

# Recruitment, Retention and Retirement

## CHANGING FACULTY DEMOGRAPHICS AND THE NEED FOR NEW POLICIES

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## INTRODUCTION

Colleges and universities are facing a series of challenges and opportunities that demand immediate action if American institutions of higher education are to remain the best in the world. Public universities must confront financial difficulties associated with substantial reductions in the growth rate of state appropriations and in many instances, the absolute reductions in operating budgets. Public and private institutions are concerned with fluctuations in endowments and escalating costs of employing faculty, especially the increasing cost of providing health insurance to active and retired faculty. In addition, faculties are growing older and low retirement rates limit the number of new hiring opportunities.

The importance of these issues varies between public and private institutions, between those where human resource policies are collectively bargained and those that are nonunion, across differing local economic environments, and by Carnegie classification. However, colleges and universities of all types are facing a series of common challenges that will shape higher education in the twenty-first century. In order to maintain high quality faculty in the coming years, colleges and universities must carefully consider their compensation policies and working conditions. The primary questions facing presidents, chancellors, provosts, deans and department heads are:

- How do they continue to recruit the best faculty?
- Having hired the best, how do they retain them?
- How can the faculty be restructured in the coming years through the orderly retirement of older professors and the hiring of appropriate replacements?

This conference was developed by the TIAA-CREF Institute to address the key issues associated with recruiting, retaining, and retiring of faculty across all types of institutions. The discussion will focus on the increasing reliance on non-tenure track faculty to staff classes, the role of health insurance in attracting, maintaining, and retiring faculty, and the development of retirement policies that produce an orderly transition from full-time work to complete retirement. I want to open the discussion by describing the aging of the professoriate and examining the implications of the demographic changes that are occurring. Faculty aging presents both challenges and opportunities for institutions of higher education. Developing appropriate employment and compensation policies will be the key to successfully aligning the age structure of the faculties of the future.

We recognize the diversity of institutions of higher education and have organized this conference to examine the problems confronting colleges and universities of all sizes and types. The schedule has been arranged to highlight discussion on a wide range of topics associated with maintaining faculty quality. We have nationally prominent researchers presenting new research findings in a series of papers. Many of the discussants, leaders of the breakout sessions, and panelists are senior academic administrators who are on the front lines confronting these challenges while other participants represent pension providers and academic organizations.

The primary goal of this unique conference is to foster an interactive discussion among these groups that will guide the development of employment and compensation policies of colleges and universities in the coming years. To achieve this objective, the conference agenda provides substantial opportunities for all attendees to actively

participate in the deliberations through a series of breakout sessions and discussion time at the end of each paper sessions. The success of this meeting depends on contributions of each and everyone gathered here today.

### **AN AGING FACULTY**

Faculties are aging. Data from the National Center for Educational Statistics (NCES), shown in Table 1, illustrate how quickly the American professoriate has aged. The table reports the age structure of full-time and part-time instructional faculty and staff in two and four year, degree granting institutions (NCES, 2002, Table 234 and unpublished data provided by Thomas Snyder of NCES).<sup>1</sup> In 1987, the age structure could be described as uniform with 25 percent of the full-time instructional staff less than 40 years old, 25 percent were 55 years or older, and 50 percent were between the ages of 40 and 54. However, the professoriate aged rapidly during the next decade. By 1998, only 18 percent of faculty was less than age 40 while over 31 percent were aged 55 years or older. The changing age structure of faculties is due to past hiring patterns, low turnover rates, low retirement rates, and the ending of mandatory retirement.

[Table 1]

This rapid aging of the faculty reflects past hiring patterns, turnover rates, and retirement decisions. A relatively large number of faculty were hired in the 1960s and 1970s. These faculty are now in their 50s and 60s. Slow growth in the number of new faculty positions and relatively low exits rates from the academy have produced the aging

of the professoriate shown in Table 1. As the large cohort of older faculty approaches traditional retirement ages, many academic leaders have expressed concerns over the elimination of mandatory retirement policies a decade ago and the prospects that senior faculty will remain on the job into their 70s. These concerns are at the heart of the debate over early and phased retirement plans and the continued offering of retiree health insurance.

Ultimately these relatively large cohorts of older faculty will retire and this will create a unique opportunity for institutions of higher education to restructure their faculties. Large number of retirements will allow academic administrators to reallocate positions across their institutions. Past trends indicate that many colleges and universities have been replacing retiring tenured faculty with non-tenure track instructors, post-doctoral fellows, and part-time staff. Advantages associated with replacing retiring tenured professors with contract staff, post-doctoral fellows, and part-time faculty include greater staffing flexibility and lower employment costs. The wisdom of this trend is one of the topics of discussion for this conference. These staffing decisions will be even more important in the next decade with the expected large number of retirements. Academic leaders should recognize the long-run importance of today's employment decisions on the faculty of the future.

While Table 1 illustrated the aging of the American professoriate, we recognize that decisions are made at individual institutions. Each institution represented at this conference should examine its current faculty age structure and begin to plan for the future. Development of long-term faculty planning models would enable chancellors, presidents, and provosts to predict the expected number of retirements and thus new

hiring opportunities. A better understanding of future retirements should guide today's hiring decisions.

