Introduction

The tendency of U.S. workers to stay in the labor force longer, including beyond the traditional retirement age of 65, has grown over the past two decades. Recent 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. Additionally, the percentage of workers in the labor force past age 55 rose to 22 percent in 2015, up from 13 percent in the year 2000—a trend that is expected to continue at a steady pace well beyond 2020.1

There are many reasons why older Americans continue to work. They are living longer and reaching old age with less financial security, so they continue to work in order to support their retirement years. The shift from employer-sponsored defined benefit (DB) pension plans to employee-managed defined contribution (DC) plans has also affected retirement security. Many employees are poorly prepared to take on the responsibility for managing their retirement nests. And low rates of return on long-term investments have exacerbated the challenge of saving for a financially secure retirement.2

A lack of savings and rising or unexpected health care expenses can also keep older Americans in the labor force. So does debt. Research has shown that older workers are reaching their golden years with significant debt, and some face retirement while still making mortgage payments.3 There are also workers who continue by choice to work beyond the traditional age of retirement. They may enjoy their jobs, fear retirement, or face a dearth of transitional retirement programs.

There is evidence that some employers have been addressing this labor force shift with phased retirement programs. However, the movement toward formalizing this approach has yet to gain momentum, and a number of obstacles serve as disincentives for arrangements that ease the transition of older workers into retirement.

We conducted 37 in-depth interviews with employers and retirement experts to gauge attitudes toward the retention of older workers, to examine the benefits and challenges of phased retirement, and to identify how policy makers can respond to this workforce trend.

Employers’ motivations for retaining older workers

Employment beyond traditional retirement age can be valuable for the workforce. In industries where labor shortages are on the rise, the retention of older workers is especially beneficial.4 A recent report from the U.S. Bureau of Labor Statistics’ Job Openings and Labor Turnover Survey, for example, finds an ongoing drop in the rate at which jobs are filled in the fields of healthcare, financial services, and education, leaving these industries unable to keep up with demand for services.
The longer retention of experienced workers brings other dividends to employers. It provides the opportunity for older workers’ knowledge to be transferred to younger employees. It also enables employers to keep up demographic diversity, to reduce costs associated with hiring and training new employees, and to be more flexible in workforce planning.

Additionally, there is a whole-society benefit. The longer Americans work, the more financial resources they will have available for their decumulation years and the less they will depend on Social Security.

**One response: phased retirement programs**

To address the trend of Americans working more years than in the past, some employers in the private and public sectors have implemented flexible retirement programs. Through a gradual reduction in work hours, these programs assist employees with the transition from full-time work to full-time retirement. Although employers often assign these programs unique names, the concept is “phased retirement.” We refer to the following definition: “...phased retirement means 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. As the focus is on how and on what terms people continue working after they are eligible for retirement benefits, the re-employment of retirees—whether or not it was anticipated when they first retired—is also sometimes included in discussions of phased retirement.”

There are many direct benefits from retaining older workers longer, among them knowledge retention and the mentoring and training of younger employees. An unintended benefit of a phased retirement program is that it might help break or avert staffing bottlenecks at a company. Senior level employees who are not ready to fully retire but aim to enter a phased retirement program can, in turn, open up positions for mid-level employees. This can help retain younger workers in industries with high turnover.

**Challenges for implementing phased retirement programs**

Although phased retirement programs carry many benefits, they are vulnerable to challenges that can discourage employers from adopting such programs. The Age Discrimination and Employment Act, for example, can be counterproductive for employers seeking to implement a phased retirement program. Employees under age 40, for example, could feel less valued for not qualifying for more flexible work arrangements. One of the employers we spoke with solved the issue of age discrimination by creating two programs. One allowed all employees to go part-time in the same position while the other, intended for phased retirees, helped create a well-structured plan for transition into retirement. This program ensured the transfer of knowledge by using phased retirees to help train new employees.

Some employers fear that phased retirement programs might also raise discrimination challenges in the areas of compensation and gender. This could occur if the position or skill targeted in phased retirement favors mostly high salaried employees or one gender group more than the other. Compensation issues may arise under DB plans. Employers facing compensation discrimination issue with the Internal Revenue Board could lose the tax breaks received from providing benefits to employees.

Both the experts we interviewed and the literature underscored another significant challenge: access to benefits. Common phased retirement arrangements are typically 32 or 24 hours for 4 or 3 days a week, respectively. Since the Internal Revenue Service defines a full-time employee as one who works at least 30 hours a week, the switch between the two might be a deciding factor in whether an employer will provide healthcare benefits and continued contributions to a 401(k) plan.

On the healthcare side, one of our experts described a valid compromise: Employees who join a phased retirement program before age 65 would be covered by the employer (first payer under the Affordable Care Act) while those who join a program after age 65 would be required to switch to

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Medicare (second payer). An adequate balance between the two could increase the incentives for employers to introduce phased retirement programs and for employees to join them. Allowing workers to continue saving for retirement while receiving a match for their contributions would also boost the incentives.

Despite the clear benefits that phased retirement programs offer to both employers and employees, the specter of challenges makes employers reluctant to consider these programs. Phased retirement programs remain an uncommon workplace option, with only 20% of employer currently offering these arrangements at a formal level.\(^5\)

**Implications and suggestions**

There is a need to encourage employers to consider phased retirement programs. Indeed, these programs should be advanced as a priority. More research and growing numbers of news outlets are covering this demographic shift of the workforce—and there is no immediate sign the trend will reverse.\(^6\)\(^7\) Still, in the current context, employers wanting to create a flexible work arrangement could face multiple legal challenges.

Phased retirement programs set workers up for more financially secure retirements. They decrease dependency on Social Security. They show older American workers that employers value their contributions, and they strengthen businesses in different areas, for example, by keeping diversity up.

If policymakers want to see more employers provide phased retirement programs and employees opt to join them, they could: (1) revise outdated rules, including certain non-discrimination rules, (2) provide safe harbors that enable employers to engage with older workers to offer them flexibility as they approach their desired retirement date, and (3) make a distinction related to health benefits provided during phased retirement so that both the employer and the employee can equally gain from a program. Policy makers can push for the development of educational materials that show employers how to create phased retirement programs.

To support workers, policy makers could also get behind programs that educate employees on how to address high levels of debt and low savings while providing information necessary for sound financial decision-making and retirement planning. Financial education can be used to help workers plan for their retirement far in advance and to prepare them to make wise financial choices during their accumulation as well as the decumulation phase.

**References**


