this project will be publishing articles on these issues in scholarly and professional journals. The existence of the faculty and administrators' brochures will be mentioned therein.

B. Professional meetings and conventions. An effort can be made to place the topic of early retirement and mid-career change on the program of appropriate meetings, at which NSF personnel or their representatives can speak. The brochures can also be made available at these meetings. This might be followed up with visits to specific institutions which have expressed interest in the topics.

The Rhetoric of Dissemination

The brochures, as presently drafted, are only the first step. Until the precise audiences and the various costs and benefits involved in reaching these audiences in different ways are thoroughly discussed, it will not be possible to put the brochures into their final form.

The brochures have been written in a relatively bland fashion because these dissemination strategies have yet to be defined. A more definitive tone needs to be devised for the final versions. For example, the tone can be either informal or scholarly. If the former is chosen, consideration should be given to including anecdotes which illustrate major points, and even visual illustrations. If the latter course is chosen, the role of the present study should be highlighted, more charts and tables included and, perhaps, a typographical format chosen which is similar to that of a journal article.

In either case, the appellation "brochure" will be inappropriate to the final product. The drafts are already longer than most brochures. An alternative designation, such as book or booklet, should be adopted so as not to mislead potential readers. We suspect that such a designation would prove more attractive to most academics in any case.

(ADMINISTRATIVE BROCHURE)

CAN EARLY FACULTY RETIREMENT OR MID-CAREER CHANGE BENEFIT YOUR INSTITUTION?

I. WHY EARLY RETIREMENT?

Many corporations, universities, and other institutions have developed early retirement plans to help deal with the problem of reduced operating budgets. These organizations find that a significant number of employees are willing to retire a few years early if given some additional financial incentives. This enables the organization to save the difference between the employee's salary and that incentive payment.

Other organizations use early retirement as a way to open their ranks to persons with new, needed skills. Employees with outdated skills or whose productivity has declined are given the opportunity to retire early, with increased annuities or lump-sum payments, then replaced by a person with more current or more appropriate skills. This move has saved money for those organizations where the annual early retirement payment plus the salary paid to the new employee add up to less than the retired employee's former salary.

Universities and colleges have found this arrangement to be one effective way to operate within a reduced budget or to permit more flexibility in staffing. Some institutions have used early retirement to open the faculty ranks to recent graduates, women, and minorities. Shifts in academic focus are also possible, as faculty in one field retire early, enabling the university to hire faculty members in the fields where demand is greater.

Two Types of Early Retirement

Most university and college faculty members already have the option to retire early, under provisions of the present retirement system. But like employees in most businesses (as well as under Social Security), faculty members who retire early must agree to take a pension somewhat smaller than the one they would have received at the normal or mandatory age. This reduction in pension adjusts for the longer time during which the faculty member will be retired and compensates for the smaller amount of funds that has been paid into his or her retirement account.

Other institutions, looking at early retirement as a possible way to reduce staff size or open up positions for new employees, have recognized that relatively few persons will retire more than a year or two early if it means a greatly reduced retirement income. These institutions have sought ways to provide additional retirement income, in the hope that by increasing early retirement pensions, more persons would be encouraged to retire voluntarily, before reaching mandatory retirement age.

Usually, this newer type of early retirement arrangement is not operated as part of an institution's basic retirement program. Instead, the institution pays for this additional retirement compensation through general funds or through the retiring employee's salary line.

While this arrangement has permitted some institutions to reduce their staffs, or to reduce staffing in one field and increase it in another, and often to effect some cost savings, it should be noted that few institutions have saved a great deal of money. Usually, few funds are left to pay even a less expensive replacement, after the retiring employee has been compensated for terminating early. Nonetheless, some institutions have found

the increased flexibility in staffing worth the cost. In other instances induced early retirements have proved valuable by making positions available for new employees.

The age structure of a faculty is another important factor. Models of faculty flow show that increasing early retirement among faculty members usually has (by itself) only a modest impact upon the age composition of the faculty. But in those cases where the faculty is relatively young and tenured, even a slight increase in the percentage of early retirements can be highly valuable. Careful planning is essential, because an induced early retirement today means one less normal retirement tomorrow, so that an institution must expect a temporary rise in the retirement rate followed by a decline. A number of persons may retire early (while others are retiring at the mandatory or normal age) then, although some faculty members may retire early in later years, fewer will be available to retire at the mandatory age. Institutions where early retirement programs have been set up do not usually experience wholesale turnover in the faculty ranks. Because relatively few persons opt for these arrangements, the age structure of the faculty remains basically unaffected.

A major turnover in the faculty ranks is probably not needed at most institutions. Instead, space is needed into which a few key faculty members may be hired. Case studies indicate that early retirement may be able to provide this at little or no cost, depending upon such key variables as the level of increased benefits paid to the early retiree and the salary paid the replacement employee.

These early retirement arrangements have not always been easy to administer. In some cases there has been confusion about who was to handle the negotiations. In other cases the arrangements were not clearly understood or

paperwork delayed some retirements. The costs of these programs depend upon the specific individuals who retire early, and without prior experience, it is difficult to estimate the number of persons who will elect the option. Because of this, it may be necessary to limit the period during which the program is open.

Our present state of knowledge indicates that induced early retirement can benefit both the institutions involved and the early retirees themselves. But while it is certainly a policy worth investigating, an institution must realize the limits of what induced early retirement can accomplish.

What are the Options?

Regular early retirement. Most organizations with retirement plans have available an option that permits an employee to retire early with a reduced annuity after meeting minimum age and service requirements. These options have encouraged relatively few persons to retire early because the reduction in benefits may be substantial.

Lump-sum payment. This option is frequently used in business and industry, being made available to a whole class of employees to encourage retirements during periods of reduced demand. Typically, employees are offered the equivalent of up to two years of salary paid within one year, if they retire early. In other cases, where employees are involuntarily terminated, this payment may be part of the severance arrangement.

Increased or supplemental annuity. Used occasionally in industry, and more widespread in academic institutions, this option encourages personnel to retire early through the payment of a lifelong periodic annuity. This, when added to the regular early retirement annuity, approximates the annual

income the employee would have received had he or she remained in employment to the full retirement age (but normally assuming no salary increases).

Part-time employment. This option, found both in business and in academia, is not as widespread as lump-sum payments and supplemental annuities. It is sometimes used to retain the services of highly valued individuals who wish to reduce their workloads. In other cases, where it is not possible to finance an increased annuity, part-time employment is used to supplement the early retirement annuity.