For the past 6 years, I have been working the University of North Carolina (UNC) Office of the President to evaluate new and existing retirement programs.<sup>2</sup> As part of this effort, we have examined the changing age structure of the faculties at the 15 campuses of the UNC system. Therefore, to assess, the implications of faculty aging in a specific institution, we can review data from the UNC as an example of the aging of the faculty in one institution. Overall, the UNC faculty aged considerably from 1982 to 2001. The age distribution of the entire tenure-track and tenured UNC faculty for selected years is shown in Table 2. For the combined UNC faculty, there are substantial decreases in the proportion of the faculty in each age category younger than age 40 and large increases in the proportion of all faculty who are in each age group above age 55. For example, the proportion of the faculty aged 35 to 39 fell from 20.2 percent in 1982 to 10.2 percent in 2000. During the same period, the proportion of faculty aged 55 to 59 increased from 10.0 percent to 17.9 percent. The trend in faculty aging is dramatically shown in Figure 1 as the proportion of the faculty under age 40 declines from 35.4 percent 1982 to 16.1 percent in 2000 while the proportion of faculty over age 55 increases from 17.6 percent to 30.9 percent. The picture reveals what might be described as an "aging cross" of university faculty. Does the age structure of your institution over the past 20 also exhibit this aging cross?

[Table 2]

[Figure 1]

The aging cross is observed for each class of institutions (research, doctoral, masters, and baccalaureate) in the UNC system. The crossing point occurs between 1988 and 1991 as each of the four types of institutions changes from universities with primarily young faculties to universities with primarily older faculties. Examining each of the campuses separately reveals a similar crossing pattern in the age distribution of faculty.

Interestingly, faculties at Canadian colleges and universities are also aging rapidly. Figure 2 presents data compiled by Robert Giroux (1999), President of Association of Universities and Colleges of Canada. These demographic profiles show the aging of the Canadian professoriate from 1976 to 1997. Giroux highlights the challenges and opportunities associated with the current age structure including the possibility of hiring large numbers of younger faculty in the coming years that will dramatically alter the age structure of the Canadian professoriate.

[Figure 2]

Faculty aging raises a series of questions that will be discussed over the next two days. These include:

- Does the age structure of a faculty affect its quality or its ability to responding to a changing educational environment?
- Does the prospect of a growing proportion of faculty age 70 and over create problems for institutions of higher education?

- If faculty aging is viewed as a financial and quality constraint on institutions, can colleges and universities alter the age composition of their faculties by adopting new retirement policies?
- Can strategic planning be improved by better institutional research and the use of faculty planning models?
- Can institutional research and faculty planning models provide needed information to assess the long run impact of alternative hiring strategies?

### **ENDING MANDATORY RETIREMENT**

Federal legislation outlawing mandatory retirement significantly altered the human resource policies of many academic institutions. At the time this change became effective in 1994, the faculties of colleges and universities around the country were aging rapidly; however, most institutions had only a small proportion of their total faculty aged 60 and older. Thus, the full impact of ending mandatory on faculty age structure is only now being felt.

The elimination of mandatory retirement has the potential of exacerbating faculty aging if older faculty choose to remain on the job instead of retiring at the traditional ages. Continued employment beyond age 70 also has the potential of slowing promotional prospects, reducing the number of new hires, and increasing labor costs.<sup>3</sup> However, delayed retirement might help institutions respond to increased numbers of students and maintain an important resource. The importance of the positive and negative aspects associated with delayed retirement can be debated; however, this



conference focuses on the actual retirement response of individual faculty members to the newly available option of continuing employment beyond age 70.

Ashenfelter and Card (2002) and Clark, Ghent, and Kreps (2001) found that age specific retirement rates at age 70 and older declined after the ending of mandatory retirement.<sup>4</sup> Initially, this had a relatively small effect on faculty age structures as the number of faculty still working in their late 60s was comparably small. However, in the coming decade, large numbers of professors will be aging into this group. If their average age of retirement is substantially higher than that of previous cohorts, institutions will confront the prospect of a growing number of faculty remaining on the job past age 70. Thus, a central question of our deliberations should be how colleges and universities will respond to low retirement rates, aging faculties in general, and the emergence of an increasing number of faculty in excess of age 70.

Ashenfelter and Card (2002) find a sharp decline in the probability of retiring at age 70 after mandatory retirement policies were eliminated in their sample of 104 colleges and universities. Retirement rates at age 70 were found to be 45 percentage points higher prior to 1994 than in the post mandatory retirement period (75.6 percent between 1987-1993 compared to less 29.1 percent between 1994-1996). Retirement rates at age 71 almost fell by 37 percentage points.

Clark and Ghent (2004) estimated retirement equations using UNC faculty employment data for years before and after the ending of mandatory retirement. Similar to Ashenfelter and Card (2002), they found that after the ending of mandatory retirement, the probability UNC faculty retiring at age 70 dropped sharply. These findings indicate that the change in mandatory retirement laws had a dramatic effect on retirement

decisions at age 70. This research implies that in the future a growing number of faculty will continue on the job past age 70.

It is extremely unlikely that colleges and universities will be allowed to re-impose mandatory retirement policies in the future. Thus, academic administrators must carefully consider their retirement policies and assess their desire to achieve certain patterns of retirement. Key questions for our discussion include:

- Can phased retirement plans be used to achieve a more desirable age pattern of retirement among faculty?
- Are early retirement plans cost effective means of altering retirement decisions?
- How do retiree health insurance plans affect retirement decisions?
- Can institutions continue to provide retiree health plans in the face of rapidly rising health care costs?

## **PLANNING FOR THE FACULTY OF THE FUTURE: THE ROLE OF INSTITUTIONAL RESEARCH**

The most important job of academic administrators is to maintain a high quality faculty. This requires the development of appropriate human resource policies and levels of compensation consistent with recruiting, retaining, and then retiring faculty.

