

Phased Retirement Data Sheet

This data sheet includes information on current coverage and participation by American workers in pension and retirement plans. It also includes information on what employees say they want in terms of flexible work arrangements and access to pension and retirement funds, as well as what employers say they need with regard to the workforce of the future.

WHERE WE ARE TODAY

- **Pension and Retirement Coverage**

The National Compensation Survey from 2004 to 2006, conducted by the Bureau of Labor Statistics at the Department of Labor, provides a general picture of pension and retirement plan participation by American workers. This survey also provides data on participation in defined benefit and defined contribution plans, broken down by worker and employer characteristics.

Some of the highlights of the survey are:

- Approximately half of private sector workers participate in some form of a private retirement benefit plan.
- Full-time workers are much more likely to participate in a private retirement plan (60% of such workers in 2006), as compared to part-time workers (21% of such workers in 2006).
- There is not a huge difference between the participation of white-collar and blue-collar workers in private retirement plans: 60% and 52% of workers in white-collar and blue-collar occupations, respectively, participated in such plans in 2006. By contrast, workers in the service occupations had significantly lower participation: only 24% of workers in such occupations in 2006 participated in some private retirement plan.
- The relatively solid percentage of participation in private retirement plans in blue-collar occupations is presumably tied to the higher unionization rate in the blue-collar industry as compared to the service industry, and the higher participation in retirement plans enjoyed by union members (80% in 2006), as compared to non-union members (47% in 2006).
- The percentage of workers who participated in defined contribution plans in 2006 (43%) was twice as high as the percentage of workers who participated in defined benefit plans in 2006 (20%).

Data from 2004 through 2006 are presented in the chart below:

Percent of Private Sector Workers Participating in Retirement Benefits									
	All plans			Defined benefit			Defined contribution		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
All workers	51	50	50	20	21	21	43	42	42
Worker Characteristics									
Full time	60	60	60	23	25	24	51	50	50
Part-time	21	19	20	8	9	9	16	14	14
White-collar occupations	60	61	61	22	24	24	57	53	53
Blue-collar occupations	52	51	50	25	26	25	60	38	38
Service occupations	24	22	22	7	7	6	27	18	18
Union	80	85	81	68	72	69	44	43	42
Non-Union	47	46	47	14	15	15	43	41	42
Average wage less than \$15 per hour	36	35	36	10	11	11	31	29	30
Average wage \$15 per hour or higher	70	71	71	33	34	35	58	59	59
Establishment Characteristics									
Goods producing	64	64	63	31	32	31	51	50	49
Service producing	47	47	47	17	18	18	40	39	40
1 to 99 workers	37	37	37	9	9	9	33	32	32
100 workers or more	67	67	67	33	36	34	54	53	53
Geographic Areas									
Metropolitan areas	52	52	51	21	22	22	44	42	42
Non Metropolitan areas	44	44	45	13	15	15	39	38	39

As has often been noted, there is a trend in plan coverage away from defined benefit plans and towards defined contribution plans. In the past 20 plus years, the number of defined benefit plans has declined significantly. In 1985, there were 112,208 single employer defined benefit plans. By 2005, that number had declined to 28,769. The number of multiemployer defined benefit plans declined from 2,244 in 1980 to 1,567 in 2005. (MacDonald 2007).

The number of private-sector workers who participate only in a defined contribution plan, as compared to those who participate only in a defined benefit plan, has also significantly increased since 1990. Based on data obtained from the Department of Labor's Forms 5500 and the study's authors' own calculations, the following chart shows the change in the number of participants (in millions) by type of plan:

Year	1980	1990	2000	2003
Defined Benefit Only	22	12	5.7	6.6

Both Defined Benefit and Defined Contribution	8.2	13.9	16	14.9
Defined Contribution Only	6.2	16	30	30

(Buessing and Soto, Table E4, 2006).

