

To Retire or Not?

Retirement Policy and Practice
in Higher Education

Edited by
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Chapter 1

Introduction: Changing Retirement Policies and Patterns in Higher Education

Robert L. Clark and P. Brett Hammond

As the new century begins, the tectonics of the faculty labor market are shifting rapidly. The aftershocks of these movements are challenging colleges and universities to confront a wide range of faculty resource and compensation policies. This book focuses on retirement and retirement policies—the back end of the labor market, but it is this end that drives or deeply affects such issues as new faculty hiring, the ability of colleges and universities to change the direction of teaching and research, and the age structure of the faculty. The reason for such a focus is that we are now gaining experience with what to do about a fundamental shift in the retirement rules: the end of mandatory retirement.

Until 1994, mandatory retirement was an integral component of human resource policy for academic personnel at most of the nation's colleges and universities, especially research institutions. On January 1, 1994, at the end of a seven-year exemption, an amendment to the U.S. Age Discrimination in Employment Act (ADEA) took effect, ending mandatory retirement for tenured faculty.¹ At that moment, most colleges and universities confronted a significantly altered academic labor market, one in which tenured faculty could not be required to retire at any specified age.

Higher education already faced some significant academic personnel issues based on widespread concerns about three perceived trends: (1) a faculty “bulge”—a disproportionate number of faculty hired in the 1960s and early 1970s to teach the baby boomers and who are now approaching age 60; (2) a “surplus army”—a large number of people who received doctoral degrees in the past ten years compared to the number of academic job openings during that period; and (3) modest or no increases in higher education budgets (Bowen and Sosa 1989; Finkelstein, Seal, and Schuster 1998; National Research Council 1993; Brewer, Gates, and Goldman 1998). To

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make matters worse, these trends in the higher education labor market were thought to be concentrated in some fields—physics and English, for instance—more than others—for example, in computer sciences (National Research Council 1998).

Therefore, on top of possible negative effects of limited budget increases, a faculty bulge, and a surplus doctorate army, elimination of mandatory retirement as a personnel policy raised several additional concerns among academic administrators. First, many feared a decline in academic quality if senior professors remained on the job past the traditional retirement age. Second, these administrators anticipated a reduced ability to renew and enrich their faculties by hiring either newly trained assistant professors or senior professors with established reputations. Third, they expected a loss in flexibility to reallocate faculty positions to emerging areas of interest and in response to shifts in student demand. Finally, they pondered the possibility of higher costs associated with retaining senior professors instead of hiring newer, entry-level professors.

These management concerns contrast with the legitimate interest of faculty members in obtaining an employment right granted by Congress to almost all other American workers. This new right bestowed on individual faculty members an economic benefit that they could exercise by choosing to continue working past age 70 or by “selling” the benefit back to the university in exchange for their earlier retirement. In comparison to earlier years, universities could not force older faculty to retire, but they could continue to offer financial incentives to encourage retirement at younger ages.

Before 1994, two major studies, by Hammond and Morgan (National Research Council 1991) and by Rees and Smith (1991), respectively, assessed the likely impact of ending mandatory retirement in higher education. These studies reached five major conclusions.

Retirement ages in higher education. Most faculty retired before reaching the age of 70. Faculty at the majority of colleges and universities—institutions where tenured faculty teach a relatively large number of courses each year and have relatively less access to research funds, graduate students, and opportunities for publication—traditionally chose to retire well before age 70. Through the 1980s, most faculty followed the trend in the American workforce toward voluntary retirement at earlier ages.

Retirement ages in research universities. A bunching of faculty retirement at the required retirement age of 70 occurred primarily at the major research universities. Faculty at research universities—institutions where tenured faculty teach relatively few courses per year and have greater access to research funds, graduate students, and opportunities for publication—chose to retire later than their colleagues elsewhere. At private research universities with mandatory retirement, about 35 percent of the faculty who retired did so at the mandatory retirement age, while at public universities with mandatory retirement policies, about 18 percent retired at age 70. At

a very small number of universities, more than 50 percent of faculty retired right at age 70. These studies anticipated that the proportion of faculty who continue to work past age 70 in a post-mandatory retirement world will be related to the proportion who worked right up to age 70 prior to 1994.

Faculty performance and aging. These studies found no evidence that age predicts professional vitality in college teaching or research. Instead, studies on aging and performance show that variations in ability and competence are greater within age groups than between age groups. Special studies of higher education faculty teaching and research failed to show strong age effects among faculty who chose to keep working. Instead, there was evidence that negative feedback on research and teaching, at some institutions, led to faculty self-selection (i.e., exit from employment).

Tenure and faculty dismissals. Despite having tenure, faculty could be, but rarely are, dismissed for poor performance. The legal status of tenure doesn't prevent faculty dismissals for poor performance. Appropriate post-tenure review programs can be used to provide incentives for faculty to maintain a record of good performance, to encourage poor performers to improve or leave the institution, and to dismiss poor performers who neither improve or leave on their own. Some institutions have instituted serious posttenure review. The obstacles for those who haven't are more often anthropological than legal.