Continued benefits. Although continuing employee benefits after retirement is not (strictly speaking) an early retirement option, it has been used in conjunction with other early retirement options to make early retirement more financially attractive. Continued benefits alone are seldom a sufficient incentive for early retirement, but continuing an early retiree's health or life insurance or providing office facilities, free parking, etc. may sway persons already inclined to retire early.

Cost-of-living adjustments. When inflation is high, it may not be sufficient to provide only an increased annuity. The early retiree may require a guarantee of continued purchasing power for his/her annuity, whether the dollar amount is increased or not. In recent years, with inflation at such a high level, some institutions have found it necessary to provide cost-of-living adjustments to early retirees. These may be full or partial adjustments, provided in conjunction with regular or increased annuities.

Comparing the Alternatives for Early Retirement Programs

Pros and Cons

Regular Early Retirement

Pro	Con
This arrangement generates little or no additional cost to the institution or retirement system. The early retiree receives a reduced pension to compensate for the longer time during which he will be retired and for the smaller amount of contributions he has made to the system. (NOTE. In some systems: if large numbers of employees retire early under the existing provisions, the system could experience financial problems, since the early retirement rate assumed in the actuarial valuation of the system could be exceeded.)	This option is unlikely to increase the early retirement rate. Although advertising the option might encourage more people to take it, no great increase should be expected.
This option is relatively easy to administer, since no changes from existing [illegible]erations should be needed.	Furthermore, most people who exercise this option do so only a year or two before normal retirement, because the benefits provided for retirement five or more years before the mandatory age are often too small.
It [illegible]ld also be relatively easy to predict the number of persons who would elect this option, as a function of past acceptance rates.	Benefits could be increased across the board in some cases (especially with defined benefit plans), but this makes the increases permanent. Were the early retirement rate to increase, it might become higher than desirable over the long run.

Lump-sum Payment

Pro

Industry tends to favor this option, because total payment per early retiree is easy to calculate. Usually it is a multiple of the early retiree's annual salary, often double.

It is basically a one-time commitment to the employee, and the agreement is unaffected by inflation rates or other changes after the termination date.

This alternative can also be made available for a limited time. Many firms using the arrangement offer it for a fixed period and may or may not repeat the offer at a later date.

Con

Because of Federal Government rules, the lump sum that can be paid an early retiree is limited to two years salary. The amount is taxable as income to the retiree in the year received unless paid from a tax-qualified plan.

In earlier days, when inflation was more predictable, this option was more attractive. Today, without cost-of-living adjustments, employees may not agree to the option more than a year or two before the mandatory retirement date.

It can be difficult to estimate the number of persons who will elect this option. Although some firms have made remarkably accurate estimates, poor estimates can be expensive.

Also, larger lump-sum payments mean fewer dollars available to use in hiring new employees, if each new hire's salary is being financed out of the retiring employee's budget line.

Increased or Supplemental Annuity

Pro

This alternative assures the retiree a given amount for life, and may encourage more persons to retire early.

It may be possible to design the program to make the option particularly attractive for a certain class of employee. For example, persons with lower salaries, compared with their colleagues of like age, might be encouraged to retire if their annuity is based on the average salary for the group.

Again, this could be a temporary option, made available for a fixed period, instead of a life annuity.

Con

Without cost-of-living adjustments, this option tends to encourage retirement only a few years early, and only a small percentage of employees may elect this option. With cost-of-living adjustments, the supplemental payments become very expensive for the institution.

If a new employee is being financed out of the retiring employee's budget line, the more generous the supplement or the cost-of-living adjustment to the retiree, the fewer funds available for new employees.

It may also be quite difficult to estimate the number of persons electing this option, although the numbers can be controlled somewhat by offering the option for limited periods of time.

If a cost-of-living adjustment is provided, this option offers financial certainty to the employee but costs the institution uncer-

(continued)

tainty about its outlay from year to year.

If the institution is able to arrange its program to guarantee only a fixed cost-of-living adjustment or otherwise places limits on the cost of the program, it may become a more reasonable alternative in terms of financial demand on the institution.

Part-Time Employment

Pro

The part-time employment option has a number of supporters who see this as an opportunity for the employee to "taper off" into retirement. Besides easing the individual's transition between employment and retirement, this option may also ease the institution's transition between employees. In addition, this option permits the institution to retain needed skills in short supply.

Con

There are several possible drawbacks to this alternative. An important one is that it may free insufficient funds to hire a replacement employee. Of course savings might be centrally pooled and then reallocated, or they might be combined within a department to permit the hiring of replacement employees.

Another point: this option may not free up the office space used by the part-time retiree. Unless the early retiree or the new employee

(continued)

This can be one of the least costly arrangements for freeing up needed positions. If the early retiree begins to draw a retirement annuity, the part-time employment may result in a salary not only in excess of the mandatory age annuity but also larger than the employee's previous full-time salary. The primary costs to the institution are the part-time salary and the replacement salary. The cost savings, of course, depend upon the details of the early retirement scheme.

are asked to share space there will be increased demand for space.

At least one major institution assigned part-time retirees to "less than desirable" positions. This demonstrates that appropriate part-time positions may be difficult to create, especially for a person who is being induced to retire early because of limited interest of out-dated skills.

On the other hand, some early retirees want to retire entirely. They are not interested of part-time employment, no matter what the task.

Continued Benefits

Pro

Providing continued benefits such as office space, use of libraries and athletic facilities, may act as an additional incentive, but benefits alone may encourage only a few early retirements.

This option indicates that the institution is concerned about

Con

This arrangement is not usually sufficient in itself to encourage early retirement, although it might persuade a few undecided persons.

Further, it may not be possible to provide all the benefits requested by prospective early retirees. For example, it may not be possible to

the personal needs of the early retiree. It is a way to encourage the former employee to keep in touch with the institution.

This option would add only minimal cost to the other options.

provide office space to both retiring and new employees.

Cost-of-Living Adjustments

Pro

Potentially one of the most important variables, this provision may be one of the few which could effectively encourage persons to retire more than a year or two early.

While cost-of-living adjustment might be added to existing early retirement provision, that alone may not be sufficient economic incentive. More effect would result from a cost-of-living adjustment (or a partial one) added to a modest increased annuity.

Con

If no limits are placed on the amount of adjustment, this could become an expensive alternative. On the other hand, if the adjustment is too small, few people will find it a worthwhile incentive.

Also, larger adjustments mean fewer funds available for hiring and paying new employees, if the new employees are being financed out of the retiring employees' budget line.

