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THE PROVOST

April 6, 1993

To: Members of the Faculty of Arts and Sciences  
From: Judith Rodin *Judith Rodin*  
Re: The Enclosed Report of the Retirement Working Group

I enclose the report of the Retirement Working Group, headed by Professor Donald Crothers, which is based on the efforts of a number of faculty members and others who have since 1990 been working on various aspects of Yale's retirement policies, especially as they are affected by the end of mandatory retirement as of June 30, 1993. The Working Group met regularly during the fall and winter of this academic year, reevaluating earlier reports in the light of further thought and recent changes in legislation and drafting a series of specific proposals for consideration by a wider audience. I am very grateful for their hard work and that of the several committees which preceded them, including CORI, chaired by Professor Crothers, and CESOF, chaired by Professor Wolf.

After receiving a draft of this report we engaged the firm of Towers Perrin, a group very experienced in retirement plans, to analyze the cost implications of several of its proposals, and to provide a series of alternative options, where feasible. They are still working with us as we move toward a final plan. Subsequently we assembled an informal "focus group" of faculty and deans from the Faculty of Arts and Sciences and several of the professional schools to meet with the Working Group to discuss and further shape the proposals. Those discussions were helpful and resulted in several changes. At this point it is time for wider circulation and more extensive response to the report, so it is being sent to all members of the FAS ladder faculty. Because we are still thinking through all aspects of a final plan, your responses to any aspect of the report and suggestions for implementation of its proposals will be most welcome to this office as we begin to draft specific new policies.

Although some of the committees that worked on these retirement proposals included faculty from one or more of the professional schools, this report most directly addresses the Faculty of Arts and Sciences. It is our goal, however, to emerge with one set of University policies for retirement, even though differences in the nature of faculty appointments and responsibilities in the various professional schools will require special adaptations.

Thanks to the excellent and very thorough work that has already been done by the Working Group and its predecessor committees, some of these proposals could become policy and be put in place as early as July 1, 1993, and others soon afterwards. We are ready to work to this end and eager to receive your suggestions.

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**Members of the Working Group: Ann Ameling, William Brainard,  
Donald Crothers, John Goldin, Dorothy Robinson**

### **Retirement Working Group: Executive Summary**

The Retirement Working Group presents for consideration a comprehensive menu of proposals for modifying Yale faculty retirement policies and benefits. The recommended changes are in large part a response to the end of mandatory retirement for tenured faculty in July, 1993. They draw upon the work of several earlier faculty committees established to study these issues and make recommendations. We summarize here briefly the components:

**Early retirement.** With the objective of enabling faculty who wish to retire before age 70 to do so, while not generally enhancing retirement benefits for those who choose to retire later, we recommend a new early retirement subsidy benefit for tenured faculty. Eligibility would begin at age 62. The subsidy would be related to the increment in annuity income which an individual forgoes in retiring before the normal retirement age, which we propose be adjusted from 68 to 70. The benefit would also be conditioned by salary and years of service. For example, an individual with 35 years of service could receive a total benefit of up to one year's salary, but the amount could be less depending upon the size of his or her account balance and number of years until normal retirement age. Payments would be made over a period of up to three years.

**Planned retirement.** This proposed new program defines a set of incentives for tenured faculty age 59 or above who commit themselves in advance to a retirement date. Faculty who elect planned retirement would make a binding agreement to retire no later than a fixed date within the ensuing 3 years. In return, a participant could, with the agreement of the department chair and approval of the Provost, opt out of some normal responsibilities such as dissertation supervision and major departmental administrative positions. Participants whose agreed date of retirement would qualify them for the early retirement subsidy benefit would be permitted to begin to receive those proposed payments up to three years before the agreed retirement date.

**Phased retirement.** This plan would replace the current one-quarter time phased retirement plan for tenured faculty by a half time phased retirement appointment, with the same terms as planned retirement: availability of the plan would begin at age 59 or after, and it would have a maximum duration of 3 years. An individual who enters planned retirement would be permitted during the planned retirement interval to elect to convert from full time to a half time phased retirement appointment, terminating at the latest on the planned retirement date. Salary and retirement benefit contributions would be half those of a full time position, and health benefits would be the same as those for full time faculty. Payment of early retirement benefits for which the individual would qualify on full retirement may begin during phased retirement, up to three years before the date of full retirement. Alternatively, the faculty member could, upon entry into phased retirement, opt to receive one-half of the early retirement subsidy benefit to which he or she would have been entitled had immediate full retirement been elected.

We suggest that each of the three programs indicated above, if implemented, be reviewed after an initial period of five years.

**Completing retirement contributions.** We present a simplified plan to end University contributions to the retirement accounts of participants once they have been eligible for the Yale University Retirement Annuity Plan long enough so that they should be able to retire without loss in standard of living, assuming that they followed a standard TIAA/CREF contribution allocation. The plan incorporates a monitoring feature that tracks real investment returns for a full 35 year contribution cycle for a hypothetical individual covered by the plan. Years of service and annuity purchase rates are used to generalize the model to all covered individuals. A grandfather rule would honor the expectations of current faculty by continuing University contributions to all current faculty at least through age 70. In addition, all participants would be assured of eligibility for University contributions for a minimum of 20 years of employment. This proposal retains the spirit of the previously recommended policy, but eliminates much of its administrative complexity.

**Cash out of a portion of Yale University Retirement Annuity Account balance.** We recommend that Yale's policy be liberalized to permit individuals entering into planned, phased, or full retirement to cash out a portion of the resources in their Yale retirement accounts, subject to provisions requiring maintenance of a defined minimum level of pension benefits, and to plan carrier restrictions.

**Changing the contribution rate.** The Working Group has examined the performance of the contributory retirement plan, and has considered the consequences for plan performance of raising the normal retirement age by two years, from 68 to 70. We conclude that the contribution rate above the plan base can safely be reduced by 1/2% without compromising the plan's objective, namely to provide for retirement without loss in standard of living at the normal retirement age. To avoid an unfavorable impact of this recommendation on the majority of M&P personnel, whose average retirement age remains at about 65, we recommend that the contribution rate below the base be increased by 1/4%. The net effect of these changes should be annual savings of roughly \$330,000, according to the Benefits Office.

**Long term care insurance.** We recommend that Yale make available a long term care insurance program for its employees, in accordance with a proposal under consideration by the Department of Human Resources. Premiums would generally be paid by individuals who elect coverage, except that the Working Group recommends that the University purchase a basic plan covering all active tenured faculty. This coverage would provide minimal long term care insurance, and would also guarantee access for active tenured faculty to purchase long term care insurance at regular window intervals. However, this recommendation should not be construed to mean that we advise that all individuals purchase additional insurance as offered.

**Retiree health care.** The Working Group reviewed issues of access by retirees to the Infirmary and to specialty care providers in the Health Center. We suggest that access to the Infirmary for medical conditions appropriate to

brief stays should be available to retirees, assuming that administrative and cost obstacles can be overcome. However, we understand that the arrangement by which retirees see specialty providers outside the Health Center cannot feasibly be changed so as to provide these services at 17 Hillhouse Avenue.

**Quality of life issues for retirees.** We reproduce the text of a report of a subcommittee that investigated this question for the Working Group. We agree with most of their recommendations, and refer others to the Provost's office.

**Other recommendations.** We recommend the creation of a standing Retirement Working Group in the Provost's office, one of whose members is a retiree, who can take a pro-active role in implementation of policies benefiting retirees. We also recommend study of such long-term issues as a possible Yale retirement community, and a way to provide laboratory and office space for continued activity by retirees.

## 1. Introduction

The Retirement Working Group (REWOG) was charged by Provost Judith Rodin in October 1992 with developing workable options for implementing retirement policies based upon recommendations enunciated by earlier committees, particularly the 1990 Committee on Retirement Issues (CORI) and the 1991 and 1992 Committees on the Economic Status of the Faculty (CESOF). We call ourselves a working group as distinct from a committee because we see our primary role as facilitating the implementation rather than the formulation of policy.

We had our first meeting on October 20, 1992. We have had many detailed issues to deal with, including redesign of major parts of the CORI report recommendations because of changes in legal standards and a need to simplify administration of the plan. We present here an outline of a comprehensive retirement program for Yale faculty. Aspects of it affect other individuals who are covered by the TIAA/CREF contributory retirement plan.