Retirement incentive programs. Retirement incentive programs could induce faculty to retire earlier. Designed well, phased or early retirement incentive programs have affected faculty retirement in the past. Specific tools include cash payments, pension credits, part-time teaching, and continuing access to campus facilities (e.g., library card, parking, office space, and other perquisites). Costs of specific programs vary widely; high-cost incentive programs can be a significant portion of an institution's faculty compensation budget. But in the past, the uncertain legal status of retirement incentive programs—particularly upper age limits in what are called “window plans”—have dampened their use.

In summary, the studies reported that the effects of ending mandatory retirement would impose significant costs on the nation's research universities and to a lesser extent on other colleges and universities. They also noted that retirement incentive programs and related programs were effective tools to deal with issues affecting the broadest swath of institutions, including limited budgets and labor market trends. Consequently, these studies recommended that mandatory retirement should be allowed to lapse, as long as Congress legally enabled all colleges and universities to use tools, such as age-based retirement incentive programs, that would enable institutions to provide positive incentives for faculty to elect early retirement.

Since these reports were issued, there has been no systematic follow-up. Based on individual campus-level experience, but without the opportunity to compare across campuses or to obtain national data, some academic ad-

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administrators have become increasingly concerned that older professors are in fact remaining on the job too long. Many are worried that delayed retirement is already adversely affecting the academic quality and financial condition of their institutions. And these concerns are compounded by what administrators report to be an increasing age structure at many colleges and universities as well as uncertainty about future institutional revenues and costs.

Some institutions, particularly private colleges and universities, have found that benefits and age discrimination laws have tied their hands by inhibiting them from instituting age-based retirement incentives. In September 1998, as part of the Higher Education Act reauthorization, Congress passed legislation allowing all higher education institutions to use certain types of age-based retirement incentives, specifically incentives that expire when a faculty members reaches a certain age, but there has been as yet little attention given to this new law.

Thus, there is a strong and growing need for a national discussion of these concerns, an examination of new evidence that might bear on them, and a consideration of newly available practical options for colleges and universities. This book addresses these important issues. The analysis outlines the critical issues associated with ending mandatory retirement in higher education and examines reasons for changes in age-specific patterns of faculty retirement. Research presented in this volume shows what the effects of these changes are, how they interact with other trends in higher education, and where they have been most severe. Several chapters analyze appropriate use of retirement incentive programs and other methods of increasing faculty turnover. Throughout this examination of the changing academic labor market, the discussion reflects the current thinking of key academic administrators, faculty groups, and other expert policymakers and practitioners—all of whom share an interest in determining the extent of any problems that have been caused by changes in retirement behavior and what new policies, if any, are needed. This debate is shown through a series of chapters by leading thinkers on retirement patterns, policies, and programs in higher education.²

Employment Rights and Retirement in Higher Education

Until the passage of the Age Discrimination in Employment Act and its amendments, human resources policy in most institutions of higher education had two basic elements: the tenure system, which provided faculty members considerable protection against loss of employment, and mandatory retirement, which required professors to relinquish tenure along with their job rights at a predetermined age.

Compensation systems and retirement programs were developed around

these two basic features of the academic labor market. At many institutions, regular increases in salary with years of service implied that older professors would be paid more than younger faculty. The design of retirement plans reflected the assumption that retirement would occur at or before the mandatory retirement age.

One implication of a system based on tenure and mandatory retirement was that at many institutions, while pretenure review was quite rigorous, posttenure review was less so. Tenured faculty members were (and are) only rarely dismissed for lack of professional productivity. Prior to 1994, mandatory retirement could serve as a relatively uncontroversial means to ensure an endpoint for an academic career that had been less than fully successful.³

An important, unresolved question is whether less rigorous posttenure review was in fact a result of mandatory retirement policies. If the existence of mandatory retirement was the primary explanation for less rigorous posttenure review, then the elimination of mandatory retirement rules should lead to changes in the review process on many campuses. Alternatively, less rigorous posttenure review might also be consequence of other aspects of the “culture” of higher education, including collegial governance. If the academic culture is the stronger explanatory factor, then the end of mandatory retirement might not be accompanied by any changes in posttenure review processes.

The end of mandatory retirement essentially awarded the current cohort of older professors an unanticipated new property right—albeit one that was already enjoyed by almost all other American workers—the right to remain on the job until they decided to retire, regardless of their age. To the extent that professors exercise this new right, their behavior will directly affect the faculty age structure and labor costs at their institutions.

A review of the current size and age structure of the academic labor force indicates the key importance of retirement policy (Bowen and Sosa 1989; Atkinson 1990; Finkelstein, Seal, and Schuster 1998). Because most colleges and universities are long past the growth years of the 1960s and early 1970s, employment opportunities for newly trained Ph.D.s in most fields are created when older faculty retire and vacate their academic positions. If older faculty remain on the job, fewer vacancies occur, and thus fewer new assistant professors are hired.

Examination of the current age structure of the academic labor force indicates that retirement policy will become a more important issue in the next ten to fifteen years. During this period, the relatively large number of faculty hired in the late 1960s and early 1970s will begin reaching the traditional retirement ages. To date, any decline in age-specific retirement rates has resulted in only a few additional faculty members remaining on the job, because a relatively small number of professors are currently in their 60s and 70s. However, a much larger number of professors will attain these ages

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within the next two decades. As a result, any future decline in retirement rates will have a more significant effect on new employment opportunities at many universities.