Understanding future needs for hiring new faculty is central to adequate planning within the university as is the concern over the changing composition of faculty. Strategic planning should include the development of a faculty-planning model that would enable academic administrators to project the number of faculty who can be expected to leave

the institution over the coming years. Such a model could predict the annual need for new faculty as existing faculty retire or leave the university.

A faculty-planning model should be based on demographic models of population growth and employment records of individual institutions. Using the planning model, academic administrators would be able to observe the changing age structure of their faculty, expected turnover rates and retirement rates, and the need for new faculty. The model will also be able to address the changing composition of the faculty between full-time tenure track faculty and other types of faculty appointments.

A computer simulation models could be developed to show how the current age structure of the faculty will evolve under alternative scenarios. Using historical employment records, the model would be built using the current size of the faculty and its age structure. Projections into the future would employ past age specific turnover and retirement rates of the faculty, the desired strategy for new hires (hire only at the assistant professor level, hire at all ranks, etc), and the projected change in faculty size (growing, declining, or stable). The simulations would trace out the changes in faculty age structure and the year-by-year hiring rates that could be expected.

The simulation model would allow administrators to alter their hiring strategy and change the growth rate of faculty size. In addition, one could model the impact of changes in human resource policies. For example, early retirement policies would increase the number of retirements. Based on past experiences at other universities, the model would show the impact of implementing such a policy on age specific retirement rates. Higher retirement rates would provide greater future hiring possibilities. The impact of other human resource policies such as phased retirement, alternative tenure

policies, and higher compensation could be included in the model. In each of these cases, the impact of hiring policies on faculty composition could be determined. For example, retirees are replaced by new assistant professors or alternatively, retirees are replaced by several part-time, temporary instructors.

Assessing the impact of alternative compensation and employment policies should be guided by faculty preferences. Periodic surveys to determine faculty attitudes toward retirement, the importance of pension and health plans, desire for new transitions into retirement, and expected retirement ages would be useful. Results of such surveys, funded by the TIAA-CREF Institute, will be examined during this conference. Betsy Brown and Carroll-Ann Trotman describe their plans for analyzing a survey of early and mid-career faculty while Jerry Berberet presents findings from a survey of senior faculty.

Faculty planning and development models would be useful tools for academic administrators concerned about the significant changes in faculty age structure, size, and composition. Such models could be used by institutions of all classifications and could address a variety of perceived challenges in the twenty-first century. The models would help university planners to better understand the long run implications of their policies and would enable them to assess the impact of changes in retirement policies such as early retirement plans.

We are discussing the future of research and learning institutions. A question that should be asked throughout this conference is why academic leaders do not devote more resources to research and evaluation of their own strategic decisions. On most campuses, electronic data are available that would allow analysts to predict future retirements and other terminations. Through the use of a faculty-planning model, one could then

determine future hiring opportunities and the long-run impact of alternative hiring strategies such as great use of contract and part-time faculty. These models could also be used to estimate the impact of adopting early retirement or phased retirement plans, the elimination of retiree health insurance, shifting to defined contribution pension plans, or other significant policy changes. Should academic organizations and foundations be encouraged to support the development of such a planning model that could be used widely by institutions of higher education?

The importance of institutional research and the need for adequate data are the topic of a panel discussion lead by Debbie Freund. Our deliberations might also highlight the need for a greater sharing of various compensation and employment policies. Would it be helpful to have a national data base that contained plan descriptions of phased and early retirement plans that had been adopted? Would it be useful to those institutions considering implementing such plans to know whether comparable colleges and universities have established these types of retirement plans? Have institutions done evaluations of the impact of such plans on their faculty quality and costs? If there is a need for greater information and coordination among colleges and universities, where can we find the resources to establish such a database?

### **TRANSITION TO RETIREMENT**

In many colleges and universities, retirements of older faculty are the primary mechanism by which faculty positions become available.<sup>5</sup> Vacant positions resulting from retirements of existing faculty can be used to hire new, younger faculty. Retirements provide universities with the opportunity to reallocate positions across

disciplines and thus, increase the number of faculty in areas of high student demand or respond to opportunities to develop programs in emerging areas.<sup>6</sup> Some analysts argue that academic administrators are using retirements as an opportunity to reduce costs and long-term commitment of faculty by replacing retiring faculty with part-time instructors or fixed-term lecturers instead of new tenure-track assistant professors. Still others believe that retirements do not result in cost savings because institutions replace retiring professors with similar, high-salaried senior professors from other institutions. The impact of retirements and new hiring on faculty age structure and labor costs varies across institutions and depends on the objectives and cost constraints facing individual campuses.

The importance of retirements to the age distribution of faculty is greater in institutions that have stable or declining enrollments. Such institutions do not have the opportunity to restructure their faculties through net new hiring but must depend on retirements to create vacancies. Successful academic administrators must assess the potential for enrollment growth and determine how this translates into demand for faculty. Next, they must consider the current age structure of their faculty and determine current and projected patterns of age specific retirement rates.

Transitions from full-time work to full-time retirement are influenced by basic retirement plans and whether the institution offers phased or early retirement incentives to senior faculty. Virtually all institutions offer basic retirement plans to their full-time faculty (Anderson, 2002).<sup>7</sup> Let us consider how each type of retirement plan influences the work decisions of senior faculty.

### **Basic Retirement Plans**

Retirement rates differ between the faculty members enrolled in the defined benefit plans and those who are participating in defined contribution plans. Defined benefit plans have specific retirement incentives associated with certain ages such as the ages of eligibility for early and normal retirement. Studies examining retirement decisions by participants in defined benefit plans find that retirements are clustered around these ages.<sup>8</sup> Defined contribution plans are more age neutral in their retirement incentives. In general, we expect that retirement rates will be greater for participants in defined benefit plans.

