

Insider

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What Happens to Executive Retirement Benefits When Companies Close or Freeze Their Broad-Based Pension Plans?

By Brendan McFarland and Irina Pogrebivsky

Over the last several years, employers have been moving away from traditional, annuity-based defined benefit (DB) plans for their newly hired salaried workers, often shifting to a solely defined contribution (DC) plan design. The number of today's *Fortune* 100 companies providing only a DC plan to newly hired salaried workers has jumped from 28 in 1998 to 70 today.¹ Meanwhile, a parallel transformation has been taking place in the retirement benefits provided to executives at these companies:

- Most of the *Fortune* 100 companies that closed or froze their broad-based DB plan now provide DC-style retirement benefits to executives in the form of restoration plans.
- Fewer of these organizations provide employer-paid executive retirement plans.
- Most companies have eliminated DB supplemental retirement plans that provided more generous benefits to top-tier executives.
- Most companies' transition from the previous plans to the current benefit offerings for executives followed the same pattern used to transition the broad-based programs.

This analysis takes a before-and-after look at retirement benefits for executives in 39 of the 42 *Fortune* 100 companies that have frozen or closed

their broad-based pension plans since 1998.² It does not capture supplemental individual retirement agreement benefits that companies may be providing to executives outside of formalized executive programs.

Types of executive retirement plans

Executive retirement plans provide more generous benefits than broad-based plans and help companies attract and retain senior-level employees in a competitive market for top talent. Executive benefits are typically delivered through a restoration plan and/or a supplemental executive retirement plan (SERP). Restoration plans are intended to restore benefits that cannot be paid due to statutory limits on broad-based plans.³ SERPs typically provide executives with richer benefits than the broad-based plan benefit formula.

There are generally three types of executive plan designs:

- DB plans specify a benefit to be paid at retirement and include traditional annuity-based final average pay plans and account-based cash balance plans.
- In DC plans, employers allocate a specified dollar amount, often stated as a match, to individual employee accounts.
- Deferred compensation arrangements give employees an opportunity to defer a portion of their compensation (salary and/or bonus), but employers do not contribute.

SERPs and restoration designs may be structured as either DB or DC benefits.

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¹ See *Insider*, July 2011, "Prevalence of Retirement Plan Types in the *Fortune* 100 in 2011," Towers Watson, available at <http://www.towerswatson.com/united-states/newsletters/insider/5010>.

² Only 39 companies had sufficient data available for the analysis.

³ These limits include the Internal Revenue Code (IRC) section 401(a)(17) covered compensation limit (currently \$245,000), the section 415 limits (\$49,000 on annual contributions to DC plans and \$195,000 in annuity benefits from DB plans), and limits on section 401(k) deferrals (currently \$16,500 annually).

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Fortune 100 companies rethink their executive retirement offerings

Since 1998, 42 companies in today's *Fortune* 100 list have frozen or closed their broad-based DB plan and now offer only DC plans to their newly hired workers. Many continue to accrue pensions for certain workers, but others have stopped all accruals.

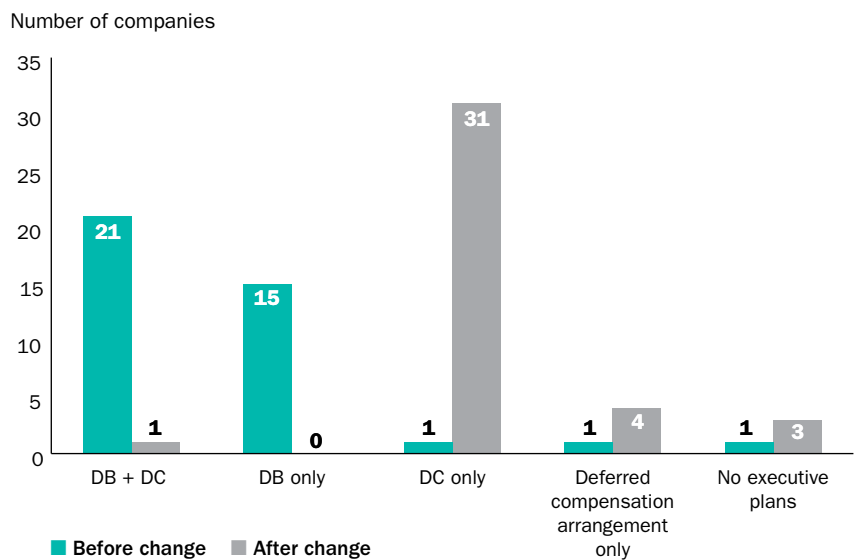
In a number of these companies, the design changes in broad-based retirement program benefits have been accompanied by comparable transformations in their executive retirement offerings. Before changing their broad-based plans, most of these employers (36 of 39) offered an executive DB plan along with some sort of deferred compensation arrangement, and 21 also contributed to an executive DC plan.

Of the 39 companies in this analysis, 17 closed their broad-based pension plans, and 22 froze them. Before closing or freezing their broad-based plans, 37 of these companies had employer-paid executive retirement plans (see *Figure 1*). After freezing or closing the broad-based plan, however, the number of companies providing executive DB or DC plans dropped to 32. Given the growing scrutiny of executive compensation and a perceived disconnect between pay and performance, these companies might have decided to make more of their overall compensation and benefits package contingent on the company's performance (e.g., by increasing the level of long-term incentives in lieu of retirement benefits).

Mirroring the shift away from broad-based DB plans to DC plans, only one of these organizations provides an executive DB plan today, whereas 31 now provide an executive DC plan as the main executive retirement plan vehicle.

All companies with executive DB and DC plans sponsor a deferred compensation arrangement except for two of the 15 companies that had executive DB plans prior to the change to the broad-based plan.

Figure 1. After changing the broad-based plan, Fortune 100 companies shift executive benefits from DB to DC



N=39
 Source: Towers Watson.