Many academic administrators fear that a decline in retirement rates will adversely affect the cost or academic quality of their institutions. Institutions can elect to counter declines in retirement rates with the use of early and phased retirement programs that offer a financial incentive for older professors to retire. In effect, such programs allow the institution to buy back the new employment right from older professors. When designing such early retirement programs, administrators must decide whether the gain to the institution of having older professors retire is outweighed by the added financial cost of the early retirement option.

Is the Age of Retirement Increasing?

National-level information about the length of faculty careers is indicative, but far from definitive. The National Research Council has been collecting sample survey information about the oldest Ph.D. holders for less than a decade, but a separate analysis of faculty is not available. Similarly, TIAA-CREF data indicate that today's higher education and research institution employees exhibit a bifurcated pattern; some begin receiving retirement income much earlier while others do so much later than their predecessors, but an analysis of the faculty is not available. Developments like these have caused concern among administrators that a large number of professors might work well past age 70 in response to the end of mandatory retirement.

To examine changing retirement patterns in depth, Orley Ashenfelter and David Card (1998) conducted a preliminary study that focuses on faculty retirement decisions using employment records from a national sample of colleges and universities. They compiled employment records from thirty-seven institutions, consisting of eleven research universities, three degree-granting institutions, thirteen comprehensive colleges, and ten liberal arts colleges for the years 1986–1995.⁴ They used these data to examine the work and retirement decisions of a sample of 5,035 faculty members employed at these thirty-seven institutions who are age 50 or older. In addition to the employment records of this sample of faculty members, the researchers obtained the value of retirement funds for those persons who were TIAA-CREF participants.⁵ They offered a preliminary report from an ongoing project that includes an effort to expand the number of colleges and universities in the sample to over one hundred.

Ashenfelter and Card use these data to estimate parameters in a model of an individual's decision to retire at any specific age, both before and after the ending of mandatory retirement. They reached the following conclusions:

End of mandatory retirement. In the mandatory retirement era, about 20 percent of faculty who reached age 70 were forced to retire and 40 percent vol-

TABLE 1. Tenure Track Faculty Retirement Rates at Age 70 by Cause:
Preliminary Results for Sample of 37 Institutions

<i>Period</i>	<i>Number of observations</i>	<i>Voluntary retirement (%)</i>	<i>Mandatory retirement (%)</i>	<i>Other reasons (%)</i>
<i>All institutions</i>				
Mandatory (1986–93)	510	40.8	22.0	2.4
Post-mandatory (1994–95)	140	29.7	2.0	2.0
Change	—	-11.1	-19.9	-0.3
<i>Research institutions only</i>				
Mandatory (1986–93)	413	42.6	22.0	1.9
Post-mandatory (1994–95)	110	25.5	2.7	2.7
Change	—	17.2	-19.3	-0.8

Source: Ashenfelter and Card (1998), Table 6.

Those not retired at age 70 in the mandatory retirement period were retired the next year.

untarily retired at age 70. After the elimination of mandatory retirement, the fraction of faculty retiring at age 70 declined sharply. The retirement rate at age 70 is now similar to the retirement rates at ages 68 and 69.

Research universities. Faculty at research universities have significantly lower retirement rates than faculty at other types of institutions. Faculty with higher salaries are less likely to retire; a 10 percent higher salary results in a 0.6 percentage point reduction in the probability of retirement. Retirement rates didn't vary significantly by gender or race.

Pension wealth. Among faculty covered by TIAA-CREF, a 10 percent increase in the value of the individual's total TIAA-CREF account balance at age 67 increased the likelihood of retirement by 0.1 percentage points from 12.0 percent to 12.1 percent. During the 1990s, the retirement rate of faculty in their 60s rose. This might be due to the unanticipated increase in the values of TIAA-CREF retirement accounts associated with relatively high rates of returns during this period.

Table 1 is drawn from Ashenfelter and Card and shows the national decline in retirement rates of faculty who work until age 70. Before elimination of mandatory retirement, about 65 percent of faculty turning age 70 retired that year (virtually all of those that did not retire then were forced to retire the next year by the mandatory retirement rules). Following elimination of mandatory retirement in 1994, only 34 percent of faculty reaching age 70 at all institutions (about 31 percent at research universities) retired.

In Chapter 2 of this volume, Robert Clark, Linda Ghent, and Juanita Kreps present their estimates of how age-specific retirement rates have changed at three North Carolina universities. They examine data on faculty retirement decisions, specifically the 1988–97 employment records of Duke University, the University of North Carolina (UNC), and North Caro-

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lina (NC) State University. They reached conclusions that are consistent with the findings of Ashenfelter and Card:

Retirement age. Between 1988 and 1997, the average age of faculty members at each of these universities increased by over 2 years with the mean overall age for the faculties increasing from 46.5 years to 49 years. The proportion of the faculty less than 40 years of age decreased from 27 percent to 18 percent between 1988 and 1997, while the proportion aged 55 years and older rose from 24 percent to 29 percent. This aging was the result of both an increase in the average age of new faculty, as well as a decline in retirement rates among existing faculty at all ages.

