GFLEC Report

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Working Longer: Implications for a Heterogeneous Workforce

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Abstract:

Working past the general retirement age is becoming a must for many in the baby boomer cohort and the cohorts that follow, and flexible work arrangements such as phased retirement programs can help meet the needs of employers and employees considering alternatives to traditional retirement patterns. Employers offering phased retirement programs are improving their workforce-planning strategies and are able to overcome labor shortages, benefit from retaining expert knowledge, and help employees boost financial security after retirement and stay socially and cognitively engaged. We evaluated phased retirement programs and their adequacy for those working beyond the general retirement age. Our qualitative research—in-depth interviews with employers and retirement experts—offers insight and perspectives on the challenges and benefits that employers and employees face and ways to design formal programs that enable those who would like to work longer to gradually reduce their hours as they reach retirement.

GW Business

Introduction

Phased retirement programs offer employees who want to extend their years of work greater flexibility as they approach and pass the age of traditional retirement and in the process, they provide employers with a valuable workforce planning tool. These programs can present legal challenges for employers with defined benefit (DB) pension plans and for those sponsoring defined contribution (DC) plans. Employers that offer DC plans and want to implement phased retirement programs have more flexibility to do so, but often lack guidance and information on how to implement them without running into legal issues.

To determine how phased retirement programs can best meet the needs of both employers and employees considering alternatives to traditional retirement patterns, we interviewed 17 employers in different industries and 20 retirement experts, and we complemented our findings with the literature on phased retirement programs. We found high motivation for a gradual reduction of working hours en route to retirement,[1] low implementation of formal programs, different ways of implementing phased retirement, and guidelines to address legal barriers related to age discrimination, benefits, and in-service distributions.

The structure of this report is as follows: The first section gives an overview of the drivers and the macroeconomic effects of those working longer. The second section presents employers perceptions of working longer and older workers, and the different types of work pursued by older workers. The third section introduces phased retirement programs and gives an overview of their challenges; provides an expert perspective and shows highlights from industries using phased retirement programs. The fourth section explains how to use phased retirement programs and gives examples from our in-depth interviews with employers. The fifth section has guidelines for employers wanting to implement a phased retirement program, employees wanting to take advantage of a program, and policy makers interested in supporting both employers and employees impacted by the trend toward longer working lives. The last section presents the analogs of phased retirement programs and provides a comparison between each.

Section 1: Drivers and Effects of the Trend Toward Working Longer

Overview

The past two decades have seen an increasing number of Americans working past what is considered to be the general retirement age of 65 (Coile, 2018). Research from Kramer and Howard (2013) shows that the labor force participation rate for Americans over age 65 increased from 12.1 percent in 1990 to 16.1 percent in 2010. The increase in life expectancy (Irving, Beamish, and Burstein 2018) and the financial situation of older workers (Lusardi, Mitchell and Oggero, 2017) are some of the main drivers of this trend.

Between 1960 and 2016, the average life expectancy beyond age 65 in the US increased from 12.8 to 18 years for men and from 15.8 to 20.6 years for women (OECD 2019). Part of this increase is attributed to advances in medicine (Lichtenberg, 2015). In addition, the transition to an information economy with fewer people in physically demanding jobs (Rho, 2010), has also had an impact on longevity (Rapaport, 2018).

[1] About 60 percent of participants in the 2014 Health and Retirement Study (HRS) either agreed or strongly agreed that they would like to gradually reduce their hours as they approach retirement while keeping their pay per hour the same.

Despite increases in Americans' longevity, US life expectancy is lower than that of other developed nations (Figure 1). Figure 2 shows that life expectancy of US males decreased slightly from 2012 to 2016, which can be attributed to the opioid crisis (Dowell et al., 2017), and that female life expectancy, which has risen at a mostly steady pace over the past 16 years, had a small decrease from 2014 to 2016 (Figure 3). These recent, slight decreases in US life expectancy indicate that decisions to remain in the workforce might be influenced by factors other than longer life expectancy.