Furthermore, this arrangement requires a continuing financial commitment to be made to the retiree, a situation some institutions would rather avoid. For this reason, the one-time lump sum severance approach has been judged attractive by most institutions.

Other Modifications

Some institutions have modified payment formulas so that larger early retirement pensions are paid to persons with lower salaries in comparison with their colleagues of comparable ages and lengths of service. This, in theory, will attract those persons who have advanced up the ladder more slowly.

Other plans have been designed to attract older employees (by giving more weight to an individual's age) or employees with longer service (by giving more consideration to years of service).

Still other modifications include restricting benefits to persons who have attained a specific age or who have been employed for a minimum number of years.

All these requirements are intended to make the early retirement arrangement appeal to a specific category of personnel, to control the cost of the option, or both.

A final control on cost can be obtained by limiting the option to only those persons who elect it during a specific period of time.

A Note on TIAA-CREF

Many faculty members are covered by the retirement program of TIAA-CREF. This is a defined contribution plan in which an annuitant's benefits are determined by his contributions plus any contributions of the employer and the investment income of the retirement fund. A participant can choose to retire early under this program, but the benefits will be lower than those payable at normal retirement age.

Institutions which participate in TIAA-CREF could, if they so desired, institute an increased-benefits early retirement program to supplement TIAA-CREF. Such a program could contain any of the options we have discussed, and could be administered in a variety of ways. This program would be separate from the TIAA-CREF program.

Legal Questions

The Age Discrimination in Employment Act of 1967 prohibits age discrimination in separation from employment of persons 40 to 65 years old. If age is the determining factor in inducing early retirement, liability under the Act could certainly be shown. However, if reasonable factors other than age can be demonstrated (such as higher labor costs of older employees and objective evaluative criteria), or if the provisions of an existing retirement plan authorize the inducement of early retirement with substantial benefits under published procedures, the chances of an institution being found liable are reduced. Involuntary early retirements are risky; as the prospective retiree becomes more willing, the risk subsides.

Administrative Problems

Retiring early is not a decision to be made lightly. It must be handled smoothly if personnel are to accept the arrangement. For example, in one institution where early retirements were not handled well some persons eager to retire early had their applications delayed. In other instances, too many individuals or offices were involved, making the process awkward and frustrating for the person retiring. The result was that other prospective early retirees were discouraged from applying.

Where possible, one office should be designated to handle the early retirement arrangements and to serve as sole contact for the early retirees, both before and after retirement. Early retirement is both an academic and personnel issue, and institutions may recognize a need to assign an academic officer who would work with retirement personnel in processing the applications.

Departments or colleges may oppose early retirement options unless they are to receive the funds released by the early retirements. When these funds revert to a central administrative pool, deans, directors, or chairmen may be reluctant to encourage early retirement for their faculty, since this may mean a net reduction in staff.

The retirement system management may oppose the option if the program would face increased costs from a large number of early retirements. In at least one case we have studied, additional early retirements could cause the system to be unable to meet currently obligated annuity payments. Because of this hazard, the option could be made available for a limited time only.

Evaluation

An institution considering the increased-benefits approach to early retirement should recognize that an early retirement does not always save money, especially if the retiree must be replaced. Further, some highly valued employees may leave. Finally, the arrangement may not modify the age structure of the faculty to the desired degree. In fact, the impact of an early retirement scheme may be temporary, as more persons who would otherwise retire at the mandatory age retire early, resulting in fewer retirements in years to come.

Also to be considered is the fact that some employees oppose the concept of early retirement on principle. If there is even a hint that early retirement may not be voluntary, widespread faculty opposition might arise.

On the other hand, early retirement can save money if the retiree need not be replaced. In a few cases, even when an individual is replaced, some schemes have saved money for the institution. However, financial savings should not be the primary goal of early retirement schemes.

Perhaps most significant is the fact that early retirement schemes may permit a number of qualitatively important appointments, while allowing ineffective and disaffected individuals a graceful exit. In the long run, these schemes, if administered deftly, should have a positive effect on faculty morale.

II. FACULTY CAREER CHANGE

Institutional Interest in Mid-Career Change

Colleges and universities have long experienced a two-way exchange of personnel with government, industry, philanthropic institutions, and non-academic research organizations. Though the relative ease with which such moves have been made in the past has sometimes led to the temporary or permanent loss of a valued faculty member, few would argue that the result has been anything but a net gain for the vitality of teaching and research in academic institutions.

With the end of the growth era in higher education, colleges and universities now have an additional reason to be interested in the flow of professors into non-academic jobs: it is potentially a way to increase the number of positions available for young academics. Another problem of the "steady state" (the existence of large numbers of tenured faculty members in disciplines which are experiencing decreased demand) is addressed by still another solution: re-training for continued service in a new specialty or a new discipline which is still experiencing high demand.

Two Routes to Career Change

The vast majority of professors who choose to leave academic life for some other kind of work do so on an individual basis, without the intervention of any formal program. Relatively little systematic research has been done on the phenomenon, and the ways in which institutions can intervene to encourage or facilitate the process are not known (other than the obvious "carrots" and "sticks" which are regularly employed in institutional settings).

Two other routes to career change, however, are also utilized by faculty: internship and fellowship programs which provide a "visiting" experience in a new work setting, and retraining for continued academic work in the same institution or statewide system, but in a different specialty or discipline.

Internship and Fellowship Programs

A number of opportunities exist for professors, on leave of absence, to experiment with new kinds of work in new settings. Though the programs which support these activities are seldom explicitly directed toward career change as a goal (their overt goals are the enrichment of the professor's experience and capabilities or those of the host organization), a substantial minority of recipients are known to remain in the organization they were placed with or in a similar organization outside the academic world. Examples of such programs are the Economic Policy Fellowships of the Brookings Institution and the Congressional Science and Engineering Fellowship Program of the American Association for the Advancement of Science. (A list of such programs can be found in "A Selected List of Major Fellowship Opportunities and Aids to Advanced Education for United States Citizens," prepared under contract with the National Science Foundation by the Fellowship Office, Commission on Human Resources, National Research Council, National Academy of Sciences, Washington, D.C.).

Since these programs are generally administered outside the institutions where professors are employed, the colleges and universities have little control over the selection of appropriate grantees. It is likely that the selection criteria used by funding and host agencies will be counterproductive from the perspective of an institution which would like

to encourage career change: the fellowship or internship programs will select the most creative and promising candidates, while the academic institutions would like to encourage career change among the least productive faculty members. Only if the goal is to increase gross turnover in specific disciplines is it in the institution's interest to encourage and facilitate the utilization of such trial periods of work in alternative settings.