A majority of companies in the analysis now provide executive DB and DC benefits through restoration plans rather than SERPs — a major shift (see Figure 2).

When their broad-based DB plans were still open, most of these companies sponsored both executive DB and DC plans, but DB SERPs provided most of the benefit value. The executive DC plans primarily provided restoration benefits on the 401(k) plan matching contributions. Since changing their broad-based plans, most companies offer executive restoration DC plans based on the revised, generally enhanced, DC provisions of the underlying broad-based programs.⁴ The majority of executive plan benefit value now comes from DC restoration plans.

Executive DB offerings — before-and-after snapshot

We now look at the types of executive DB plans — restoration, SERP or both — that were offered before employers changed their broad-based pensions (see Figure 3).

Before changing their broad-based retirement programs for new hires, 35 of the 36 companies that offered an executive DB plan sponsored a restoration plan, and 21 provided a SERP (20 companies had both). In these companies, the executives' restoration plan made up for the compensation limits in the broad-based plan, while the SERP usually had a richer formula than the broad-based plan. Fifteen of the Fortune 100 sponsors offered only a restoration plan to executives and one offered only a SERP.

Executive DB restoration plans

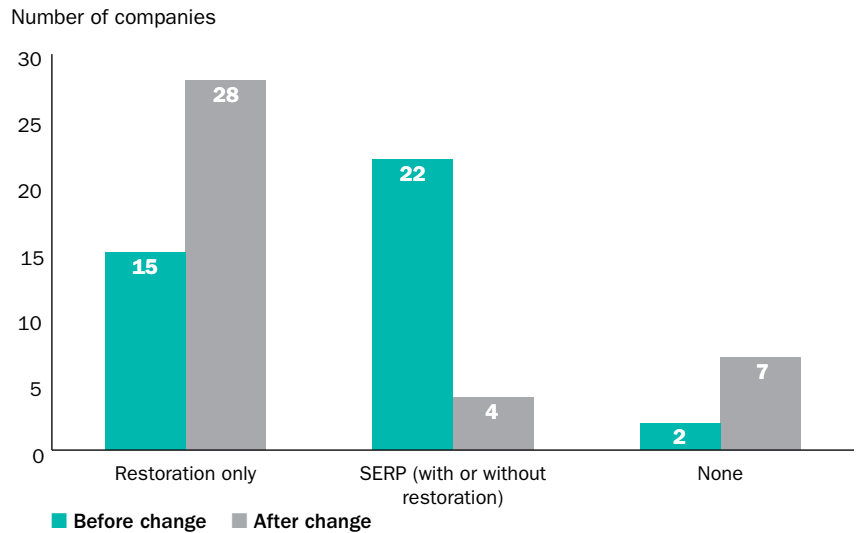
As might be expected, changes in executive DB restoration plans generally mirrored the changes in the underlying broad-based plans. After changing their broad-based plans, slightly fewer than half (16 of 35) of these companies closed their executive DB restoration plans, and the remainder (19 of 35) either terminated or froze them (see Figure 4).

For DB restoration plans that closed, there was little change to the underlying benefit formula. Of the 20 DB restoration plans in which some executives are still accruing benefits — of which 16 were closed and four partially frozen — 16 employers kept the original benefit formula and four reduced it.

Because restoration plans are based on the broad-based plan formula, all these changes happened at the same time the broad-based pension was frozen or closed.

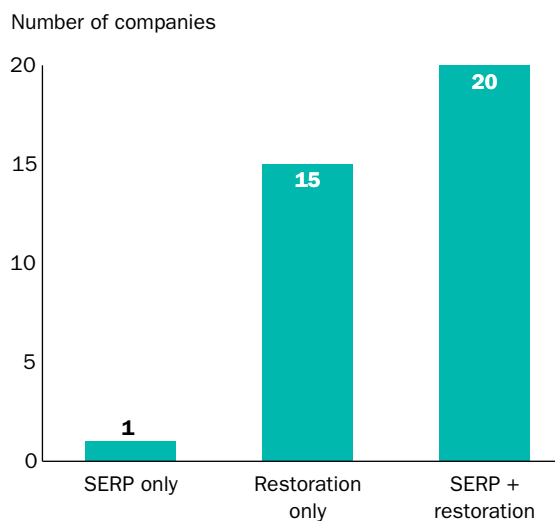
⁴ After closing or freezing their broad-based DB plan, most of these companies enhanced their 401(k) plans to offset the DB change, at least to some degree.

Figure 2. Fortune 100 sponsorship of restoration plans compared with SERPs



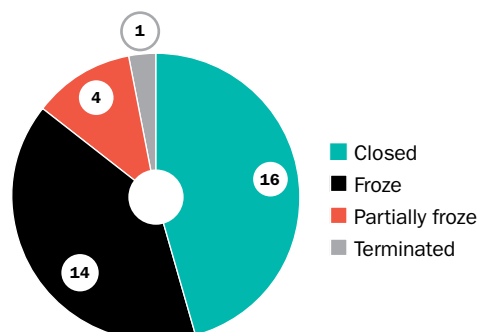
N=39
Source: Towers Watson.

Figure 3. Executive DB plans offered by Fortune 100 companies before changing the broad-based plan



N=36
Source: Towers Watson.

Figure 4: Changes in executive DB restoration plans



N=35
Source: Towers Watson.

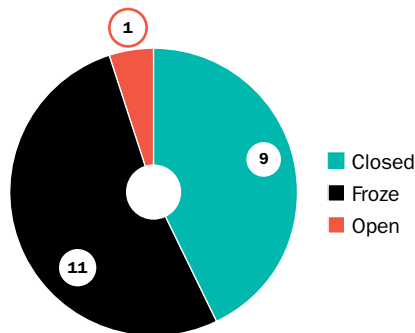
“After changing their broad-based plans, slightly fewer than half of these companies closed their executive DB restoration plans, and the remainder either terminated or froze them.”

