

# Phased Retirement

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## Retirement & Independent Entities Committee

*June 24, 2015*

# Phased Retirement

- » Brief History of Retirement
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# I. Brief History of Retirement

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- Retirement as a distinct phase of life is a relatively recent innovation
- Well into the 19<sup>th</sup> Century about half of 80+ year olds still worked

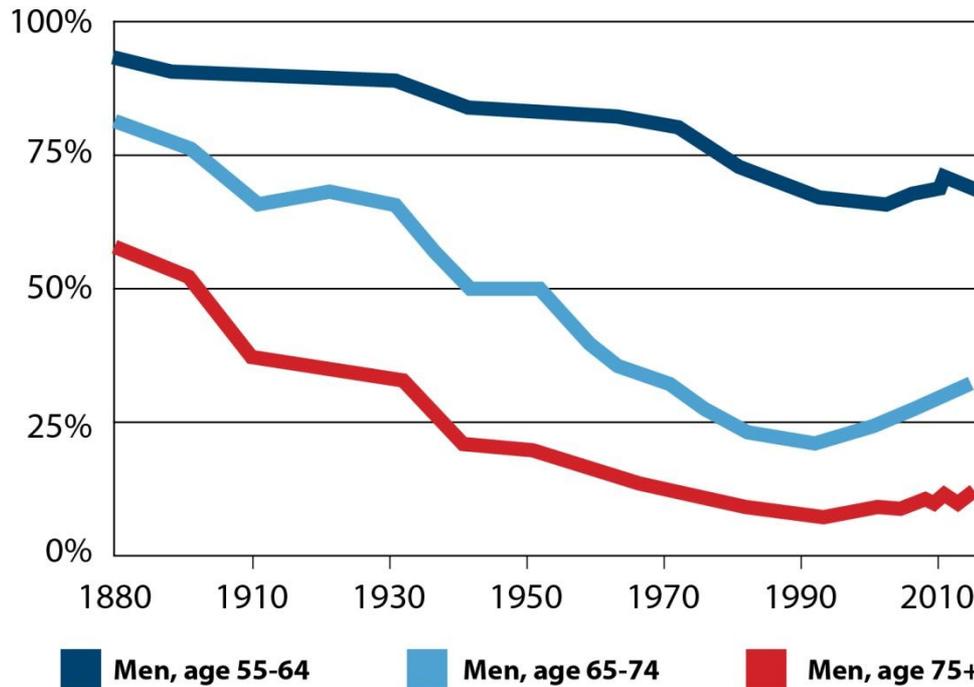
# I. Brief History of Retirement

- Two developments changed things: industrialization and urbanization
- Industrialization: No longer own boss on farm, employers did not want employees with declining physical capacity, lost natural way of accumulating wealth through land
- Urbanization: fewer children meaning fewer caretakers in old age

# Brief History of Retirement

## RETIRING EARLIER

Workforce Participation Rates of Men, by Age Group, 1880-2012



Source: University of Minnesota, Integrated Public Use Microdata Series (1880-2012).

# I. Brief History of Retirement

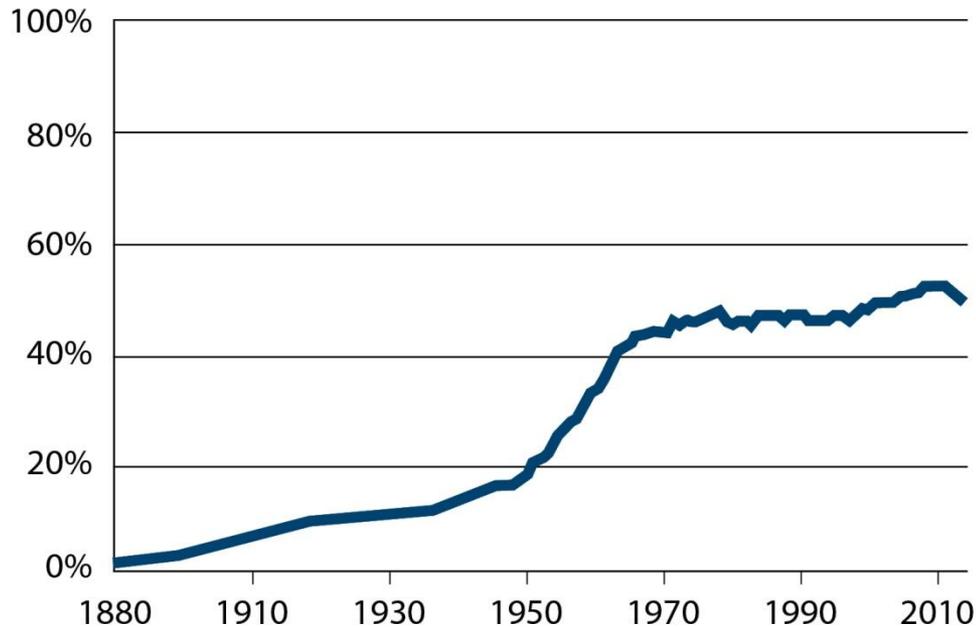
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- Pensions created for Civil War veterans
- 20<sup>th</sup> Century saw rise and growth of corporate, union and public pension plans (including Utah)

# Brief History of Retirement

## PENSION COVERAGE

Percentage of U.S. Private Sector Workers Covered by Employer Plans, 1880-2012



Sources: Skolnik (1976); U.S. Dept. of Labor (1999); U.S. Bureau of Labor Statistics, National Compensation Survey (1999-2012); and estimates.