Retraining Programs

A recent development is the institutional program for retraining of faculty members. These programs have emerged principally from institutional desires to reduce or abolish selected academic programs, while maintaining commitments to faculty members by retraining them for work in fields which are in demand. Although the program presently exists only in a few institutions, it is being planned or seriously considered in a number of others.

While not precisely a career-change program, because the professor continues in the same institution or system, it does offer an institution the flexibility to reallocate resources to more productive uses, in a fashion which is likely to bolster the morale of faculties faced with the spectre of retrenchment.

Major Features of the Programs

Funding. The faculty member remains on the payroll at his/her regular salary for the period of retraining. Additional expenses, such as educational fees and books, moving expenses, etc. are paid out of a special fund allocated to the program.

In some cases, the fund also pays the salary for a replacement faculty member in the originating department.

Scope of Training. This varies from retraining in an allied speciality within the same discipline to training for an entirely new, unrelated discipline. The latter is less common in existing programs, but does occur when the interests and prior experience of the professor warrant it (e.g., a history professor who, as an undergraduate, had switched into history from chemistry for health reasons, but who had continued an interest in history of science, retrained to teach chemistry). Most programs involve one year of full-time study in a conventional graduate program; sometimes, the one year full-time-equivalent is distributed over more than one academic year. On occasion an advanced degree is earned, but more often this is not a program goal.

Locale of Training. In a graduate-level institution, often near the home institution; rarely within the home institution.

Application and Decision Process. Proposals are submitted by the prospective retrainee to a committee established to screen applications. Sometimes there are committees at both the institutional and system level. These proposals are often the result of stimuli from others within the institution (department chairmen, deans, etc.). The proposals are invariably preceded by or concurrent with negotiations with the prospective receiving department, to establish with certainty the existance, level, obligations and prerequisites of the position which the retrainee will hold in the receiving department.

Where there is an intention to have the retrainee be a member of both the originating and the receiving departments, both are involved in the negotiations.

Placement. Placement is rarely a separate process. Generally, the only candidates selected for retraining are those for whom a new placement, in part or in whole, has already been worked out. Sometimes, however, details about joint appointments, courses to be taught, seniority, etc., remain to be decided even after the major decisions on retraining and placement have been made. These are potential trouble spots which need careful attention.

Program Provisions Requiring Special Attention

Nature of the Retraining Program. Care must be taken to assure that the level and scope of training are adequate to meet the appointee's new responsibilities. In one institution, the receiving department, with the consent of the retrainee, retained a faculty member from the same discipline at a respected neighboring institution to assist in designing the retraining program and to act as a mediator between the retrained professor and the receiving department. The arrangement worked well.

Level of Support. Existing programs provide full salary and benefits to the retrainee, plus educational and incidental expenses. One institution places a formal maximum of $3000 on the latter, but has been known to excede this amount in special circumstances. In some cases, a replace-

ment faculty member (usually at the most junior level) is provided to the originating department. The consequences of not providing such a replacement are unknown. Most of the instances of which we know concern positions slated for retrenchment. The originating department thus had little leverage on the decisions, while the receiving department generally had a stronger hand. The matter may be more complicated when the program is administered from a system central office but requires the assent of institutional officers on the home campus. In one such case, there has been some reluctance to cooperate with a program which continues to pay a salary to a faculty member who is, effectively, on leave. Thus, system-wide and institutional interests may not coincide.

Selection Processes. These programs touch on matters which are sensitive both from the institution's and the individual's perspectives. Experience in two existing programs indicates that these sensitivities may be best recognized and dealt with when the selection process is handled by institution-wide committees with broad faculty representation.

Other Administrative Considerations. In both of the statewide systems which have retraining programs, a person may join a department only with the consent of that department. This necessitates some mechanism for negotiating transfers of retrainees.

In one of these statewide systems, tenure adheres to the individual within the institution and must therefore adhere to his/her new departmental position. Seniority, however, which is specified in the system's collective

bargaining agreement, adheres to the individual within his or her department only, and thus would change upon transfer to the new department. In some instances, the matter has been so difficult to resolve that the retrained faculty member has remained formally in the old department, but has served, either full or part-time, in the new department, with provision for compensating each department in proportion to the professor's level of effort.

Any institution considering such retraining programs must be sensitive to similar complications arising out of its own contractual arrangements with faculty members or with faculty bargaining agents. It is also realistic to expect difficulties in the early stages of such a program, stemming from the disciplinary and departmental modes of academic organization and the traditional perspective which is not receptive to individuals crossing these lines in mid-career. Support, on the other hand, is likely to come from the increased acceptance of the notion of "faculty development" as a legitimate activity of academics and of their institutions.

NOTE

This report is distributed with the intent of encouraging discussion of early retirement and mid-career change. A similar brochure is being distributed to faculty members, which addresses their specific concerns. A copy of that brochure may be obtained by writing to the address below. A technical report may also be obtained from the same address.

This brochure was produced by Abt Associates, Cambridge, Mass., under a contract with the National Science Foundation. Principal Investigators were Dr. Carl V. Patton and Dr. Joseph Zelan.

(FACULTY BROCHURE)

CAREER OPTIONS:
IS EARLY RETIREMENT OR MID-CAREER CHANGE FOR YOU?

I. WHY EARLY RETIREMENT?

Most of us plan to retire. When is the question. You may feel you want to work until a very advanced age, or you might be planning to retire before the mandatory age. Whichever way you feel right now, you will eventually want to consider all of the retirement alternatives open to you. Early retirement is one of the things you should consider.

Today, nearly one-half of the faculty members in America retire before the mandatory age for a variety of reasons. Some retire early because they have other interests to pursue, and need the time. Others say they have grown tired of the academic life. Health problems motivate some to retire early. The reasons are varied, but most early retirees say they're satisfied with their retirement decision and would retire at the same time if they had to make the decision again.

While many faculty members (like many other American workers) have begun to see personal advantages in retiring early, colleges and universities have had to consider early retirement as a way to deal with tightening budgets. Early retirement also offers a way to open faculty ranks to recent graduates and other academics with needed skills and qualifications. Academia isn't alone in encouraging people to retire early. In business and industry, for some time, and under some circumstances, employees who voluntarily retired early have been provided increased annuities or other supplementary payments.

Today, increasing numbers of colleges and universities are looking at the experiences of business and industry, and considering new early retirement options they might offer. Are any of these early retirement options for you? This booklet has been prepared to help you consider the question.