DB SERPs

Changes in DB SERPs followed a similar pattern to changes in DB restoration plans — eight of the nine companies that closed their SERP had also closed their broad-based plan, and nine of the 11 companies that froze their SERP had frozen their broad-based plan. One company kept the DB SERP open to newly hired executives (although there was no longer any broad-based DB plan for new hires) (see *Figure 5*).

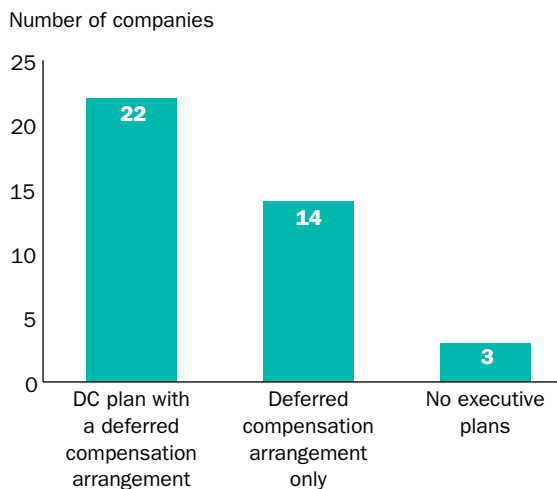
Two companies that closed their broad-based plan to new hires froze their DB SERP and stopped all benefit accruals. One company that froze its broad-based plan for all employees closed the DB SERP but allowed existing participants to continue to accrue benefits.

Figure 5. Changes in DB SERPs



N=21
Source: Towers Watson.

Figure 6. Executive DC plans and deferred compensation arrangements offered by Fortune 100 companies before changing the broad-based plan



N=39
Source: Towers Watson.

“Most organizations that eliminated their DB restoration plan replaced it with a DC restoration plan. ... most employers did not replace their DB SERP with a DC SERP.”

As with restoration plans, companies that closed their DB SERPs generally did not change the underlying formula. Ten of the 21 companies continued to offer DB SERPs to some portion of their executive workforce. Only one company reduced its DB SERP benefit — the rest kept the same formula.

Seven companies changed their DB SERP before changing their broad-based plan, 10 changed both plans at the same time, and three companies changed their SERP after changing the broad-based plan.

Executive DC plans and executive deferred compensation arrangements — before-and-after snapshot

We next analyze the executive DC plans and executive deferred compensation arrangements provided before the broad-based pension change. Of the 39 employers in this analysis, 36 offered their executives some sort of salary and/or bonus deferred compensation arrangement, and the majority (22) offered a matching contribution or a contribution allocation as well, as shown in *Figure 6*.

When an employer eliminates a DB pension accrual, it typically compensates by contributing more to the DC plan, and the same seems to hold true for restoration plans. Most organizations that eliminated their DB restoration plan replaced it with a DC restoration plan. The same was not true for SERPs, however, as most employers did not replace their DB SERP with a DC SERP.

Moreover, organizations that closed their broad-based DB plans were more likely to enhance their executive DC offerings for newly hired employees than organizations that froze them.

Of the 17 *Fortune 100* employers that closed their broad-based DB plans, five did not offer an executive DC plan (see *Figure 7*, next page).

After closing their broad-based DB plan, all companies but one offered an executive DC plan to their newly hired/non-grandfathered executives. One company had provided a DB restoration plan as well as a SERP before changing its broad-based plan (without any deferred arrangement), but now offers no executive retirement plan to newly hired executives. Of the executive DC plans currently offered by the 16 companies, 14 are restoration plans and two are SERPs.

Among the employers that froze their broad-based pensions, we see slightly different outcomes for executive DC plans and deferred compensation arrangements (see *Figure 8*).

Before the 22 employers in this group froze the broad-based plan, 10 had offered an executive DC plan. After freezing the broad-based pension, 16 of the organizations offered an executive DC plan. Four organizations continued to offer only a deferred compensation arrangement, and two still have no salary/bonus deferral program. While six organizations added an executive DC plan after freezing the broad-based plan, the other six eliminated their employer-paid executive retirement programs altogether. Of the 16 executive DC plans still being provided to all executives, all but one are restoration plans.

Many sponsors eliminate SERPs

As noted above, the decline in ongoing DB SERPs has not been offset by an increase in DC SERPs. Of the 21 organizations that sponsored DB SERPs before changing their broad-based plans, 18 no longer offer a SERP to new hires, two replaced the DB SERPs with DC SERPs, and one continues to sponsor the DB SERP even though the broad-based plan is a DC plan. One organization had a DC SERP before changing its broad-based plan, and the SERP remains open.

Summary

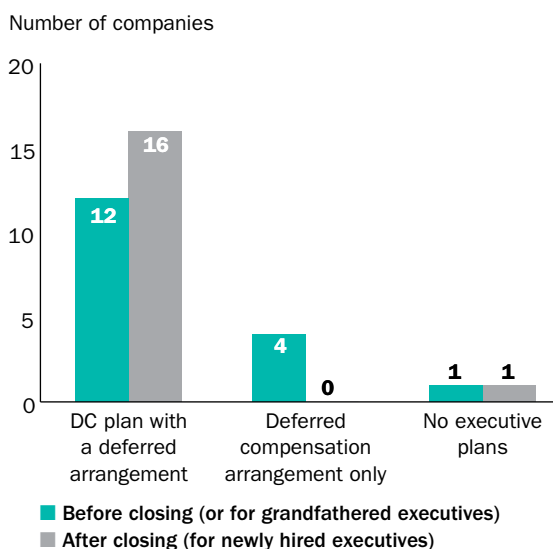
As many *Fortune* 100 companies have been freezing or closing their broad-based DB plans and shifting to DC-only vehicles, the pattern has been much the same for executives. Before these *Fortune* 100 companies changed their broad-based retirement packages, most provided a restoration pension and/or a SERP to executives. After eliminating the broad-based DB pension accruals, almost all of them also eliminated their executive DB plan accruals (both restoration and SERPs), and most replaced them with DC restoration plans. Seven companies do not contribute to executive retirement benefits — compared with only two before these companies closed or froze their broad-based plans.

