

## Phased Retirement: Benefits and Challenges

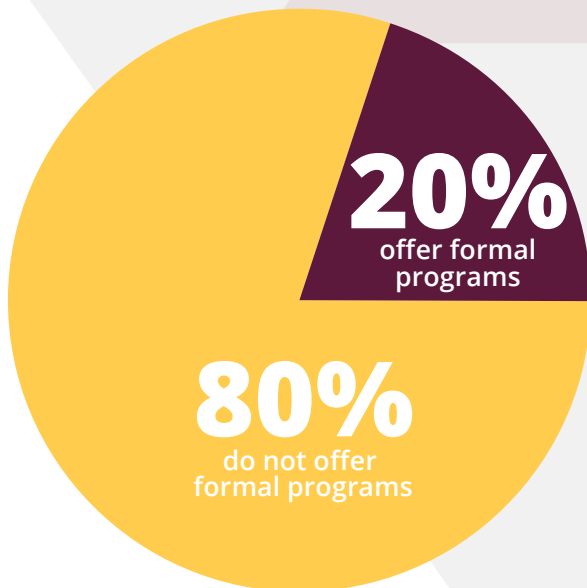
Research has shown that the expected annual growth rate of workers between age 65 and 74 is 4.5 percent and for those past 75 is 6.4 percent until 2024. This desire and need to work longer ask for solutions.

*Source: Toossi and Torpey, U.S. Bureau of Labor Statistics 2017*

### PHASED RETIREMENT

Phased retirement programs are a gradual change in a person's work arrangements as a transition toward full retirement. This may involve a change of employers (including self-employment), a change of career or a reduction in the number of hours worked.

*Source: 2008 Advisory Council on Employee Welfare and Pension Plans*



**According to a recent survey, about 20% of employers in the US offer formal phased retirement programs.**

With our research, we have seen that phased retirement programs are currently being offered in industries such as healthcare, financial services, logistics, manufacturing, technology, and the federal government.

*Source: 18th Annual Transamerica Retirement Survey 2018*

### WHAT ARE THE MOTIVATIONS FOR...

#### Employers to create one

- ✦ Preserve institutional knowledge for longer
- ✦ Save money with hiring and training
- ✦ Transfer expert knowledge to younger workers
- ✦ Increased flexibility in workforce planning
- ✦ Combat labor shortages
- ✦ Create opportunities for mid-level employees to move up while being trained by experienced workers

#### Employees to join one

- ✦ Earn additional income
- ✦ Contribute to retirement savings for longer
- ✦ Stay mentally stimulated
- ✦ Keep health benefits for longer
- ✦ Mentor younger workers
- ✦ Stay engaged with the work community

## WHICH TYPES OF PROGRAMS EXIST?

Employers should first assess if a phased retirement program is in line with their business goals. Then there are two categories to choose from:

### Formal

Formal programs are an HR policy that allows employees to assess whether they meet the qualification and shows the steps to join a program.

- ★ **Advantage** These programs have the advantage that they take away the ambiguity as to who can join, what's available, and for how long; making it a relatively fast and transparent process.
- ✗ **Disadvantage** Not much flexibility.

### Informal

Informal programs work on a case-by-case basis and are negotiated by the employer and the employee.

- ★ **Advantage** There is a lot of room for flexibility and tailored solutions.
- ✗ **Disadvantage** They can be time-consuming, depending on the size of the company, since they have to be negotiated with every employee.

## FEATURES OF A PROGRAM

### Benefits

The list of benefits provided to phased retirees varies by employer. Some employers provide the same benefits as full-time employees and prorate accordingly, others limit the availability or offer none. Employees often prefer to keep all or at least some benefits; specifically, health insurance, disability, and continued contributions to retirement savings.

### Eligibility

A program can be based on tenure, location, a division of the company, a particular position, or the age at which employees are allowed to start phasing into retirement. Some employers, including the federal government, use the eligibility for retirement benefits as the starting point for a phased retirement program. The law allows for in-service distributions without penalty starting at age 59 ½ for those with a defined contribution plan and age 62 for those with a defined benefit plan.

### Length

This option can depend on the employers' goals. Employers can offer employees a range, e.g. 1-year min or 4-years max, and some allow for the renegotiation of terms and length at the end of a program.

## CHALLENGES

### Age discrimination

Framing the program is important. If the message is not properly conveyed, an employer could be exposed to age discrimination challenges against younger workers. It has to be clear why the program exists, what's the goal behind it, and who qualifies for it.

### Health benefits

Employers are not obligated to continue providing benefits below 30 hours of work per week. If there are no benefits offered below that threshold, the buy-in of the program could suffer.

### Qualifications

Selecting qualifications can be cumbersome and employers have used several options: length of tenure, positions, skills, and ability to mentor others.