Is Early Retirement Right for You?

Eventually you'll make a decision about retirement, even if it's just to retire at the mandatory age. But there are some problems which can be avoided if you plan your retirement. As part of those plans you should learn what you can about retiring early. The options offered by some institutions now offer special early retirement arrangements. That is, plans which offer faculty members an increased annuity or special payment if they decide to retire early. Your college or university may be one of those now considering the adoption of a special early retirement provision.

What are the Options?

Regular early retirement. Most organizations with retirement plans have available an option that permits an employee to retire early with a reduced annuity after meeting minimum age and service requirements. These options have encouraged relatively few persons to retire early, because the reduction in benefits may be substantial.

Lump-sum Payment. This option is frequently used in business and industry. Sometimes the option is made available to a specific category of employees, to encourage retirements during periods of reduced demand. Typically, employees are offered as much as two years of salary paid within

one year, if they retire early. In other cases employees may be involuntarily terminated and this payment made part of the severance arrangement.

Increased or supplemental annuity. More widespread in academia than in industry, this option encourages early retirement by paying a lifelong periodic annuity which, when added to the regular early retirement annuity, approximates the annuity the employee would have received had he remained in employment to the mandatory age (but normally assuming no salary increases between early retirement and the mandatory retirement age).

Part-time employment. This option can be found in business, industry, and academia, although it is not as widespread as lump-sum payments and supplemental annuities. It is sometimes used to retain the services of highly valued employees who wish to reduce their workloads. In other cases it supplements an employee's early retirement annuity when the institution is not able to finance an increased annuity.

Continued benefits. Strictly speaking, this is not an early retirement option, although it has been used in conjunction with other options to make early retirement more financially feasible. While seldom the sole incentive for early retirement, continued benefits such as health or life insurance, office facilities, free parking, etc., may be important for some people.

Cost-of-living adjustments. When inflation is high, many people feel an increased annuity is not sufficient. They prefer a guarantee of the continued purchasing power of that annuity. In recent years, with inflation at such a high level, some institutions have started to provide cost-of-living adjustments to early retirees. These may be full or partial adjustments, provided in conjunction with regular or increased annuities.

What do the Early Retirees Have to Say?

During the past six months Abt Associates personally interviewed faculty members who retired under special early retirement options. What they told us can be useful to you in deciding whether to take an early retirement. The thoughts of 53 early retirees are summarized below or used to outline the pros and cons of each alternative. Although the comments are drawn from a small number of respondents, it is important to recognize that they comprise most of the group of American academics encouraged to retire early through special incentives.

MOST RETIRED LESS THAN FIVE YEARS BEFORE REACHING MANDATORY RETIREMENT AGE.

Since the mandatory retirement age for most of the retirees was 67 or 70, most of these academic early retirees terminated at about the "normal retirement age" for business and industry. On the average, the early retirees retired about four years before reaching the mandatory retirement age at their institutions, and their average age at the time of retirement was 64. Many of the retirees, especially those who were eligible for Social Security, did not feel they had retired "early" at all.

MOST ARE VERY SATISFIED WITH THEIR DECISION TO RETIRE EARLY.

A large majority told us they were very satisfied with their decision to retire early, and only one said he was not satisfied. All but a few said they would retire at the same age if they had it to do over again. Most early retirees said that they enjoy the freedom and the time they have to devote to interests and activities they never had time for while they were working. Also, many are relieved to be away from the pressures and strains of their university responsibilities.

FEW HAD MADE LONG-RANGE PLANS FOR EARLY RETIREMENT.

In fact, over half began thinking seriously about early retirement only within the four years before they retired. One-fourth of the retirees had been thinking about early retirement for less than two years before they retired. Less than half of the early retirees, even those who had planned to retire early for some time, said they had taken specific steps to prepare themselves for early retirement, either financially or in any other way.

However, a number said that sufficient funds and an interest in things outside one's current, university-related responsibilities were vital ingredients for a "successful" early retirement.

THE REASONS FOR EARLY RETIREMENT ARE VARIED.

The early retirees in our study retired for a great variety of reasons. Most mentioned several factors which influenced their decision. The most common reason was that they had already developed, or else wanted to develop, some interests outside their regular university responsibilities. Some had in mind a specific project, such as finishing a book or research project. Others said they retired to set new goals for themselves and enjoy a different lifestyle altogether. The second most commonly stated reason was that they had lost interest in or no longer enjoyed their work, or else were fatigued by the pressures that accompanied even the most enjoyable challenges. Many retirees felt that they already had sufficient finances to retire comfortably. In a number of other cases it was the special early retirement option which made early retirement financially feasible. About one-fifth of the early retirees had a health problem or disability which contributed to their early retirement decision. Of the six reasons stated most frequently for early retirement, the sixth was a feeling that they had worked long enough and deserved a change or a rest.

FEW SAY THEY WOULD HAVE RETIRED EARLIER THAN THEY DID, EVEN IF THE CONDITIONS OF THE EARLY RETIREMENT OPTION HAD BEEN DIFFERENT.

Although several of the early retirees said they would retire earlier under the same conditions (if they had it to do over again), most of the early retirees would not have retired earlier even if the conditions had been different. Those who gave reasons said they would not have been psychologically prepared for retirement or else that they were too interested or involved in their work to retire any earlier. On the other hand, about one-fifth of the early retirees said they would have retired earlier if conditions had made it financially feasible.

AS RETIREES, THEY ARE INVOLVED IN A VARIETY OF ACTIVITIES.

Early retirees are involved in many different types of activities--recreational, creative, volunteer and professional. Most are simply devoting more time to interests they have had all their lives. Others have developed entirely new interests. Many interviewed in our study said that there was hardly enough time in the day to accomplish all that they wanted to do. Only a few retirees said they did not have enough to do that was interesting and challenging.

MANY ARE STILL ACTIVE PROFESSIONALLY.

Two-thirds of the early retirees interviewed had been paid for consulting or part-time work since their retirement. About one-half of the retirees had been paid for such activities in the current year. Many of the early retirees were also doing unpaid volunteer work related to their fields, or they were writing or conducting independent research.

MANY ARE HAPPIER WITH THEIR CURRENT LIVES THAN THEY WERE WITH THEIR LIVES JUST BEFORE RETIREMENT.

A majority of the early retirees responding to this question said they are happier now than they had been in the last few years before retirement. Many said they are more contented and relaxed because they now have the freedom to do what they want when they want. Many said that they are glad to be away from the tensions and pressures of the academic life. Others said they are just as happy as before but for different reasons. A few were ambivalent, saying that there are pluses and minuses to both working and being retired.