One of the fastest growing features of defined contribution plans is the **401(k) feature** of such plans. This feature allows employees to contribute part of their salary to an individual account in the plan on a pre-tax basis. The following chart illustrates the growth of the 401(k) feature in defined contribution plans:

Year	Number of Plans with a 401(k) Feature	Number of Participants in the 401(k) Feature
1984	17,303	7,540,000
1990	97,614	19,548,000
1996	230,808	30,843,000
2002	423,000	43,000,000
2003	438,000	42,400,000

(Employee Benefits Research Institute, 2005).

As the 401(k) feature has increased in defined contribution plans, the amount of funds in such accounts has grown as well. In 1996, the average 401(k) account (ignoring rollovers and funds still in prior employer plans) was \$37,000. In 2005, the average 401(k) account (again, ignoring rollovers and funds still in prior employer plans) was \$51,000. The median funds in such accounts was \$11,600 in 1996, and had grown to \$18,000 in 2005. (Salisbury, p. 2-3, 2005).

- **Average Age and Timing of Full-Retirement**

The retirement age has declined from the early 1950's through the 1990s. In the early 1950's the average retirement age for men was 66.9 and for women it was 67.6. (Gendell, p. 14, 2001). By the early 1970s, the average retirement age had fallen to 63.4 for men and 62.9 for women. (Ibid). The average retirement age remained fairly steady through the early 1990's, with the average age for men at 62.4 and women at 62.3. (Ibid).

The average retirement age fell after the mid-1990s to age 60. (Helman, 2006, p. 9). Recently, however, the average retirement age has begun to climb to approximately age 62 in 2006 (Ibid)..

Although the average age of retirement has been increasing, four in ten people retire earlier than they had anticipated (38% in 2006). (Helman, 2006, p. 9). Many who retire earlier than anticipated express negative reasons for retirement

such as poor health or disability (40%) or changes at their companies, such as downsizing or company closure (30%).

- **Life Expectancy**

In 1935 when Social Security was enacted, life expectancy was about 60 years at birth. Individuals who reached age 65 could expect to live, on average, until age 77. (Wiatrowski 2001).

Over 70 years after Social Security was enacted, in 2006, at birth, a male can expect to live to age 74 and a female to age 79. A 65 year old man can expect to live until 81, and a 65 year old woman can expect to live until age 84. (Social Security Administration 2006).

- **Working After Retirement**

In 2006, two-thirds (67 percent) of workers expected to work for pay after retirement. (Helman, 2006, p. 14). However, in 2006, only 27 percent of retirees surveyed reported actually working sometime after retirement. (Helman, 2006, p. 14).

The top three reasons for working after retirement are: needing the money (61 percent), a desire to stay mentally active (54 percent), and the need for health benefits (52 percent). (Brown, 2005, p. 8).

- **Phased Retirement Programs**

Because “phased retirement” is a relatively new concept and there is no legal definition of it, only a few studies have been conducted to date from the employer’s perspective.

One study found that a majority (73 percent) of the establishments interviewed responded that “something could be worked out” for white-collar employees who wished to shift to part-time employment as some form of an informal phased retirement program. However, only 14 percent said that they have a formal policy that allows all employees to reduce their hours before official retirement. (Hutchens, 2003, p. 8).

Another study found only 10 percent of the human resources respondents stated that their workplaces had formal phased retirement programs. (Burke, 2005, p. 5).

According to the Employment Policy Foundation, access to phased retirement increases the average retirement age of women by 21 months and by 5 months for men. (Mulvey, 2005, p. 5).

WHAT EMPLOYEES SAY THEY WANT

- **Retirement Work Needs to Be Flexible**

According to one study, many older workers do not want traditional, full-time employment in “retirement”. The following shows how the respondents to this survey wanted to spend their retirement:

- 38 percent wanted to go back and forth between periods of work and leisure
- 17 percent wanted to work part-time
- 11 percent wanted to own their own business
- 5 percent wanted to work full-time
- 21 percent never wanted to work for pay again
- 8 percent wanted “something else”

(Harris Interactive & Dychtwald 2006).