End of mandatory retirement. Retirement rates for persons reaching the mandatory retirement age declined sharply following the end of mandatory retirement. Retirement rates for persons age 69 at the beginning of the academic year fell from 61 percent to 38 percent after the elimination of mandatory retirement. The retirement rate for those age 70 at the beginning of the academic year dropped from 77 percent before 1994 to 13 percent after 1994. These figures are even more dramatic than the national-level data reported by Ashenfelter and Card.

Pension plan. Faculty who participated in the Teachers and State Employees Retirement Plan (a defined benefit plan available only to faculty at NC State and UNC) were 10 percentage points more likely to retire at any age than participants in one of the defined contributions (including TIAA-CREF) offered by the three universities. After the elimination of mandatory retirement, predicted retirement rates declined for persons in the state retirement plan but increased for those in one of the defined contribution plans. This finding is consistent with the observation of Ashenfelter and Card that participants in TIAA-CREF were more likely to retire during the 1990s and this might be associated with unanticipated increases in account balances.

Based on both of these preliminary studies, ending mandatory retirement has had an observable effect on the retirement decisions of faculty, especially at research universities, where professors who reach age 70 are less likely to retire now than before 1994. This effect is tempered by an recent increase in the retirement rate for all faculty in their 60s, so that fewer faculty reach age 70 than in the past.

Legal Status of Retirement Incentive Programs

Since colleges and universities can no longer rely on mandatory retirement policies to force retirement, they must now look to voluntary retirement incentive programs if they wish to affect faculty retirement decisions. One of the most critical issues affecting colleges and universities with defined contribution pension plans, especially those in the private sector, is the changing legal status of retirement incentive programs. In Chapter 3, David Raish

analyzes the legal issues associated with retirement and retirement incentive programs in higher education.

In conjunction with defined benefit pensions, retirement incentive programs are clearly legal and have been used frequently by public sector colleges and universities to provide inducements to increase faculty retirement rates. In this setting, formal retirement incentive programs are most often part of a public-sector pension plan and therefore not subject to Employee Retirement Income Security Act (ERISA) requirements. Such programs can also take advantage of age-based formulas already built into defined benefit plans, which can also be modified to accommodate increased retirement incentives.

Since most (though certainly not all) defined contribution plans are offered by private colleges and universities, until recently they were often subject to ERISA and ADEA rules and regulations effectively limiting the use of certain policies, such as those associated with upper age limits. In addition, because of the way in which defined contribution benefits are structured, these pensions do not typically or explicitly link benefit payout streams to age.⁶

The nature of most defined contribution plans—namely, that there is no age-related benefit that can be altered to provide a retirement incentive—presents additional challenges for an employer who wishes to target retirement incentives at a key group of professors within a specific age bracket. For example, a promise to provide faculty of any age an incentive payment would allow recipients to wait until they would have retired anyway and still receive the payment. Thus, for these professors it would no longer act as an incentive to retire early.

Therefore, in order to be effective as well as economical, retirement incentive programs must induce a sufficient number of faculty to retire before they might otherwise do so, thus freeing up salary dollars to be used for replacement hiring. Consequently, retirement incentive programs offering a lump sum payment are thought to work well when faculty can be offered an age window during which they are eligible to apply for the retirement incentive.

Until recently, the legal status of including an upper age limit in such a program was cloudy. In the past, some experts argued that the Age Discrimination in Employment Act prohibited offering retirement incentives to younger employees and not to older employees. ADEA clearly permits offering retirement incentives to older employees but not to younger employees. Therefore, some believed that a defined contribution window program could have a lower age limit, but not an upper one, thus effectively keeping the window of opportunity open forever for faculty who are over the initial age threshold. Others believed that an upper age limit is permissible for a retirement incentive program used with a defined contribution pension. Without clarification of this issue, many colleges and universities

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believed that they would have to offer retirement incentive payments to all faculty over a certain age and further believe that this outcome would be ineffective, costly, and self-defeating.

Compromise legislation intended to address these issues was proposed several times during the 1990s and received support from most of the private and public interest groups concerned with higher education and aging, as well as from the appropriate congressional committees. This legislation, which finally passed in September 1998, provides a safe harbor allowing colleges and universities to offer, with certain significant restrictions, retirement incentive programs with an upper age limit. Such a limit would enable all college or university employees who reach an initial threshold, for example age 60, to pass through a window of opportunity during which they could choose to apply for retirement incentives. However, once they pass beyond the upper limit, for example age 65, they would no longer be eligible for the program. The new legislation also requires that any retirement incentive program be offered for a sufficient time period so that all employees can become aware of the program's details and have the opportunity to consider their options carefully.

In January 2000, the Supreme Court somewhat limited court protection for the safe harbor for retirement incentive programs as they apply to public employees. Public colleges and universities may still offer such incentives, especially in connection with defined benefit plans. Public sector defined contribution-based retirement incentive plans with upper age limits may still enjoy safe harbor protection through the Equal Employment Opportunity Commission.

