FOR COMMENT

Final Report

Task Force on Faculty Retirement
University of Pennsylvania

May 2002

Contents

The document below is the final report of the Task Force on Faculty Retirement convened by the Provost in 2000 to consider the retirement issues listed in the charge below. The document is awaiting comment and approval of the Faculty Senate and is being distributed to the community For Comment. It is anticipated that final decisions will be made by the President and Provost with a view to implementation early in fall, 2002. Comments should be directed to Dr. Barbara Lowery in the Office of the Associate Provost by October 15, 2002.

Final Report

Task Force on Faculty Retirement University of Pennsylvania

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Introduction

A sound retirement plan for faculty is crucial to the mission and vision of the University of Pennsylvania as a whole, the individual schools of the University, and the faculty who have dedicated many years of loyal service to the University. Prior to January 1, 1994, tenured faculty members at the University of Pennsylvania were required to retire from the University no later than the June 30th that followed their seventieth birthdays. The University's Faculty Voluntary Early Retirement (FVER) program in effect from 1975 until 1994 was designed to assist faculty members to prepare for retirement by providing financial support to permit them to defer making large withdrawals from their retirement accounts until they reached the age at which retirement would have been mandatory.

Retirement for tenured faculty members at colleges and universities is no longer mandatory at any age. At Penn, the FVER program was replaced by the Faculty Income Allowance Program (FIAP) in 1994. This latter program provides benefits, similar to those previously provided by the FVER program, to tenured faculty members who choose to retire as early as age sixty-two.

Many universities have been concerned that the continued low rate of faculty retirement and the corresponding lack of free tenure positions will both increase their financial burden and have a deleterious effect on their ability to recruit younger faculty. However, if too many key faculty retire in a short time period, it could cause harm to the University's teaching and research priorities. Thus, retirement of faculty provides both costs and benefits to Penn. To evaluate how well the University's current retirement program is meeting its objectives, the Provost appointed a Task Force to examine the current retirement plan for faculty. The Task Force was asked to consider specific areas of concern regarding the current retirement program for faculty. The charge to the Task Force by the Provost was as follows:

> The Task Force is being asked to examine several aspects of retirement of concern to the faculty. They are: the numbers of the faculty remaining in full-time status past age 70 since uncapping; the adequacy of the faculty early retirement program (FIAP) for encouraging faculty to retire as well as the appropriateness of the early retirement program window (62-68); discontinuing University Tax Deferred Annuity (TDA) contributions when the faculty member's TDA has reached a certain level; the new phased retirement program; a special title for faculty who want to retire but do not want to use the emeritus title; and policies and programs for emeritus faculty.

To fulfill its charge, the Retirement Task Force met throughout the academic years 2000-2002. The Task Force considered both economic and non-economic issues involved in looking at the effectiveness of the current retirement plan and its impact on the decision of faculty to retire. The Task Force reviewed appropriate literature, evaluated retirement programs of other universities and sought input from various groups including retired faculty, faculty near retirement and the Council of Deans. Studies were also performed by Price Waterhouse/Coopers to determine the cost-effectiveness of some of the options considered by the Task Force.

The Task Force report follows this introduction with its recommendations and a discussion of the issues outlined in the charge to the Task Force.

Retirement Task Force Recommendations

After completing its evaluation of the University of Pennsylvania's faculty retirement program as outlined in the Introduction of this report, the Task Force makes the following recommendations.

1. The Office of the Associate Provost should move immediately to establish an Association of Retired Faculty. This organization would maintain contact with and develop supportive activities and services for retired faculty. (p. III)
2. The current Early Retirement Window (ages 62-68) should be maintained. A faculty member also should be eligible for an early retirement incentive under a "rule of 75." Faculty could retire as early as age 60 (minimum age) with a combination of age and service at the University of Pennsylvania equaling 75. (p. VI)
3. The salary figure used in the current faculty early retirement plan is the average salary of a full professor in the retiree's school for the year prior to retirement. It is recommended that the faculty salary to be used in the Faculty Early Retirement window plan should be changed to the faculty member's own salary or a full professor's average salary in the faculty member's own school in the year prior to retirement whichever is higher, subject to a limitation of 200 percent of the faculty member's own salary as provided by law. (p. II)
4. An additional option should be added to the phased retirement program allowing standing faculty and clinician educators in this program to reduce job duties to 25 percent with a prorata reduction in salary and a relinquishment of tenure. The age limit for faculty to participate in this program would be expanded to a window period from age 55-68. Salary based employee benefits would be prorated. Medical benefits would be provided on a cost-sharing basis between the faculty member and the faculty member's school. (p. VI)
5. A one-time financial planning award (up to $3,000) should be made available to retirement age faculty (54 and over) to pay for professional financial planning services that the faculty member obtains on his or her own behalf. (p. VII)
6. Retiring faculty members should have the option of using or not using the modifier "Emeritus" or maintaining their "Professor" title. The same rights and restrictions to being retired would apply. (p. VII)
7. A faculty member who has committed to retire and who has sabbatical leave credits should be able to take a "retirement leave" without having to return to his or her duties at the University. (p. VIII)
8. In addition to the retirement plan information and education provided at the University level, each School in the University should periodically discuss with its faculty retirement related issues. (p. VIII)

