

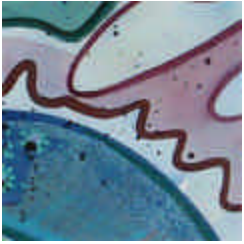
ANNA RAPPAPORT CONSULTING
STRATEGIES FOR A SECURE RETIREMENTSM



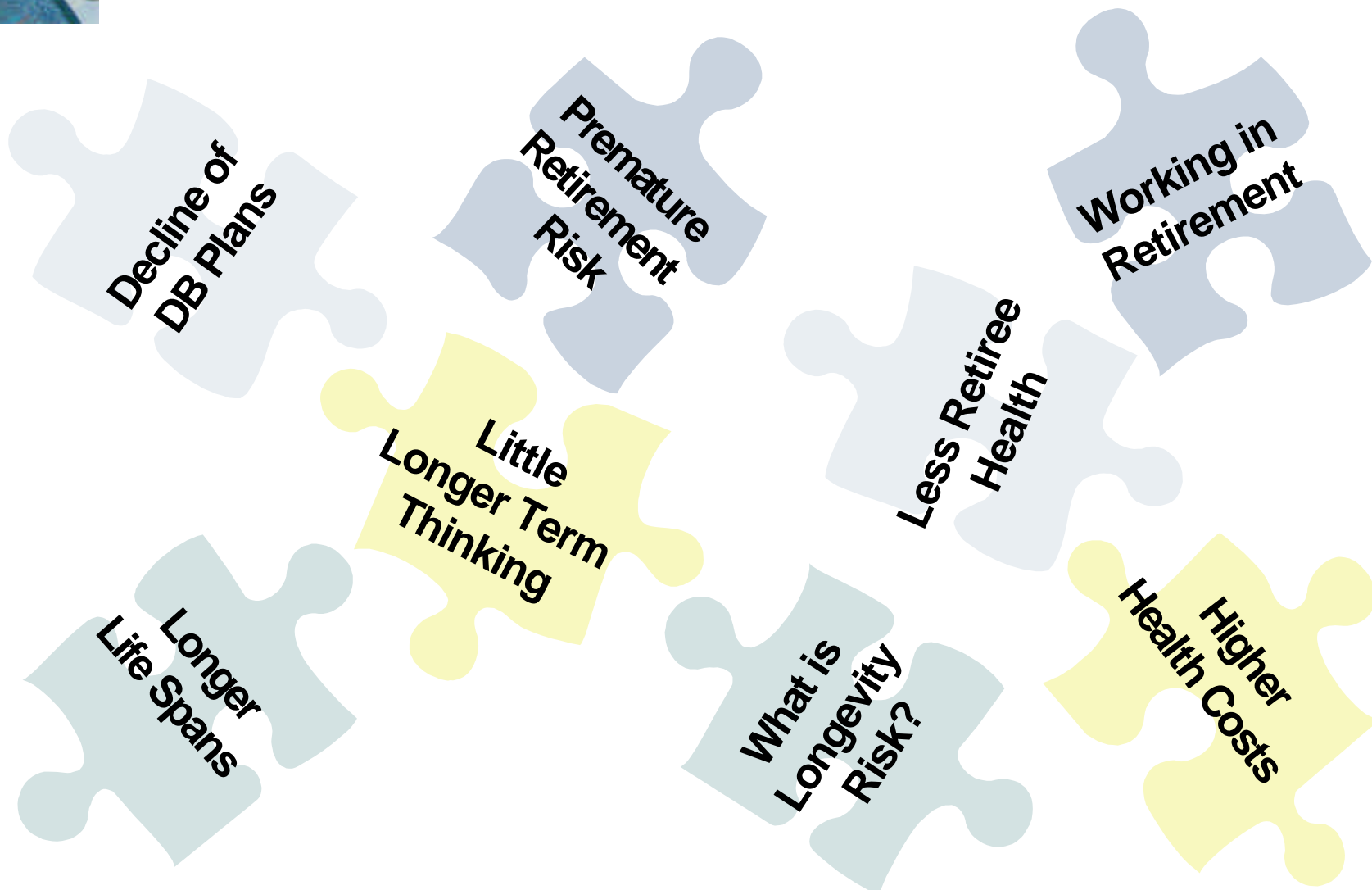
**Future of Retirement:
Thinking about Phased Retirement**