An important driver of retirement decisions is an individual's financial situation. The shift from defined benefit (DB) to defined contribution (DC) plans, with its associated shift in retirement planning responsibility from employers to employees, has pushed Americans without enough savings to work longer (Munnell, Hou, Webb and Li, 2017). This shift also allows workers to contribute more and longer to DC retirement funds, which are better suited to flexible retirement arrangements, in contrast to DB plans, which might not provide incentives to continue working after a certain age. Multiple studies have documented problems with older workers' financial situations: people are reaching old age with more debt (Lusardi et al. 2017), less savings, and little knowledge about how to invest for their retirement years (Lusardi, Mitchell and Curto, 2013). Moreover, research from the HRS on debt near and during retirement has shown that the amount of debt held by Americans has more than quadrupled in two generations (Lusardi, Mitchell, and Oggero, 2018). Reaching retirement with multiple years left on a mortgage or other debt contract can consume most of the financial resources that would otherwise support retirees in the decumulation period—what are supposed to be their "golden" years.

Macro effects of the trend

The trend of individuals working past the traditional retirement age can have important macroeconomic effects but these effects depend, in part, on the health and economic stability of older workers. On one hand, healthy individuals who work beyond age 65 can help reduce the transfer of money between younger generations and the generation in retirement and can contribute more to public benefit programs like Social Security, Medicare, and Medicaid than they otherwise would. On the other hand, an unhealthy aging population can stress the budgets of these programs and increase the government's deficit (Lee, 2012).

Aggregate changes in consumption are a major effect of an aging workforce. Since the older population's income accounts for a high proportion of consumption, working longer keeps high-consuming workers producing and consuming more, which in turn keeps the engine of the economy running (Bloom et al. 2015). A hypothetical link between consumption and working longer is that the former can be increased by the latter while heightening returns on Social Security benefits. Delaying receipt of these benefits from the time at which they become available, at age 62, to the time at which they are maximized, at age 70, can help secure a better financial future for the American worker, all while increasing consumption. There's optimism in this regard; recent research shows that the percentage of Americans claiming as soon as they are able to has become smaller in recent years (Munnell and Chen, 2015).

Section 2: Perceptions of those Working Longer

In-Depth Interviews

Our qualitative analysis of the trend toward later full retirement involved 37 in-depth interviews: 17 with employers (Table 1A) and 20 with retirement and workplace flexibility experts, policy makers, economists, and legal experts. Of the 17 employers we interviewed, 11 offer phased retirement programs, four of which are formal. Companies' size ranged from 5 to over 500 employees. We categorized companies with 5 to 99 employees as small, those with 100 to 499 as mid-sized, and those with over 500 employees as large. The interviews offered insight into how different industries are perceiving and addressing challenges associated with Americans working longer, including suggestions on how to measure the success of a phased retirement program. Experts provided guidelines on how to implement phased retirement programs and a fresh perspective on how to work around the legal challenges posed by such programs.

Employers' Perception of Working Longer and Older Workers

Employers are aware of the demographic shifts in their industries and at their companies and are starting to take action to address the late-retirement trend. During our interviews with employers, we identified patterns of the trend that strengthen the research findings highlighted in the previous section. The employers we interviewed saw the trend as a function of employees' high levels of debt, low savings, rising life expectancy, love for their jobs, desire to stay engaged with their community, and need for healthcare coverage. Some of the less commonly noted reasons for the trend were starting families at an older age, being averse to change, and the need for income to help support older relatives.

One of the major benefits of the trend that all employers noted is the retention of institutional knowledge held by older employees. Employers who had been in business for more than 20 years, and who had employees with a tenure equating to the life of the company, expressed discomfort at the thought of losing those valuable employees to retirement. Another perceived benefit was the strong attachment of workers to the core values of the company. Older workers were seen as role models for younger workers and as mentors for newer ones. The training and mentoring aspects are seen as highly beneficial, time-saving tactics that ensure that more senior workers transfer their knowledge to the next generation.

Some of the challenges of employees working longer were rising healthcare costs, inability to hire new and cheaper employees, increased leaves of absence due to poor health of employees or their relatives, perceived stubbornness, and a decrease in innovative output. While these claims have some validity, some are stereotypes that have been refuted by recent research on ageism in the workplace. There is no significant evidence between age and performance but there is evidence that a one-percentage-point increase in the employment of mature workers increases the employment rate of younger workers (North 2014). As the size of the supply of younger workers moves in the opposite direction than that of older workers, we may see employer perceptions becoming more positive toward older workers.