We have followed the basic outlines of the CORI proposal in directing retirement incentives to those contemplating early retirement, whose retirement resources may not be sufficient for a secure retirement without supplement. We agree with the earlier report that it is sensible, given the end of mandatory retirement, to stop University contributions to the retirement plan when accumulations have grown so that they should be adequate to sustain a retiree's standard of living. We offer a simplified proposal for monitoring the performance of the retirement plan and stopping University contributions to retirement accounts when the basic objective of providing for a comfortable retirement should have been met. We present a program for planned and phased retirement for tenured faculty that should improve the existing phased retirement program and enable a graceful and gradual phase out of research and scholarly activities. Flexibility in partial annuity cash out at retirement is recommended again. The newly designed retirement program carries an upward revision of the "normal retirement age" for faculty to 70. This change in plan design, along with the performance of the plan over the past 35 year cycle.

together persuade us that the plan contribution rate on salary above the "plan base" can safely be reduced by 0.5%. To avoid an unfavorable impact of this change on the majority of Managerial and Professional employees, we recommend that the University contribution rate below the plan base be increased by 1/4%. Finally, we recommend that a long term care insurance plan be offered, and we make recommendations concerning a number of issues relating to retiree health care and other matters affecting the quality of life of retirees.

We are aware that the options we recommend will affect retirement decisions only marginally. Faculty who enjoy their work will want to continue it as long as the financial reward and professional satisfaction of another year's work outweigh the disadvantage of having to do all the things that a full time faculty member must. Two reasons argue against trying to influence this personal choice by large financial inducements. First, to do so would imply that we must get rid of our older colleagues at any price, when collectively they add great distinction to our faculty. Second, large expenditures to move retirement dates up by a few years cannot be accorded high priority in Yale's current financial circumstances. There will be an inevitable impact on young scholars who cannot be offered positions because there are no vacancies. We suspect that many of our faculty will weigh this factor in their personal decision on timing their retirement.

## 2. Early retirement

We have reviewed various plans that would help make early retirement financially feasible and provide an incentive to retire prior to the traditional or normal retirement age, including designs such as the proposal contained in the 1990 CORI report. While providing incentives and resources for early retirement, plans need to be consistent with the requirements of the federal Age Discrimination in Employment Act. We believe that a design can be crafted (albeit a novel one) that would target financial benefits in an appropriate age-related way, yet which would qualify under the federal ADEA as a subsidized early retirement benefit under a defined benefit plan and therefore would not be considered discriminatory under the act<sup>1</sup>.

Our plan targets a subsidy benefit to those who retire after age 61 and before normal retirement age. The subsidy would partially offset the reduction in annuity income an individual would forgo by retiring before the normal retirement age. As part of the introduction of this plan, we recommend readjustment of the "normal retirement age" for Yale faculty. That age for several years has been 68 for all retirees except participants in the University's phased retirement program, for whom the age has instead been 70. Consistent with the general expectations of faculty members, which we believe it is fair to say have moved over time to embrace age 70 as the expected age of retirement, **the "normal retirement age" of the Yale University Retirement Annuity Plan (YURAP) is proposed to be moved to age 70**

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<sup>1</sup>ADEA, Sec. 4(f)(1)(B)(ii).

As described in detail below, our plan extends payments of a percentage of salary for up to three years; the percentage of salary that is paid depends on years of service. For example, an individual with 35 years of service could receive up to a total of 100% of salary spread out over three years. However, the payments are in addition limited by the **subsidy limit**, which is related to the reduction in annuity income an individual experiences in retiring before the normal age. The subsidy limit declines to zero as normal retirement age is approached. To illustrate the **total benefit**, we show below the percent of salary that would be received by an individual who began at Yale at age 30, and for one who began at age 40:

First appointed at age 30			First appointed at age 40		
Years of service	Retirement age	benefit, % of salary	Years of service	Retirement age	benefit, % of salary
32	62	94%	22	62	74%
33	63	96%	23	63	76%
34	64	98%	24	64	78%
35	65	100%	25	65	80%
36	66	87%	26	66	82%
37	67	64%	27	67	64%
38	68	41%	28	68	41%
39	69	20%	29	69	20%
40	70	0%	30	70	0%

The subsidy limit depends on the ratio of YURAP accumulation to salary for an individual; the benefit illustrated assumes that both individuals had an accumulation ratio at retirement of at least six times salary. We advise individuals contemplating early retirement to consider carefully the "Financial constraints on retirement" discussed in section 5 below.

#### Detailed description of the plan

We recommend that a proposed **Early Retirement Subsidy Plan for Tenured Faculty** be made available beginning July 1, 1993, and that it have elements along the following lines:

1. The Plan would be available to members of the faculty with tenure who have served at Yale for 15 years or more and are age 62 or over at the time of retirement. (In the School of Medicine, the Plan would include professors in the clinical track with continuing appointments.)<sup>2</sup>
2. The Plan would pay a **subsidy benefit** to eligible individuals who retire early — that is, before attaining normal retirement as defined under the Yale University Retirement Annuity Plan, for all faculty participants. Participation in the new Early Retirement Subsidy Plan would be in exchange for the faculty member's relinquishment of his or her continued right to tenured employment. Accordingly (although this question is not

<sup>2</sup>The plan, for technical purposes, would be a "defined benefit plan", and would be exempt from special funding and various other requirements of the federal Employee Retirement Income Security Act of 1974 as a "top hat" plan because of the nature of the limited group to whom it would be available.

free from doubt under current IRS policy), we would argue that amounts received as payments under the plan would properly be treated as taxable only in the year of actual receipt, and not upon commencement of participation in the plan (as non-qualified deferred compensation).

3. The amount of the subsidy and manner of payment would be as follows:

**Salary, service and payment.** Following retirement, an amount equal to 20% of the participant's average academic year salary in his or her final three years of employment, plus 2/3% for each year of Yale service over 15, would be paid to him or her each year for up to 3 years, subject to the **subsidy limit** described below. For example, the annual benefit for an individual with 35 years of service would be 33% of salary. Payments would end in less than three years if the subsidy limit is reached earlier.

**Subsidy limit.** The subsidy is intended to replace a portion of the reduction in annuity resulting from early retirement. The reduction in annuity is calculated by comparing the annuity that could be purchased upon early retirement with that which could be purchased at normal retirement age, assuming a standard value of 4% for real investment growth. Specifically, total payments would be limited to an amount equal to one-half of the premium that would be required to purchase an annuity that would pay the difference between (a) the annuity that could be purchased<sup>3</sup> with the individual's account balance in the Yale University Retirement Annuity Plan upon his or her early retirement, and (b) the annuity that could be purchased with that account balance projected to normal retirement age, assuming a growth rate of 4%<sup>4</sup> (and no additional contributions). For purposes of the foregoing, in order to avoid providing excessive benefits to individuals who have achieved very large accumulations relative to salary, the portion of an individual's account balance, if any, in excess of six times his or her average salary for the three years preceding retirement, would not be taken into account in calculating the subsidy. An individual would not be required to begin to draw upon his or her retirement annuity in order to receive the early retirement subsidy benefit.

4. Individuals entering the Planned Retirement program (Section 3) would be able to elect to begin receiving their Early Retirement Subsidy benefit payments up to three years before their retirement date. This would have the advantage of allowing them to take a portion of the early retirement benefit, to the extent permitted by law, as a tax deferred addition to their retirement annuity accounts while they still have earned income. For purposes of determining the initial benefit amount to be paid, the accumulation at retirement would be calculated by projecting forward the accumulation balance at the time early retirement benefits begin, with a 4% growth rate, to the date of planned retirement. The average salary at the time early retirement benefit payments begin would

<sup>3</sup>For purpose of these calculations, current TIAA/CREF annuity rates based upon a 4% real investment return are used here as elsewhere in our report.

<sup>4</sup>The growth rate of 4% we believe reflects an appropriate estimate of real growth over time, and is consistent with subsequent sections of the report.



be used as a basis for determining that initial amount. Upon actual retirement, an adjustment would be made to conform the benefit payment with the normal calculation under the Early Retirement Subsidy Plan, incorporating a discounting correction at 4% annually for the receipt of payments in advance of actual retirement.

5. Individuals entering the newly structured Phased Retirement Program would be offered a choice between the benefit to which they would be entitled under 4 as participants in planned retirement, or they could elect one-half of the benefit, if any, that they would receive under the Early Retirement Subsidy Plan for Tenured Faculty if they fully retired at the time of entering phased retirement. To the extent permitted by law, all or part of the benefit may be taken as an addition to these participant's tax-deferred retirement annuity accounts.

