

# Pension Plan Fix-It Handbook

Employee Benefits Series

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## A New Normal for Normal Retirement Age

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Age 65 historically has been considered the age at which people retire in the United States. However, numerous surveys indicate that people now expect to work past age 65. Do their expectations meet reality?

This column will cover two topics: key points from various surveys illustrating worker expectations for working past age 65, and the implications for employers of a potential increase in the number of older workers and possible legal obstacles posed by phased retirement, from an employee benefit perspective.

### The Surveys Say

Workers are adjusting their expectations of retirement, according to the 13th Annual Transamerica Retirement Study.<sup>1</sup> The study notes that of the people surveyed:

- more than half (56 percent) plan to work past age 65 or do not plan to retire; and
- more than half (54 percent) plan to work after they retire.

Other surveys support the finding that workers of all ages plan to retire later<sup>2</sup> (see box on p. 2). In addition to

<sup>1</sup>Redefining Retirement: The New Retirement Readiness, <https://www.ta-retirement.com/resources/TCRS%2013th%20Annual%20Thematic%20Report%20Final%205-14-12.pdf>

<sup>2</sup>The 2012 Retirement Confidence Survey: Job Insecurity, Debt Weigh on Retirement Confidence, Savings, [http://www.ebri.org/pdf/surveys/rcs/2012/EBRI\\_IB\\_03-2012\\_No369\\_RCS.pdf](http://www.ebri.org/pdf/surveys/rcs/2012/EBRI_IB_03-2012_No369_RCS.pdf)

lack of savings for retirement, the reasons given for delayed retirement include the need to:

- retain health insurance;
- recoup investment losses;
- supplement available retirement income; and
- stay active and engaged.

Some survey respondents simply like to work.

However, even though workers say they expect to continue working past age 65, the surveys reveal that 65 still is a fairly typical retirement age. The need for health coverage<sup>3</sup> is often a key factor in working until retirement at age 65. While the age for receiving Social Security benefits has slowly risen above age 65 for certain workers, it remains the age for Medicare eligibility. A study by the Center for Retirement Research at Boston College says, “We do find that individuals whose health insurance coverage is most tied to their employment — namely people with no retiree health benefits — do seem to contribute to the age 65 peak [in applications for retirement].”

This disconnect between workers’ expectation of delayed retirement and actual retirement statistics can be seen in the box on p. 3. While more than 60 percent of workers indicate they are going to continue working after retirement, a much smaller percentage actually indicated they planned to continue to work for pay, but at a different job once they retired. Part of the disparity between expectations and reality likely can be attributed to unexpected medical conditions and job loss through downsizing.

Despite this disconnect, the potential for an increased number of older workers has prompted many employers into action. But the current legal and economic environment has hampered an employer’s ability to fully address benefit issues for the older worker.

<sup>3</sup>Sticky Ages: Why is Age 65 Still a Retirement Peak?, [http://crr.bc.edu/wp-content/uploads/2013/01/wp\\_2013-2.pdf](http://crr.bc.edu/wp-content/uploads/2013/01/wp_2013-2.pdf)

See *Retirement Age*, p. 2

**Employer Strategies for an Aging Workforce**

Employers are faced with an increasing number of Baby Boomers in the workplace as well as a declining entry-level workforce. Positive and negative stereotypes<sup>4</sup> regarding the older worker abound. Eventually, the Baby Boomers will retire, leaving employers to experience a “brain drain” of institutional knowledge and practical know-how. Many employers are addressing the issue by instituting flexible work arrangements, which include reduced hours, job sharing and the ability to work from home.

What can be done from an employee benefits perspective? As noted above, the need for income and health insurance were cited by many as the key drivers for expecting to remain in the workforce beyond age 65. So more employers are starting to look at plan design features such as phased retirement and health plan eligibility changes (primarily as a result of health reform).

**Retirement Benefits**

Phased retirement has been discussed for years in the retirement benefits world. Its definition varies, from job sharing and reduced hours to allowing workers to transition to a less demanding role.

