

Statement Submitted for the Record

by

HR POLICY ASSOCIATION AND AMERICAN BENEFITS COUNCIL

Before the

U.S. Senate Special Committee on Aging

Hearing on

**The Aging Workforce: What Does It Mean For Businesses
and the Economy**

FEBRUARY 28, 2007



MR. CHAIRMAN AND DISTINGUISHED MEMBERS OF THE COMMITTEE:

Thank you for this opportunity to present the views of the American Benefits Council and HR Policy Association regarding the aging workforce and its impact on businesses and the economy. We are very encouraged that you are turning your attention to this critical area. We would urge you to focus on the role that phased (or “flexible”) retirement programs can play in meeting the needs of both workers and employers, as well as in bolstering the economy and relieving burdens on government programs. Under current law, there are certain obstacles to the ability of employers to implement these “win-win” programs and, as the population ages, the disconnect between the law and the needs of the workplace will expand.

Because of the broad interest within our memberships, we have joined to form a Phased Retirement Initiative to seek changes in law and policies to remove these obstacles. HR Policy Association consists of chief human resource officers representing more than 250 of the largest corporations in the United States, collectively employing nearly 18 million employees worldwide. One of HR Policy’s principal missions is to ensure that laws and policies affecting employment relations are sound, practical, and responsive to the realities of the modern workplace. The American Benefits Council is a public policy organization representing principally Fortune 500 companies and other organizations that assist employers of all sizes in providing benefits to employees. Collectively, the Council’s members either sponsor directly or provide services to retirement and health plans that cover more than 100 million Americans. Both of our organizations are very eager to broaden this effort to include other organizations interested in the same goals.

Clearly, we are in a period where attitudes toward work and retirement are evolving. As life expectancies increase, fewer Americans see early retirement as an attractive option, and not just for financial reasons. Workers also seek the intellectual challenges and social interaction associated with work. Thus, more and more workers are restructuring their work and moving gradually into retirement. Meanwhile, from the employer’s perspective, older employees possess skills and institutional knowledge that are highly valued and often can help meet the companies’ pressing demand for workers. Thus, employers are interested in implementing phased retirement programs—more aptly labeled “flexible retirement” programs—that enable older employees, who might otherwise retire, to remain actively employed either on a part-time or full-time basis.

Indeed, the aging of the workforce will exacerbate a serious labor shortage in this country. With the unemployment rate in most states less than or equal to 5%, it is not surprising that a recent AARP survey of companies found that 74% were having difficulty finding and retaining qualified employees.¹ Meanwhile, demographic trends indicate that this labor shortage will become more acute as our population ages. Average life expectancies have increased from 66.7 and 73.2 years for men and women, respectively, in 1960 to 74.8 and 79.6 in 2005, with steady increases expected through the 21st century.² Coupled with a drop in the fertility rate from 3.61 in 1960 to 2.1 in 2005,³ there are fewer new workers to replace aging ones.

A partial solution to this problem can be found in the evolving attitudes of older workers. The 2004 Phased Retirement Survey conducted by Watson Wyatt Worldwide revealed that nearly two-thirds of surveyed workers between ages 50 and 70 would prefer to phase down from full-

time work to part-time work rather than leave the workforce completely.⁴ A recent survey by the Pew Research Center found that almost eight in 10 Americans say they will continue to work at least part-time after retirement from their traditional full-time employment. Indeed, 60% of workers in this survey said they would continue to work even if they had enough money to live comfortably for the rest of their lives.⁵ Thus, increasing numbers of older Americans are leaving the labor force gradually, utilizing “bridge jobs” between full-time career employment and complete withdrawal from the labor force.⁶

The good news for these workers is that they are still wanted. For many employers facing labor and skill shortages, retention of older workers avoids the costs of recruiting and training new employees, and preserves the institutional knowledge possessed by a company’s long-service employees.