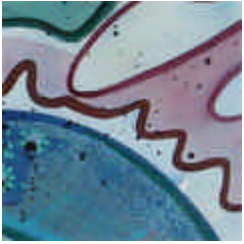
Presented by Anna Rappaport

Conference Board Working Group
January, 2007



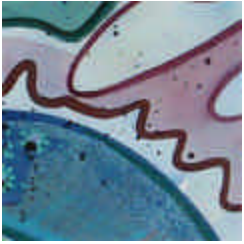
The Big Picture Today





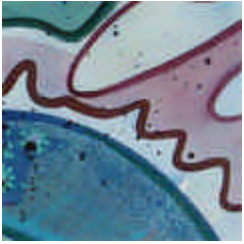
Puzzles around longer work

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



Our Goals Today

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



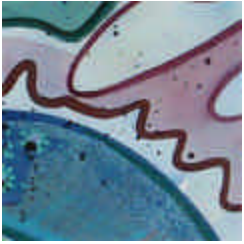
Agenda

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



Context: World after PPA

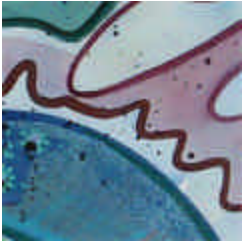
- ✍ Pension Protection Act allows pensions from defined benefit plans to be paid after age 62 to people still working
 - Only applies to “general programs” that are offered in qualified plan and meet non-discrimination rules
- ✍ Major change: No
 - More phased retirement involves rehiring retirees
 -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



Context: Definition of Phased Retirement

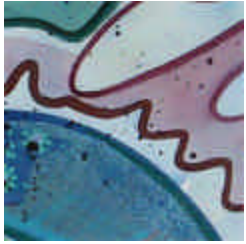
- ✍ No accepted definition—may permit partial or full pension payments
- ✍ Allows mature workers to work on reduced or modified basis before retirement (phasing pre-retirement)
- ✍ Allows rehire of retirees (phasing post-retirement)
- ✍ Modified work may mean change of schedule, place or duties
- ✍ Can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

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



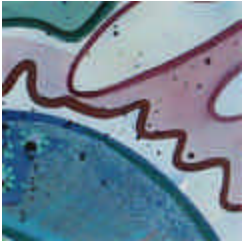
Context: Demographics

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



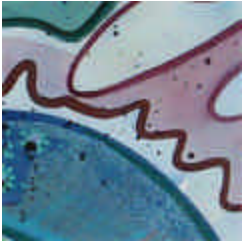
Context: Probability of Living to 80, 90, 100 Projected to 2025

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



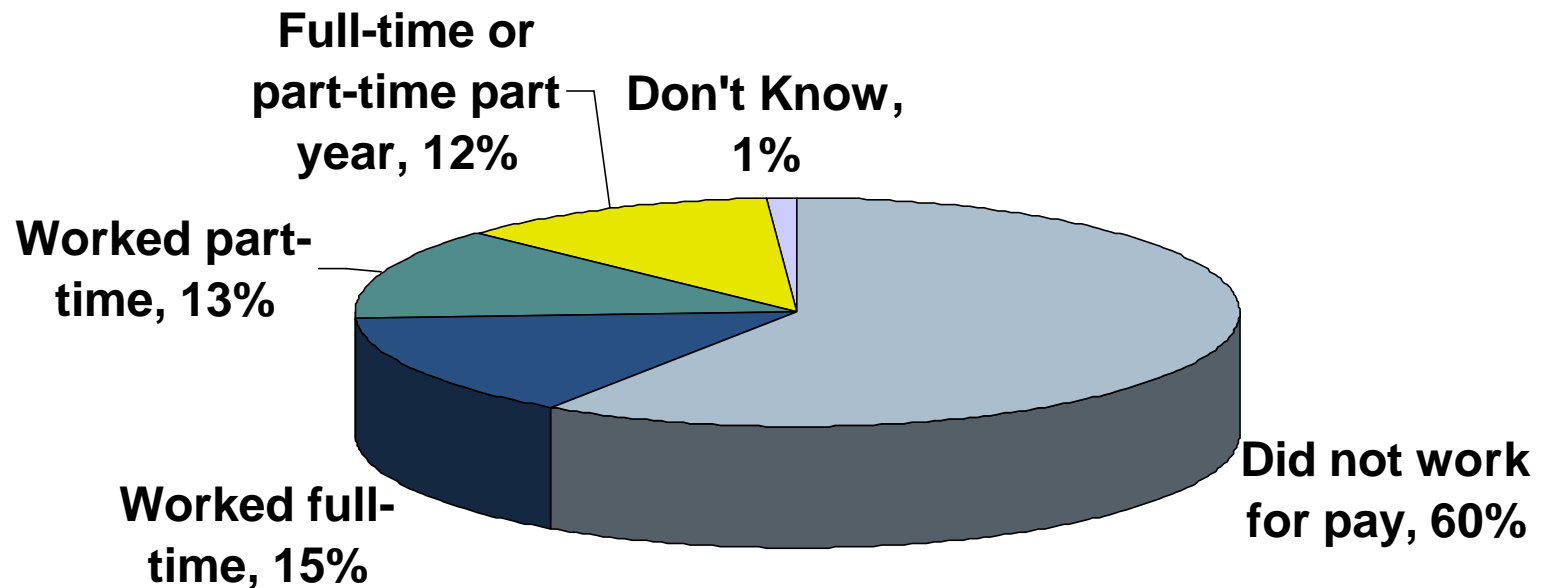
Context: The work and retirement experience