A report<sup>5</sup> from a working group formed to study phased retirement was presented to the U.S. Secretary of Labor as early as 2000. It noted the following obstacles:

- **Plan design:** Defined benefit pension plans were often designed to encourage retirement at ages before an employee actually wanted to retire. Many employees would stay as long as necessary to maximize their benefit and then look for a job with another employer. *Editor’s note: Defined contribution*

<sup>4</sup>Employer Strategies for Responding to an Aging Workforce, [http://www.dol.gov/odep/pdf/NTAR\\_Employer\\_Strategies\\_Report.pdf](http://www.dol.gov/odep/pdf/NTAR_Employer_Strategies_Report.pdf)

<sup>5</sup>2000 Report of the Working Group on Phased Retirement, <http://www.dol.gov/ebsa/publications/phasedr1.htm>

plans are the predominant employer-sponsored retirement plan now and present a greater opportunity for phased retirement for workers over age 59½.

- **Loss of benefits:** Moving from full-time to part-time work jeopardized health coverage. *Editors’ note: As mentioned below, the implications of the Patient Protection and Affordable Care Act as it relates to benefits exchanges and the definition of full-time employee (average 30 hours per week) could mitigate this obstacle.*
- **Legal concerns:** For example, how do age discrimination laws affect phased retirement? *Editor’s note: The IRS proposed phased retirement regulations in 2004, and finalized one aspect in 2007 related to the ability to receive a defined benefit pension payment while still working, but legal concerns still exist.*

Perhaps to set an example for the private sector, the Moving Ahead for Progress in the 21st Century Act (known as MAP-21) included phased retirement provisions for federal workers. Phased retirement is voluntary and based on a combination of age and years of service.

Regardless, the private sector must deal with IRS regulations. In 2004, the agency issued proposed regulations dealing with phased retirement that left some unanswered questions. The Pension Protection Act of 2006 enabled plan sponsors to make DB pension payments available to active employees beyond age 62. Beyond that, in 2007, the IRS also issued final regulations defining normal retirement age, but more guidance is needed. As noted in an Autumn 2012 *Employee Relations Law Journal* article by Anne E. Moran on phased retirement “the law and particularly the qualified plan rules generally do not facilitate phased retirement due to numerous technical constraints and legal uncertainties.”

**Health Benefits**

Many employers are eliminating or curtailing retiree health benefits. The shared responsibility provisions of the Affordable Care Act have resulted in intense scrutiny by employers of health benefits offerings. Many employers are considering stringently monitoring the number of hours worked by certain hourly employees to limit or end their eligibility for coverage under the new definition of

Box 1 Expected Age at Retirement										
Expected Retirement Age	All Workers		Ages 25–34		Ages 35–44		Ages 45–54		Ages 55+	
	2002	2012	2002	2012	2002	2012	2002	2012	2002	2012
Less than 60	17%	8%	21%	15%	16%	5%	21%	10%	6%	1%
Ages 60–64	22	16	20	16	27	15	17	18	25	15
Age 65	29	26	33	27	30	29	28	22	23	23
Age 66 or older	18	37	17	34	14	35	21	34	26	44
Never retire	5	7	4	3	6	9	7	9	2	7
Don’t know/Refused	9	5	5	4	8	6	6	6	18	8

Source: 2012 Retirement Confidence Survey, Employee Benefit Research Institute and Mathew Greenwald & Associates.

See **Retirement Age**, p. 3

## Retirement Age (continued from p. 2)

full-time employee, one who averages 30 work hours per week. Will the nondiscrimination rules for insured plans (on hold at press time) affect an employer's ability to offer health benefits to employees who are deemed critical to a company's continued success but do not want to work full-time?

Will health insurance exchanges expected to be implemented in 2014 as part of health reform affect an employee's decision about when to leave the workforce? Or will income become the main reason for them to stay on? Time will tell.

