# Chapter Six: Retirement Plans

The Bureau of Labor Statistics' National Compensation Survey reported that in 2010, 65 percent of full-time employees in private industry had access to some type of retirement benefits. The decline in defined benefit pension plans and the replacement by defined contribution plans, however, makes pre-retirement planning more important than ever.

## Planning retirement

Pre-retirement planning programs can be simple or extensive and inexpensive or costly. In some companies, the programs are developed and operated totally outside the organization. In other companies internal personnel or a combination of internal and external resources are used.

**Subjects covered.** The most frequently covered topics in pre-retirement planning sessions are financial matters (*e.g.,* pensions, Social Security, investments), health care, insurance, real estate (relocation, living options, etc.), personal relationships (spouse and family), volunteerism, second careers, and education. Some organizations also cover legal matters, estate planning, psychological and physiological effects of aging, and nutrition.

**Participation.** Most organizations with formal pre-retirement planning programs invite employees to participate at age 55; however, some start at the age of 50 and others at 60. Some programs let employees of any age attend the program.

**Other options.** As an alternative to a formal pre-retirement planning program, some firms offer a retirement interview with a company official, while others provide printed materials on retirement and links to information on the Internet.

## Early retirement incentives

Some companies use early retirement incentive programs to open up promotional opportunities for older employees, to enable older and less productive employees to retire voluntarily and with dignity, and to trim employment costs. Incentives may include continued part or full salary, bonuses or severance pay, vested benefits, continued insurance, Social Security supplements, and lifetime discounts on products and services.

A problem arises, however, if employees who were "encouraged" to take an early retirement later file age discrimination claims, alleging that they were forced out. Such unpleasant encounters can be avoided, to some degree, by offering potential retirees a reasonably attractive retirement plan, affording them ample time to consider the option, and ensuring that they are not threatened or otherwise coerced into accepting early retirement.

## Phased retirement

Phased retirement may help employers meet the challenges of changing workforce demographics. Phased retirement is a process for bridging the gap between full-time employment and full-time retirement. There are many potential forms of phased retirement, including:

- Rehiring retirees as consultants for discrete projects or on a part-time, seasonal, or temporary basis
- Gradually reducing an employee's working hours
- Allowing employees to take a leave of absence to try out retirement
- Allowing job-sharing arrangements between older workers
- Allowing older workers to move to less stressful or demanding jobs

## Legal considerations

Employers must pay close attention to legal issues related to retirement, including:

- Age discrimination. Federal law prohibits discrimination against employees aged 40 and over. Almost all mandatory retirement requirements are illegal.
- Benefits. No employee benefit plan may cease pension accrual or suspend plan contributions for an employee because of age.
- Healthcare insurance. Employers must allow employees who lose their group health insurance because of termination to continue their healthcare coverage at their own expense.
- Hiring. Job applicants seeking to return to work cannot be discriminated against because they are retired.

**Medicare.** Employees should apply for Medicare coverage 3 months before the month in which they reach the age of 65 to ensure that coverage begins promptly. Employer-sponsored health plans must provide certain disclosures/notices to all individuals eligible for the Medicare Part D drug benefit who are covered under, or who apply for, the plan's prescription drug coverage whether the coverage is "creditable prescription drug coverage" or not. A plan must also provide a disclosure of creditable coverage status to the Centers for Medicare & Medicaid Services (CMS) on an annual basis.

**Pension plans.** ERISA has established participation, vesting, and survivors' benefit requirements for profit-sharing, pension, and 401(k) plans.

**Taxation.** The Internal Revenue Code sets minimum distribution and withholding requirements for pension, profit-sharing, and 401(k) plans, as well as individual retirement accounts.

**Welfare and pension reports.** Employer reporting requirements on pension and welfare plans under ERISA are extensive.

# Social Security

The Social Security program, adopted in late 1935, relied for its core principles on the concept of "social insurance." Social insurance was a respected tradition that began in Europe in the 19th century and was an expression of European social welfare. Philosophically, social insurance emphasized government-sponsored efforts to provide for the economic security of its citizens.

The Social Security Act was signed into law by President Franklin D. Roosevelt August 14, 1935. In addition to several provisions for general welfare, the new Act created a social insurance program designed to pay retired workers age 65 or older a continuing income after retirement. The significance of the new social insurance program was that it sought to address the long-range problem of economic security for the aged through a contributory system in which the workers themselves contributed to their own future retirement benefit by making regular payments into a joint fund.

The Social Security tax is also known as the Federal Insurance Contributions Act (FICA). In 2014, employers contribute 6.2 percent of the first $117,000an employee earns during the year for Social Security and 1.45 percent of all taxable earnings for Medicare. Also, as of January 2013, individuals with earned income of more than $200,000 ($250,000 for married couples filing jointly) pay an additional 0.9 percent in Medicare taxes. There is also a 3.8 percent Medicare tax assessment on certain investment income for individuals earning over $200,000 and married couples who file jointly earning over $250,000.

## Benefits

**Annual statements.** The SSA provides an annual statement about their Social Security benefits to individuals aged 60 and over not already receiving benefits. The statement includes an estimate of monthly benefits if the worker continues to earn about the same amount until the age of 62, age 65, and age 70; an estimate of the worker's disability benefit amount; an estimate of the survivors' benefits that could be paid to the worker's family; and a statement showing the worker's earnings and Social Security taxes paid to date. The SSA has published Employer Information about the Social Security Statement to help employers answer employees' questions about the statements. This guide is available on the SSA website.

## Retirement date

Historically, workers have been eligible for full Social Security benefits at the age of 65. However, for workers born after 1937, this normal retirement age has been increased. As shown in the following table, the retirement age will increase in 2-month increments until it reaches the age of 67 for workers born in 1960 or later.

| Year of Birth | Age of Full Eligibility (Normal Retirement Age) |
|---|---|
| 1937 and earlier | 65 |
| 1938 | 65 and 2 months |
| 1939 | 65 and 4 months |
| 1940 | 65 and 6 months |
| 1941 | 65 and 8 months |
| 1942 | 65 and 10 months |
| 1943-1954 | 66 |
| 1955 | 66 and 2 months |
| 1956 | 66 and 4 months |
| 1957 | 66 and 6 months |
| 1958 | 66 and 8 months |
| 1959 | 66 and 10 months |
| 1960 and later | 67 |