Types of Working Longer

There can be many reasons people choose to work beyond the traditional retirement age. At opposite ends of the spectrum are those who continue to work out of pure desire and those who do so due to lack of choice. Some common employment arrangements found beyond standard retirement age are part-time, part-year, or full-time employment either with the same employer—not necessarily in the same capacity—or with a new one. There are also plenty of independent contractors of retirement age; many retirees who want to start receiving retirement benefits while working for short-term projects on a contractual basis set themselves up in this way. Other arrangements involve seasonal or on-call employment, job sharing, labor pools, or cycling in and out of a particular full-time role.

An often overlooked trend among older cohorts, specifically baby boomers, is the rise of entrepreneurship. Research indicated that in 2014, 7.8 percent of Americans between 52 and 65 were considered entrepreneurs and that these individuals were healthier, wealthier, and more educated than earlier cohorts of entrepreneurs of that age range (Lusardi, Christelis and De Bassa Scheresberg, 2016). In 2016, 13 percent of male, self-employed workers were age 55 to 64 and 10 percent were age 65 to 69. (Coile, 2018).

Section 3: Phased Retirement Programs: Benefits and Challenges

Introduction to Phased Retirement Programs

There are several options for providing workers with more flexibility as they approach their desired retirement date but our focus in this section is on phased retirement programs. These programs allow employees to gradually reduce their work hours with the same employer, with a new employer, or through self-employment as they approach the age at which they would like to retire. Phased retirement arrangements can take different forms, have different names, and be implemented differently depending on the employer's industry, workplace size, and demographics.

Phased retirement programs can be formal or informal programs. An informal program is one that is settled on by an employer and employee in an ad-hoc or casual way; because of its nature, it gives the employee more room for negotiation than does a formal program. With an informal program, employees can express their desire to gradually reduce their hours to their employer, as opposed to going to a website and filling out a form. There can be a lot of flexibility in an informal arrangement; someone within this program could work indefinitely and negotiate for full-time employee benefits for the duration of the arrangement. In contrast, formal arrangements are usually structured human resource policies with requirements to determine who qualifies and under what conditions. The requirements of formal programs can involve the length of tenure, specific skills, commitment to an end date, and willingness to mentor or train new employees.

Whether companies offer formal or informal programs can depend on their size. Informal programs tend to be more common at small and mid-sized companies, where handling each case individually is more manageable. In contrast, larger companies with multiple locations or a diverse workforce can find that formal programs save implementation time and help them narrow the program scope (e.g., who they offer it to). Research has highlighted the same distinction between firm size and phased retirement program format (GAO, 2017) that was evident from our in-depth interviews with employers: None of the small or mid-size firms we interviewed had a formal program, and all large firms except for one had formal programs.

Benefits for Employers

Phased retirement programs give employers a tool to enhance workforce planning and prepare for the departure of retirees. These programs also enable employers to retain experienced workers and benefit from their intellectual capital for longer. In addition, gradual retirement with a mentorship component helps with the transfer of knowledge from experienced workers to younger and less-experienced ones, enabling plans for the succession or evolution of a role. In other cases, an unintended benefit of a phased retirement program is that it can help break bottlenecks: Senior-level employees who are not ready to fully retire but aim to enter a phased retirement program can open up positions for mid-level employees, thus increasing retention of younger workers in industries with high turnover. An employer we spoke with expressed this as the sole purpose for introducing a phased retirement program. Their program helped give older workers more flexibility and open up opportunities for younger employees.

Another benefit of phased retirement programs is that they can help address labor shortages. Research shows that labor shortages have continued to rise, especially in the education and health services industries (Oslund, 2018), but in both industries, flexible retirement options are helping combat the shortages. A healthcare-industry employer we interviewed said that they increased their workplace flexibility to retain experienced nurses. Although the job requires a lot of physical stamina, flexible work arrangements have enabled healthy 60- to 65-year-old nurses to work longer while taking care of 70- to 75-year-old patients.