- **Access to Pension Funds**

Allowing access to pension benefits before full retirement might impact how and when some employees retire. In the 2005 Risk and Process of Retirement Survey from the Society of Actuaries, respondents were asked whether access to pension funds during a transition to full retirement by reducing their schedule and pay might impact their decision to retire. Of the respondents:

- 58 percent indicated that access to pension funds would not have any impact on their retirement plans;
- 37 percent indicated that such access would impact their plans; and
- 6 percent did not know.

Of those who indicated that access to pension funds *would* impact their retirement plans:

- 52 percent said they would start to retire at an earlier age than planned;
- 46 percent would retire at the same age as planned; and
- 1 percent indicated they would retire at an older age.

(Society of Actuaries 2005).

In a survey conducted on behalf of AARP, respondents were presented with a sample phased retirement program within a pension plan. This phased retirement program provided that individuals who reached age 59 & ½ could reduce their schedule before full retirement while also collecting a portion of their pension benefit. While in the phased retirement program, participants would continue to accrue pension benefits. Upon reaching full retirement, their final

benefit probably would be less than if they had not participated in the phased retirement program. The following chart breaks down the responses:

Workers' Interest in Participating in Phased Retirement: Comparison by Age and Projected Retirement				
	All Working Respondents	Workers 50-65, will retire by 65	Workers 50-65, won't retire by age 65	Workers 66+
Very Interested	12%	14%	11%	9%
Somewhat Interested	26%	29%	26%	16%

(Brown, pp. 9-10, 2005).

The same AARP survey asked workers with an interest in phased retirement at what age they would like to begin phased retirement, with a reported average age of 61. (Brown, 2005, p. 12). The following chart shows the total responses for the preferred age for starting phased retirement:

Preferred Age for Starting Phased Retirement	
Age	Percent of Respondents
50-54	4
55-59	25
60-64	46
65-69	18
70-74	4
75+	3

(Brown, 2005, p. 12) (emphasis added).

WHAT EMPLOYERS SAY THEY NEED

- **Will There Be a Labor Shortage?**

Estimates suggest that retiring Baby Boomers may lead to a labor shortage of approximately 10 million workers by 2010. (Dychtwald 2004). One consulting firm has concluded that over the next few years the following four major industries will see an exodus of their critical talent: health care, manufacturing (including skilled labor such as machinist and craftsmen), energy and the public sector. (Deloitte, 2005, p. 3).

Other researchers state that the projected labor shortage is overestimated, and, in fact, blatantly untrue. (Cappelli 2003), (Cappelli February 2007). For example, Cappelli argues that future challenges for employers will result more from changes in the employment relationship that “increase retention problems, not a shortfall of workers caused by demographic changes.” (Cappelli, 2003, p. 1). Cappelli also notes that the fear of lost knowledge for employers as the Baby

Boomer generation retirees also is overblown because employers do not have “nearly so many people around who have been with the company a long time and have all that organization-specific knowledge to take with them as compared to the past.” (Cappelli 2007).

- **What Are Employers’ Concerns?**

Companies seem most concerned about shortages and brain drain among highly skilled professionals (compared to middle management, rank and file, or senior management), but do not necessarily see the remedy as trying to retain older workers. While 68 percent of employers view retaining skilled labor as a very or somewhat serious problem, only 38 percent view retaining older workers that way. (Harris Interactive & Dychtwald 2006).

According to a recent Society for Human Resource Management and AARP report, employers will need to implement “flexible retirement arrangements”, including phased retirement, for the following reasons:

- Maintaining continuity of essential business operations by retaining key workers whose positions may be difficult to fill;
- Enhancing productivity by addressing the need for work/life balance;
- Reducing costs associated with hiring and training new employees;
- Increasing organizational flexibility by tapping retirees as consultants or contractors; and
- Forecasting future workforce needs and employee benefit costs.

(AARP/SHRM, 2006, pp. 4-5).

Whether the labor shortage is true, overestimated or related only to individual employers in specific sectors, employers want flexibility in designing phased retirement programs for those individuals the employer wants or needs to keep. (Hutchens/Papps 2004, p. 4-5).

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