Unfortunately, there are significant impediments to the shared goal of employers and employees for the employees to work longer. These impediments include:

- The inability of active employees to access early retirement subsidies under traditional defined benefit plans that encourage employees to leave the workforce between ages 55 and 62 and that generally phase out by the plan’s normal retirement age;
- The inability of active employees to take advantage of low interest rates that result in a greater lump sum payments at retirement under traditional defined benefit plans that permit lump sums; and
- The inability of employees under current law to work a reduced schedule while drawing benefits from their employer’s retirement plan in order to supplement their income.

The law generally precludes qualified retirement plans from making payments to current employees, effectively causing some older employees to retire completely in order to receive an early retirement subsidy, a large lump sum, or supplemental retirement income. Alternatively, they may go to work for another company while receiving retirement plan payments from their first employer. This type of movement is generally disruptive and unwanted for both employees and employers.

In November 2004, the Treasury Department sought to address this problem with proposed phased retirement regulations. The Treasury Department is certainly to be applauded for taking a step toward facilitating flexible retirement, but unfortunately the proposed regulations are too restrictive to be widely used. Among other problems, a minimum age of 59½ is required, precluding use by a significant group of potential workers seeking flexible retirement. The rule also establishes very rigid and administratively burdensome hour reduction rules that create a strong disincentive for employers to implement a program. Moreover, these rules fail to address a form of flexible retirement where the employee continues to work full-time but with fewer responsibilities. Finally, very importantly, the rules leave unaddressed a major component of the flexible retirement area: the need to prevent valued employees from terminating employment to obtain an early retirement subsidy or a large lump sum (attributable to low interest rates).

Section 905 of the Pension Protection Act⁷ enables employers to permit active employees to begin receiving retirement benefits starting at age 62 under tax and benefits laws. A recent

notice from the IRS indicates, however, that the IRS may well issue rules that dramatically reduce the attractiveness of this option. Moreover, as noted above, many employees seek flexible retirement prior to age 62, so as to take advantage of early retirement subsidies starting earlier. Thus, the provision leaves much of the flexible retirement need unaddressed and would not stop the “brain drain” due to older employees leaving to take advantage of early retirement subsidies.

Meanwhile, we would underscore that flexible retirement is not just a problem under defined benefit plans. In the case of a 401(k) or 403(b) plan, if the employee wishing to phase down is under 59½, the law does not permit withdrawals of the employee’s own pre-tax contributions in the absence of a hardship (such as a medical expense, a home purchase, or college tuition). For participants in a 457(b) plan, the approach would be even less effective because the prohibition on withdrawals by current employees, other than in hardship cases, applies to all plan benefits and continues until age 70½.

We strongly encourage this Committee to take a very close look at these and other obstacles to the implementation of flexible retirement programs. However, we would also urge you to be very careful in shaping policy changes so that these programs provide maximum flexibility to employers and employees and remain attractive to both interests. As we have seen from employers’ reaction to the 2004 proposed regulation, the imposition of too many restrictions and hurdles will simply reduce the likelihood of employers utilizing flexible retirement programs under the rules, so that the new rules will have little or no effect. If Congress is going to tackle this issue, we know that you want to do it in a way that is productive and facilitates the growth of flexible retirement programs.

We are very eager to join you in this effort and thank you for allowing us an opportunity to express our views.

¹ “Business Executives’ Attitudes Toward the Aging Workforce: Aware But Not Prepared?,” AARP, October 2006.

² Table V.A3, 2006 OASDI Trustees Report, Social Security Administration.

³ “IDB Summary Demographic Data for United States,” U.S. Census Bureau, August 24, 2006.

⁴ “Phased Retirement: Aligning Employer Programs with Worker Preferences,” Watson Wyatt Worldwide, 2004.

⁵ “Working After Retirement: The Gap Between Expectations and Reality,” Pew Research Center, September 21, 2006.

⁶ “Are Traditional Retirements a Thing of the Past? New Evidence on Retirement Patterns and Bridge Jobs,” Kevin E. Cahill, Michael D. Giandrea, & Joseph F. Quinn, Boston College Working Papers in Economics No. 626, 2005.

⁷ Pension Protection Act of 2006, Pub. L. 109-280.