Challenges and Barriers from Employers' and Employees' Perspectives

Phased retirement programs can have benefits for employers and employees; however, there are barriers that can disincentivize employers from offering and employees from joining these programs. One of the major challenges is the provision of health insurance benefits. Under Medicare, employers are the first providers of health insurance and most have to offer benefits to employees who work at least 30 hours per week.[2] Since common phased retirement arrangements are 32 or 24 hours for 4 or 3 days per week, respectively, this challenge puts both the employer and the employee in a difficult position. Offering health benefits to phased retirees working 24 hours per week costs the same as subsidizing the benefits of a full-time employee. Lack of guaranteed benefits below 30 hours per week is a barrier to phased retirement for employees who want to reduce their hours before they are eligible for Medicare. The cost of getting insurance elsewhere could further reduce income while phasing. The availability of health insurance through the ACA Health Insurance Marketplace has made it possible for people who would have been rejected by insurance companies due to low income or a preexisting condition to have access to more affordable healthcare coverage (Kean, 2017). Yet the cost of insurance for older Americans through the ACA Marketplace is still high and has been rising over the past five years, making the provision of healthcare a continuing issue with phased retirement programs (Park and Sanger-Katz, 2017).

For some employees, the ability to continue making contributions to a DC retirement plan and benefiting from matched employer contributions is a driver of working longer, so allowing workers to continue saving for retirement while receiving matching contributions could incentivize them to stay longer.

If a company fails to provide sufficient evidence that the withholding of benefits during a phased retirement program is due to the distinction between full-time and part-time work and not age (regular age discrimination), it could be exposed to a lawsuit (Hill, 2010).

Some employers are reluctant to implement phased retirement programs because they fear being sued for discrimination. If flexible work arrangements are only offered to a select group— e.g., those 60 and older—employers could face claims of reverse age discrimination for not offering more flexibility to younger workers. On the other hand, if the group for which the arrangements apply consists mostly of men or women, the employer could be accused of gender discrimination, even though the goal is to retain workers with a particular skill, not a particular gender. Also, if the group for which the flexible retirement program applies consists only or mostly of highly compensated employees, the employer could face legal

[2] Not all employers are bound by these rules. Smaller employers, usually with less than 30 employees, are not obligated to provide any benefits. For more information, see https://www.irs.gov/affordable-care-act/employers.

issues for discriminating against lower-wage employees. Although this challenge only applies to employers with a DB plan, it is important because failure to comply could result in the loss of tax benefits for the employer.[3] The GAO (2017) cited instances of employers not developing phased retirement programs because of fear of discrimination. During our interviews with employers, we did not hear these concerns.

Another challenge arises with the decision about when to allow employees to join a phased retirement program. The ages at which individuals can start taking an in-service distribution without penalty, 59½ for DC -plans and 62 for DB plans, do not align with all professions and types of work. For example, those in physically demanding jobs, who could benefit from a program starting at, say, age 55, would not be able to tap into their retirement savings without a tax penalty. Individuals could access their DC plans before the legal age but to do so, they would have to convert some or all of their 401(k) resources into annuities to avoid the 10 percent tax penalty on income. Depending on the amount saved, low monthly payments from the annuities could disincentivize this approach. Another challenge for the employee and potentially for the economy is that allowing in-service distributions earlier than 59½ could reduce the length of the decumulation period, as assets would deplete faster.

In our research, we found that employers often struggle to decide who should qualify for a program, and this struggle often impacts the choice between a formal and an informal program. If an employer would rather pick and choose who can join, they might favor the informal as opposed to the formal one. If an employer creates a program based on tenure with the company, it could potentially exclude workers who were hired in their 50s. The federal government, which implemented a program in 2014, works around this barrier by having two tenure criteria: 20 or 30 years of work experience and at least 3 years with the government.

Challenges and Barriers from Legal and Phased Retirement Experts' Perspective

During our interviews with experts, we identified several factors that affect decisions by employers to create or employees to join a phased retirement program: timing of Medicare and Social Security benefit eligibility; small details of a program; financial knowledge; and legal implications.

According to our experts, the decision to phase into retirement is influenced by the unaligned timing of Medicare and Social Security benefits. The median US retirement age of 62 coincides with eligibility for Social Security benefits, but workers who retire before age 70, when Social Security benefits are maximized, are leaving money on the table; extending labor force participation with phased retirement programs could potentially help Americans workers increase the amount of Social Security income they receive. In addition, Americans workers have misconceptions about how much they will receive from Social Security once they retire and often claim as soon as they can (Pashchenko and Porapakkarm, 2018); this misconception can lead to the use of Social Security resources to pay for healthcare coverage during a phased retirement program. If health benefits are not offered to those wanting to start phasing before they are eligible for Medicare, it could affect the success of a phased retirement program.