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

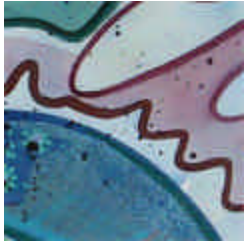


Context: Work After Retirement

Percentage of Retirees with Various Work Experiences (2004)



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

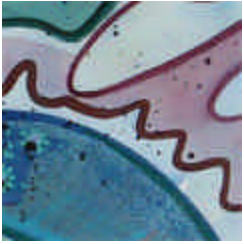


Context: Pre-retirees expect to work longer

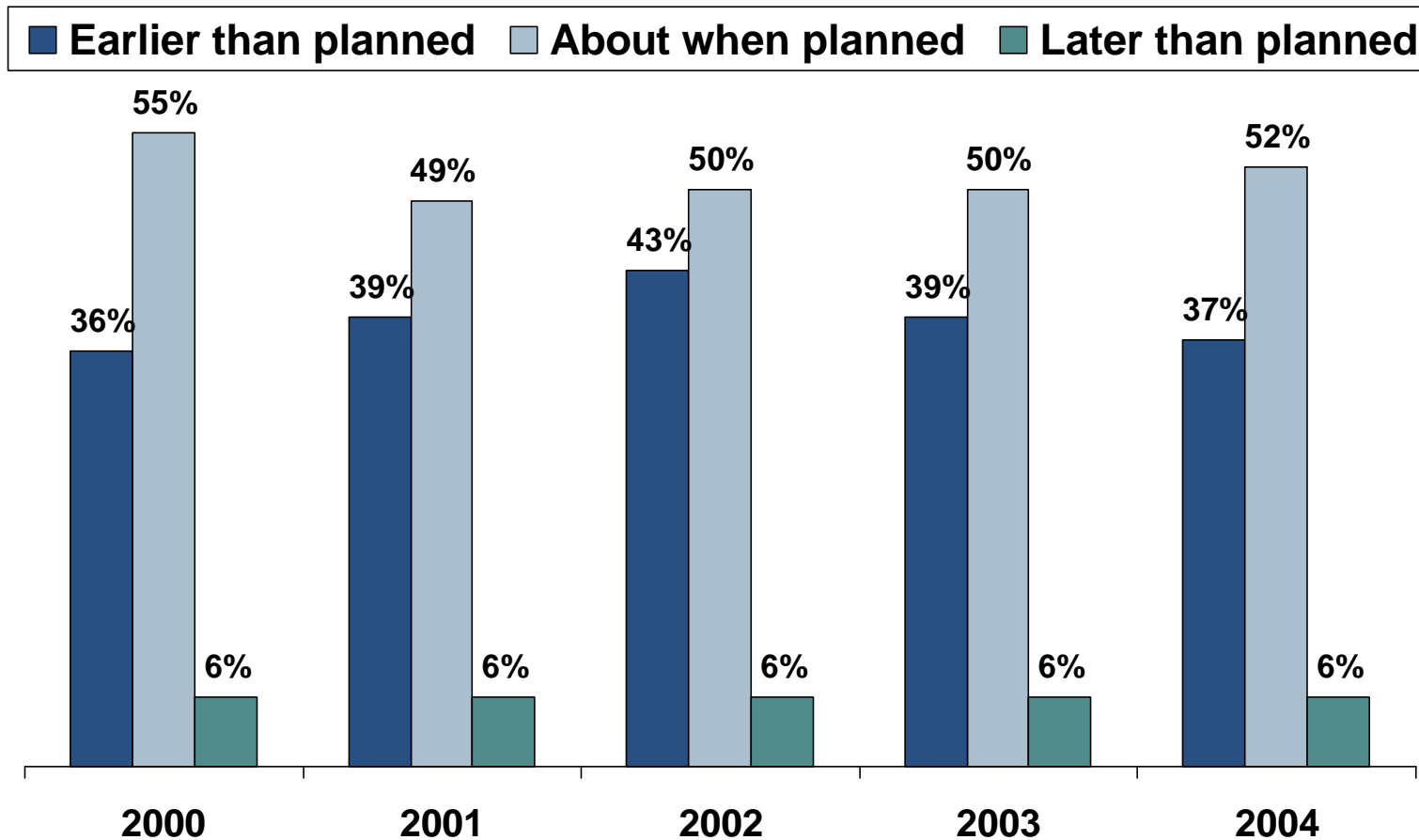
How old were you when you retired/began to retire from your primary occupation?/At what age do you expect to retire from your primary occupation? (Among retirees and employed pre-retirees)		
Age Category	Retirees (%)	Pre-retirees (%)
	2005 (n=302)	2005 (n=253)
Under age 55	34	2
55 to 61	29	12
62 to 64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