Among institutions of higher education, public colleges and universities typically offer defined benefit plans while private colleges and universities tend to offer only defined contribution plans (see Table 3). Nationally, private sector firms are rapidly moving away from defined benefit plans and toward greater use of defined contribution plans (Clark and McDermid, 1990; Purcell, 2002). Even public employers are now considering shifting to defined contribution plans. The future seems clear. More and more individuals will be included in defined contribution plans and fewer will be in defined benefit plans. In addition, many public institutions allow faculty to choose between a state defined benefit plan and optional defined contribution plans.

[Table 3]

Ashenfelter and Card (2002) find that among faculty who are participants in defined contribution plans, those with larger account balances are more likely to retire.

Thus, we can expect retirement rates to fluctuate with economic conditions. The proportion of older faculty retiring will be higher when equity markets have been rising but retirement rates are likely to decline during periods when stock prices have fallen. UNC provides a choice to all new employed faculty members. Clark, Ghent and McDermed (2004) found that faculty in the defined contribution plan had significantly lower age-specific retirement rates than comparable faculty who were participants in the defined benefit plan. Higher retirement rates for those in the state plan reflect the economic incentives to retire that are part of the defined benefit state retirement plan.

When given the choice between the state defined benefit plan and a defined contribution plan, faculty overwhelmingly tended to select the defined contribution plan.<sup>9</sup> Thus, colleges and universities must be prepared for a future that for the most part will include faculty covered by defined contribution plans and without any required or mandatory retirement age. Without the retirement incentives that are imbedded in defined benefit plans, faculty who are participating in defined contribution plans tend to retire at later ages.

The discussion thus far indicates that in the next decade, many colleges and universities will have an increasing number of their faculty reaching age 70 and without mandatory retirement many of these faculty will choose to stay on the job. Institutions with defined contribution plans will have higher retention rates among their older faculty. It is in this context, that our conference must consider the desirability and impact of adopting phased and early retirement plans and retaining or eliminating retiree health plans.



As the prevalence of defined contribution plans continues to grow, academic leaders must consider their obligations as plan sponsors. Questions concerning appropriate plan design must be addressed. How much choice should faculty be given? How many plan providers should be allowed and how many individual funds should each be permitted to offer? Finally, how should these decisions be made – through faculty committees or benefits offices? Scott Evans, Brett Hammond, and Martha Peyton will lead two breakout sessions on the development of pension plan investment choices and how institutions are reconsidering their pension plans.

Institutions must also consider their obligation to provide financial education to their faculty and other employees. Faculty must plan for their retirement. Participants in defined contribution plans have greater responsibility for their retirement income. Clark and d'Ambrosio (2003) have shown that participation in financial planning seminars alters saving behavior and retirement goals. As retirement transitions change so to must retirement planning.

### **Phased Retirement Plans**

Recently, many colleges and universities have introduced phased retirement programs. Ehrenberg (2003a) describes the incidence of phase retirement plans in the Survey of Changes in Faculty Retirement Policies. He reports the following percentage of institutions with phased retirement plans:

Category	Private	Public	Total
Research and Doctoral	50	31	35
Masters	38	23	29
Baccalaureate	30	24	29
Total	35	26	30

This study finds that about one third of responding institutions have phased retirement plans, that phased retirement plans are most common in private institutions, and that phased retirement plans are most prevalent in research and doctoral institutions. These are also the institutions that have been most concerned about the impact of ending mandatory retirement and the aging of their faculties.

These plans provide senior faculty with new employment/retirement options. Many plans provide prorated compensation for faculty who give up tenure and accept a fixed term contract for part-time employment. The value of these plans to the institution is that they provide information concerning the total retirement date thus eliminating the uncertainty of when senior faculty will finally leave the university. The value to faculty member is that they have a new option, typically half-time work instead of full time. Individual deals for part-time employment have always been available to selected faculty; however, formal phased retirement programs usually provide this option to all qualified faculty at a pre-set level of compensation.

If appropriately structured, phased retirement plans can be win-win situations as faculty can more easily transition into retirement and institutions gain flexibility. Plans can be arranged to be basically cost neutral, say half-time work for half-time pay. The attractiveness of phased retirement plans is related to their generosity. More generous terms, say 75 percent pay for half-time work, will induce more faculty to enroll in the plan. Of course, the more generous the terms, the higher the costs.

There have been relatively few studies of the effects of phased retirement plans. Ghent, Allen and Clark (2001) and Allen, Clark, and Ghent (2004 forthcoming) provide the best available evidence to date on the response to phased retirement plans. They have

studied the impact of a phased retirement program at UNC. Their results indicate that about one in every four retirees chose to enter phased retirement. This program was begun as an experiment but after careful review, the UNC Board of Governors made this program a permanent policy. Later in this conference, Steven Allen provides new evidence of the effectiveness of phased retirement. Discussion sessions lead by Ronald Frisch and Robert Abramowitz will focus on the link between retiree health plans and phased retirement, developing new payout or distribution products for those entering phased retirement, and the legal constraints that may limit the use of these plans. Ellen Switkes will report on consideration of a phased retirement plan at the University of California and David Leslie will provide the results from his project that includes interviews with nine colleges and universities that have adopted phased retirement plans.

I anticipate that phased retirement plans will become increasingly popular in the future and that a larger proportion of retiring faculty will choose to be part of these programs. I also believe that similar programs will be adopted throughout the economy. It is even possible that phased retirement will become the normal or preferred transition to retirement among university faculty.<sup>10</sup> With the emergence of phased retirement, are new financial products needed or do we simply need new and better retirement planning? Our discussions should highlight how pension payouts need to be structure for phased retirees and how phased retirees should plan for their income during and after their part-time employment.