Background

University faculties are aging. The proportion of full-time faculty age 50 and over has increased from 23.4 percent in 1969 to 51 percent in 1999.[1] Between 1977 and 1996, the median age of faculty at four-year institutions rose from 40 to 48.[2] The aging of faculties has been caused by the general aging of the population, low turnover rates and low retirement rates.[3] Additionally, the ending of mandatory retirement for faculty means that colleges and universities can no longer depend on all faculty retiring by age 70. In fact, many studies have shown that since 1994 retirement rates of faculty have fallen drastically.[4] Moreover, it is forecast that "a sizeable fraction of the cohort of college and university professors entering their sixties will remain employed into their mid-seventies."[5]

Colleges and universities with an increasing number of faculty in their sixties and seventies face a number of critical issues related to salaries, benefits, tenure, hiring new faculty and many others. On the other hand, if a substantial percentage of the faculty retires in the relatively near future, colleges and universities will face many other issues related to accomplishing their educational mission. It is also essential that colleges and universities focus on possible ways to utilize the valuable resources of senior or retired faculty who have dedicated many years of service to their institution.

The remainder of this report considers how Penn's current retirement plan, special early retirement incentives, phased retirement options, and non-economic approaches are working to achieve Penn's objectives.

Retirement Plan Objectives

The starting point in any discussion of Penn's retirement plan for faculty must be a review of how well the plan meets desired objectives. Penn's faculty retirement plan appears to have the following objectives:

- Allowing for the retirement of faculty in an orderly manner that preserves the educational mission of the University
- Attraction and retention of key faculty
- Meeting competitive standards
- Keeping the plan within established cost parameters
- Compliance with legal requirements
- Efficiency of plan design
- Meeting certain income-replacement ratios
- Social obligations
- Administrative convenience

Penn's approach to meeting its objectives is through a defined contribution retirement plan, whereby employer contributions are fixed and employee retirement benefits are variable depending on their investment performance. This is in contrast to the defined benefit approach where employee retirement benefits are known and the employer's cost varies depending on investment and other actuarial assumptions. The defined contribution approach is favored by educational and other nonprofit institutions of faculty. Whether it is possible to consider a change to a defined benefit plan for future new faculty is discussed later in this report.

It appears from the Task Force's investigation that many of the objectives of the Penn faculty retirement plan are currently being met. The objectives that need review are the "Allowing for the retirement of faculty in an orderly manner that preserves the educational mission of the University" and "Keeping the plan within established cost parameters."

The remainder of this report considers how Penn's current retirement plan, special early retirement incentive, phased retirement options and non-economic measures are working to achieve Penn's objectives. When appropriate, suggestions for improving Penn's retirement plan to better meet its objectives are presented.

Organization of Retired Faculty

The Task Force strongly supports the concept of establishing a University-wide Association of Retired Faculty (ARF) within the Associate Provost's office with widespread supportive activities. The establishment of such an organization would demonstrate the importance of the service and scholarly input faculty members have contributed to the University over many years and the opportunities for ongoing service in the Emeritus phase of faculty life. The following possible activities of such an organization could include[6]:

- advocate for various senior faculty issues such as provision of office space or university-sponsored long-term care insurance.
- advocate for the University in the area of fund-raising. Many emeritus faculty, as a result of years of service to the University and to the Philadelphia region, are ideally suited for identifying and approaching individuals and institutions capable of supporting the University when properly alerted to a specific need.
- through a questionnaire to all senior faculty (active and emeritus) create a talent bank of services that they would be willing to provide *pro bono*.

In order to staff and support these activities of the ARF, the University Administration should:

- develop an Office of Retired Faculty within the Associate Provost's office, with a staff person who can commit at least 50 percent of his/her time to ARF activities. (One possible funding mechanism could come from the activities of senior and emeritus faculty, who teach in medical school or university-wide programs such as the "Freshman Seminar Program" without remuneration. The University receives tuition funds for these courses and could fund the office for efforts of its emeritus faculty for the University.)
- the ARF could develop Senior Faculty teaching as a marketable resource. For example, in the Medical School, certain desirable courses in medical/scientific topics could be available for undergraduates and in distance learning programs, and a negotiated portion of the revenues produced would return to the Medical School to support the Retired Faculty Program.