Raish outlines current ADEA, ERISA, and state laws that pertain to the safe harbor provision, an important tool that has been available to other U.S. employers and employees and is now available to private colleges, universities, and faculty. Such a change enables college and universities that find they are suffering or will suffer negative consequences from the end of retirement to offer clearly legal, cost-effective programs focused on the problems they have encountered.

Design and Use of Retirement Incentive Programs

Individual campus experience with retirement incentive programs reflects each college and university's unique circumstances as well as factors that are common to many institutions. In Chapter 4, John Keefe evaluates the current understanding and use of retirement incentive programs in higher education. Keefe surveyed private and public institutions, with special attention given to research universities and liberal arts colleges. The survey focused on plans in which faculty receive severance payments as an incentive to retire as well as on phased retirement plans in which senior faculty are offered part-time work at prorated salaries in exchange for giving up tenure

and retiring. Keefe approached 125 institutions and received responses from sixty-six institutions on seventy-seven different plans. Eighty percent of the responding institutions currently offer an early retirement or have done so within the past few years.

Under the incentive plans, the amount of the severance payments at private institutions vary from 40 percent of final salary to 200 percent of final salary with most of these institutions offering between 100 and 200 percent of final salary. Payments by public institutions were smaller, ranging from 12 percent to 100 percent of final salary. Most plans provided for a single lump sum payment.

Phased retirement plans vary considerably across institutions, based on the duration of the contract, the amount of work, and the relationship between workload reduction and salary reduction. Both incentive and phased retirement plans can be either formal (offered through a documented process whose details are well known to the faculty) and informal (often undocumented and offered by administrators to selected individual faculty members with details that vary according to each case).

Retirement incentive plans can be ongoing programs or they can be offered only for a specified time period. Legally, an ongoing program is subject to being declared an employment benefit like the basic pension plan. If so, it becomes subject to ERISA and other employee benefit rules and laws. Ongoing programs are, for example, difficult to withdraw without appropriate notification, and they must be fully funded. In contrast, a time-limited program is designed to end and therefore is not considered to be a benefit subject to ERISA and other employee benefit rules and regulations.

Some institutions attempt to respond to short-term faculty retirement issues by introducing a temporary incentive plan to induce an immediate, one-time reduction in staff. Other institutions introduce ongoing plans in an effort to permanently raise age-specific retirement rates. Sixty of the seventy-seven plans in the survey were ongoing and seventeen were temporary plans. Most of the temporary plans were offered at public institutions.

The objective of most of these plans was to entice individuals to retire before age 65, well below the former mandatory retirement age of 70. Most important, Keefe found that virtually all of the institutions did not mention mandatory retirement as a reason for the introduction of retirement incentive plans. In fact, only one institution specifically indicated that it had adopted an incentive plan in response to the elimination of mandatory retirement.

Window plans offer special retirement options that are available only for a short period of time and/or to people between certain ages. Used in conjunction with a defined benefit pension plan, window plans typically treat participants as if they were older or had more years of service in the calculation of pension benefits. Of course, and especially in conjunction with a defined contribution pension plan, window plans can also simply offer cash

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payments for faculty members who retire within the designated time frame. For the most part, the primary objective of window plans is to achieve a short-term increase in retirements consistent with an institution's attempt to reduce the size of its faculty or to redress a significant problem in the composition of its faculty. These plans are less likely to be adopted to solve long-term problems associated with later retirements.

In addition to observing national patterns in the use of retirement incentive programs, it is important to know how knowledgeable administrators on individual campuses are matching incentives to the faculty employment and retirement challenges they face. In a series of chapters, researchers and administrators who participated in the design of retirement incentive programs at Cornell University, the University of California, the University of Wisconsin, and the University of Virginia examine the experience in depth.

In Chapter 5, Ronald Ehrenberg, Michael Matier, and David Fontanella analyze Cornell University's response to the end of mandatory retirement. Cornell is a unique institution with six of its colleges privately funded and four colleges operated by Cornell under contract with the State of New York. All faculty in the six privately funded colleges are enrolled in a defined contribution retirement program, while faculty in other colleges have a choice of participating in a state defined benefit retirement plan or an optional retirement program.⁷

In the fall of 1996, a joint faculty-administrative committee was appointed to make recommendations on how Cornell should respond to the elimination of mandatory retirement. The committee began by examining employment records, which indicated that the average age of retirement fluctuated without trend until 1993–94, but since rose by two years. In addition, some faculty who reached age 70 during this period remained on the job.⁸ Fewer retirements reduced hiring opportunities and resulted in an aging of the faculty. The proportion of all faculty under the age of 35 declined from 15 percent in 1982–83 to 5 percent in 1996–97. The percent of the faculty over the age of 60 increased from 13 to 21 percent during the same period. The number of newly hired, tenure-track faculty declined from 108 in 1987–88 to 48 in 1995–96. The committee determined that the decline in hiring had three adverse effects: (1) Cornell was hiring fewer faculty with new ideas and new perspectives; (2) fewer new hires meant the university was less able to diversify its faculty along gender, racial, and ethnic lines; and (3) fewer new hires had the potential to limit Cornell's ability to remain at the frontier in rapidly changing fields and to shift faculty resources into new areas of inquiry.