Ongoing executive retirement program trends for newly hired executives

The results of the executive retirement program analysis for *Fortune* 100 companies are consistent with the pattern among *Fortune* 1000 organizations documented in Towers Watson’s 2011 “Report of Executive Retirement Benefits Practices.” That report also finds an overall decline in the

sponsorship of executive DB programs, a decrease in the number of SERPs and an increase in the number of restoration plans. In addition, data from the report clearly indicate that organizations sponsoring only DC plans are less likely to provide any executive retirement plan.

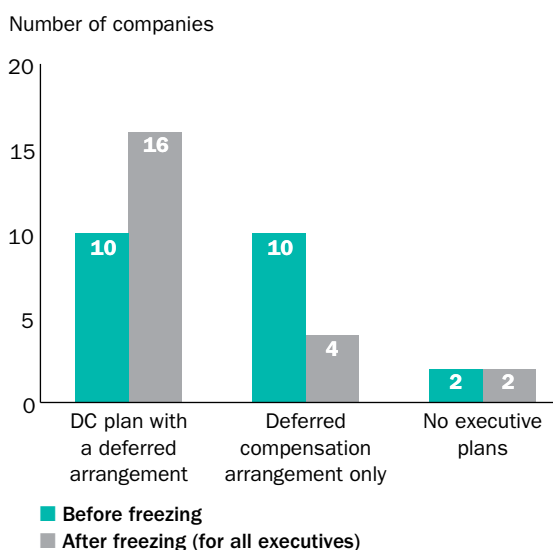
Figure 7. Executive DC plans and deferred compensation arrangements offered by Fortune 100 companies before and after closing the broad-based plan



“Organizations that closed their broad-based DB plans were more likely to enhance their executive DC offerings for newly hired employees than organizations that froze them.”

N=17
Source: Towers Watson.

Figure 8. Executive DC plans and deferred compensation arrangements offered by Fortune 100 companies before and after freezing the broad-based plan



N=22
Source: Towers Watson.

The Economic Recession: Impact on Employment Trends and Retirement Patterns

Effects on Employers, Employees Still Unfolding

By Tomeka Hill

The economic recession that began in December 2007 dealt a harsh blow to the U.S. labor market. By the close of 2008, both workers and employers found themselves navigating a reconfigured employment landscape. First, mass layoffs beginning in 2008 drove up unemployment claims. Young and middle-aged workers suffered high unemployment rates, and many older workers who lost their jobs had no choice but to start taking retirement payments sooner than planned. A large number of these older workers who had not saved enough or lost savings in the investment market also had to look for new jobs rather than fully retiring.

Second, because employers were reducing their labor forces, workers who managed to stay employed tended to remain where they were, especially older workers who couldn't afford to retire. All these

economic forces resulted in more people scouting for work in a considerably smaller job market. Although the recession officially ended in June 2009, the labor market still has not recovered.

To quantify the impact of these changes on employment and labor force trends, job turnover and retirement patterns, we calculate and discuss statistics based on the U.S. Census Bureau's Current Population Survey (CPS) and information provided by the Department of Labor's Bureau of Labor Statistics.

Changes in unemployment and labor force participation

The recession triggered higher unemployment rates across all age groups (see *Figure 1*). The unemployment rate was highest among workers aged 25 to 34, peaking at almost 11% in the first quarter (Q1) of 2010. The comparable peak unemployment percentages were 9.4% for those 35 to 44, 8.5% for those 45 to 54, 7.5% for those 55 to 64, and 7.3% for those 65 and older.

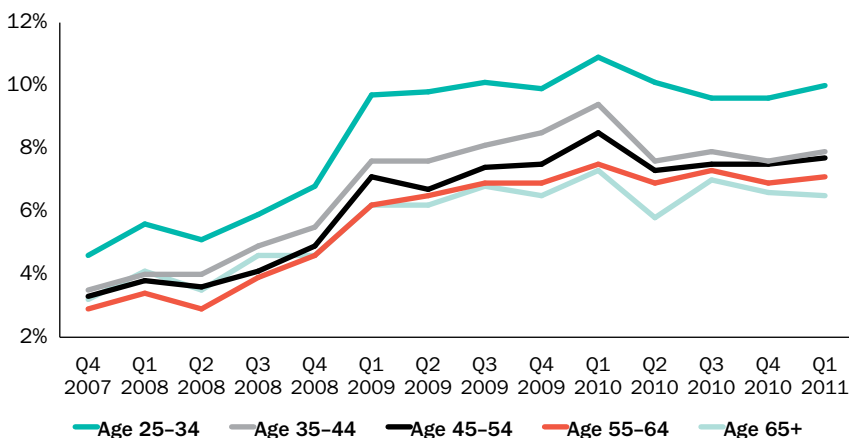
Among the 35-to-44 age group, unemployment swelled from 3.5% in Q4 of 2007 to 7.9% in Q1 2011. Over the same period, unemployment rates increased from 3.3% to 7.7% for those 45 to 54, and from 3.2% to 6.5% for those 65 and older. Workers aged 55 to 64 suffered the largest increase in unemployment. Between Q4 2007 and Q1 2011, the unemployment rate for these workers jumped by 145% — from 2.9% to 7.1%. Over the same period, unemployment more than doubled among workers 25 to 34 years old and rose by 103% among workers aged 65 and older.