### **Early Retirement Plans**

Over the years, a number of institutions have adopted early retirement plans in an effort to reduce the size of their faculty and reduce costs. These plans tend to offer

specific incentives to qualified faculty to retire within a specified time period. These plans are often linked to defined benefit plans in those public institutions that have these types of pension plans. Faculty are often treated as if they were older thus reducing early retirement penalties and they are often given credit for extra years of service to increase their annual retirement benefit. To take advantage of this offer, faculty must retire during the enrollment window. Such plans are often successful at attracting many older faculty to enroll in the early retirement plan. The more generous the plan is, the greater the number of faculty that will accept the offer.

Ehrenberg (2003a) presents results from the Survey of Changes in Faculty Retirement Policies showing that almost half of all reporting institutions had adopted at least one early retirement incentive program since 1995. The survey showed that among four-year institutions, private colleges and universities were more likely to have established these programs and that doctoral institutions were most likely to have offered early retirement plans to their faculty. Unfortunately, relatively few institutions seek to review and evaluate these plans after they have been completed.

Perhaps the most studied early retirement program in higher education was the one instituted by the University of California in the 1990s. This was a three-part program that generated a substantial increase in faculty retirements. Switkes (2001) and Pencavel (2001) provide statistical evidence on response to this early retirement plan and later in this conference, John Pencavel will provide a further discussion of the impact of early retirement plans on faculty retirement rates. We will also have discussion sessions led by John Shoven on the costs and benefits of early retirement plans, Robert Abramowitz on the legal constraints of adopting these plans.

Generous early retirement plans can induce many senior faculty members to retire; however, the costs of these programs should be carefully studied. If the objective is to permanently reduce faculty size, early retirement plans can be a cost effective method of achieving this result allowing faculty to self-select retirement rather than having the institution resort to layoffs. If however, the institution quickly replaces the retiring faculty, the university ends up paying higher retirement benefits and still must pay the salary of the new professor. In such cases, institutions may rather quickly regret their decision to offer early retirement plans. Kyle Cavanaugh describes how the University of Texas considered an early retirement plan for all employees and then decided to exclude faculty from the plan and offer early retirement only to its staff.

Key questions that need to be considered include:

- Should early retirement plans be used to address faculty aging or only when the objective is to reduce the total number of faculty?
- Should early retirement plans be targeted at faculty in their 50s and 60s only or should such plans also attempt to increase retirements among those past the traditional retirement ages?
- Yes, early retirement plans can induce retirements, but are they cost effective?
- How should institutions with defined contribution plans use early retirement plans?

## **HEALTH INSURANCE**

In the United States, most individuals between the ages of 22 and 65 are enrolled in employer-based health insurance plans provided by either their employer or that of

their spouse. However, there are millions of working Americans who do not have health insurance. Medicare provides broad-based health insurance to individuals aged 65 and over but older persons still face the prospect of substantial medical bills. Some companies extend their health care plans to retirees thus reducing out-of-pocket costs. Throughout the economy, employers have been reassessing their health insurance plans. In the face of rapidly rising costs, employers have been raising employee premiums to participants in company plans, increasing deductibles, and establishing higher co-payments. In addition, some organizations have been eliminating health plans as an employee benefit and many companies have terminated retiree health insurance plans. The health care system in the United States is a major focus of political debate and proposals for reform are being considered.

### **Health Insurance for Active Faculty**

In higher education, most full-time faculty are covered by health but many part-time faculty are not. Anderson (2002) examines data from the 1999 National Study of Postsecondary Faculty and reports that virtually all institutions provide health insurance to full-time active faculty. In contrast, only 36 percent of institutions offer health insurance coverage to part-time faculty.

Colleges and universities are not immune to the rising cost of health care. Medical insurance costs in academic institutions rose from 6.5 percent of the average faculty salary in 2001-02 to 7.3 percent of the average salary in 2002-2003. The one-year increase in the cost of health insurance added the equivalent of 0.8 percentage points to the increase in average faculty salary (Ehrenberg, 2003b). This higher cost to the institution do not indicate an increase in medical benefits but simply reflected the higher

cost of health insurance and medical cost inflation in general. In addition to the increased costs borne by the institution, faculty often had larger amounts deducted from their paychecks to pay for their portion of the insurance premium.

Quality medical insurance is one of the most important benefits that faculty receive. The promise of health insurance coverage helps institutions recruit and retain faculty. If medical inflation continues to be more rapid than the increase in the Consumer Price Index, how will colleges and universities cope with these added costs? Breakout sessions lead by John Palmer and Mark Pauly will examine these issues and Palmer, Michael Flusche, and Myra Johnson will provide a case study of how Syracuse University reexamined its health care plans.

### **Retiree Health Insurance**

After the passage of Medicare in 1965, many large companies and public employers adopted retiree health insurance plans. Medicare is the primary payer for retirees covered by employer-provided health insurance. Thus, the adoption of Medicare significantly reduced the cost of offering these plans. Economic research has shown that retiree health insurance provides an important inducement for early retirement to those younger than 65 and who are not yet eligible for Medicare.