One-time Incentive Plans

One approach to increasing the number of faculty retiring would be to institute a one-time only incentive plan for faculty over age 70. The number of faculty over age 70 has grown substantially since the uncapping of retirement of tenured faculty in 1994. Tables 1-4 *(on pages IV-V)* show the demographics of the University's faculty by age and rank. These tables indicate that in 2000 there were 48 faculty over age 70.[7] Also at issue is the number of faculty that potentially will enter the ranks of over age 70 in the future.

To encourage faculty over age 70 to retire, the Task Force evaluated the possibility of a one-time only financial incentive. A *one-time only* incentive plan for faculty over the age of 70 could take one of the following forms that are permitted under the law[8]:

1. a flat dollar amount (e.g. $100,000 to all who retire);
2. a service based benefit (e.g. $5,000 multiplied by years of service);
3. a percentage of salary to all employees above a certain age;
4. a flat dollar amount increase in pension benefits (e.g. $4200 per month);
5. a percentage increase in pension benefits (e.g. 25%); and
6. a plan that imputes years of service and/or age (e.g. employees over age 55 retiring during a specific window might receive credit for 5 additional years of service and/or age).

The Task Force also considered various one-time only options for improved life insurance and medical benefits as an inducement for additional faculty to retire. These options are discussed in a later section of this report. After a great deal of discussion and debate about whether the *one-time only* option would induce faculty to retire or would actually encourage faculty to delay retirement, the Task Force decided against recommending this option. One Task Force member summarized the views of the Task Force as follows:

I have two problems with a one-time financial incentive for faculty

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[1] Raymond J. Schmierer, from a presentation entitled, To Retire or Not: Faculty Decisions and Institutional Incentives. Information obtained from a joint survey sponsored by AAUP, ACE, CUPA-HR, NACUBO, and TIAA-CREF Institute, 2001.

[2] Orley Ashenfelter and David Card, "Did the Elimination of Mandatory Retirement Affect Faculty Retirement Flows?" *NBER Working Paper 8378*, National Bureau of Economic Research, Cambridge, MA, 2001, p. 6.

[3] IBID

[4] IBID

[5] Ronald G. Ehrenberg and Michael J. Rizzo, "Faculty Retirement Policies after the End of Mandatory Retirement," *TIAA-CREF Institute Issue*, no. 69, October 2001, p. 2.

[6] The points mentioned above are taken directly (with slight modification) from the excellent University of Pennsylvania Medical School, *Faculty 2000 Project: Working Group on the Senior Faculty.* Howard Goldfine, Ph.D. and Rob Roy MacGregor, M.D. served as co-chairs. See Appendix 1 for additional information.

[7] See Appendix 2 for additional demographic information on the University of Pennsylvania faculty.

[8] See Appendix 3.

Tables 1-4

Faculty Distribution

Age Distribution of Standing Faculty by Rank

Table 1: All Faculty [1]

Age as of July 1 for each year listed [2]

	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65-69	70	71 or older	Total [3]
2000	5 0.2%	132 6.4%	361 17.5%	355 17.2%	345 16.7%	308 14.9%	247 12.0%	170 8.2%	93 4.5%	14 0.7%	34 1.6%	2,064 100.0%[3]
1999	12 0.6%	166 7.8%	410 19.3%	370 17.4%	328 15.4%	290 13.6%	253 11.9%	169 7.9%	91 4.3%	7 0.3%	31 1.5%	2,127 100.0%
1998	16 0.8%	184 8.7%	409 19.3%	386 18.2%	309 14.6%	288 13.6%	252 11.9%	154 7.3%	86 4.1%	11 0.5%	26 1.2%	2,121 100.0%
1997	23 1.1%	193 9.3%	392 18.8%	385 18.5%	305 14.6%	291 14.0%	231 11.1%	147 7.1%	89 4.3%	8 0.4%	20 1.0%	2,084 100.0%
1996	22 1.1%	182 9.2%	366 18.5%	371 18.8%	301 15.2%	277 14.0%	212 10.7%	141 7.1%	83 4.2%	9 0.5%	11 0.6%	1,975 100.0%
1995	21 1.1%	204 10.2%	356 17.8%	356 17.8%	317 15.9%	261 13.1%	213 10.7%	161 8.1%	88 4.4%	14 0.7%	4 0.2%	1,995 100.0%
1994	22 1.1%	203 10.5%	361 18.7%	322 16.7%	297 15.4%	267 13.8%	205 10.6%	167 8.6%	83 4.3%	6 0.3%	0 0.0%	1,933 100.0%
1993	30 1.6%	207 10.7%	370 19.1%	325 16.8%	296 15.3%	279 14.4%	180 9.3%	163 8.4%	84 4.3%	0 0.0%	0 0.0%	1,934 100.0%
1992	23 1.2%	176 9.5%	358 19.4%	318 17.2%	292 15.8%	257 13.9%	176 9.5%	163 8.8%	87 4.7%	0 0.0%	0 0.0%	1,850 100.0%
1991	22 1.2%	196 10.4%	369 19.6%	346 18.4%	279 14.8%	241 12.8%	191 10.1%	155 8.2%	85 4.5%	0 0.0%	0 0.0%	1,884 100.0%
1990	29 1.6%	201 10.9%	340 18.4%	337 18.2%	284 15.4%	239 12.9%	194 10.5%	140 7.6%	85 4.6%	1 0.1%	0 0.0%	1,850 100.0%