#### **Illustrations of the benefit**

The total benefit to be paid will be limited by either the subsidy limit, or by the amount to be paid yearly, which in turn depends on salary and years of service. The following examples, which can be located in Tables 1 and 2, show how the early retirement subsidy benefit would in general be calculated:

Consider an individual who wishes to retire at age 62 and whose account balance at that time is \$600,000. Assume also that the individual's salary is \$100,000 and that he or she has 25 years of service at Yale. The total early retirement benefit would be the **smaller of the subsidy limit** (\$208,704, Table 1, bottom line), and the **maximum benefit** based on years of service, (\$80,000 for 25 years of service and a \$100,000 salary, Table 2). Hence the total benefit would be \$80,000, paid over three years in annual amounts of \$26,667. If another individual with 25 years of service retired at age 68, the subsidy limit (\$44,516) would be the smaller of the two, and the total benefit would be \$44,516. The first year benefit would be \$26,667, and the second and final year benefit would be \$17,849.

Table 1 summarizes how the subsidy limit is calculated. The current account balance (line 1 in the Table), up to 6 times salary, is projected to normal retirement age, with the account balance grown at 4% per year until age 70 (line 2 in the Table). The annuity purchase rates at current age (line 3) and at age 70 (line 4) are then used to calculate the annual annuity that could be purchased now (line 5) or at age 70 (line 6). The difference between these two (line 7) is used to calculate the additional accumulation (line 8) that would be needed to increase the annuity to the value at age 70. The last line is half of the calculated additional accumulation.

In summary, our proposal is in keeping with the conclusions of the 1991 National Research Council study ("Ending mandatory retirement for Tenured Faculty -- The Consequences for Higher Education"), which states that

"retirement incentive programs are clearly an important tool for increasing turnover and one that must be considered by any college or university concerned about the effects of retirement."

#### **Costs and savings from the early retirement program.**

Early retirement in principle allows the University to increase the relative number of junior faculty compared to senior faculty, thus providing significant savings. If, for example, half of the slots released by early retirement are occupied at the junior and half at the senior level for five years, the net savings per individual who elects early retirement would be about 125% of the average full professorial salary. (The calculation assumes that the alternative to early retirement is continued occupancy of the slots at the senior level for the five year interval.) This figure exceeds the maximum salary percentage offered for early retirement to an individual with 40 years of service, which would be 110%. We conclude that discipline in the use of the released slots should enable the early retirement program to pay for itself.

### **3. Planned retirement**

In some departments there may be considerable advantage for planning purposes in knowing in advance the retirement date of individual faculty. Examples include planning for coverage of specific sub-disciplines, and knowing in advance the availability of research space in the laboratory sciences. **We therefore recommend a program of planned retirement for tenured faculty that:**

1. is available beginning at age 59, without upper age limit;
2. calls on an individual faculty member who so elects to set a binding date for full retirement within 1 to 3 years (retirement must be on or before the date fixed);
3. allows individuals to elect to start their annuities and to cash out a portion of their retirement accumulation on the terms described in section 5;
4. allows orderly reduction in certain responsibilities, particularly those such as dissertation supervision and major departmental administrative responsibilities which require multi-year commitments, as mutually agreed by the faculty member and the departmental chair, and approved by the Provost. (These arrangements should take due regard for the potential burden on other faculty, especially in small departments; it is not the intent of this plan to offer reduced classroom teaching responsibilities to individuals on planned retirement.)
5. allows individual faculty members who plan early retirement to begin receiving any early retirement subsidy to which they are entitled up to three years before retirement. The benefit is calculated as described in section 2.4.

#### 4. Phased retirement

The Working Group believes that it is desirable to continue and enhance the existing phased retirement plan, which provides an opportunity to reduce teaching and other responsibilities as the faculty member approaches retirement. Faculty face a number of potential long-term responsibilities that complicate the pre-retirement transition phase. Examples include dissertation supervision and orderly phase-out of externally supported research projects. Some faculty may prefer to undertake these activities on a part-time basis. Accordingly, we recommend that the university's phased retirement plan be improved to reflect the following features, and that it be made available to tenured faculty in FAS, and to those in the Professional Schools as designated by their respective Deans and the Provost:

1. Phased retirement is viewed as part of planned retirement. Accordingly, phased retirement can begin at age 59 or beyond, and can continue for a maximum of 3 years. (A longer phased retirement appointment may be appropriate in the School of Medicine in order to make phased retirement positions co-terminal with the grant that supports the individual's salary.) A full-time planned retirement appointment may be converted to phased retirement during the planned retirement interval.
2. During the phased retirement interval, the individual's appointment is half-time, and he or she draws half of normal salary. (Variable percentages of phased retirement should be allowed in the School of Medicine, according to the resources available from the corresponding research grants.) A phased retirement appointment could begin in the year immediately following the decision to enter planned retirement. For example, a faculty member could in June of this year agree to planned retirement at the end of June the following year, and spend his or her last year in a half-time phased retirement appointment.
3. University TIAA/CREF retirement contributions for individuals on a half-time phased retirement appointment are half the amount contributed on full salary. (Appointments with a different percentage in the School of Medicine would be scaled accordingly.)
4. Health benefits are those provided to full time faculty.
5. Faculty on phased retirement can elect one of two options for any Early Retirement Subsidy Plan benefit (see Section 2) that might be available to them: either (a) half the value which he or she would receive had full retirement been elected at the time of entering phased retirement, or (b) the full benefit available under planned retirement, using the final retirement date for calculating the benefit as described in section 2.4.
6. A faculty member on half time phased retirement may accept outside support for up to the remaining 50% of full salary, subject to the policies

of his or her School that may require the use of external funding to support a portion of regular salary.

7. Any outside academic activities undertaken must acknowledge Yale as the primary academic appointment. A phased retirement appointment cannot be combined with either a full time or tenured part time appointment at another university.

8. A faculty member on phased retirement retains the full voting privileges of a regular faculty member.

9. It is understood that space occupied by the faculty member, particularly in the laboratory sciences, must be reduced, in an orderly manner as agreed to by the department chair, to about half or less of the amount occupied when the individual was full time.

10. No triennial leaves are permitted under phased retirement.

Individuals who are currently on phased retirement would normally continue under the existing plan.

## 5. Completing retirement contributions

### Introduction

The working group takes the view that continuation of University contributions to individual university retirement plan accounts should not be open ended. Our reasons are those discussed in detail in the 1990 report of the Committee on Retirement Issues (CORI): the purpose of these contributions is to provide for a comfortable retirement. Their continuation after that objective is achieved is not a justifiable part of the retirement plan.

**The CORI plan.** The 1990 CORI report outlined a mechanism for ending University contributions to retirement accounts that was based on estimating how much each individual would have accumulated, in relation to current salary, had he or she followed a standard investment plan (defined as half TIAA and half CREF). The objective of the plan was expressed in terms of a "targeted replacement ratio". This target increased with years of service, reaching an income replacement ratio after 30 years of service that should enable retirement without loss in standard of living. As envisioned in the CORI proposal, the actual investment performance of an individual's standard plan balance would have been monitored until the targeted replacement ratio could have been provided by the sum of social security and annuity income available upon immediate retirement. At this point University contributions to that person's account would have ceased. Should financial conditions have worsened so that calculated income replacement fell below the target, contributions would have resumed.

Although the CORI report acknowledged administrative complexities in tracking estimated accumulation values for all individuals, the committee did not view the difficulties as insurmountable. Subsequent investigation of the

plan by those who would be responsible for its operation led to a more pessimistic view of its workability, and no action was taken. We achieve simplicity in the revised plan by tying the end of University contributions to the number of years of service under plan eligibility, taking due regard of the annuity an individual could purchase upon immediate retirement. The plan is consistent with the view expressed in the National Research Council study, which favors limitations on defined contribution plans. The study further advocates the elimination of legal uncertainty surrounding the design of capping methods, and states:

"The committee recommends that Congress, the Internal Revenue Service, and the Equal Employment Opportunity Commission adopt policies allowing employers to limit contributions to defined contribution plans on the basis of estimated level of pension income."

The University should seek to obtain a ruling from the IRS or an outside legal opinion as to the permissibility of the proposed plan.

#### **Description of the revised plan**

In addressing this problem the Working Group has sought to devise a plan that retains the best features of the CORI proposal yet is simple to administer. We consider it essential that the effectiveness of the plan and the appropriate time for limiting University contributions be judged by actual investment performance over a full career cycle of contributions. This feature protects faculty and enrolled staff by allowing the University to err on the generous side in setting the contribution rate, with the understanding that savings can be realized by ending contributions once the basic retirement objective has been met.