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

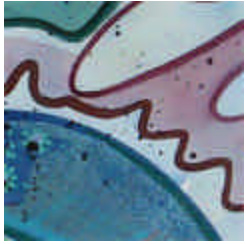
Presentation at Conference Board Working Group
January 11, 2007



Context: Expected vs. actual timing of retirement among retirees



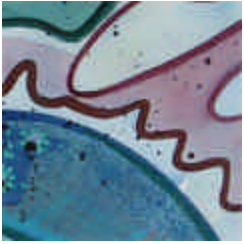
Source: EBRI/ASEC/Greenwald, 2000-2004 Retirement Confidence Surveys



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

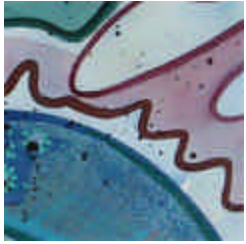
What event or situation occurred at age X that leads you to say you retired at that age? (retirees) / What event or situation do you anticipate occurring at that age that leads you to say you will retire? (pre-retirees)		
Top mentions (multiple responses accepted)	Retirees (n=242)	Pre-retirees (n=231)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

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



Context: Earnings, Retirement Income and Risk

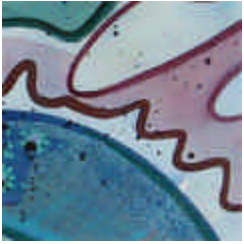
- ✍ For those with pensions, pensions are an important source of income
- ✍ For those with earnings, earnings are an important source of income
- ✍ 45% of over age 65 women alone have little in addition to Social Security
- ✍ Understanding of risk
 - Not changing much
 - Health care and long term care—biggest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



Context: Importance of Earnings Ages 55 and Over

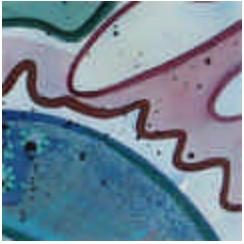
Age Group	% with Earnings	Mean Annual Earnings	Median Annual Earnings
55-64	66.5%	\$44,673	\$32,000
65-69	32.6%	32,792	19,428
70-79	16.2%	27,256	12,000
80 +	5.1%	21,101	10,000