Table 2: Full Professor

Age as of July 1 for each year listed [2]

	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65-69	70	71 or older	Total [3]
2000	0 0.0%	0 0.0%	11 1.2%	58 6.2%	161 17.2%	221 23.6%	208 22.2%	146 15.6%	88 9.4%	13 1.4%	32 3.4%	938 100.0%
1999	0 0.0%	0 0.0%	13 1.4%	78 8.3%	160 17.1%	208 22.2%	210 22.5%	143 15.3%	87 9.3%	7 0.7%	29 3.1%	935 100.0%
1998	0 0.0%	0 0.0%	14 1.5%	83 9.1%	161 17.7%	201 22.1%	206 22.6%	133 14.6%	80 8.8%	10 1.1%	23 2.5%	911 100.0%
1997	0 0.0%	0 0.0%	12 1.4%	90 10.2%	151 17.1%	208 23.5%	191 21.6%	124 14.0%	84 9.5%	7 0.8%	18 2.0%	885 100.0%
1996	0 0.0%	1 0.1%	12 1.4%	93 10.8%	160 18.6%	204 23.7%	177 20.5%	120 13.9%	77 8.9%	8 0.9%	10 1.2%	862 100.0%
1995	0 0.0%	2 0.2%	19 2.2%	69 7.9%	169 19.4%	198 22.8%	170 19.5%	143 16.4%	83 9.5%	13 1.5%	4 0.5%	870 100.0%
1994	0 0.0%	2 0.2%	23 2.7%	72 8.6%	152 18.1%	202 24.0%	160 19.0%	147 17.5%	78 9.3%	6 0.7%	0 0.0%	842 100.0%
1993	0 0.0%	2 0.2%	23 2.8%	74 9.0%	153 18.5%	203 24.6%	149 18.1%	143 17.3%	78 9.5%	0 0.0%	0 0.0%	825 100.0%
1992	0 0.0%	3 0.4%	21 2.5%	77 9.3%	170 20.5%	190 22.9%	145 17.5%	142 17.1%	80 9.7%	0 0.0%	0 0.0%	828 100.0%
1991	0 0.0%	2 0.2%	25 3.0%	93 11.0%	176 20.9%	178 21.1%	159 18.8%	132 15.6%	79 9.4%	0 0.0%	0 0.0%	844 100.0%
1990	0 0.0%	3 0.4%	23 2.7%	99 11.8%	179 21.3%	172 20.5%	165 19.6%	118 14.0%	81 9.6%	1 0.1%	0 0.0%	841 100.0%

Notes: (1) Excludes faculty with Tenure of Title, Unclassified faculty, retired faculty, and Emeritus faculty.
(2) Ages are rounded down to the nearest whole year.
Source: Derived from the University Payroll System by the Office of Institutional Research and Analysis
(3) Totals may not add up to 100% because of rounding.

Table 3: Associate Professor

Age as of July 1 for each year listed [2]

	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65-69	70	71 or older	Total [3]
2000	0 0.0%	9 2.0%	62 13.5%	129 28.0%	125 27.2%	70 15.2%	36 7.8%	23 5.0%	4 0.9%	1 0.2%	1 0.2%	460 100.0%
1999	0 0.0%	8 1.8%	55 12.4%	139 31.4%	105 23.7%	69 15.6%	39 8.8%	24 5.4%	3 0.7%	0 0.0%	1 0.2%	443 100.0%
1998	0 0.0%	9 2.0%	58 12.7%	155 34.0%	95 20.8%	70 15.4%	42 9.2%	19 4.2%	5 1.1%	0 0.0%	3 0.7%	456 100.0%
1997	0 0.0%	15 3.3%	55 12.2%	139 30.8%	110 24.4%	69 15.3%	36 8.0%	21 4.7%	3 0.7%	1 0.2%	2 0.4%	451 100.0%
1996	0 0.0%	6 1.4%	68 15.6%	134 30.8%	110 25.3%	60 13.8%	32 7.4%	18 4.1%	5 1.1%	1 0.2%	1 0.2%	435 100.0%
1995	0 0.0%	12 2.7%	62 13.8%	145 32.4%	114 25.4%	54 12.1%	40 8.9%	16 3.6%	4 0.9%	1 0.2%	0 0.0%	448 100.0%
1994	0 0.0%	12 2.6%	73 15.8%	143 30.9%	115 24.8%	57 12.3%	41 8.9%	18 3.9%	4 0.9%	0 0.0%	0 0.0%	463 100.0%
1993	0 0.0%	8 1.7%	83 17.9%	141 30.5%	111 24.0%	69 14.9%	29 6.3%	17 3.7%	5 1.1%	0 0.0%	0 0.0%	463 100.0%
1992	0 0.0%	14 3.0%	93 19.8%	143 30.5%	102 21.7%	63 13.4%	30 6.4%	17 3.6%	7 1.5%	0 0.0%	0 0.0%	469 100.0%
1991	0 0.0%	17 3.6%	98 20.6%	156 32.8%	87 18.3%	61 12.8%	28 5.9%	22 4.6%	6 1.3%	0 0.0%	0 0.0%	475 100.0%
1990	0 0.0%	19 4.1%	92 19.9%	151 32.6%	87 18.8%	62 13.4%	27 5.8%	21 4.5%	4 0.9%	0 0.0%	0 0.0%	463 100.0%