Relating the performance of the plan to real investment results is achieved by use of a "monitoring model", by which we track real investment experience of a "hypothetical individual" over a typical career and salary path. We calculate the ratio of retirement income (annuity plus social security) to pre-retirement income (the income replacement ratio) produced by 35 years of participation in the plan at normal retirement age of 70 for this individual. This result is then used to calculate the value in terms of income replacement ratio of each year of contributions plus corresponding social security. The valuation is used to generalize the calculation to other individuals covered by the plan, thus removing the necessity inherent in the CORI plan for tracking salary histories for all individuals.

**The monitoring model.** In our proposal, plan performance is monitored by tracking retrospectively the career of a hypothetical individual who began service in the year after reaching age 35 (at which point the plan makes full contributory participation available to all faculty and eligible staff). A standardized salary history is assumed for the individual, and it is further assumed that University and individual contributions were evenly divided between UAA and CREF. The income replacement ratio resulting from the retirement annuity and a standardized social security component is evaluated for the hypothetical individual at the normal retirement age of 70. According to

the design objective of the plan, that person should be able to retire at 70 without loss of standard of living.

The provision for ending University contributions corrects for the inevitable uncertainties in prospective plan design by allowing contributions to continue as long as the targeted replacement ratio is not yet achieved, or to end them younger than normal retirement age if the targeted ratio is reached earlier. Each year the calculation is repeated for a new hypothetical individual, now at the normal retirement age of 70, who has completed 35 years of service.

**Generalizing the model by years of service.** The results of the model calculation are generalized to all who are covered by the plan using criteria based on years of service. It is assumed that the **targeted replacement ratio** for an employee rises with years of service, reaching the maximum value after 30 years. At the same time, each employee accumulates one **contribution unit** for each year of employment after age 35. In addition, the number of contribution units jumps at the age at which government policy makes nearly maximal social security benefits available. This feature reflects cumulative university contributions to social security for the employee.

**Relating contribution units to replacement ratio.** The assumed value of one contribution unit is determined by the investment experience of the hypothetical individual who has reached normal retirement age after 35 years of service. These values are expressed as a percentage of salary. For example, 35 years of service plus a jump of 8 at age 65 for the sharp increase in maximum social security benefits yields a contribution unit total of 43. If the hypothetical individual's income replacement ratio is 70% (from annuity and social security) at normal retirement age, then each contribution unit is valued at 70% divided by 43, or about 1.6% of salary.

For other individuals in the plan, the salary percentage value of a contribution unit is adjusted using the actuarial factors in the TIAA/CREF annuity plan. This is because a fixed dollar amount buys annuity income that increases with age of purchase. Hence, in the example above a contribution unit is less valuable than 1.6% of salary for individuals under 70, and more valuable than 1.6% for those over 70.

**Ending University contributions.** Under our proposal University contributions to an individual's retirement account would end when the product of his or her contribution units times their value exceeds the targeted replacement ratio for that person. For heightened assurance that the retirement objective has actually been met when University contributions end, we recommend that they stop only after the formula has called for it in two successive years. Specifically, the calculation should be carried out at the end of each calendar year. If ending contributions for a particular employee is called for in two successive years, then University contributions should stop the following July 1. Hence, all individuals will receive contributions for at least a year and a half, and up to two and a half years longer than would be the case had contributions stopped immediately upon the first signal.

**Provision for restarting University contributions.** Should market conditions worsen so that at two successive year ends the product of contribution years times their value is less than the targeted replacement ratio for an individual whose University contributions had been stopped, then contributions should be restarted on the following July 1, assuming continued employment. For purposes of this calculation, the individual should be credited with half a contribution unit for each year after the end of University contributions, to reflect the receipt of TIAA investment yield.

Table 3 illustrates the signal for ending University retirement contributions as of December 1991. An asterisk indicates combinations of years of service and annuity purchase rates that call for stopping retirement contributions for individuals in that category, using the values of the plan parameters proposed in the following paragraphs. The vertical and horizontal lines separate zones protected by the "safeguards" discussed below.

#### **Proposed values of the parameters in the plan**

Our plan follows closely that recommended in the 1990 CORI report, while at the same time acknowledging the concerns about inflationary erosion of pension values expressed in the subsequent CESOF reports on this subject. **We recommend that annuity values be calculated using the graded option for the TIAA portion.** This, along with the assumption of 50% CREF in the model, provides the maximum inflation protection currently available to our retirees in annuity selection.

To accompany this change **we recommend that the maximum targeted income replacement ratio (IRR) be set at 70%.** This number, while smaller than the 80% IRR recommended by the 1990 CORI report, is within the range of values recommended by the National Research Council 1991 study ("Ending Mandatory Retirement for Tenured Faculty"), and is consistent with recommendations by the 1980 CESOF. The 1990 CORI report discussed in some detail the difference between the replacement ratios IRR (for pretax income), NRR (disposable income) and CRR (consumption). Table 4 illustrates the comparison of IRR and NRR for an individual with a "typical" pre-retirement salary of \$88,666. With a 70% IRR at retirement at age 70, this person has a total income from annuity and social security of \$62,066. However, NRR reflects "take-home pay" and is affected by retirement. No social security tax is paid, contributions to one's retirement annuity cease, and income taxes are reduced after retirement. The table shows the result for an individual who takes the standard deduction, and for whom half of social security benefits are taxable, according to current law. The ratio of post-retirement to pre-retirement take-home pay yields an NRR of 84%.

Whereas IRR and NRR are relatively simple to calculate, the CRR, or ratio of income available for consumption, depends on individual circumstances. In many "typical" cases the elimination of costs for travel to work and other work-related expenses, the completion of family educational expenses, and the completion of mortgage payments mean that an NRR of 84% is sufficient to yield a CRR of about 100%. In this case, around which the Yale contributory retirement plan is designed, a 70% IRR should be sufficient for

maintaining standard of living. Those who anticipate higher expenses in retirement should plan to set aside additional resources. Our analysis of the current status of the plan (Table 3) indicates that our hypothetical individual retiring with 35 years of service at age 70 has an IRR of 81%, substantially above the design objective of the plan.

The net result of the combined change to graded TIAA annuity and 70% IRR is to leave virtually unaltered from the CORI plan the ratio of TIAA/CREF accumulation to salary that is required before University retirement contributions are ended. This result is in part a consequence of the pattern of relative TIAA and CREF investment yields over the past 35 years. This subject is discussed further below under "Financial constraints on retirement" and "Investment choices."

We expect that faculty will differ in their choice of regular or graded TIAA annuities. As discussed in the 1990 CORI report, the graded option significantly reduces income at the beginning of retirement. Our choice of the graded option to calculate annuity income is designed to make evaluation of plan performance as conservative as possible in the face of faculty concern about future inflation; we make no recommendation on which option individuals should elect.

The model also requires a policy choice on the growth of targeted replacement ratio with years of service. We retain the CORI recommendation that the maximum be reached after 30 years of service. We recommend that the targeted replacement ratio rise by 1% per year, from 40% to 70% after 30 years of service. The reasons for this choice of starting value and rate of increase per year are described in the Technical Appendix, which also gives a more detailed description of the model and how the calculation is done.

### **Safeguards**

**"Grandfather" protection against loss of previously assumed benefits.** Many current employees may have assumed that they would continue to receive retirement contributions until the age of normal retirement (an age which has changed over the years, and for which in section 2 we proposed a change to age 70). To protect against loss of this assumed benefit we propose that all current faculty and staff be protected against stopping University retirement contributions through at least the academic year in which the normal retirement age of 70 is reached. The effect in Table 3 is to protect all current employees to the left of the vertical line against cessation of University contributions.

**Protection of minimum years of contributions.** Pension growth for individuals who join Yale later in their careers is less accurately described by the model, which assumes a full career spent here. We propose that a minimum of 20 years of service while eligible for the plan be required before application of the formula to end University contributions. The effect in Table 3 is to protect all employees above the horizontal line.



### Financial constraints on retirement

The Yale retirement annuity plan is based on a *defined contribution*, rather than a *defined benefit*. As a consequence, an individual's retirement income depends strongly on factors such as investment choices over a lifetime of contributions. Comparing two people, both the same age and with the same number of years of service, we might find that one could afford to retire and the other could not. As the 1991 and 1992 CESOF reports emphasized, it is vital that faculty take a realistic view of their retirement income, and how it will stand up against the seemingly inevitable erosion of inflation.