# I. Brief History of Retirement

## Retirement Vehicles

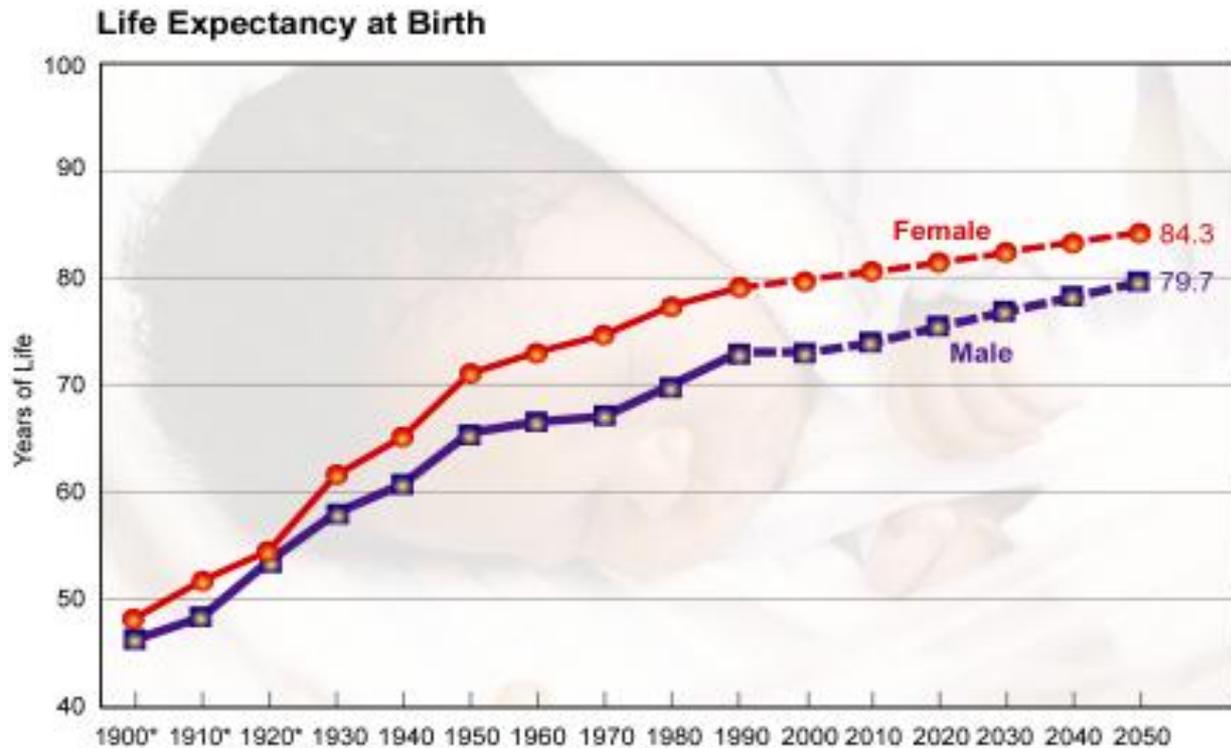
- Early 1980's 401(k) plans created as a supplemental savings vehicle
- Regulatory burdens and costs on private pension plans increased and they were run as part of the business of the organization, not a separate trust, leading to conflicts of interest

# I. Brief History of Retirement

## Key Takeaways

- Retirement is a human invention that changes slowly over time
- Factors include type of work performed, health and longevity of population, accumulated wealth, laws and social cues
- Retirement vehicles also change over time