Young workers had the most difficulty entering the workforce over the past four years, and a larger percentage of older workers were job-hunting in 2009 and 2010 than in 2007. Although the recession officially ended in June 2009, unemployment didn't peak until Q1 2010, after which it declined slightly.

Not only have more people been unemployed since the economic recession began, many of them have

“All these economic forces resulted in more people scouting for work in a considerably smaller job market.”

Figure 1. Seasonally unadjusted quarterly unemployment rates by age, Q4 2007–Q1 2011



Source: Bureau of Labor Statistics.

been unemployed for longer periods. As *Figure 2* shows, the average unemployment period doubled from 16.8 weeks in 2007 to 33.0 weeks in 2010, and the median unemployment period more than doubled — from 8.5 weeks to 21.4 weeks.

Since the economic crisis began, more people have been unemployed for 15 weeks or longer. As *Figure 3* shows, in 2007, the percentages of the unemployed who found new jobs in less than five weeks or between five and 14 weeks were 35.9% and 31.5%, respectively. By 2010, those percentages had dropped to 18.7% and 22.0%. Meanwhile, the percentage of people still job-hunting after 15 or more weeks was 32.5% in 2007. By 2010, that rate had reached a worrisome 59.3%.

Figure 4 shows labor force participation rates — the percentage of those who either have a job or are looking for a job — by age.

Young and middle-aged workers had a reduction in labor force participation. For workers aged 25 to 34, workforce participation fell from 83.4% in Q4 2007 to 81.5% in Q1 2011. Over the same period, workforce participation fell from 84.0% to 83.0% for those aged 35 to 44, and from 82.3% to 80.8% for those aged 45 to 54.

On the other hand, more older workers were participating in the labor market over the period. Between Q4 2007 and Q1 2011, workforce participation rates increased from 64.1% to 64.3% for workers aged 55 to 64, and from 16.4% to 17.7% for those aged 65 and older.

People leave the labor force for different reasons. Some appear to have given up on job hunting, at least for now, and the reasons they give include being unable to find work, lacking sufficient education or training, believing employers view them as too young or old, and being subject to other types of disfavor.

As *Figure 5* shows, the percentage of people who stopped looking for a job because they were discouraged jumped sharply for both men and women due to the recession, particularly in 2010. From 2007 to 2010, the percentage of men who gave up their job search rose from 11% to 25%; the percentage of women who stopped seeking employment rose from 6% to 14%.

As *Figure 6* shows, in 2010, more than one in five job-seekers aged 25 and older were “officially” discouraged about their job prospects. The percentage of those aged 55 and older who stopped looking because they were discouraged tripled between 2007 and 2010 — rising from 7% to 21%. Over the same period, the percentage of young people — those aged 16 to 24 — who became

Figure 2. Average and median unemployment duration, 2007–2010

	Average number of weeks unemployed	Median number of weeks unemployed
2007	16.8	8.5
2008	17.9	9.4
2009	24.4	15.1
2010	33.0	21.4

Source: Bureau of Labor Statistics.

Figure 3. Average unemployment duration, 2007–2010

	Less than 5 weeks	5 to 14 weeks	15 weeks and over
2007	35.9%	31.5%	32.5%
2008	32.8%	31.4%	35.7%
2009	22.2%	26.8%	51.0%
2010	18.7%	22.0%	59.3%

Source: Bureau of Labor Statistics.

Figure 4. Seasonally unadjusted quarterly labor force participation rates, Q4 2007–Q1 2011

	Aged 25–34	Aged 35–44	Aged 45–54	Aged 55–64	Aged 65+
Q4 2007	83.4%	84.0%	82.3%	64.1%	16.4%
Q1 2008	83.4%	83.8%	82.0%	64.8%	16.3%
Q2 2008	83.4%	84.1%	81.7%	64.1%	16.6%
Q3 2008	83.4%	84.1%	81.6%	64.0%	17.2%
Q4 2008	83.2%	84.3%	82.2%	65.3%	17.2%
Q1 2009	82.8%	83.7%	82.0%	65.3%	17.1%
Q2 2009	82.8%	83.8%	81.5%	65.4%	17.0%
Q3 2009	82.7%	83.7%	81.2%	64.5%	17.2%
Q4 2009	82.3%	83.4%	81.7%	64.4%	17.5%
Q1 2010	82.2%	83.6%	81.8%	65.0%	17.4%
Q2 2010	82.4%	83.2%	81.1%	65.4%	17.1%
Q3 2010	82.2%	82.9%	80.7%	64.9%	17.4%
Q4 2010	82.0%	83.2%	81.1%	64.3%	17.5%
Q1 2011	81.5%	83.0%	80.8%	64.3%	17.7%

Source: Bureau of Labor Statistics.

Figure 5. Job-seekers who gave up their employment search, 2007–2010

	Total	Men	Women
2007	8%	11%	6%
2008	9%	13%	7%
2009	13%	17%	9%
2010	19%	25%	14%

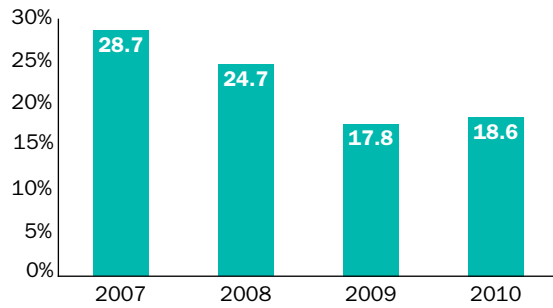
Source: Bureau of Labor Statistics.