Retiree health insurance is a disappearing benefit in the private sector. This decline began in the 1990s with the introduction of new accounting rules, the rapid increase in health care costs, and the increase in the ratio of retirees to workers in many companies (Clark, Ghent, and Headen, 1994). According to a survey by Mercer Human Resource Consulting, only 36 percent of companies with 500 or more workers provided retiree health insurance to current workers in 2003. This was down from 50 percent in

1993 (Freudenheim, 2004). All indications are that this trend will continue.<sup>11</sup> In addition, those employers that continue to offer retiree health insurance are requiring greater worker contributions or are converting their plans to medical savings accounts that typically require worker contributions.

Educational institutions are also facing the rising cost of health insurance for their retirees. How will they respond? Sylvester Schieber presents findings from a new Watson Wyatt survey of colleges and universities and their retiree health plans. Many colleges and universities are engaged in revising and eliminating their plans. How will this affect retirement decisions of older faculty? John Rust examines the retirement decisions of faculty and how they are influenced by retiree health insurance. In breakout sessions, Kenneth and Linda Cool and Ronald Frisch lead discussion sessions on the costs of providing retiree health insurance and how new retiree health plans might emerge in the future.

This conference should provide important new information on the future of retiree health plans in higher education. Will retiree health insurance plans continue to exist? Will they be restructured into medical savings plans? If retiree health plans are maintained, how will institutions pay for them? If they are eliminated, will faculty delay retirement to even later ages?

### **ACADEMIC LABOR MARKET: CONTRACT FACULTY**

Each time a faculty member retires, an institution must decide whether it will hire a new full-time, tenure-track faculty member or fill the vacancy with a full-time contract instructor, post-doctoral fellow, or some time of part-time lecturer. This choice will be a



function of the current funding status of the institution and its longer range staffing plan. Recently there has been a trend toward greater reliance on part-time staffing choices and the use of non-tenure track faculty.

The AAUP (2004) reports that 44.5 percent of all faculty are now employed part-time and in total, non-tenure track positions account for more than 60 percent of all faculty appointments. Between 1998 and 2001, the number of part-time and full-time non-tenure track appointments grew by 35.5 percent. Benjamin (2002) finds that “the proportion of all faculty who teach part-time virtually doubled from 22 percent in 1970 to 43 percent in 1997.”

Once again it is useful to look at trends at specific institutions as well as the aggregate data. Shapiro (2002) reports that the ratio of full-time tenured and tenure-track faculty to total faculty in the California State University system typically averaged 70 to 75 percent until 1990. Under significant budgetary pressure, the California State system adopted a policy of not replacing most of the tenured faculty who left through retirement, resignation, and death. Instead, many “temporary” part-time instructors were hired. “The result of these actions and trends was that by 2001 the ratio of tenured and tenure-track to total faculty lines in the system had dropped to 52%” (Shapiro, 2002).

After reviewing the national trends, the AAUP concluded that “The proportion of faculty who are appointed each year to tenure-line positions is declining at an alarming rate” (AAUP, 2003). This conference begins with an examination of why colleges and universities are opting to replace retiring tenured faculty with shorter-term contract staff using a variety of different types of contracts. Key questions for discussion include:

- Whether this trend is temporary or can be expected to continue in the coming years?
- Should the academy be alarmed by the trend?
- Does a decline in the proportion of faculty who are tenure-track adversely affect the teaching and research missions of colleges and universities?
- Is the use of contract faculty driven by the financial realities of higher education?
- How is the recruitment of new tenure-track faculty related to the greater use of contract faculty?

These and other questions are addressed in papers written by Ronald Ehrenberg and Liang Zhang and Jennifer Ma and Paula Stephan. Breakout sessions lead by Jack Shuster and Ma and Stephan have been designed to enhance this discussion. Jerry Berberet will chair a discussion session that focuses on the different issues confronting liberal arts and comprehensive institutions while Ernst Benjamin and Deborah Bell will lead breakout groups that concentrate on the issues confronting colleges and universities whose faculty are unionized.

### **CHALLENGES AND OPPORTUNITIES**

Considerable challenges are confronting institutions of higher education as their faculties age, budgets stagnant, retirement rates are low, and employment costs are rising. In this climate, academic administrators must reconsider their personnel policies and engage in strategic planning. The primary objective of this conference is to provide the framework for a serious discussion of the primary challenges associated with changes that are occurring in the academic labor market and to identify solutions and

opportunities. The conference is a unique blend of the best academic research on these important issues and the ideas of national leaders of higher education. The interaction between us should advance our understanding of the problems and point toward a specific set of actions.

The conference is organized to promote discussion and participation by all persons. We hope that each of you will contribute by openly discussing the key constraints facing your institution, by sharing past policies and how they have succeeded or failed, and by sharing your plans for the future. I want to thank the TIAA-CREF Institute for providing this forum.

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Table 1. Age Structure of Full-time and Part Time Instructional Faculty and Staff in Degree-Granting Institutions

<b>AGE</b>	<b>1987</b>	<b>1992</b>	<b>1998</b>
Less than 30	1.6	1.5	1.6
30-34	8.4	6.6	5.7
35-39	14.7	12.7	10.7
40-44	16.8	17.0	14.6
45-49	18.8	18.6	17.3
50-54	15.1	18.0	18.7
55-59	12.1	12.7	16.1
60-64	12.7*	8.5	9.8
65 and older		4.5	5.5

\*This entry is for faculty aged 60 years and older.

Source: National Center for Education Statistics, *Digest of Education Statistics*, Washington: U.S. Department of Education, 2002. The data for 1987 was provided by Thomas Snyder of NCES..