As it began its deliberations, the committee was instructed by the provost to avoid a buyout plan because of the belief that these plans would not be cost effective. Since a majority of Cornell faculty members retire before age 70, the worry was that any plan that paid people to retire prior to age 70 would be paying many people to do what they would have done anyway.

Moreover, the legal status of defined contribution-based buyout plans that limited participation to faculty prior to a certain age was thought to be ambiguous.

Instead, the committee made a series of other recommendations to increase retirement rates: (1) faculty should be provided financial planning assistance over their life cycles to assure that they make informed investment decisions with their retirement accounts; (2) more information should be available about the importance of investing in tax-deferred supplementary retirement accounts; (3) faculty should be encouraged to discuss their retirement plans beforehand with department chairs or college officials to enable academic units to improve their planning; (4) salary increases should be linked to individual productivity; (5) the status of emeriti professors should be enhanced; (6) university retirement contributions to the defined contribution plans should be capped; and (7) the existing phased retirement program should be expanded.

The Cornell faculty objected to several of the key points in these recommendations. Specific arguments were that the recommendation to match salary increases to productivity was offensive and should be deleted; the phased retirement program was not generous enough and it should be amended; and capping retirement contributions was merely an attempt to cut compensation and should be eliminated. The committee report was amended to reflect these criticisms at the time of publication the plan was under consideration in the office of the provost.

In Chapter 6, Ellen Switkes looks at one of the largest retirement incentive plans in higher education, the three Voluntary Early Retirement Programs (VERIPs) adopted by the University of California (UC) in the early 1990s. Faced with a disproportionate share of the UC faculty over the age of 55, a state budget crunch, and the imminent elimination of mandatory retirement at what some consider the nation's premier public research university system, administrators designed a retirement incentive plan that used the university's overfunded defined benefit pension plan to bear most of the cost of the incentive plan.

Each of the three VERIPs involved increasing the annual retirement income to which the faculty member was entitled. It did so by adding years of service to the pension formula used to calculate retirement income, thus increasing the faculty member's proportion of final income. In order to target certain age groups, more or fewer years were added, depending on the faculty member's age.

Each VERIP was more generous than the last. But the response did not entirely parallel the program's generosity (for another perspective, see Pencavel 1997). In response to the first plan, which was introduced in 1990, 31 percent of eligible faculty accepted early retirement. The second early retirement plan, which followed in 1992, provided more generous benefits and extended the boundaries of eligibility to older faculty. Only 18 percent of

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eligible faculty accepted the early retirement offer. The final plan was even more generous, and 33 percent of eligible employees took early retirement in response to this last offer.

The response to these early retirement offers by UC provides an especially useful view of how employee expectations influence acceptance rates. The first offer was almost unprecedented and was billed as a one-time event and not to be repeated. The second offer was also publicized as a last chance, but employees apparently felt they could hold out for another round. In the third instance, word passed among the faculty that there truly would be no future offer this time, likely contributing to the highest acceptance rate of all.

In Chapter 7 Robert O'Neil provides a unique perspective on the effects of ending mandatory retirement. He is former president of the University of Wisconsin and the University of Virginia. He was also a member of the 1989–91 National Research Council Committee on Ending Mandatory Retirement in Higher Education. O'Neil presided over the Wisconsin and Virginia campuses when mandatory retirement was eliminated. He outlines the transition that each institution made to ending of mandatory retirement and other forces that affected both faculty behavior and policy choices available to each institutions. He strongly supports the need for joint planning between administrators and faculty.

In light of the intended and potential unintended incentives associated with retirement incentive programs, in Chapter 8, John Keefe analyzes these programs from the point of view of a faculty member who must decide on the benefits and opportunity costs of continuing to work or accepting the offer. He concludes that the intangible elements of retirement incentive programs, including the nonmonetary aspects, can be critical in the ultimate success of these programs. College and university administrators and faculty would be wise to consider issues such as access to campus facilities, professional status, and similar postretirement issues when formulating retirement incentive programs.

Assessment of Research Findings

A major contribution of this volume is the critical assessment of current and past research on faculty retirement and the identification of unsettled research questions. Some of the foremost authorities on faculty retirement decisions, the ending of mandatory retirement, and the state of the academic labor contributed summary assessments concerning faculty retirement in the twenty-first century.

An important question about faculty retirement behavior in response to the ending of mandatory retirement is whether current ex post patterns are surprising compared to anticipated or ex ante effects. In Chapter 9, Sharon Smith examines the research that predicted changes in retirement behav-

ior before the end of mandatory retirement and compares it to the results of the Ashenfelter and Card study and the Clark et al. study of retirement rates and age structure. She concludes that recent patterns are not surprising and that college and university retirement policies should be based on hard analysis of the circumstances facing each institution rather than on beliefs or attitudes. In particular, spending on retirement incentive programs should be undertaken only in response to a clear analysis of faculty demographics and retirement behavior so that such expenditures will be targeted on a clear need.