Figure 6. Job-seekers who gave up their employment search, by age, 2007–2010

	Aged 16–24	Aged 25–54	Aged 55 and older
2007	7%	10%	7%
2008	8%	10%	8%
2009	10%	16%	11%
2010	14%	22%	21%

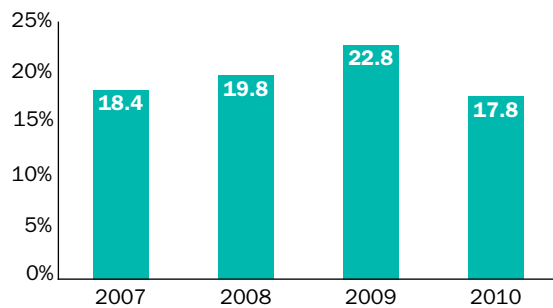
Source: Bureau of Labor Statistics.

Figure 7. Private-sector employees who voluntarily quit their jobs, 2007-2010



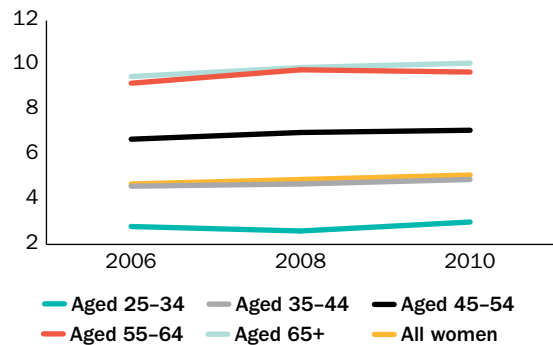
Source: Bureau of Labor Statistics.

Figure 8. Private-sector employees who were laid off or discharged from their jobs, 2007-2010



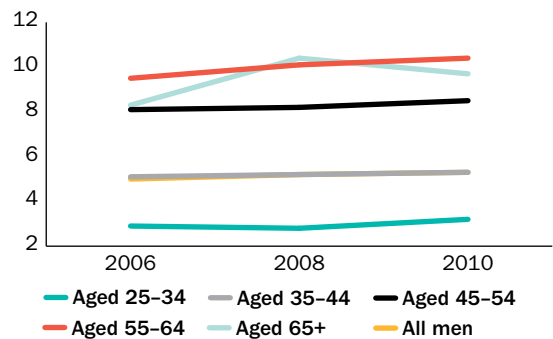
Source: Bureau of Labor Statistics.

Figure 9. Median job tenure (years) for women, by age, 2006-2010



Source: Bureau of Labor Statistics.

Figure 10. Median job tenure (years) for men, by age, 2006-2010



Source: Bureau of Labor Statistics.

“The economic recession has had contradictory effects on job tenure.”

discouraged doubled from 7% to 14%. Among those aged 25 to 54, the percentage of would-be job-seekers who gave up more than doubled — rising from 10% in 2007 to 22% in 2010.

Changes in job turnover

The number of job opportunities dropped significantly during the last four years. To get a grasp on how the economic recession affected job turnover, we look at the percentages of private-sector employees who voluntarily quit and who were laid off. We also look at the change in median job tenure for men and women separately.

As *Figure 7* shows, the number of people voluntarily quitting their jobs has dropped steadily since 2007. In 2007, “voluntary quits” were 28.7% of total employment. By 2009, voluntary quits were down to 17.8% (the number then rose to 18.6% in 2010). The number of layoffs (and discharges), however, increased from 2007 to 2009. As shown in *Figure 8*, layoffs were 18.4% of total employment in 2007, peaked at 22.8% in 2009 and then dropped to 17.8% in 2010.

The economic recession has had contradictory effects on job tenure. Layoffs cut tenure short for many workers. Job losses are more likely during economic downturns for midcareer workers with less seniority and less tenure than for older workers with longer tenures. On the other hand, the scarcity of job opportunities brought on by the recession lengthened tenure for workers who chose to remain with their current employer. Also, many older workers who lost retirement savings decided to keep working for their employers rather than retiring. *Figures 9 and 10* look at the net effect of job tenure for women and men separately.

Job tenure for working women has held fairly steady over the recession. With the exceptions of the 25-to-34 and 55-to-64 age groups, median tenure for women rose between 2006 and 2008 and again in 2010. Tenure for working women aged 25 to 34 fell from 2.8 years in 2006 to 2.6 years in 2008, before rising. Tenure for women aged 55 to 64 dropped slightly from 9.8 years in 2008 to 9.7 years in 2010. Overall, the median tenure for women rose from 4.7 years in 2006 to 5.1 years in 2010.

Tenure for working men was somewhat more volatile. For working men aged 25 to 34, median tenure dropped from 2.9 years in 2006 to 2.8 years in 2008, and then rose to 3.2 years in 2010. Job tenure rose steadily for men aged 35 to 44, 45 to 54 and 55 to 64. For men between the ages of 35 and 44, job tenure rose from 5.1 years in 2006 to 5.3 in 2010. Similarly, for men in the 45-to-54 age

group, job tenure rose from 8.1 years to 8.5 years, and for the 55-to-64 age group, tenure rose from 9.5 years to 10.4 years.

Median tenure for working men aged 65 and older has fluctuated widely since 2006, when it was 8.3 years. In 2008, median job tenure for men aged 65 and older rose sharply to 10.4 years and then dropped to 9.7 years in 2010. Overall job tenure for men rose from 5.0 years to 5.3 years between 2006 and 2010.

Despite (or because of) the high volume of layoffs during the recession, more people are remaining with their employer. Thus, the overall effect of the economic recession has been to increase job tenure.

Changes in retirement patterns

The economic recession has pressured some older Americans to keep working, although the trend toward longer careers was already in place for other reasons. First, the Social Security full retirement age is increasing from 65 to 67. Second, in 2000, Social Security eliminated its earnings test for retirees past the normal retirement age, which reduced Social Security benefits by \$1 for every \$2 earned above a certain level of income for people at full retirement age and older. This change encouraged more people to continue working while receiving Social Security benefits. Third, there has been a shift away from employer-sponsored defined benefit (DB) plans that encourage early retirement. The recession, however, may now turn out to be the most powerful influence on when workers retire.