MOST ARE FARING WELL FINANCIALLY

According to most of the early retirees, there has been no change in their standard of living since retirement. The reason, most say, is that although their gross income is lower, their "spendable" income is higher. There are no more FICA deductions for Social Security. They don't have to pay income tax on Social Security or on income from their own after-tax contributions to retirement funds. Quite often their major expenses, such as the mortgage on the house and the children's living and educational expenses, are behind them. Furthermore, the money they once spent on clothes, lunches away from home, and commuting can now be reallocated as they wish. Many of the early retirees are concerned about the potential effects of continued inflation, but a large majority said that, so far, they have been able to live as well as or better than they had expected.

COMPARING THE ALTERNATIVES FOR EARLY RETIREMENT PROGRAMS

PROS AND CONS

Regular Early Retirement

Pro	Con
This option is available today at most institutions where it has probably been a part of the regular university or college retirement plan for some time. Its provisions are usually clearly stated. Information about the option is usually easy to obtain, and there may be recent retirees to whom you can speak about their experience. Under this option, annuity payments will be made until death, although the amount of each payment will be reduced below those that would have been received at mandatory retirement. Further, the option probably includes a survivor benefit so that your spouse can receive income if you die first.	The primary disadvantage of this option is the reduction in the amount of the annuity. After all, by retiring early you will have contributed less to the retirement plan and will spend more years receiving payments as a retiree. Unless you have other sources of income or take a part-time job, you may not be able to afford to retire more than a few years early. Like almost all of these options, a decision to retire early through this provision is irreversible. Once you begin to draw benefits it is highly unlikely that you will be able to reemploy at the same institution.

Lump-sum Severance Payment

Pro	Con
In this option, the early retiree receives a fixed one-time payment (though it might be paid out over as much as one year). It appeals to business and industry for the same reason it may appeal to you: the precise amount of the early retirement payment is known in advance. Depending upon your personal circumstances, receiving this termination pay in one installment may be advantageous. For example, you might use it to start a business, to purchase a recreation vehicle, to pay off a mortgage, etc.	This option may not be immediately available. If it is not typically part of the existing early retirement scheme, you may need to negotiate with your institution to obtain this option. (The other remaining options listed below also suffer this disadvantage.) You may be able to retire only a year or two early since your retirement pension is likely to be reduced somewhat. Only a personal calculation can determine the extent to which the lump sum offsets the reduced annuity. There could be tax disadvantages in taking this option, depending upon the way in which the severance payment is made. Lump-sum payments are taxable in the year received unless the payments are from a "tax-qualified plan." In the latter case, more favorable tax treatment will be accorded the

lump-sum distribution.

Also, depending upon the way in which the payment is made, there may be an abrupt and substantial drop in income at a later time during retirement.

Since this payment is made in a lump, rather than being made on an annuity basis till death, it may be exhausted prior to one's death. On the other hand, if assurance of payment until death is important, an annuity could be purchased with the lump-sum funds. A similar arrangement for a survivor benefit could be purchased, since the one-time payment would have no such provision.

An option such as this may be offered by an institution for only a limited period (to respond to a temporary need), and you might have to make your decision within a relatively short time. If you're not prepared to act, you may have to wait several years before the option is again offered, if it is offered again.

Again, the decision is irreversible.

Increased or Supplemental Annuity

Pro	Con
Many retirees appreciate this option because the increased benefits are paid until death and may include survivor benefits. Because benefits under this option are paid for life (and may be more generous than the lump-sum payment), you may be able to retire somewhat earlier than under the lump-sum arrangement.	The disadvantages are similar to the lump-sum option: This option may not be immediately available. You may have a limited period during which to decide to take the option. The decision is irreversible. Some annuities contain provisions for cost-of-living adjustments, but this supplemental annuity may not. If the one you are offered doesn't have this provision you might consider that a disadvantage, depending upon the size of the supplement. (A large supplement without a cost-of-living adjustment may be more attractive than a small one with an adjustment.)

Part-time Employment

Pro

For persons who would like to retire early but who do not have the financial resources, or for those who would like to taper off rather than stopping work abruptly, this might be an attractive option.

Part-time employment may be available at many institutions, although the arrangements vary widely.

This option does not require an immediate separation from the institution. It may serve as a trial retirement under some conditions such that one is not required to resign, but may be reappointed on a year-to-year basis.

Take-home pay (salary plus the early retirement annuity) may be the same as before retirement.

Con

Satisfaction with this option seems to depend upon the nature of the part-time position. Some positions have not been satisfactory to early retirees who thought the tasks they were assigned were below their abilities.

Space limitations may require a doubling up of office use. The early retiree may have to share space with other part-time faculty members, and coordination problems may result.

There may be legal or administrative problems with arranging part-time retirement, particularly if the early retiree receives a pension from and is employed simultaneously by the same institution.

Continued Benefits

Pro	Con
Benefits which are continued free of charge, or at a lower rate than you would have to pay on your own, can help make early retirement financially more feasible. Health and life insurance are particularly important to many people. Other benefits (library privileges, parking privileges, office space, secretarial services, etc.) should not be overlooked as a way to retain a tie to your institution and your profession.	Alone, these benefits do not make early retirement sufficiently attractive in financial terms.

Cost-of-Living Adjustments

Pro	Con
If applied to a normal early retirement annuity, cost-of-living adjustments may allow a faculty member to retire a few years earlier. This provision gives the early retiree more confidence in the size of the early retirement annuity in years to come.	Since early retirement is being financed out of a fixed pool of money, cost-of-living adjustments may cause the early retirement payment to be somewhat lower, to compensate for the cost of inflation protection.

If applied to an increased-benefit annuity, cost-of-living adjustments may permit you to retire more than a few years early, by assuring that your standard of living will not decline during retirement.

Things to Consider

Many retirees find that their financial needs decline somewhat after retirement, so that two-thirds to eighty percent of their retirement salary can provide a standard of living after retirement comparable to that before. However, it may only be possible to get such percentages of preretirement salary within a very few years of normal retirement age, unless supplemental compensation is provided.

Not all college professors may be eligible for Social Security. Those who were members of public-employee pension programs or other tax-exempt institutions not covered by Social Security may not have sufficient Social Security credit from covered employment. Also, since the minimum eligibility age for Social Security is 62, some early retirees may not qualify for payments until several years after retirement.