**Table 2 - Age Distribution of Tenure Track Faculty in the UNC System: 1982-2000, selected years**

	<b>1982</b>	<b>1986</b>	<b>1990</b>	<b>1994</b>	<b>1998</b>	<b>2000</b>
<b>&lt;35</b>	15.2	10.7	8.1	6.3	5.7	5.9
<b>35-39</b>	20.2	18.0	14.5	12.1	10.5	10.2
<b>40-44</b>	18.4	20.5	19.4	18.0	15.6	14.2
<b>45-49</b>	14.9	17.2	20.4	20.1	19.3	18.7
<b>50-54</b>	13.7	13.4	15.0	18.9	20.2	20.3
<b>55-59</b>	10.0	11.4	12.2	13.2	16.7	17.9
<b>60-64</b>	7.1	6.9	7.5	8.5	8.7	9.1
<b>65-69</b>	0.5	1.9	2.8	2.8	2.9	3.1
<b>70+</b>	0.0	0.0	0.0	0.2	0.5	0.8
<b>N</b>	<b>6,796</b>	<b>7,094</b>	<b>7,533</b>	<b>7,849</b>	<b>7,906</b>	<b>7,848</b>

Source: Clark and Ghent (2004).



**Table 3. Type of Pension Plan Offered by Institutions of Higher Education**

	Pension Plan Type Offered				N
	Defined Benefit Only	Defined Contribution Only	Combina-tion Plan	Choice of Defined Benefit or Defined Contribution	
<b>Total</b>	15.3	41.1	7.6	35.9	603
<b>Public</b>	20.9	12.7	10.9	55.2	392
<b>Private</b>	5.1	93.0	1.4	0.5	215
<b>AAUP School Classification:</b>					
<b><u>4-year institutions:</u></b>					
Doctoral I	11.4	35.0	11.4	42.3	123
Masters	12.0	42.1	6.6	39.3	183
Baccalaureate	6.5	75.2	3.9	14.4	153
<b><u>2-year institutions:</u></b>					
w/ faculty ranks	15.5	8.5	7.0	69.0	71
w/o faculty ranks	46.8	11.7	11.7	29.9	77

Source: Ehrenberg (2003a), Table 2.

**Table 4. Percentage of Institutions That Had One or More Financial Incentive Programs Since 1995 to Encourage Faculty Members to Retire Prior to Age 70**

Institutional Category	Private	Public	Total
<b>I</b> (Doctoral)	60%	42%	46%
<b>IIA</b> (Masters)	42%	41%	41%
<b>IIB</b> (Baccalaureate)	45%	37%	43%
<b>III</b> (2 yr. w/ Faculty Ranks)	0%	67%	66%
<b>IV</b> (2 yr. w/o Faculty Ranks)	0%	44%	42%
Overall	46%	46%	46%
Source: Ehrenberg (2003), Table 5.			