We use the CPS to estimate the age at which private-sector workers stopped working for pay. As a consequence of the recession, between 2006 and 2009, the average age at full retirement rose from 63.7 to 64.9 for women and from 64.2 to 65.4 for men (see *Figure 11*). It seems that both men and women decided to work at least one year longer.

Not only are people delaying full retirement, we also observe changes in the percentage of people who had already retired or retired earlier than planned from one company and then took another job. Using the CPS, we estimate the percentage of people aged 55 to 70 who received DB and/or defined contribution (DC) plan retirement benefits (or a military pension) while also being employed at least part-time throughout the year.

In 2006, the percentage of pensioners who worked at a job all year was 16.7% for women and 22.9% for men (see *Figure 12*). In 2007, the percentage of female and male pensioners who worked at a job the entire year dropped to 15.4% and 21.7%,

respectively. Considering that 2007 was a good year in the stock market, it is not surprising that more older people stopped working. By 2008, the percentage of pensioners who were also working dropped to 14.4% for women but rose to 22.1% for men. In 2009, the percentages of working pensioners rose to 14.6% for women and 22.7% for men.

New distribution of labor

Because the economic recession changed labor force participation, unemployment, quits, layoffs and retirement patterns, there is a new distribution of workers — by age.

Since the recession, the employment trend has shifted toward employing more older workers across all industries. *Figure 13*, next page, shows the distribution of workers by age in major industries in 2006 and 2010. Looking at the broad categories of workers younger than 55 and 55 and older, we see an increase in workers 55 and older in all industries. The largest increase in older workers — 7% — is in Education-Health Services.

Across all industries, there were fewer workers in the 25-to-34 and 35-to-44 age groups in 2010 than in 2007. It appears that workers with less tenure were more likely to lose their jobs during the recession. The percentage of workers in the 60-to-64 and 65-to-69 age groups increased, however. Thus, even people who are eligible for early or normal Social Security benefits are continuing to work.

“The recession may turn out to be the most powerful influence on when workers retire.”

Figure 11. Mean and median age at which women and men stopped working completely, 2006–2009

Year of retirement	Women		Men	
	Average	Median	Average	Median
2006	63.7	63	64.2	63
2007	64.3	64	64.7	64
2008	64.9	64	65.1	64
2009	64.9	64	65.4	65

Source: Calculations by the author, based on the CPS.

Figure 12. Percentage of pensioners who worked at a job the entire year, by gender, 2006–2009

	Women	Men
2006	16.7%	22.9%
2007	15.4%	21.7%
2008	14.4%	22.1%
2009	14.6%	22.7%

Source: Calculations by the author, based on the CPS.

Figure 13. Employee distribution within industry, by age, 2006 and 2010

	Construction-Mining		Manufacturing		Education-Health Services	
	Percentage of employees 2006	Percentage of employees 2010	Percentage of employees 2006	Percentage of employees 2010	Percentage of employees 2006	Percentage of employees 2010
Aged 25–34	31%	26%	23%	20%	24%	23%
Aged 35–44	31%	27%	32%	28%	28%	24%
Aged 45–54	25%	29%	29%	31%	29%	27%
Aged 55–59	7%	10%	9%	11%	10%	12%
Aged 60–64	3%	5%	5%	7%	5%	8%
Aged 65–69	1%	2%	1%	2%	2%	3%
Aged 70–74	1%	1%	0%	1%	1%	1%
Aged 75+	1%	1%	0%	1%	1%	1%
Total	100%	100%	100%	100%	100%	100%
Under age 55	87%	82%	84%	79%	81%	74%
Aged 55 and older	13%	18%	16%	21%	19%	26%
Total	100%	100%	100%	100%	100%	100%

	Wholesale-Retail		Transportation-Utilities	
	Percentage of employees 2006	Percentage of employees 2010	Percentage of employees 2006	Percentage of employees 2010
Aged 25–34	27%	26%	20%	18%
Aged 35–44	30%	25%	30%	24%
Aged 45–54	25%	25%	32%	35%
Aged 55–59	8%	11%	10%	12%
Aged 60–64	5%	7%	5%	7%
Aged 65–69	3%	3%	1%	3%
Aged 70–74	2%	1%	1%	1%
Aged 75+	1%	1%	0%	1%
Total	100%	100%	100%	100%
Under age 55	82%	76%	82%	77%
Aged 55 and older	18%	24%	18%	23%
Total	100%	100%	100%	100%

	Information		Financial-Business-Professional Services	
	Percentage of employees 2006	Percentage of employees 2010	Percentage of employees 2006	Percentage of employees 2010
Aged 25–34	30%	28%	27%	26%
Aged 35–44	31%	28%	30%	26%
Aged 45–54	24%	27%	25%	26%
Aged 55–59	8%	9%	9%	10%
Aged 60–64	4%	6%	5%	7%
Aged 65–69	1%	1%	2%	3%
Aged 70–74	1%	1%	1%	1%
Aged 75+	1%	1%	1%	1%
Total	100%	100%	100%	100%
Under age 55	86%	82%	82%	78%
Aged 55 and older	14%	18%	18%	22%
Total	100%	100%	100%	100%

“Since the recession, the employment trend has shifted toward employing more older workers across all industries.”

Source: Calculations by the author, based on the CPS.