It is because of this need for candid assessment that we have chosen to present our retirement model in terms of a combination of graded TIAA and CREF annuities. While not inflation-proof, the conservative assumptions behind the pay-out of these annuities make it reasonably likely that income will rise in parallel with inflation. The consequence of this alteration in the model (partially included in the 1990 CORI report because of its use of half CREF for retirement accumulations and annuity) is to increase significantly the ratio of TIAA/CREF accumulation to salary that is required for a stable retirement income, compared to the value recommended in the 1986 CESOF (Mostow committee) report. Their recommended ratio of about 6 for retirement at age 68 should be compared with our revised values in Table 5.

Because of actuarial factors, the calculated accumulation ratio needed for a 70% income replacement ratio (IRR) varies with age, becoming substantially smaller as retirement age increases. Since there is a fixed but retirement age-dependent maximum social security payment, the necessary accumulation ratio also varies with age and salary, increasing as salary increases. Finally, the calculation depends on whether the objective is to take care of one individual, or of employee and spouse. Table 5 lists the estimated accumulation ratios needed to meet the objective of a 70% IRR, depending on the relevant factors.

Faculty and covered staff can use Table 5 to estimate whether they can afford to retire at their current age, assuming that they have no significant sources of income other than annuity and social security, and that they are concerned about the effects of inflation. For example, an individual age 70 who has less than 6 to 7 times salary accumulated in his or her retirement account probably can not afford to retire, at least not with any assurance that financial resources are likely to be sufficient for a long retirement without loss in standard of living. Individuals who anticipate that a 70% IRR will not be sufficient to maintain standard of living should make plans to achieve a higher accumulation ratio at retirement. Because accumulation ratios generally rise with time, and the ratio needed for a secure retirement declines with advancing age, each individual should find that a point is passed after which financial security is not the primary factor in a retirement decision. Individuals contemplating cashing out a portion of their retirement accumulations should give careful consideration to the need for retaining a sufficient balance to provide a stable and adequate retirement income.

We also take this opportunity to advise non-tenured faculty below the age of 35 to consider carefully the desirability of joining the TIAA-CREF plan. Dollars invested early in one's career grow enormously because of the long time scale for compounding of TIAA interest or CREF yields.

#### **Investment choices**

It is not our function to advise faculty and staff on investment choices. Nevertheless, the results we obtained upon tracking TIAA and CREF investment returns over the past 35 year contribution cycle show such a striking difference between the two options that we would be remiss in not noting the facts. Our hypothetical individual who invested 100% in CREF in this period would have an accumulation ratio of 9.6 times salary at age 70, whereas an investment of 100% in TIAA by a second person would have yielded a ratio of 5.5 times salary. The first of these would have a retirement annuity 75% greater (assuming the graded option for TIAA) than the second. It also turns out that the final accumulation ratio of 7.6 times salary (yielding 81% IRR) from a standard investment program of 50% TIAA and 50% CREF would be 63% CREF and 37% TIAA. While there is no necessary reason for history to repeat itself, and while we reiterate our lack of any mandate to give investment advice, perhaps we can be permitted to characterize those who continue to choose 100% TIAA over a full career cycle as deliberately contrarian, or possibly of such a mind as to prefer sailing upwind. CREF would appear from the historical record to be a particularly appropriate choice for individuals early in their careers.

#### **6. Cash out of a portion of retirement accumulations**

The 1990 CORI report recommended that individuals be allowed to cash out a minimum of one-third of the accumulation balance in their retirement accounts. Current TIAA/CREF regulations allow cash out of up to 10% of TIAA accumulations, and up to 100% of CREF totals. Yale allows 10% cash out of TIAA, but paradoxically allows none from CREF accounts. We continue to believe that increased flexibility in the use of retirement resources is appropriate. However, we are mindful of the counter argument that the University has an interest in avoiding unwise individual investment decisions that may leave a retiree or surviving spouse in serious financial difficulty. We are also aware of the large accumulations in some individual accounts, particularly in the School of Medicine, many of whose faculty have long advocated more lenient cash out rules.

We suggest a policy that has three components. First, as at present, all individuals should be allowed a small percentage of cash out, no matter what their accumulation. Second, further freedom to cash out accumulation balances should be provided only for the amount of the accumulation that exceeds that needed to achieve the design objective of the YURAP, namely a 70% income replacement ratio (IRR) at retirement. However, because the \$30,000 annual limit on contributions to tax-deferred plans makes it difficult for individuals with high salaries to achieve accumulation balances large enough to produce a 70% IRR, we suggest that they be allowed to take advantage of an alternative definition of adequate retirement income, which we

suggest could be the minimum annual salary paid to Yale full professors. Therefore we propose that an individual wishing to cash out a portion of YURAP accumulations be allowed to elect one of the following options, subject to applicable plan carrier restrictions:

1. An individual may cash out up to 10% of his or her assets in the plan, as at present, except that permission would be broadened to include CREF as well as TIAA assets.
2. An individual may cash out up to 100% of his or her assets in the plan above those required, together with social security, to produce an income replacement ratio of 70%. The graded TIAA and CREF payout assumptions should be used to calculate an individual's retirement income, as discussed in the previous section. Stable annuity assets from other sources can be considered in this calculation.
3. An individual may cash out up to 100% of his or her assets in the plan above those required, together with social security, to produce a retirement income equal to the minimum salary for Yale full professors. The graded TIAA and CREF options should be used to calculate retirement income. Stable annuity assets from other sources can be considered in this calculation.

Faculty members who have entered the planned and phased retirement programs should have the same options. In all cases, age at cash out should be used to determine annuity purchase rates.

Depending on experience, the University may decide in the future to make these policies more or less flexible.

### **7. Changing the contribution rate**

The 1990 CORI report reviewed the history of the University's annuity plan. Following upward adjustment in the early 1980's, the current contribution rates have been in place since 1989-90, at which time the contribution rate below the plan base (currently \$30,150) was increased by 0.5%, with a corresponding decrease above the base. Presently the University contributes 7.5% of salary below the base and 13% of salary above the base. The individual contributes 2.5% below and 5% above the base. For an individual making the average salary (as reported on the AAUP Faculty Salary Survey), the total contribution rate from both the individual and the University is about 14.4% of salary. For an average full professor, the total contribution rate is about 15.3% of salary.

Contribution rates to the Yale plan were designed around a normal retirement age of 68, as discussed in detail in the 1990 CORI report. Consistent with currently prevailing expectations of individuals, our proposals incorporate a revised normal retirement age of 70. The two additional years of delay before retirement have a large effect on plan performance. For example, Table 3, which is based on the hypothetical individual's real investment

experience over the past 35 years, shows that at age 68 after completing 33 years of service, the individual would have reached a replacement ratio of 74%. (The calculations of replacement ratio continue to use the assumption of a graded TIAA annuity.) This figure grows to 81% with just two more years of service. In addition, despite the impact of markedly lower contribution rates in the period from 1974 to 1982 the 81% replacement ratio actually achieved for the hypothetical individual at age 70 is substantially greater than the plan design of 70%.

A conservative projection (using a 2.5% excess of investment return over salary growth; see the 1990 CORI report) based on current contribution rates also emphasizes the importance of two additional years of participation. A faculty member who entered the plan at age 35 could retire 33 years later with a projected income replacement ratio of about 64%. Because of the compounding effect of prior contributions, the projection is very sensitive to the length of participation. A change in expected participation from 33 years to 35 years causes the projected income replacement ratio to increase from 64% to 73%. (The projected replacement ratios are smaller than those based on actual performance because the model is more conservative than actual investment performance over the past 35 years.)

Given the actual performance of the plan and the increase by two years in expected normal plan participation, **the Working Group recommends that the rate of University contribution above the plan base be reduced from 13% to 12.5%.** This would reduce the total contribution rate (including the individual component) for an average full professor from 15.3% to 15.0%. The proposed change would reduce the conservatively projected income replacement ratio after 35 years in the plan from 73% to 71%. **We stress that lowering the contribution rate lowers the replacement ratio by much less than the increase due to longer expected participation.**

Managerial and Professional (M&P) employees are also covered by the retirement plan. Since their average retirement age is substantially less than 70, the calculations we present for faculty do not apply to them. Disadvantage to a majority of M&Ps can be avoided by increasing the contribution rate below the plan base. Therefore **the Working Group recommends that the contribution rate below the plan base be increased by 1/4%.** The net effect of the combined changes above and below the base will be to give an increased total contribution to everyone earning less than about \$45,000 per year.