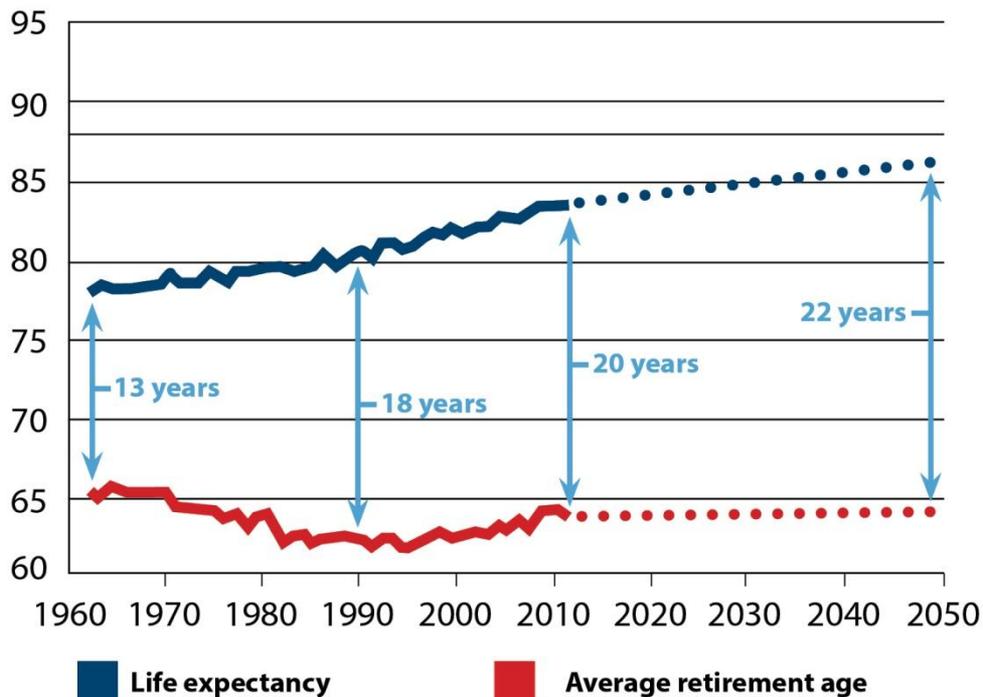
# II. Demographic Trends



# Demographic Trends

## LENGTH OF RETIREMENT

Average Years in Retirement, 1960-2050



Sources: Estimates from U.S. Census Bureau, *Current Population Survey* (1962-2012); U.S. Social Security Administration (2013b).

## II. Demographic Trends

- 1 in 4 people who reach 65 will live past 90
- 1 in 10 people who reach 65 will live past 100
- 88% of those 65-74 are healthy enough to continue to some type of work

# II. Demographic Trends

## Key Takeaways

- People are living longer
- People are healthier longer
- People are remaining healthy enough to work past traditional retirement ages
- People are spending more time in retirement

# III. Working Longer

- Currently, 42% of employees eligible to retire continue to work
- Of those, 62% said the primary reason was to stay mentally active
- 31% said the primary reason was for the money

# III. Working Longer

- Working longer is more attainable for today's workforce: in 1940 just under 5% of the population 25 or older had completed 4 years of college, today 32% of the population has attained that level of education

# III. Working Longer

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- 52% of public sector jobs require college degrees or higher while 34% of jobs in the private sector require that much education

# III. Working Longer

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- However, challenges exist for many older workers: 86% of people age 65 or older report chronic conditions including heart disease, diabetes, cancer and arthritis

# III. Working Longer

## Key Takeaways

- Many retirement eligible people already continue to work either for satisfaction or additional compensation
- Current working conditions make it easier for people to work longer
- As workers age, some may not want or be able to fill full time positions

# IV. Phased Retirement

- Phased Retirement is a tool that allows an employee to continue working at a reduced level while drawing a partial salary and a partial retirement benefit
- Phased Retirement is a new concept that must be approached carefully to avoid unintended administrative and financial problems

# IV. Phased Retirement

- Phased Retirement is a tool that allows (but does not force) employers to retain valuable older employees on a part time basis to retain institutional knowledge, assist in succession planning and mentoring, and work on special projects

# IV. Phased Retirement

- Phased Retirement is not a tool to encourage double dipping or salary enhancement
- Phased Retirement is not a tool that may fit all positions or all employers

# IV. Phased Retirement

- Phased Retirement must be carefully designed and implemented in order to avoid unanticipated costs
- Phased Retirement cannot become overly complex to administer or it will result in unanticipated costs

# IV. Phased Retirement

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- Employers and employees that elect to participate in Phased Retirement must be meticulous in record keeping and reporting in order for a program to be well run

# IV. Phased Retirement

## The Federal Model

- In the Fall of 2014 the Federal Office of Personnel Management implemented a Phased Retirement program for employees that met certain qualifications, such as being covered by the appropriate Federal retirement system and meeting age and years of service requirements

# IV. Phased Retirement

## The Federal Model

- Under the Federal model an employee who meets certain criteria can work 50% schedule, receive 50% salary and simultaneously receive 50% of their accrued pension benefit

# IV. Phased Retirement

## The Federal Model

- If the Federal Model were applied to a hypothetical URS Tier 1 Public employee with 30 years of service credit, the retiring employee would be eligible during the phased retirement period for a retirement benefit equal to 30% of final salary, along with 50% salary from the employer for a replacement income rate of 80% of salary.

# Phased Retirement

## Key Takeaways

- Any Phased Retirement program must be thoroughly researched and conservatively implemented to avoid unanticipated consequences.
- Phased Retirement may be a program that benefits many employers and employees in a changing work force.

# Potential Next Steps

## Key Takeaways

- Under the direction of the Chairs of the Committee, URS could research and prepare a more detailed proposal which would include a legal review of applicable state and federal law and work with the actuaries to find a benefit structure that is anticipated to be cost neutral.