There are more workers 60 and older in Education-Health Services and Wholesale-Retail than in Construction-Mining and Information. The Education-Health Services and Wholesale-Retail industries offer more part-time opportunities and flexible schedules. Many jobs in the Construction-Mining industry are unionized and can be hard physically, and human capital tends to become obsolete quickly in the Information industry. These characteristics might be preventing older workers from working beyond the industries' typical retirement age and discouraging those seeking part-time work.¹

Conclusions and implications

The fallout from the economic recession is having an enormous effect on the U.S. labor market, leading to changes in corporate productivity, reducing revenue and altering the way companies plan their long-term business goals. Retirement patterns are different, at least partly as a consequence of the shift from traditional DB plans — a useful tool in controlling retirement flows — to hybrid pensions and DC plans. Employers now have considerably less control over when workers retire (it is illegal to dismiss employees based on age or seniority). The slowdown in retirement will likely continue as America rides out the crisis, with the effects rippling outward to employers and the overall workforce for several reasons.

At this time, many young and middle-aged workers are struggling to find or keep a job. Labor force participation rates have dropped for these groups because many individuals have become frustrated and given up job hunting. Those who are out of work are missing the on-the-job experience they need to sustain their intellectual capital. Workers who remain unemployed for too long find their job prospects diminished as they become less attractive to potential employers.

Because the crisis has shrunk seniors' savings, many older workers find they must continue working. As a result, there are more older people in the American workforce than previously. When the economy improves and these older workers do retire, possibly en masse, it might be difficult to find enough qualified, experienced workers to fill those vacant positions.

The joint impact of the economic recession and higher benefit costs has also complicated employers' hiring decisions. Companies are now dealing with high health care costs and considerable uncertainty about health care reform. Economic conditions have also driven up pension costs.

Between the higher known costs and the uncertainty, many companies are waiting for the dust to settle before hiring new employees.

The recession reduced revenue for many employers, which made them wary about investing in new products and businesses. Given their current pessimism about the economic future, many are choosing to hold on to their cash rather than hire new employees to expand. This disinclination to expand — business development is now stagnant — is not promising. The job outlook remains somewhat discouraging and uneven, and the “Great Recession” and its fallout have hit American workers hard. It remains to be seen how long older Americans will continue working, the long-term effects on younger workers currently shut out of the workforce, and the consequent impact on employers' productivity and revenue.

“The job outlook remains somewhat discouraging and uneven, and the ‘Great Recession’ and its fallout have hit American workers hard.”

News in Brief

Court Awards Interest on Delayed Lump-Sum Benefit

By Francis Grealy and Russ Hall

In *Stephens v. U.S. Airways Group*, a U.S. Court of Appeals ruled that defined benefit plan participants who received a lump-sum benefit 45 days after the annuity starting date were entitled to receive interest. The appeals court has sent the case back to the trial court to calculate the interest amount. The controlling opinion suggests that the participants should receive interest only for the period that made the delay unreasonable.

The circuit court overturned a lower court decision favoring the plan administrator (the Pension Benefit Guaranty Corporation, which assumed the plan as part of U.S. Airways' bankruptcy). The court noted that, while the Internal Revenue Service permits reasonable delays for calculating the benefit, 45 days was not reasonable based on the evidence presented in this case. According to the court, “plan administrators may demonstrate in any given case a delay is reasonable because it relates to administrative calculation of lump sum benefits....” But the court noted that here the sponsor failed to present any evidence that this delay was due to “administrative necessity.”

Whether this decision will encourage other participants to make claims for interest on pension payments remains to be seen. The risk of exposure to such claims for plan sponsors could be affected by whether the participants can recover their attorney's fees from the sponsor (this court denied the participants' request for reimbursement of attorney's fees, while noting that the Employee Retirement Income Security Act allows participants to recover attorney's fees in some cases). Sponsors who are concerned about such potential claims will want to evaluate how well they could defend any current payment delays as reasonably related to the need to calculate the amount payable.

¹ Hill, Tomeka M. “Why Doesn't Every Employer Have a Phased Retirement Program?” *Benefits Quarterly*, Volume 26, No. 4, Fourth Quarter, 2010, pp. 29-39.

IRS Revises Form 5558 Used to Request Filing Extension for Certain Returns

By Lynn Cook and Stephen Douglas

The Internal Revenue Service (IRS) has released revised Form 5558, “Application for Extension of Time to File Certain Employee Plan Returns,” which is used to request filing extensions for defined benefit and defined contribution plans and certain 403(b) plans.

The revision, dated June 2011, enables filers to extend the deadline for filing Form 8955-SSA, “Annual Registration Statement Identifying Separated Participants with Deferred Vested Benefits.” Form 5558 is also used to apply for a filing extension for the Form 5500 series, “Annual Return/Report of Employee Benefit Plan,” and Form 5330, “Return of Excise Taxes Related to Employee Benefit Plans.”

The normal due date for requesting an extension for Form 8955-SSA or Form 5500 is the last day of the seventh month following the close of a plan year. However, if the 2010 plan year ended before April 1, 2011, it is not necessary to file for an extension for Form 8955-SSA for the 2009 and

2010 plan years — the due date for this return has already been extended to January 17, 2012. The normal due date (which has now passed for 2010 calendar-year plans) continues to apply for extensions for Form 5500.

Form 5558 is designed to allow the plan sponsor or plan administrator to obtain an automatic extension for filing Form 5500 and Form 8955-SSA at the same time. It is filed with the IRS Service Center in Ogden, Utah, whether the filing is for Form 8955-SSA, Form 5500 or Form 5330.

Note that when requesting an extension for Form 8955-SSA or Form 5330, a signature is required (no signature is required for a Form 5500 extension). The signer may be the plan sponsor, employer or plan administrator. Certain other individuals may sign and file Form 5558 on behalf of the plan, including an enrolled actuary, enrolled agent, attorney or certified public accountant qualified to practice before the IRS, enrolled retirement plan agent or someone holding power of attorney. A Preparer Tax Identification Number is not required to sign Form 5558.

“The revision enables filers to extend the deadline for filing Form 8955-SSA, the Form 5500 series, and Form 5330.”

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