We recommend that the parameters in the plan be reviewed on a regular basis, at least every five years. However, downward adjustments in the contribution rate should be made slowly and only with evidence from actual results that the plan is strongly out-performing its basic design. It should be kept in mind that **timed ending of University contributions is a policy designed to allow preservation of a contribution rate that may err on the generous side.**

## 8. Long term care insurance

Recommendations for long term care insurance have been made over the past several years in the 1990 CORI report and in two consecutive CESOF

reports in 1991 and 1992, as well as by a number of senior faculty throughout the University. In the interim commercially available plans have been evaluated by the Benefits Office.

According to the Benefits Office study, only a few universities now offer long term care insurance programs. In all cases those insured pay their own premiums. Furthermore, premiums paid by individuals are not generally viewed as tax deductible. However, we were told that some major corporations do not report their payment of a portion of long term care premiums as taxable income for their employees, without challenge from the IRS to date. Coverage is expensive, especially when elected at older ages. Given the pressure on Yale finances, we cannot recommend that the University contribute major resources to this program, although we do call for selective programmatic subsidies.

Two major criteria by which long term care insurance plans are judged are cost and the extent to which access to the plan is guaranteed. These two features are not independent, since guaranteeing coverage to all employees means that poor insurance risks are included and costs necessarily go up. Plans are offered as "**guarantee issue**" and "**medically underwritten**." The former is the expensive option guaranteeing coverage to all, and the latter allows the insurance carrier to decline coverage to individuals deemed to be poor risks.

The medically underwritten plan requires that all applicants for insurance complete a brief questionnaire. According to the Benefits Office study, "Following receipt of such questionnaires, the company is likely to approve about 90% of the applicants and, upon examination of amplified further responses, is likely to approve another 5%". The remaining 5% presumably go without coverage, unless special provisions are made. Guarantee issue plan premiums are up to 30% higher for everyone than premiums in plans of the medically underwritten variety.

Table 6 illustrates premiums for the two kinds of coverage depending on the age at which payments begin. Protection for employee and a same-age spouse is approximately twice the cost of covering just the employee. Once begun, payments remain level for the same dollar coverage. Inflation protection options are available that increase benefits in exchange for increased premiums. Non forfeiture options under which benefit rights are vested even if premium payments are subsequently halted also add to the cost.

The selection of an appropriate carrier is a decision best left to the specialists in the Benefits Office. They have recommended UNUM on the basis of its "combination of dependability, ease of access, and price for value"; we see no reason to second guess this choice. One matter on which clarification would be welcome is the plans UNUM has to become "pre-certified". Plans offered by companies that have this feature have advantages with respect to the spend down of personal assets that is required before Medicaid benefits begin for long term care in certain states (including Connecticut). Specifically, the coverage provided by insurance allows equivalent assets to be protected from spend down. The effect is to protect assets in one's estate. Such protection adds, at higher ages substantially, to premium prices. If UNUM offers this option it will allow current participants to convert - at the higher prices.

The cost of long term care insurance is very high. The potential total benefit is a fixed amount elected by the employee. As is often the case with disaster insurance, in many instances an employee would receive benefits less than the amount he or she would derive from investing the funds instead of paying the premiums. However, many faculty members have indicated that the sense of security offered by long term care insurance is an important factor in their financial planning, and that the absence of a program might delay a decision to retire. In summary, we recommend that faculty and other Yale employees consider both long term care and possible alternatives. For example, some may prefer to move to a retirement facility that offers long term care as part of its overall program.

**The UNUM proposal offers a hybrid program that appears to be especially advantageous for Yale faculty who elect coverage.** A defined group, such as all tenured faculty (or all tenured FAS faculty if the Professional Schools do not participate), would be included in a special "minimum program" that would provide a basic long term care benefit of up to \$1000 per month for 2 years. In addition, all actively employed members of the group would be able to elect larger amounts of coverage at open enrollment periods, which would recur at 18 month to 2 year intervals. Hence, access to the plan would have features of guarantee issue, but the premiums would be those characteristic of the medically underwritten plan. We were quoted an average cost for the basic plan of \$56 per person per year, and we propose that Yale pay this benefit on behalf of its tenured faculty. Spouses would have to apply for coverage through the medically underwritten procedure.

**Therefore we recommend that the University offer its tenured faculty a long term care insurance plan with the following features:**

1. The plan should be based on a **minimum program for tenured faculty in all participating Schools**, along the lines of the UNUM proposal. The basic plan should be subsidized by the University. Additional elective coverage should be available at regular enrollment intervals. The corresponding premiums above the minimum plan should be paid by individuals, through deduction from salary if they so elect.
2. A menu of options should be offered in the plan, such as 6 year coverage versus unlimited term, and options for electing inflation protection, non forfeiture, etc.
3. The administration should be given latitude in selecting the plan carrier and the detailed options to be made available.

This set of recommendations should not be construed to mean that we necessarily advise individuals to purchase the offered insurance plan.

#### **9. Start-up features in the plan**

Our report recommends a number of changes in Yale retirement policies, some of which involve additional complexity in the transitional period. This

section lists some recommendations for the short term, including "window" benefits associated with starting up new aspects of the retirement plan. We also suggest timetables for implementation of policies recommended in previous sections. The numbering that follows corresponds to the earlier sections of the report.

**2. Early retirement.** This benefit should be made available to individuals who elect to retire on or after July 1, 1993. The benefit is viewed as ongoing, and requires no special phase-in. However, we recommend that this program (and the planned retirement program as well) be coupled to a special transitional benefit in the long term care insurance plan. Specifically, for those who elect both the Early Retirement Subsidy Benefit and the long term care insurance plan by July 1, 1993, the University should provide a benefit whose effect is to reduce ongoing long term care insurance premiums for those individuals to the level they would have been had the faculty member entered the long term care plan 5 years earlier. The cash benefit to the individual should be 150% of the premium required by the insurance company for that purpose.

**3. Planned retirement.** The planned retirement program should be made available to all qualified faculty who intend to retire after July 1, 1993. Those who elect the plan and the long term care insurance plan by September 30, 1993 should receive a benefit whose effect is to reduce subsequent long term care insurance premiums. Specifically, if the faculty member elects retirement  $n$  years from July 1, 1993, then the benefit should be to reduce the premiums to the level they would have been had the faculty member entered the plan  $5-n$  years ago. The cash benefit to the individual should be 150% of the premium required by the insurance company for that purpose.

**4. Phased retirement.** This plan should be introduced together with planned retirement. Those who enter the long term care program and also elect phased retirement by September 30, 1993, agreeing to full retirement within  $n$  years, should receive a benefit analogous to that provided to those on planned retirement. It should consist of 150% of the amount required to reduce long term care premiums to the level they would have been had the faculty member entered the plan  $5-n/2$  years ago.

**5. Cash out.** This provision should be instituted right away so that those who retire at the end of this academic year can take advantage of it.

**6. Completing retirement contributions.** We recommend that end-of-year data for 1992 be used for the first calculation. The second calculation should be done at the end of 1993. All of those who receive positive completion signals in these successive calculations, and who are not protected by the safeguards listed in Section 6, would have University retirement contributions ended as of July 1, 1994.

**7. Changing the contribution rate.** This change should be made effective as of July 1, 1993.

**8. Long term care insurance.** This program should be made available as soon as possible, and not later than July 1, 1993. For all faculty retiring July 1, 1993 (including those subject to mandatory retirement) who elect the long term care insurance program, the University should provide a special benefit whose effect is to reduce ongoing long term care insurance premiums for those individuals to the level they would have been had the faculty member entered the long term care plan 5 years earlier. The cash benefit to the individual should be 150% of the premium required by the insurance company for that purpose.

### **10. Retirement in the Professional Schools**

The Working Group examined separate plans under study by the Medical and Law Schools. The Law School plan offers a guarantee of half time appointment indefinitely for those who agree to retire at age 70 or before, whereas the plan we propose sets a 5-year limit on the planned retirement interval. Similarly, a proposed Medical School retirement incentive under review by the Dean's office is considerably more generous than the one we propose.

It is our general view that our proposal should serve as the base plan for the University. However, the Provost should not be prevented from allowing appropriate additional features in the Professional Schools should resources be available there. We had no objection to the Law School program, and agreed that a special Medical School "window" plan might make sense if viewed as a one-time initiative coupled to downsizing. However, we believe that repetition of such a plan would not be consistent with that focus, and that any expectation of repetition could even delay retirements.