Tax breaks after retirement may increase disposable income but not usually until age 65. However, that portion of annuity income purchased by your employer will be taxable to you after retirement. In some cases you will already have paid the taxes on your own contributions. In the case of tax-sheltered annuities, you will be taxed when payments are received. If you receive a lump-sum severance payment, it may temporarily boost you into a higher income-tax bracket.

Life expectancies are increasing. This means not only a need for income during a longer period of active retirement, but also that even large annuities may be affected by inflation.

The early retirees we sampled pointed out the importance of good health in enjoying one's retirement. Further, the need for health insurance was stressed. Health coverage as part of an early retirement option may be important to you.

Active retirees tended to continue activities begun before retirement. They advised: cultivate interests before retirement. Diversity your interests.

Although they retired, many academics did not sever their relationship with their college or university. Fringe benefits enabled them to maintain contact.

A Note on TIAA-CREF

Many faculty members are covered by the retirement program of TIAA-CREF. This is a defined contribution plan in which an annuitant's benefits are determined by his contributions plus any contributions of the employer and the investment income of the retirement fund. A participant can choose to retire early under this program, but the benefits will be lower than those payable at normal retirement age.

Institutions which participate in TIAA-CREF could, if they so desired, institute an increased-benefits early retirement program to supplement TIAA-CREF. Such a program could contain any of the options we have discussed, and could be administered in a variety of ways. This program would be separate from the TIAA-CREF program.

Evaluation

To retire early is the decision made by more and more people. It is a serious decision and one for which you may need assistance or advice. Perhaps the most important piece of information is a realistic assessment of your financial future. Such an assessment may reveal a need for early financial planning. Funds invested for retirement need time to grow. Too little too late, the retirees tell us, can lead to family problems. The increased benefits being offered by some colleges and universities have made early retirement feasible for a number of academics. Few seem to regret their decision. Maybe early retirement is for you.

II. IS MID-CAREER CHANGE FOR YOU?

Why Change Careers?

Many highly educated persons could be working in a different setting. Many do change in mid-career. Some are forced to change, through circumstances over which they have no control. Some wish they were elsewhere: they have lot interest in their present work or work setting; they see no chance for personal or career development in their present work; they have developed new skills or would like to do so; they feel comfortable about turning back to an earlier interest.

Career change is not a new phenomenon among college and university faculty members. In some disciplines there is a constant flow of personnel between academic settings and business, government, philanthropic and other non-profit organizations. Professors move temporarily or permanently, drawing upon an array of available opportunities to find and try out alternative work and work settings: visiting appointments, leaves of absence, internships, fellowships, etc.

In recent years there have been attempts to institute formal programs of retraining to stimulate and facilitate these kinds of career change. The programs undertaken by colleges and universities themselves are predominantly aimed at retraining professors for work in different disciplines or specialties within their present institutions or systems. Their goal is to distribute faculty personnel in a fashion more closely reflective of present student demand or anticipated institutional needs.

How Do I Learn About Career Change Opportunities?

You already know a lot about alternative careers. You are aware of other kinds of jobs held by people with your kind and level of training. You may have, on occasion, lectured or consulted for non-academic organizations; or your colleagues may have done so.

If you don't already know the standard routes to these career opportunities (e.g., professional employment bulletins, professional association meetings), they can easily be discovered by contact with the appropriate professional association or by talking with your academic colleagues who have dealt with these organizations. If you have located an alternative career opportunity and wish to try it out before making a commitment, investigate the opportunities your institution offers for leaves of absence.

A useful compendium of funded programs can be found in "A Selected List of Major Fellowship Opportunities and Aids to Advanced Education for United States Citizens" (prepared under contract with the National Science Foundation by the Fellowship Office, Commission on Human Resources, National Research Council, National Academy of Sciences, Washington, D.C.). Of greatest relevance to you will be the Postdoctoral Section and the General Section. This document deals with all disciplines and fields, not just with scientific disciplines.

Institutional Retraining Programs

A recent development, available in a few institutions, is the institutional program for retraining of faculty members. Most of these programs have emerged from institutional desires to reduce or abolish selected academic programs, while keeping experienced faculty by retraining them for work in

fields currently in demand. Although the program exists in only a few institutions, it is being planned or considered in others. You should be aware of the major benefits (and costs) of the program in case it becomes available in your institution.

Major Features of the Programs

Funding. The faculty member remains on the payroll at his regular salary for the period of retraining. Additional expenses, such as educational fees and books, moving expenses, etc. are paid out of a special fund allocated to the program. In some cases, the fund also pays the salary for a replacement faculty member in the originating department.

Scope of Training. This varies from retraining in an allied specialty within the same discipline to training for an entirely new, unrelated discipline. The latter is less common in existing programs, but does occur when the interests and prior experience of the professor warrant it (e.g., a history professor who, as an undergraduate, had switched into history from chemistry for health reasons, but who had continued an interest in history of science, retrained for teaching chemistry). Most programs involved one year of full-time study in a conventional graduate program; sometimes, the one year full-time-equivalent is distributed over more than one academic year. On occasion an advanced degree is earned, but more often this is not a program goal.

Locale of Training. In a graduate-level institution, often near the home institution; rarely within the home institution.

Application and Decision Process. Proposals are submitted by the prospective retrainee to a committee established to screen applications.

Sometimes there are committees at both the campus and system-wide level. These proposals are often stimulated by others within the institution (department chairmen, deans, etc.). The proposals are invariably preceded by or concurrent with negotiations by the faculty member with the prospective receiving department, to establish with certainty the existence, level, obligations and perquisites of the position which the retrainee might hold in the receiving department. Where the intention is to have the retrainee be a member of both the originating and the receiving departments, both are involved in the negotiations.

Placement. Placement is rarely a separate process. Generally, only those candidates are selected for retraining for whom a new placement has already been worked out, at least in part. Sometimes, however, details about joint appointments, courses to be taught, seniority, etc., remain to be decided even after the major decisions about retraining and placement have been made. These are potential trouble spots which need to be carefully attended to.

Watch Out for These Program Provisions.

Nature of the Retraining Program. Is the retraining program adequate to prepare you for the new responsibilities you will be assuming (if not, you may be penalized when evaluations for promotion and salary increases are undertaken)? Does the program lead to some kind of formal certification? If not, are you likely to be penalized in some way for not holding a credential of some kind in the field in which you are working?