### What Next for Employers?

Many employers are moving ahead with flexible work options that will accommodate an ever-changing and potentially older workforce. The ability to adjust benefits for older workers is hampered, in many cases, by existing regulatory guidance. Until further guidance is issued, employers should proceed slowly with phased retirement benefit changes and obtain the approval of counsel before implementing them.

### Finding out More

To learn more about plan participant vesting at normal retirement age, see ¶630 in the *Pension Plan Fix-It Handbook*.

### More Resources and Their Links


The 2012 Retirement Confidence Survey: Job Insecurity, Debt Weigh on Retirement

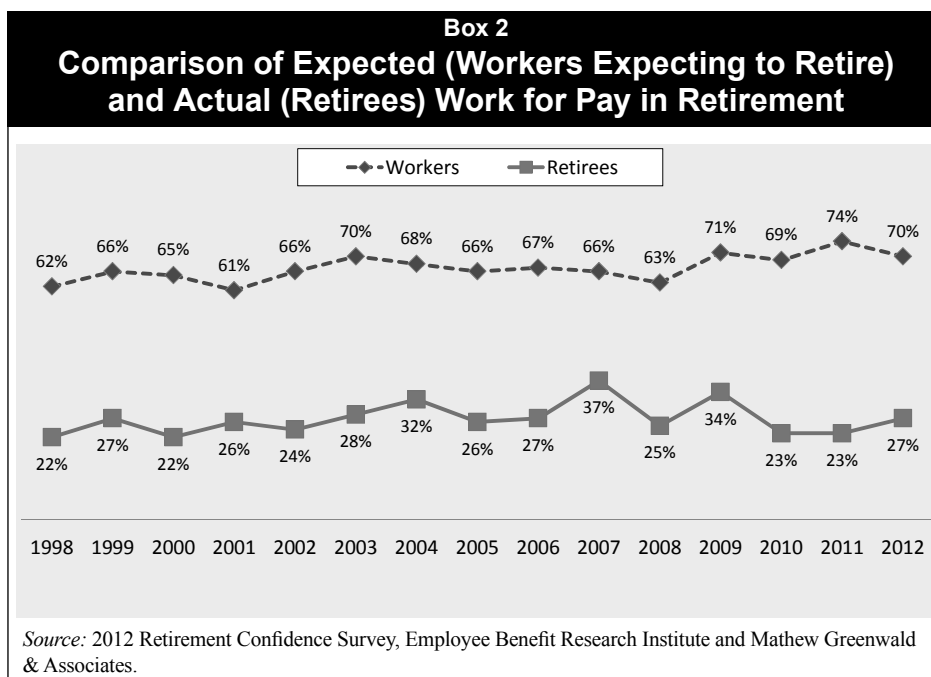
Confidence, Savings: [http://www.ebri.org/pdf/surveys/rcs/2012/EBRI\\_IB\\_03-2012\\_No369\\_RCS.pdf](http://www.ebri.org/pdf/surveys/rcs/2012/EBRI_IB_03-2012_No369_RCS.pdf).

Views on Health Coverage and Retirement: Findings from the 2012 Health Confidence Survey: [http://www.ebri.org/pdf/notespdf/EBRI\\_Notes\\_01\\_Jan-13\\_HCS-TxExps3.pdf](http://www.ebri.org/pdf/notespdf/EBRI_Notes_01_Jan-13_HCS-TxExps3.pdf).

Age Comparison Among Workers 2012 RCS Fact Sheet #4: <http://www.ebri.org/pdf/surveys/rcs/2012/fs-04-rcs-12-fs4-age.pdf>.

Changing Expectations About Retirement 2012 RCS Fact Sheet #2: <http://www.ebri.org/pdf/surveys/rcs/2012/fs-02-rcs-12-fs2-expect.pdf>.

Sticky Ages: Why is Age 65 Still a Retirement Peak?: [http://crr.bc.edu/wp-content/uploads/2013/01/wp\\_2013-2.pdf](http://crr.bc.edu/wp-content/uploads/2013/01/wp_2013-2.pdf). 



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