Table 4: Assistant Professor

Age as of July 1 for each year listed [2]

	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65-69	70	71 or older	Total [3]
2000	5 0.8%	123 18.5%	288 43.2%	168 25.2%	59 8.9%	17 2.6%	3 0.5%	1 0.2%	1 0.2%	0 0.0%	1 0.2%	666 100.0%
1999	12 1.6%	158 21.1%	342 45.7%	153 20.4%	63 8.4%	13 1.7%	4 0.5%	2 0.3%	1 0.1%	0 0.0%	1 0.1%	749 100.0%
1998	16 2.1%	175 23.2%	337 44.7%	148 19.6%	53 7.0%	17 2.3%	4 0.5%	2 0.3%	1 0.1%	1 0.1%	0 0.0%	754 100.0%
1997	23 3.1%	178 23.8%	325 43.4%	156 20.9%	44 5.9%	14 1.9%	4 0.5%	2 0.3%	2 0.3%	0 0.0%	0 0.0%	748 100.0%
1996	22 3.2%	175 25.8%	286 42.2%	144 21.2%	31 4.6%	13 1.9%	3 0.4%	3 0.4%	1 0.1%	0 0.0%	0 0.0%	678 100.0%
1995	21 3.1%	190 28.1%	275 40.6%	142 21.0%	34 5.0%	9 1.3%	3 0.4%	2 0.3%	1 0.1%	0 0.0%	0 0.0%	677 100.0%
1994	22 3.5%	189 30.1%	265 42.2%	107 17.0%	30 4.8%	8 1.3%	4 0.6%	2 0.3%	1 0.2%	0 0.0%	0 0.0%	628 100.0%
1993	30 4.6%	197 30.5%	264 40.9%	110 17.0%	32 5.0%	7 1.1%	2 0.3%	3 0.5%	1 0.2%	0 0.0%	0 0.0%	646 100.0%
1992	23 4.2%	159 28.8%	244 44.1%	98 17.7%	20 3.6%	4 0.7%	1 0.2%	4 0.7%	0 0.0%	0 0.0%	0 0.0%	553 100.0%
1991	22 3.9%	177 31.3%	246 43.5%	97 17.2%	16 2.8%	2 0.4%	4 0.7%	1 0.2%	0 0.0%	0 0.0%	0 0.0%	565 100.0%
1990	29 5.3%	179 32.8%	225 41.2%	87 15.9%	18 3.3%	5 0.9%	2 0.4%	1 0.2%	0 0.0%	0 0.0%	0.0%	546 100.0%

Notes: (1) Excludes faculty with Tenure of Title, Unclassified faculty, retired faculty, and Emeritus faculty.
(2) Ages are rounded down to the nearest whole year.
Source: Derived from the University Payroll System by the Office of Institutional Research and Analysis
(3) Totals may not add up to 100% because of rounding.

members over the age of 70 who now agree to retire. Those faculty members have already been given one "take-it-now-or-never" choice that they chose to reject. A second opportunity seems quite inconsistent with the assertions made to them and to the faculty members who did accept that first choice. More importantly, I doubt that it would be possible to convince anyone that such a retirement incentive is indeed "one-time." At the present time, many of those who reach the age of 68 decide to retire rather than continuing for the extra two years required to make up the FIAP allowance. I believe the possibility of a "one-time" incentive at a later date would make the prospect of continuing much more attractive. Moreover, the possibility of a "one-time" incentive would be a powerful stimulus for any future faculty member who passed the age of 70 to hang on until the next offer is made.