### **11. Retiree health care**

Financial security through all phases of retirement is dependent upon the assurance of comprehensive medical benefits, including provisions for continuing preventative health care, care during times of acute illness, as well as care options for chronic illness and progressive disability. Yale currently provides excellent medical benefits for retired faculty. Retirees with 30 or more years of service may receive up to 100% of Yale's contribution for an employed individual and spouse in the Yale Health Plan to apply against the cost of health insurance. Depending on options chosen, coverage can include routine health care, hospitalization, major medical insurance, and a supplemental policy to cover gaps in Medicare. To augment this coverage, our earlier recommendations included establishing a voluntary insurance option for long term care at home, or in a nursing home. However, the premiums for this coverage, if started beyond retirement age, are too high to appeal to most retirees.

Our concern for health care benefits for retirees is motivated not only by loyalty to our retired colleagues and respect for their service to Yale, but also



by concern that retirement not seem forbidding to those contemplating it because of a sense of loss of health care privileges.

During the past year the issue of retiree health care benefits has been under active consideration by Acting President Lamar, with his group of Presidential Advisors, and Dr. Stephanie Spangler, Director of Health Services.

Two major problems were identified in the proceedings. One was the inability of retirees to get specialty care such as surgery and orthopedics in the Hillhouse Avenue facility. (Primary care services, for example internal medicine, urgent visits, and ob/gyn, continue to be available at the Health Center for retirees.) Having to arrange appointments and go outside for services is a new experience for many retirees who are used to the convenience of the Health Center. Furthermore, the Medicare bureaucracy can present a formidable face. On the other hand, University cost analysis procedures instituted in 1991 have identified a significant deficit, which we understand to be roughly \$400,000, in the budget for taking care of retired participants through the Yale Health Center, even though in principle the care of these individuals should be paid by Medicare.

While acknowledging that the complexities of the U.S. medical care system defy explanation in a single pithy paragraph, we nonetheless attempt here a clarification of the source of the problem of access to specialty services in the Health Center by retirees: *Primary care* providers at YHP are paid a salary by the Health Plan. Visits to primary services by retirees generate a paper trail by which YHP can bill Medicare directly (at considerable administrative cost to Yale), yielding revenue which (partly) offsets the incremental costs. Certain non-YHP physicians, on the other hand, serve as providers of *specialty care*. The Health Plan contracts with them for payment on a "capitation" basis. This is an efficient means of providing medical care in which reimbursement is determined by the size of the population of YHP members served. However, since Medicare patients are not members of YHP, visits by such patients must be charged directly to Medicare. The outside providers will generally agree to do this on a Medicare assignment, fee-for-service basis, only on their own premises where the billing and other accounting infrastructure is in place. As a consequence YHP must send these patients to the specialty providers, rather than bring the providers to the patients.

Provision of off-site specialty services has certain advantages for retirees, who are offered a greater choice of consultants and, frequently, shorter waits for appointments. Thus it seems to us that the issue is not *quality* of medical care for retirees, which no one involved would be willing to compromise, but rather a matter of adjustment to a new system, and, admittedly, of some perceived inconvenience.

Adjusting to a modified system upon retirement requires instruction on procedures. Dr. Spangler has addressed this problem by improving communication with Medicare participants through brochures, newsletters, and orientations. Furthermore, she and the University have committed to employing a Medicare Program Coordinator, whose duties include helping

retirees in identifying high quality consultants, making off-site appointments, and taking care of paperwork. The Working Group finds this a suitable solution to the specialty services problem, to be evaluated after an appropriate trial period.

The other problem was an even thornier one: Retirees have in recent time not been allowed to use the Inpatient Care Facility (the ICF or infirmary) at the Health Center. It is important to note that the ICF is not a Medicare-qualified skilled nursing facility, so Medicare reimbursement is not available for the associated costs. Even if the additional (very costly) features required for Medicare qualification were to be installed in the ICF, fewer than one-third of admissions would qualify for reimbursement. That is because Medicare pays only for *post-hospital* skilled nursing care and not for a typical infirmary visit. Furthermore, the facility is not licensed for stays of more than 28 days, and is unsuited for custodial care. Yet, as the ICF is a unique and popular facility, offering a friendlier and more familiar environment than either acute care hospitals or more traditional skilled nursing facilities, members of the working group met with Dr. Spangler to explore options.

From these discussions (and suggestions from Richard Silva) an apparent solution has emerged in which the cost of a limited number of infirmary days per year could be added to the Major Medical plan, for which Yale is self insured. This plan carries a deductible portion which retirees will have to pay if they use the ICF. They may have also to bear a small increase in the corresponding insurance rate. The incremental costs appear to be small, and we urge those responsible to follow up this promising direction. However, there clearly remains an issue in the allocation of costs between retirees who will want to use the ICF and those who will not, either because they were never members of the Health Plan or because they live elsewhere. We believe that access to the infirmary for medical conditions appropriate to brief stays should be available to retirees. Nevertheless, complex problems remain, and we must be understanding of both the need to control costs and the administrative difficulties faced by the Yale Health Plan.

## **12. Quality of life issues for retirees**

In addition to financial security, health care and long term care insurance, there are a number of other issues of importance to faculty who are retired or who are considering retirement. These include the continuing use of University facilities such as library and gymnasium, access to parking, offices and secretarial staff, the availability of laboratory space, as well as continued opportunities for teaching. Past committees have considered these matters without formal recommendations. In order to review these issues currently, Provost Rodin asked a small ad hoc group chaired by Professor Fred Robinson to advise the retirement working group on the quality of life issues in retirement. This group, composed of Professors Robinson, Harry Wasserman, William Kessen, Georges May, and Associate Provost Ann Ameling met in December to consider and propose solutions to quality of life concerns of retired faculty. Their report, "Some Positive Inducements Toward Retirement" was presented to our Working Group. It was discussed with the understanding

that a response to the report would be included in any final report to the Provost. In order to facilitate circulation of the report of the "quality of life" subcommittee, we reproduce its text here:

#### **Some Positive Inducements toward retirement**

We urge you not to be misled by our phrase "inducements toward retirement" into thinking that anyone is going to be induced to retire by such incidentals as free lunches in college or continued access to the library. A faculty member's decision when to retire will be based in most cases upon her or his sense of her/his financial security (or lack of it) after retirement. For this reason it is very important that your committee's plan for capping the university's contributions toward faculty pensions be presented in a positive way and characterized as the university's means of insuring that each retiree will have a comfortable retirement income and thus will not be driven by financial considerations to teach beyond normal retirement age. Some members of our committee also think that the University should rethink its position on offering faculty significant financial inducements to retire -- such as finding a way to index pensions for inflation. For some faculty members considering retirement (especially those in the sciences) our first recommendation below could be a major factor as well in decision-making on retirement.

Before proceeding to our list of recommendations, we wish to share with you some figures which Chuck Paul worked up for us indicating what portion of Yale Faculty have in the past chosen to remain in the New Haven area after retirement and what portion have left the area. The first of the two tables (the tables are provided in the Appendix) is derived from the payroll system and the second from the billing system. Both give only approximate estimates (the second table, for example, may include some widows and widowers of retired faculty), but they are suggestive: for 69 out of 254 emeriti on the first table and for 91 out of 331 on the second table inducements consisting of amenities made available on the Yale campus would be irrelevant. On the other hand, it is worth remembering that it is those who remain in New Haven whose impressions of retirement will most probably be heard by faculty considering whether to retire. Thus it is in the university's interest to help make local retirees' experience as positive as possible.

#### **Recommendations**

**I.** Some faculty will want to use retirement to start a new career, to write their memoirs, or to improve their golf and their gardens. We should try to convey to these people our sense that this is a proper and honorable conception of retirement. For other faculty members retirement means an opportunity to continue their professional careers only with less or no teaching. If retirement means that this group must terminate research activities, then they will be deterred from retiring. We suggest that the university should announce that each retiring faculty member who plans to remain fully engaged in research is entitled to negotiate with some

university representative over continued access to research facilities during retirement. For some this would mean no more than office space somewhere on campus or a carrel in the library. For scholars in the sciences who wish to acquire and administer outside grants, a more substantial support system would be needed, including reasonable laboratory facilities required to continue significant research, and the university will have to begin planning ahead to meet these needs where the case warrants it. We deliberately leave this recommendation in general flexible terms because the needs will vary from department to department and individual to individual.

2. Long-term health care is a major anxiety for faculty considering retirement. We recommend that the university address this anxiety, perhaps by making expert advice on this matter available to faculty.