In addition to the question of changing retirement behavior and the implementation of retirement incentive programs, colleges and universities face other critical issues associated with faculty retirement. Karen Holden and Lee Hansen analyze several of these issues in Chapter 10. They review the findings of their study of faculty retirement completed prior to the increase in mandatory retirement age that took effect in 1982. They compare these findings to the results reported in this volume.

From these chapters the following conclusions emerge:

Consensus. Views vary among institutions and between faculty and administrators on the impact of ending mandatory retirement. This variation suggests that individual campuses are differentially affected and therefore should examine their own circumstances carefully before choosing future retirement-related policies.

Incentive programs. Most representatives of higher education faculty and administrators believe that ending mandatory retirement has benefited faculty who can now exercise choices available to all other working Americans. However, they both recognize that for planning and budgeting purposes, individual campuses and multicampus systems may need to decrease the uncertainty associated with future retirement patterns by offering individuals the opportunity to retire earlier than they might otherwise choose to do so. Therefore, both faculty and administrators support well-designed, non-coercive retirement incentive programs that increase certainty choice while preserving individual rights.

National demographic trends. At the national level, projecting or predicting future faculty supply and demand is next to impossible because forces affecting this market cannot be fully specified. These include, but are not limited to, future government support, industrial growth patterns, and immigration policies and patterns. Conclusions about the effects of ending mandatory retirement for faculty must be placed in this uncertain context.

Awareness. Few colleges and universities are fully aware of what they can and cannot do to provide retirement incentives to their employees. Education and information programs are needed in this regard, especially now that the law affecting retirement incentives in higher education has changed.

The final word is far from in on this subject. The consequences of eliminat-

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ing mandatory retirement have not yet been fully felt or understood. Additional studies and discussion of this issue and its effect on higher education are needed.

Guidance for Administrators and Faculty

Taken as a whole, this volume identifies a series of important retirement-related concerns and policies for dealing with those concerns:

Retirement Rates and Patterns

College and university faculties are aging. The surge of faculty hiring in the 1960s and early 1970s continues to dominate the academic labor market. The aging of faculty hired to teach the baby boomers combined with smaller cohorts of subsequently hired faculty are the primary cause of the aging of the academic labor market. These trends show up in aggregate academic labor market data as well as data on the faculties of particular colleges and universities. There has been an increase in the average age of faculty members, a decrease in the proportion of the faculty members under age 40, and an increase in the proportion of the faculty members over age 55.

The elimination of mandatory retirement has led to lower retirement rates for those faculty members who continue to work until age 70. Although older professors remaining at their university posts can be found at nearly all types of institutions, they are concentrated at research universities. In the past, these professors would have been forced to retire. Now many of them are choosing to remain as full-time, tenured faculty members for several additional years. To date, the increase in retirement ages has played only a small role in the aging of faculties. However, the declining probability of retirement among older professors, particularly at research universities, will become more important in coming years as the relatively large number of faculty members hired in the 1960s and early 1970s begins to reach traditional retirement ages.

Future cohorts of retirees will look much different from today's. In the twenty-first century, faculties will include more minorities, more foreign-born scholars, and more women. Future retirement decisions by these faculty are uncertain. Will they be similar to those of today's older professors, who are predominately white men, or will they work longer? Academic administrators should plan for the changing composition of their faculty and its impact on retirement patterns. And institutions that have experienced, as many have, a shift from defined benefit to defined contribution pensions should be prepared for changes in how these programs affect retirement decisions. Even where pension plans haven't changed, colleges and universities should also prepare for the possibility that future cohorts will respond differently to the

incentives to retire or to delay retirement that are built in—intentionally as well as inadvertently—to pension plans and retirement incentive programs.

We also need a better understanding of the impact of the increase in stock market values during the 1990s on the retirement decisions of participants in defined contribution pension plans. One study showed that observed retirement rates were higher for those with relatively large defined contribution accumulations, but future retirement rates may be lower if, as is likely, the next generation of older professors in defined contribution plans do not continue to benefit from above-average equity returns.

Effects on Colleges and Universities

Later retirements can significantly affect colleges or universities. At institutions where faculty size is not growing, retirements provide the major opportunity for new hiring. Academic institutions use these hiring opportunities to revitalize teaching and research, reallocate faculty resources, reduce labor costs, and stay on the cutting edge of rapidly changing educational opportunities. Decreases in retirement rates will inhibit new hiring and retard the ability of institutions to achieve these goals. Institutions where the retirement age is increasing will experience a temporary sharp decline in hiring and a less severe, long-term reduction in hiring due to the lengthening of the average faculty career.

Disagreements among administrators and faculty and in the academic literature regarding the impact of a larger number of older faculty members on colleges and universities have more than one source. Some of these disagreements are a result of a lack of empirical information. We simply do not know whether or how faculty retirement ages are changing on many individual campuses. Following the lead of some of the researchers who presented their findings at this conference, individual schools should track retirement patterns at their own campuses.