Early Retirement Window Period

To provide the University and faculty members greater flexibility, the Task Force considered permitting early retirement at age 55 with 15 years of service. From 1975 to 1996, under the Faculty Voluntary Early Retirement (FVER) plan, faculty could retire as early as age 55 with at least 15 years of service at the University of Pennsylvania. With the introduction of the Faculty Income Allowance Plan (FIAP) in 1996, the early retirement age was raised from age 55 to age 62. The Task Force thought that allowing early retirement of faculty as early as age 55 with appropriate service requirements would give retiring faculty a chance to think about another career opportunity. When a faculty member reaches the current earliest retirement age (62), there is more of a tendency to "hang on" until the end of the eligibility period for the Faculty Income Allowance Plan.

One argument against moving the early retirement to as low as age 55 is that the University may lose some faculty that various Schools would like to retain. Also, the cost of providing medical benefits for the faculty member and his or her dependents could possibly offset any salary savings at the School level. Moreover, as pointed out in a later part of this report, salary savings in hiring younger faculty are often not as great as assumed.

One Task Force member expressed his concern for lowering the early retirement age as follows:

> A reduction of the beginning of the retirement window to age 55 will shift part of the cost of stimulating the retirement of unproductive not-quite-senior faculty members from the School to the University. The logic for this shift is not apparent to me. Worse yet, it provides an extra incentive for those very productive not-quite-senior faculty members to look elsewhere. If we fail to keep them, the University will have helped the raiding institution with its recruitment package. If we succeed in retaining them, the retaining School will almost certainly have to increase the size of the package needed to retain them. This appears to me to be an almost classic lose-lose situation.

The Task Force recommends that the early retirement window period remain at ages 62-68. To allow some flexibility for long service faculty or for faculty hired in mid-or-late career, the Task Force recommends enacting a rule of 75. The "Rule of 75" would allow a faculty member with a combination of age and service equaling 75 to retire. This plan would have a minimum retirement age of 60.

Alternative New Early Retirement Approach

Declining Benefit Approach

The Task Force reviewed a new early retirement program modeled somewhat after the retirement program of the University of Chicago. Under the Chicago approach, the rate of faculty retirements is substantially greater than that of the University of Pennsylvania. The Chicago plan provides greater retirement incentives the earlier the faculty member retires. The Task Force considered a bonus program for faculty who retire after age 55 and before age 70 with at least 15 years of service. The bonus would be calculated by multiplying the bonus factor in the table below by the salary of the faculty member in the year prior to retirement or the average salary of the faculty member over the last two or three years prior to retirement. If the average salary of a full professor in the faculty member's school during this period is higher, it would be the salary used in the calculation. Only base salary would be eligible for this retirement bonus.

Retirement Bonus Program

Age at Retirement	55-58	59-61	62-65	66-68	69
Bonus Factor	2.0	1.8	1.4	1.0	.8

A faculty member who makes an irrevocable commitment to retire at least one year in advance of his or her retirement age would be entitled to a bonus. For example, a faculty member who plans to retire at age 57 whose average salary over the three years (if this is the measure used) prior to retirement was $80,000 would receive a retirement bonus of $160,000. Bonus payments could be made either in a lump sum or over a period of years. In the event of the death of a faculty member before all bonus payments are made, any remaining payments will be paid to his or her designated beneficiary. If a faculty member who has elected to retire dies prior to retirement, no bonus would be paid to the faculty member's beneficiary. Under this circumstance, the faculty member would be covered by Penn's life insurance program and his or her beneficiary would receive the life insurance policy proceeds.

Several issues were raised in Task Force discussions. Would the faculty who decided to take advantage of this plan be the very faculty various schools would like to retain? Would faculty reaching the end of the eligibility period elect to continue rather then retire since the bonus they would receive under the plan could fairly quickly be replaced by their regular faculty salary?

Additionally, in discussions with the University of Chicago it appears that the enhanced health insurance benefit provided in the retirement incentive plan had more to do with faculty retiring than the retirement bonus plan. The health incentive by Chicago was to pay lifetime premiums for each participating faculty member and his or her spouse or University approved domestic partner for University sponsored retiree health insurance that supplements Medicare.

The Chicago retirement incentive package also included a $3,000 financial planning benefit for those faculty who decided to retire early. After analysis of the issues involved in the declining benefit approach, the Task Force recommends that the University continue its current approach to providing early retirement incentives. As mentioned subsequently in this report, possible enhanced health insurance options and a financial planning benefit were examined as potential enhancements to the current faculty early retirement arrangement.

Ability to Reduce Job Duties to 25 Percent

Under the current University phased-retirement program, a faculty member in anticipation of retirement may reduce his or her duties up to 50 percent of their full workload at a proportionately reduced salary. The faculty member must also agree to retire no later than six years after entering into the phased retirement program. The Task Force, the Council of Deans, and several faculty interviewed favor adding an additional option to the phased-retirement program. This would allow a faculty member to keep an attachment to the University or perhaps teach a special course where the faculty member has a particular expertise. The proposal would allow a faculty member to reduce his or her duties to 25 percent with a proportionate reduction in salary and a surrender of tenure. The maximum period before full retirement would be six years. Employee benefits related to salary would be reduced proportionately. Medical benefits would be on a cost-sharing basis between the faculty member and faculty member's school. The Task Force believes adding this 25 percent option would provide increased flexibility to the faculty and to the individual schools of the University.