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



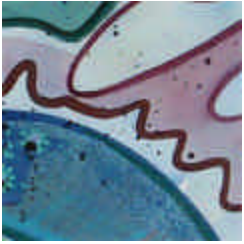
Practical issues

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



Best option for phased retirement

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



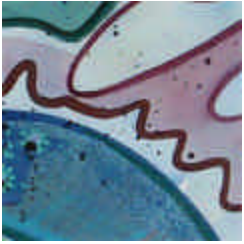
Phasing a little vs. phasing a lot

Phasing a little

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

Phasing a lot

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



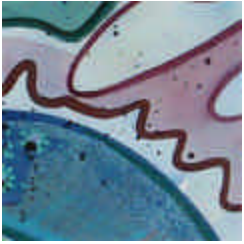
Bank teller

Phasing pre-retirement

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

Phasing post-retirement

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



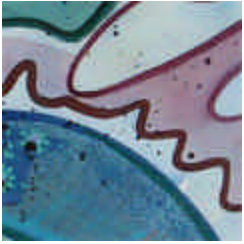
Research scientist

Phasing pre-retirement

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

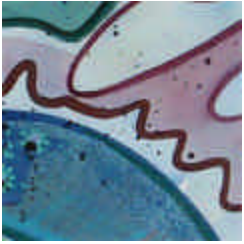
Phasing post-retirement

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



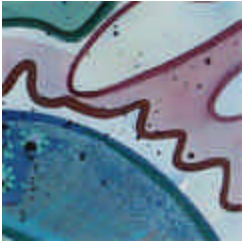
Bon Secours Richmond Health System

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



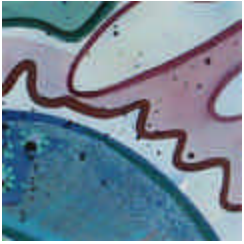
YourEncore

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



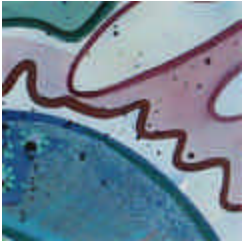
Driving the scenarios: Big questions about future of retirement

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



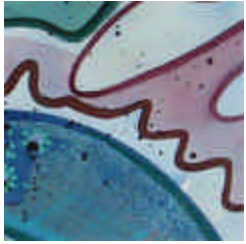
Contracting issues

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



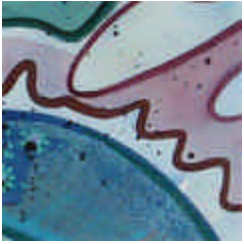
Checklist for phased retirement

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



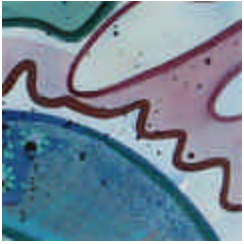
Scenarios: Putting the Puzzle Together

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



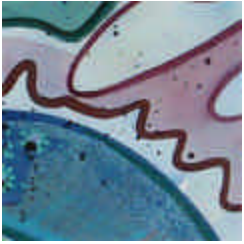
I – Continue Present Trends

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



II - Increase Retirement Ages

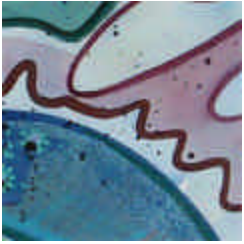
- ✍ **Role of retirement systems in society is unchanged**
- ✍ **Major increase in retirement ages**
- ✍ **No significant change in role of the family**
- ✍ **Pension implications**
 - **Enable phased retirement**
 - **Enable age 70 normal retirement ages**
 - **Total resources needed decline—shorter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



III - End of retirement

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

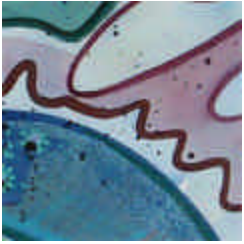
Author's opinion: very undesirable result



IV - Move to new patterns of retirement

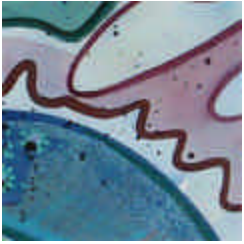
- ✍ **Many similarities to II—Increase in Retirement Ages**
- ✍ **Retirement is much more of a process**
- ✍ **Work options are critical**
- ✍ **Period of work at reduced level is normal—Third Age**
- ✍ **Increase in age of total withdrawal from labor force**
- ✍ **Increases labor supply at older ages**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

Author's preferred scenario



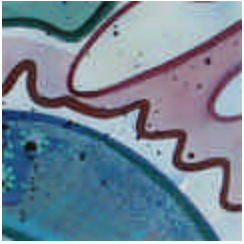
Opinions: Work options and periods of work

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



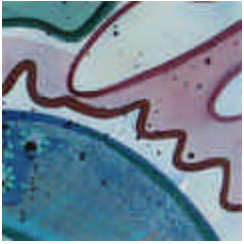
Opinions: Limits on employee action

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



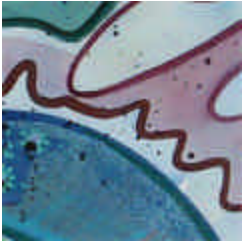
Opinions: Labor supply and demand

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



Opinions: Important policy positions

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



Revisiting puzzles around longer work

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