3. We suggest that retiring faculty be given the option of remaining in their offices for up to one year after retirement.

4. Chairmen of departments should be reminded regularly that retired faculty who remain in the New Haven area should continue receiving the normal privileges of department members such as a mailbox in the department, invitations to all departmental lectures and social events, departmental news (e.g. announcements of new appointments), etc. Chairmen should continue to solicit information for the annual President's report from active retirees.

5. Masters of residential colleges should be reminded to extend to retired fellows the normal courtesies: college notices, invitations to fellows' meetings and social events, etc. The President of the university should make a blanket rule that fellows of colleges remain fellows after retiring. All retired faculty, not just emeritus fellows, should be entitled to free lunches in college.

6. The title "emeritus" should be made optional or replaced with some other title such as "research professor".

7. The Weekly Bulletin and Calendar and other news releases from the central administration should be sent to any retired faculty member who wishes to remain on the mailing list.

8. The President, the Provost, and the two Deans should consider rotating responsibility for hosting one reception per year for retired faculty who wish to attend.

9. We should consider allowing retired faculty who wish to do so to direct dissertations, master's theses, and even senior essays if the retirees will be regularly available for consultation. When allowed to direct dissertations, they should be named as co-directors with an active faculty member. Directing student work is not a burden that should be imposed on retired faculty but something they may do at their own request.

10. Retired faculty who are reading a paper or chairing a session at a scholarly conference in North America should be free to apply for the same subsidy towards travel expenses as active faculty receive. (In most departments this is something like a maximum of \$400 once per year.)

11. Continued full use of the Health Services Center for retired faculty and continued access to the dental plan for those who had been using it should be available.

12. Access to parking and to use of the gymnasium at reduced or no cost would be a pleasant perquisite for retired faculty.

13. The university might consider planning a Yale retirement community for faculty, one which would pay for itself but would not have a profit margin and would therefore be somewhat more within the reach of retired faculty than are existing centers. . .

14. The university should provide support (primarily a place to meet) for retirees who wish to establish an organization for retired faculty. Meeting for lunch and a presentation by one of their number on a regular basis would be one format.

15. Opportunities for retired faculty to teach at Yale seem to us to be adequately addressed in the 1992 Faculty Handbook.

December 3, 1992      Ann Ameling      William Kessen      Georges May  
                                  Fred Robinson      Harry Wasserman

The Working Group takes a positive attitude toward the subcommittee recommendations, and believes that many of them can be implemented right away. Our more detailed response and recommendations are given below to each of the committee points.

1. The subcommittee here addresses one of the most difficult issues the university faces: potential competition for limited space resources between retirees and active faculty. We believe that the university has no choice but to give priority to the legitimate needs of active faculty over those of retirees when resources are not adequate for both. Now that mandatory retirement is ending, faculty who are determined to continue with their research have the right to do so by continuing in active status. There are those who argue that older faculty should be "bought out" by the promise of post-retirement research space. Leaving aside the negative view this implies of the continuing contributions of our older colleagues, we see dangers in mortgaging the future. Newly hired faculty need room for their programs to grow, and the continued quality of Yale's academic effort is dependent on their success. This is not to say that no retired faculty should have research space; indeed, we believe that they should be accommodated when resources are adequate to do so. The matter needs to be considered on a case-by-case basis, with

critical input from those best informed about the situation. **We recommend that any binding provision of post-retirement research space must be agreed to by both the departmental chair and the Provost, and that binding commitments be limited in term, preferably to three years or less, but certainly to no longer than five years.** Renewal of these agreements should be judged in view of potentially competing needs of active faculty and other retirees. Those involved in reaching a decision should feel an obligation to make an effort to find appropriate space. Possible longer range solutions to this problem are discussed in Section 13.

2. The long term care proposal in our report deals with this issue for future retirees: the new Medicare Program Coordinator should help to bring expert advice to faculty, including retirees.

3. The option to remain in one's office for a year after retirement provides a dignified way to phase down professional activities. We urge that department chairs and others responsible do whatever they can to meet this request.

4. Continuation of normal departmental privileges for mailing, departmental invitations, etc., is an entirely reasonable request. Department chairs should be asked to act accordingly.

5. The Working Group did not understand why retired faculty should not be continued as emeritus fellows. However, our knowledge of this issue is limited, and we recommend that it be referred to the Council of Masters. The issue of free lunches should be discussed there as well.

6. It is a recent policy decision to extend automatically to all faculty the title of Emeritus Professor. Faculty should certainly be free to elect to decline the title. Perhaps more to the point would be a simple mechanism to confer another title that conveys a greater sense of current professional activity on those who want such a designation. We refer this matter to the Provost's office.

7. We recommend that all retired faculty who so elect remain on the university mailing list as recommended by the subcommittee.

8. There has been hesitancy to segregate retirees for social functions because it may seem demeaning. Certainly retirees should be mixed in with non-retired faculty at regular social occasions. A survey of retiree preference should precede action on this recommendation.

9. Retired faculty are a reservoir of knowledge which the university should find ways to tap. Supervising student work is one way. We believe that local autonomy should rule in this matter: the approval of Deans of Schools, presumably in consultation with their faculty, should be required for allowing the practice generally, and Departmental approval should be required for allowing the practice within each unit.

Deans should be asked to consider placing this item on their meeting agendas.

10. We support the subcommittee's request for travel subsidies. A total dollar limit on retiree travel may be necessary, and the program should not interfere with access to travel funds by non-retired faculty.

11. The issue of use of the Health Center by retirees was addressed in Section 11. We support access to the dental plan for retirees. No additional expense is involved since the plan is paid for by its subscribers.

12. We support continued access to university parking for retirees at the minimum rate. Free use of the gymnasium by retirees would be a gracious gesture by the university. The only reason to disallow this request would be cost, and our Working Group is not sufficiently well informed on that aspect. We refer the matter to the Provost's office.

13. The issue of a Yale retirement community has arisen before, but it has to our knowledge never had thorough study, at least not in recent years. We deal with this matter in the concluding section of our report.

14. Organizing meetings of retired faculty depends first on there being a sufficient number of them who are interested, and second on finding an individual who is willing to do the organizational work. We believe that this person should come from among the retirees. Certainly Yale should be able to find a venue for their meetings. The last section of our report suggests strategies that may facilitate self-organization by retiree groups.

15. We agree with the subcommittee.

Recommendations to treat retirees better are made with the best of intentions, but are all too easily forgotten. This may result because of a lack of an organizational structure that sees to it that action is taken. We address this issue in the final section of our report.

### 13. Long range recommendations

While recognizing our status as a Working Group, not a Committee to develop policy, we nevertheless use this opportunity to draw attention to one organizational matter, to the need for evaluation of our recommended retirement programs after a trial period, and to three directions for further study that we believe have merit.

**1. Proposal for a standing Retirement Working Group in the Provost's office.** We have not solved all of the problems associated with retirement policy. The Provost needs a continuing source of knowledgeable advice about how to implement general policy. Furthermore, programs dealing with quality of life for retirees need an advocate with access to those who can make decisions. We recommend a small standing Retirement Working Group, under the direction of a Deputy or Associate Provost, to

whom the Provost can refer problems. One member should be a retiree, who can elect to take a more pro-active role in following up on recommendations dealing with policy toward retirees.

**2. Review of the performance of the revised retirement options.** The newly designed early, planned and phased retirement options should be reviewed after a period of five years.

**3. Proposal for study of options for inflation-adjusted pensions.** Inflation protection of annuity income was a major concern of the 1991 and 1992 CESOF committee reports. Yale should continue to explore with annuity providers the possibility of an option that offers to protect annuity value against inflation or enhances the graded benefit currently available.

**4. Proposal for study of a possible Yale retirement community.** We have heard more than one mention of a Yale retirement community to serve the needs of our retirees, including recommendation 13 by the Robinson subcommittee. The first stage in investigating this problem would be to assess what alternatives are available on the commercial market, and what interest there might be among our retirees and faculty currently making plans for retirement.

**5. Developing ideas for long term availability of auxiliary research and office space.** A number of more senior scientists would likely give way to younger colleagues if they could find a way to continue their research programs. The general limiting factor is laboratory space, but it is clear that Yale cannot afford to build new laboratories to accommodate retirees. A possible way out of this dilemma is to rent or lease commercial laboratory space in something like Science Park, or perhaps in a new facility closer to the School of Medicine. However, getting such a center started using only retirees is not likely to be feasible or even desirable. Office space for retirees in other fields is also at a premium. These are problems that need creative long range thinking.