Additional Health Care and Life Insurance Plan Improvements

Throughout the Task Force deliberations, the issue of providing improvements to the current University health insurance program for retirees was deemed important to encourage additional faculty to retire. The fear of continuing escalation of health care costs during retirement appears to prevent some faculty from retiring.

The current University plan calls for retired employees to cost share on the same basis as active employees until age 65 at which time they are eligible for Medicare. At age 65, the retiree and the University share in the cost of a Medicare Supplement plan that covers many of the gaps not covered by Medicare.

At one time, health insurance was totally paid for by the University for a retiree and his or her family. This was a powerful incentive for employees to retire. This practice changed when the Financial Accounting Standards Board (FASB) issued FASB 106. This standard required retiree health costs to be recognized as an employer liability. In response to reducing this future liability, the University instituted a cost sharing arrangement for retirees.

The Task Force asked the Human Resources division to calculate the cost to the University of various options ranging from freezing the cost to the retiree of health insurance for the life of the participant, to freezing the retiree's cost for a period of two or five years.

Of the options considered, the Task Force favored an approach that would freeze retiree contributions at the point of retirement for a period of five years. Exhibit 1 below illustrates the potential additional costs to the University.

It should again be mentioned that there would be offsetting savings to the University in not having to provide pension contributions and substantially reducing the amount contributed for life insurance coverage for those induced to retire.

Since many of the issues required actuarial and other key assumptions to make any meaningful judgments, Price Waterhouse/Coopers (PWC) was hired to work with the University on possible changes to the Faculty Income Allowance Plan (FIAP) that would better meet the objectives of the University. The University's objectives were to increase the number of retirements among standing faculty in general and among those over age 70 in particular. The main thrust of PWC's work, focused primarily on the financial implications of the benefit features of the FIAP plan. Many different scenarios were modeled providing enhanced medical benefits and life insurance options to faculty in the age 62-68 group and the over 70 age group. PWC's findings were reviewed with various senior financial and other officials at the University. The costs associated with an enhanced medical and life insurance program were considered to be too great at this time to change the existing arrangement. This result was caused by the exploding costs of health care, less savings than anticipated in hiring replacement faculty and the increase that would be necessary to the employee benefits rate.

The Task Force feels strongly that this area should be periodically evaluated if conditions change in the environment.

Providing for Personal Financial Planning Support

The Task Force supports the concept of providing some financial support for personal financial planning services for those faculty members of retirement age (deemed to be age 54 and over). There appears to be a major need to obtain objective information regarding retirement and other financial planning matters. This benefit might encourage some faculty to retire if they can determine that they are able to have a comfortable retirement. Other faculty would be able to have a financial planning professional put them on the correct path to a future retirement. The Task Force proposes that the University would reimburse a faculty member up to $3,000 to pay for financial planning advice prior to retirement. The reimbursable fees could be restricted, if thought appropriate, to payments to Certified Financial Planners (CFPs), accountants or attorneys.

Use of "Emeritus" Title

The Task Force was asked to review the question concerning faculty who may wish to retire but do not want to use the "emeritus" title. The Task Force explored some of the reasons certain members of the faculty would like to either have a title other than "emeritus" or to be permitted to retire and still carry a "professor" title. Faculty pointed out that the "emeritus" title at one time was considered an honor. Today, however, basically everyone who retires receives the "emeritus" title, so it no longer means as much as it did in the past. In fact, those same faculty expressed concern that instead of being an honor, the "emeritus" title now conveys "old", "washed up" or "not current in your field." Some faculty also believe the "emeritus" title puts one at a disadvantage when applying for research grants, and therefore the title is a disincentive to retire.

Exhibit 1

Medical Cost Projections Assuming 15% Annual Cost Increases Under the Faculty Income Allowance