Level of Support. Will your salary continue at its full level? If not, is the support level adequate for you and your family to live on (remember, this is for a limited period only). If you have to move your family, are living costs higher (lower) in the new area? (Remember, it often costs more when you don't know your way around an area.) Are tuition fees, books and other educational costs covered? What is your tax status while retraining? What is the tax status of your salary and your cost allowance? Do you present fringe benefits continue during retraining (hospital-medical coverage, retirement plan, life insurance, sabbatical-leave credit, etc.)?

Provisions of New Appointment. Have all the relevant provisions of your new appointment been worked out? Will you retain present security of appointment (tenure) status? How will the move affect provisions of your institution's collective bargaining agreement (if any), such as seniority rights? Do you know what your teaching, research and administrative obligations will be in your new department?

Miscellaneous Considerations

Will your admission to the educational program you plan to undertake be acknowledged before you have to make final commitments to your old/new department, sign agreements for new living accommodations, etc.?

Do you have written confirmation of the employment and training arrangements negotiated with your institution? Is it signed by an institutional officer who has the authority to make such commitments? Does it conform with any administrative regulations and collective bargaining agreements in force at your institution?

If in doubt about any of these, seek expert counsel.

NOTE

This report has been distributed to encourage discussion of early retirement and mid-career change. A similar brochure is being distributed to university and college administrators and addresses their specific concerns. A copy of that brochure may be obtained by writing the address below. A technical report may also be obtained from the same address.

This brochure was produced by Abt Associates, Cambridge, Massachusetts, under a contract with the National Science Foundation. Principal investigators were Dr. Carl V. Patton and Dr. Joseph Zelan.

GUIDE TO EARLY RETIREE INTERVIEWS*

1. When did you retire? How old were you? How many years had you been employed by the university (or company)?

2. What position did you hold at the time you retired? (For faculty: What was your academic field?)

3. What particular early retirement arrangement was made in your case? How does this arrangement differ from normal mandatory or early retirement procedure? In addition to direct benefits, what fringes were provided, such as medical coverage, health and life insurance, office and lab space, secretarial services, library and parking privileges, etc.

4. Had you always expected to retire when you did? If not, when did you originally expect to retire? When did you start to think seriously about early retirement?

5. What caused you to consider retiring early? Was there any special impetus in the last year or so before retirement?

6. Before you retired, did you talk with other persons about when you should retire?

7. How did you initially become aware of the early retirement arrangement?

8. When, in relation to other events, did you and your immediate superior first discuss early retirement? Who first raised the issue of whether you should retire early? Why? What was the other's reaction?

9. Did you discuss early retirement with any other manager or administrator before discussing it with your immediate superior? Who was it? When did this discussion take place? Who first raised the issue of whether you should retire early? Why? What was the other's reaction?

10. Did you feel any pressure from your superiors to retire early?

11. What was the administrative procedure for handling your early retirement? (Who was involved, and what roles did they play?)

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* These questions were devised as an interview guide to the study's information needs. The actual interviews were styled as informal conversations, varying according to the unique circumstances of each individual.

12. How would you evaluate the administrative handling of your early retirement? (How satisfied are you with the way it was handled? What administrative changes do you feel are needed?)

13. How would you evaluate the provisions of the early retirement arrangement? (How satisfied are you with those provisions? What changes or alternative options would you suggest?)

14. How satisfied are you now with your decision to retire early? What are your main reasons for feeling this way?

15. If you were able to make your decision of <u>when</u> to retire over again, under the same circumstances, what would you do? Retire sooner? Retire at about the same time? Retire later? Why?

16. Would you have retired even earlier if the conditions of the early retirement arrangement had been different? If yes, what would have been the necessary conditions? Assuming these conditions could have been met, at what age might you have retired?

17. Beyond making financial plans, how did you prepare for early retirement? Did you find this useful? Other than financially, how would you prepare for early retirement if you were doing it over again?

18. What financial plans did you make for your retirement? How long before you retired did you begin to make these plans? Did you make these plans specifically for early retirement, or are they plans you would have made anyway? Did you change, or re-evaluate, your financial plans when you decided to retire early? In what way?

19. Did you receive any formal counseling about early retirement? If so, did you find it beneficial? If not, do you feel you needed any?

20. Have you worked for pay since your initial retirement from the university (or company)? What was the nature of this work? How much time was committed to it?

21. Are you now working for pay? If so, are you satisfied with the amount you are now working, or would you rather be working more or less? Why? If you are not now working for pay, would you <u>like</u> to have some kind of paid employment? Why?

22. What types of income do you presently have? Which sources of income provide your primary support?

23. How does your present standard of living compare with your standard of living before retirement? How does it compare with what you expected it to be?

24. What are your current (leisure, professional and volunteer) activities? How do they relate to what you were doing before you retired? Are you continuing any of the professional activities you were engaged in before you retired? What are your plans for the next few years?

25. Compared with your life before retirement, how happy are you with your life now? Why?

26. Do you know of any colleagues who considered and then decided against retiring early? If yes, why did they decide against it?

27. What do you feel are the essential ingredients for a successful early retirement?

GUIDE TO ADMINISTRATOR INTERVIEWS*

1. What is your basic mandatory retirement provision?

2. What is the basic early retirement provision?

3. What is the essence of the increased-benefits early retirement arrangement?

   a. At whom is the arrangement aimed?
   b. What is the financial inducement?
   c. Is there a provision for cost-of-living adjustments?
   d. What inducements other than financial does the arrangement include?
   e. How were the benefits levels determined?
   f. What are the eligibility requirements?
      -- years of service
      -- minimum age
      -- other
   g. Is it a formal or informal program?

4. What were the sources of the incentive early retirement concept?

   a. Who were the key actors?
   b. What roles did they play?

5. Why was the concept originally considered?

6. What other early retirement schemes were considered?

   a. Why were they dismissed?
   b. What inducements other than money were considered?

7. How many early retirements have you had under this arrangement?

8. What factors caused employees to agree to early retirement?

9. Were there any individuals who formally considered early retirement but did not take it? How many? Why did they not take the arrangement?

10. How was the policy announced/publicized/promoted? Generally, how were workers informed?

* These questions were devised as an interview guide to the study's information needs. The actual interviews were styled as informal conversations, varying according to the unique circumstances of each institution.

11. How were the early retirements handled?

    a. How extensive were the negotiations?
    b. Who were the key individuals involved in these negotiations?
    c. Outline their roles

12. Was special counseling provided potential early retirees?

13. Please give me your general evaluation of incentive early retirement.

    a. As a policy/program
    b. Administrative aspects
    c. Do superiors understand the program?
    d. Are the "right" people being selected?
    e. How might the program be improved?
    f. Beyond money, what should be part of an early retirement program?