Figure 1. Aging of the Tenure-Track Faculty of the University of North Carolina

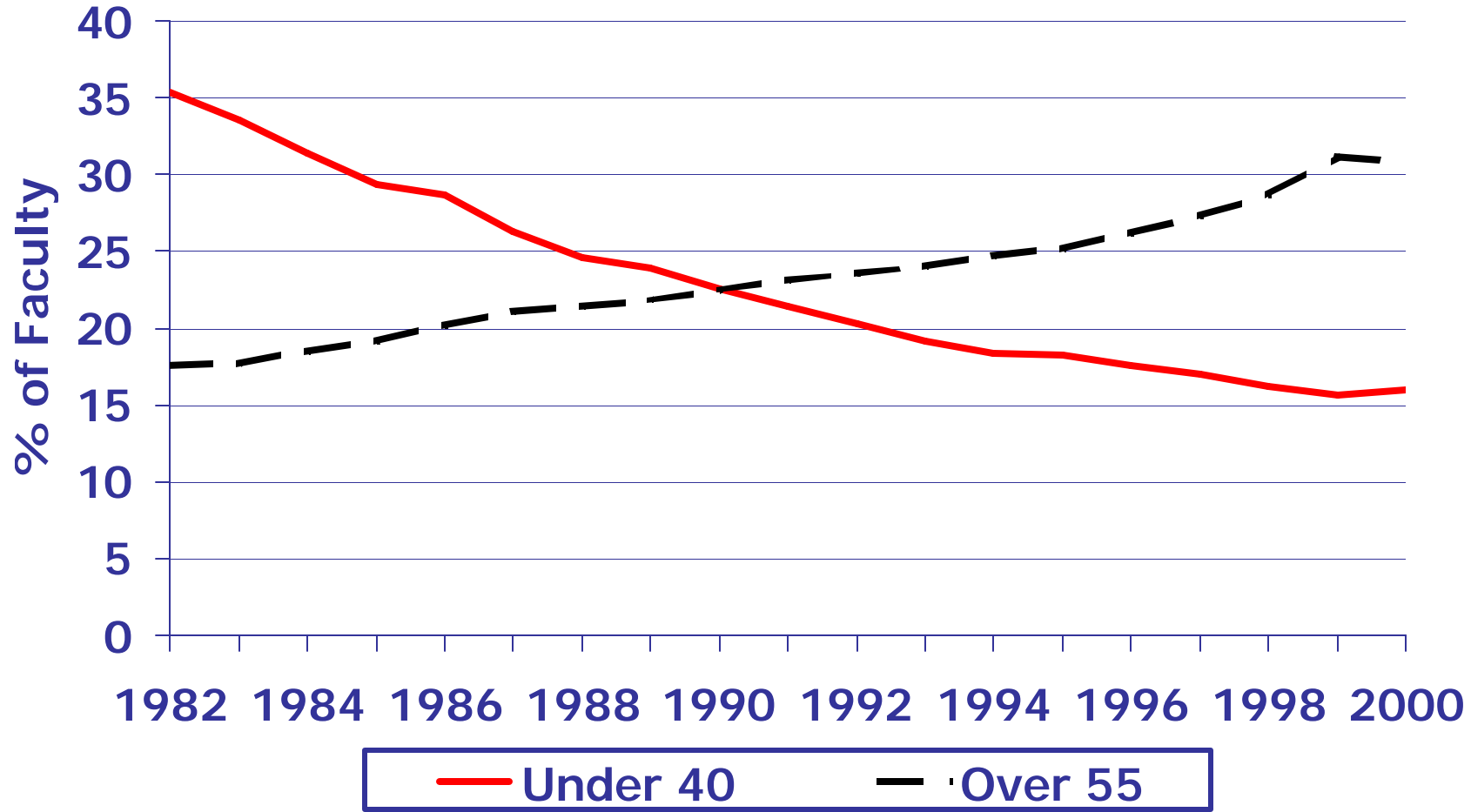
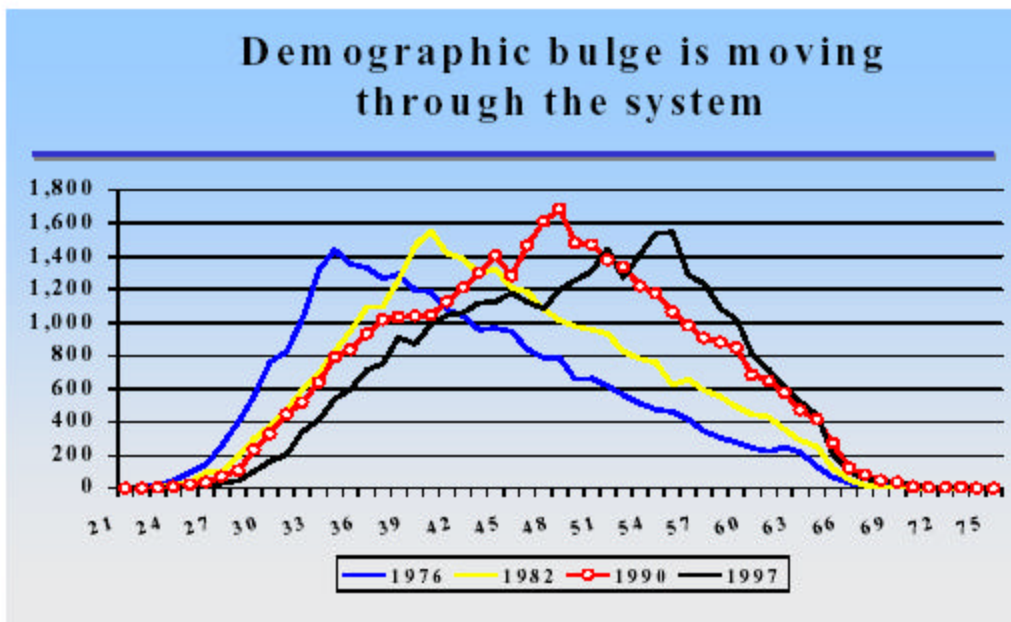


Figure 2. Age Structure of Canadian Faculty



Source: Robert J. Giroux, "Faculty Renewal : the numbers, the director," speech present at the Association of Universities and Colleges of Canada, October 6, 1999.

## ENDNOTES

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<sup>1</sup> Full-time, tenured and tenure-track faculty tend to be older than part-time and full-time, non-tenure track faculty. Anderson (2002) reports that the average age of full-time tenure-track faculty was 50 compared to 48 for part-time faculty and 46 for full-time, non-tenure track staff. Thus, data for only full-time tenure track faculty would indicate an even older professoriate.

<sup>2</sup> This research has been conducted in conjunction with Linda Ghent, Steven Allen, Ann McDermed, and Betsy Brown.

<sup>3</sup> Ehrenberg Matier, and Fountanella (2001) provide a useful description of these effects using Cornell as an example.

<sup>4</sup> A series of early studies (Hammond and Morgan, 1991; Holden and Hansen, 1989; and Rees and Smith, 1991) predicted that most faculty would continue to retire around traditional retirement ages; however, faculty at research institutions would tend to remain on the job longer now that they were not forced to retire.

<sup>5</sup> Of course, some younger faculty are terminated when they are denied tenure and others leave voluntarily for employment at other institutions.

<sup>6</sup> Ehrenberg, Matier, and Fontanella (2001) provides a thorough discussion of the impact of delayed retirement on annual hiring rates.

<sup>7</sup> However, only about half of the colleges and universities extend pension coverage to their part-time faculty (Anderson, 2002).

<sup>8</sup> The incentives inherent in most defined benefit plans are clearly illustrated in Kotlikoff and Wise (1989) and Quinn, Burkhauser, and Myers (1990).

<sup>9</sup> Clark, Ghent, and McDermed (2004) that 85 percent of all new hires age 45 years or younger by UNC between 1983 and 2000 selected a defined benefit plan instead of the state plan. Among faculty hired in 2000, 91 percent opted for the defined contribution plans.

<sup>10</sup> A survey by Watson Wyatt (1999) provides information on the incidence of phased retirement plans throughout the economy and finds that educational institutions are at the forefront of introducing phased retirement plans.

<sup>11</sup> A survey by Hewitt Associates found that in 2003, 10 percent of companies with retiree health plans were eliminating coverage for future retirees and 71 percent were increasing retirees' contributions for coverage. A separate Hewitt survey found that 57 percent of employers with 1,000 or more employees offered health insurance to Medicare eligible retirees, down from 80 percent in 1981 (*News and Observer*, 2004).