A - Retiree's Share Frozen as of 6/30/02

B - Retiree's Share Not Frozen

	Average Annual Cost Per/Retiree*		Total Cost:** 63 FIAP Participants		Total Cost: 100 FIAP Participants	
Plan Year Ending	**A**	**B**	**A**	**B**	**A**	**B**
6/30/02						
Total Cost	$5,757	$ 5,757				
Retiree's Share	1,799	1,799				
University's Share	3,958	3,958	$249,354	$249,354	$395,800	$395,800
6/30/03						
Total Cost	6,621	6,621				
Retiree's Share	1,799	2,069				
University's Share	4,822	4,552	$303,786	$286,776	$482,200	$455,200
Add'l University Cost due to Freeze	270					
6/30/04						
Total Cost	$7,614	$7,614				
Retiree's Share	1,799	2,379				
University's Share	5,815	5,235	$366,345	$329,805	$581,500	$523,500
Add'l University Cost due to Freeze	580					
6/30/05						
Total Cost	$8,756	$8,756				
Retiree's Share	1,799	2,736				
University's Share	6,957	6,020	$438,291	$379,260	$695,700	$602,000
Add'l University Cost due to Freeze	937					
6/30/06						
Total Cost	$10,069	$10,069				
Retiree's Share	1,799	3,146				
University's Share	8,270	6,923	$521,010	$436,149	$827,000	$692,300
Add'l University Cost due to Freeze	1,347					

* Based on the average cost of current elections of 63 FIAP participants, 95% of whom are in Blue Cross/Blue Shield 65 Special. The rest are in Plan 100 and PENNCare because they are below age 65. The above projected costs will be affected by the age of FIAP participants because the average cost of Plan 100 and PENNCare is twice the cost of Blue Cross/Blue Shield 65 Special.

** Of the 63 currently collecting, 36 are under the previous Faculty Voluntary Early Retirement (FVER) program and 27 under the current Faculty Income Allowance Plan (FIAP). There are currently 143 faculty between the ages of 62-65 with 15 years of service.

The Task Force considered the possibility of other titles such as "Senior Professor" or "Distinguished Professor." After much debate, the Task Force concluded that some of the potential new titles would quickly be seen to be equivalent to the "emeritus" title.

The Task Force recommends, subject to necessary approvals, if any, that retiring faculty be permitted to choose whether to use the modifier "emeritus" or to continue to use a "professor" title. Any restrictions of limitations that apply to "emeritus" status would continue to apply to those retiring faculty using a "professor" title.

Policy Regarding Terminial Sabbaticals

The current University policy on "Sabbatical Leaves" requires a faculty member to return to his or her duties for at least one year after a Sabbatical Leave. It appears this policy in practice varies among Schools of the University when a faculty member takes a "Sabbatical Leave" just prior to retirement. In some instances, certain Schools of the University consider a "Sabbatical Leave" prior to retirement a "terminal sabbatical" with no need to return while in other cases faculty are required to return.

The Task Force favors that a policy be established whereby faculty members who have accumulated leave credits and take a "Sabbatical Leave" just prior to retirement would not have to return to their normal duties at the University. This leave policy would have to have another name, perhaps a "Retirement Leave" rather than the more common "Terminal Leave." The Task Force thinks this type of leave policy might encourage some eligible faculty to retire.

Discontinuing Retirement Contributions for Faculty Under Certain Conditions

The Task Force considered the possibility of discontinuing its University retirement contributions under certain conditions. This is a concept utilized at Yale University. The plan at Yale stops university retirement contributions after the goals of the plan have been met. The goal is determined by an income replacement model.

One issue under Penn's current defined contribution plan when two faculty members with equal salary and length of service could have entirely different retirement income funds accumulated based on their investment results. Under this case situation, one faculty member would have contributions continue to his or her retirement fund while the other "wiser" investor would not receive any contributions. Given the stock market situation of the last few years, the Task Force felt now was not the time to consider such an option. However, it is an option that should be periodically reviewed as circumstances warrant.

Providing Retirement Education

The Task Force recognizes that the University provides substantial retirement information and education to the faculty on a uniform basis. In addition, the Task Force recommends that each school develop policies to discuss retirement-related issues with their faculty on a regular basis. Each school also should supplement retirement and other financial planning information already provided to its faculty as appropriate. The goal of this recommendation is to enable more faculty to think about and adequately plan for their retirement.

Conclusion

A major issue faces the University of Pennsylvania since the elimination of a mandatory retirement age in 1994 for tenured faculty. This development raises many issues, both financial and academic. To address the above concerns, the Provost of the University appointed a Task Force to evaluate the effectiveness of the retirement incentive plan currently in effect. The Task Force deliberated, commissioned studies, and recommended a number of changes that were enumerated in this report. While these recommendations may increase the number of faculty retiring somewhat, to meet the long-term issues and to keep the University vibrant and to assure its world-class status, some bold new approaches may be needed. Perhaps the existing defined contribution plan needs revamping into some hybrid plan consisting of the best features of both defined benefit and defined contribution plans, if not for existing faculty, then perhaps for newly hired faculty. Innovative approaches to budgeting should be considered so that changes that make sense overall are not enacted because of impact on schools or the University in an uneven manner.

Health care costs must be controlled as they inhibit what can be accomplished in the retirement and other areas. In almost any discussion of substance, health care costs limit constructive changes that could benefit not just faculty but all other University constituencies as well.

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