Much remaining disagreement regarding the impact of faculty aging is normative. Even if retirement ages have, are, or will change at some universities, the question of whether these changes will harm their institutions remains. This answer may be a matter of perspective. Robert O'Neil, perhaps the only former university president to experience retirement uncapping at two institutions prior to 1994, points out that administrators are more likely to focus on the financial burdens associated with an older faculty and fewer hiring opportunities due to the lengthening of faculty careers. Faculty groups are more likely to focus on the many positive contributions older faculty can make to university life.

The most important conclusion here is that the empirical issues should be separated from the normative issues. Empirical questions can be resolved as much as possible through further research and discussion. The normative

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issues should be clearly identified and confronted through continuing discussions among faculty and administrators on campuses, in state capitols, and in Washington.

Retirement Incentive Programs

Retirement incentive programs have been adopted by a large number of academic institutions and they come in many forms. They can be early retirement buyouts, phased retirement programs, or increased generosity of retirement plans. Limited evidence suggests that these plans can alter faculty retirement behavior; however, it is unclear how cost effective these plans are. Much clearer is the observation that few colleges and universities have targeted their use of these programs to counteract the effects of ending mandatory retirement.

The recent legislation enacting a safe harbor for design of certain types of retirement incentive programs has lifted a legal burden on many colleges and universities. Current legislation now allows colleges and universities *and their faculty members* access to the same sorts of retirement incentives that were available in businesses and in public colleges and universities.

The new safe harbor legislation should be accompanied by efforts to increase awareness of retirement incentive programs. College and university associations have a responsibility to help educate administrators and faculty about the options and appropriate uses of retirement benefit programs and retirement incentive programs in particular. Financial planning programs can help faculty to better prepare for retirement, while education and communication between faculty and administrators concerning incentive plans improves the success rate of most early retirement programs.

Action and Assessment

Action and further needed analysis for the twenty-first century will require cooperative, candid effort on the part of researchers, administrators, and faculty. If we are to understand the full impact of the end of mandatory retirement and faculty aging on colleges and universities, better data is needed both for the academic labor market as a whole and for individual institutions. Analyses must be conducted to document changes in faculty age structure and shifts in retirement patterns, determine the magnitude of potentially adverse effects of higher ages of retirement, and estimate the cost-effectiveness of retirement incentives programs adopted to deal with the consequences of mandatory retirement.

But better research is not enough. All of the major constituents in higher education must be willing to come together to develop and examine the evidence, formulate shared principles and conclusions based on the evidence, and then promulgate policies and programs that address the challenges of an aging faculty in the twenty-first century.

Notes

1. The Age Discrimination in Employment Act was passed in 1967 forbidding discrimination against workers aged 40 to 65. This act explicitly permitted employers to force workers to retire at age 65 without cause. This act was amended in 1978 raising the upper age of protected workers to 70. This prohibited mandatory retirement prior to the age of 70. Academic institutions were given an exemption from this amendment until July 1, 1982. The ADEA was amended again in 1986, outlawing the use of mandatory retirement at any age in most jobs. Once again, educational institutions were given a temporary exemption until January 1, 1994, when the law was extended to cover tenured faculty members.

2. Many of the following issues and ideas were first summarized in Clark and Hammond (1998). Some of the material in this book was presented in preliminary form at a 1998 conference in Washington, D.C. on the effects of ending mandatory retirement, sponsored by TIAA-CREF and the College of Management, North Carolina State University.

3. Tenure does not mean that professors cannot be terminated; however, the university must show that a professor is not performing at an acceptable level. Essentially, termination of a senior professor would require the university to show that the person is incompetent or is not performing required job assignments. Across the country, concern about these issues has produced an increasing trend toward academic accountability and posttenure review. Even with the closer monitoring of faculty performance, the termination of a senior faculty member will be a painful task especially when the person has been a long-term, productive professor.

4. This study received support from the Andrew W. Mellon Foundation, with additional support and cooperation from TIAA-CREF. Throughout the study, Ashenfelter and Card and TIAA-CREF took a number of steps to ensure confidentiality and anonymity. The researchers obtained permission from TIAA-CREF and from the human resources and/or benefits office of each institution involved. They were provided a limited amount of data by the institutions and by TIAA-CREF, all of which was carefully masked to preserve anonymity. As a result, the researchers and the sponsoring and participating organizations cannot identify any individual or institution involved in the study.

5. However, there is no indication of the value of retirement benefits for persons not enrolled in TIAA-CREF. Faculty not enrolled in TIAA-CREF may be participants in other defined contribution plans or in defined benefit plans that are prevalent among public institutions.

6. In a defined contribution pension, retirement benefits are not fixed by any formula, but they do tend to increase with age. For example, many colleges and universities offer employer contribution rates that increase with an employee's age. Moreover, an individual's retirement income typically increases with the length of time contributions remain invested as well as with the actuarial effect of any increase in a person's retirement age. Thus, other things being equal, the person who delays starting a lifetime annuity will receive higher annual retirement income than someone who starts an annuity earlier.

7. Most new faculty have enrolled in a defined contribution plan. Currently there are fewer than twenty faculty in the state retirement plan.

8. Prior to 1994, Cornell rigorously enforced mandatory retirement; however, retired faculty were eligible to be hired back for specified terms on a part-time basis at a renegotiated salary.

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