Almost all experts we interviewed agreed that the nuances and disincentives posed by the small details of a program, such as choosing an end date, qualifications, and length, impact the success of a phased retirement program. Depending on the employer's needs and goals, an end date might not be necessary.

[3] Compensation challenges are part of the Internal Revenue Code, section 72, and they apply mostly to employers with DB plans, which continue to become more uncommon.

One expert we talked to designed programs with an end date but left options for renewal available at the end of the program, conditional on employer approval. Eligibility for participation in a phased retirement program can pose issues for the discrimination challenges described in the previous section. According to our expert interviews, the most effective ways to avoid discrimination concerns are through the creation of formal programs that include explicit human resource policies that define eligibility criteria: why certain employees qualify and when they qualify for the program (e.g., after 15, 20, or 30 years of tenure or experience).

The financial vulnerability of older workers has been well documented in the last 10 years (Lusardi et al., 2017). Experts we interviewed reiterated the research findings that show that American workers are reaching their retirement years with less savings and increased reliance on Social Security, and that this is in part due to the shift from DB to DC plans. Financial education programs that focus on the financial concepts that relate to retirement planning can help, and experts suggested that these programs be offered by all employers, as the workplace is where the adult population can most easily be reached. Enhancing phased retirement programs with mandatory educational components that support employees in their accumulation and decumulation decisions, along with providing workers with the opportunity to continue contributing to their retirement savings, would further increase the long-term impact of these programs.

Section 4: How to Use Phased Retirement Programs

Formal phased retirement programs are used infrequently today—only 20 percent of employers offer them (Collinson, 2018). One reason is that employers lack information on how to set up programs without running into legal challenges. Since labor shortages have not yet affected all industries, facilitating workers' transition into retirement is not yet a priority for all employers. Our interviews with employers and retirement experts offer examples of how these programs are creating guidelines for the design of formal programs.

Considerations for a Formal Program

Research from Collinson (2018) shows that more employees want to gradually reduce their hours (30 percent) than to fully retire (23 percent). This means that more workers—whether or not they meet phased retirement program criteria—could soon be asking for more transitional retirement options, and employers can avoid legal challenges either by creating several programs to fit the workforce needs or having well-defined policies outlining criteria for participation in the program.

Employers interested in implementing phased retirement programs could start by assessing their motivations for creating a program and their goals for the program. Some motivations could be to retain workers with certain skills, in certain positions, or who have established certain relationships. The goals of the program would depend on the employer; some of the goals of the employers we talked to were to preserve institutional knowledge and address labor shortage issues.

In assessing the value of a program, looking at the demographics would provide an idea of how many employees would potentially join a program within its first few years. Employers could analyze their hiring trends to determine the ages of their most recent hires. Additionally, phased retirement programs do not have to be limited to employees within the company. Two of the legal experts we spoke with mentioned that phased retirement programs can and have been used to attract seasoned employees who want a reduced workload and an exit strategy from full-time work.

Once an employer has assessed the value of a formal phased retirement program, program eligibility criteria can be defined. Eligibility might be based on tenure, location, division within a company, position, or age.[4] Additional decisions can be made to define the amount of time individuals can stay in the program, the workload involved, and the benefits provided. Some employers and experts we spoke with favored having employees enter the program with a defined end date for several reasons. Phased retirees can help hire and train their replacement or be assigned to specific projects for the duration of the program. One expert made the point that a phased retirement program that does not define employment end date would not be a phased retirement arrangement but rather part-time employment.

When assessing which benefits to offer, health insurance, continued contributions to retirement plan, life insurance, and disability benefits can influence employees' decision to join a program, so all are important considerations of phased retirement program design. Issues around retirement plans can be particularly complex: DB retirement plans are more highly regulated than DC plans in terms of allowing in-service distributions, and employers offering DB plans could benefit from legal advice to ensure that all stipulations under their phased retirement policy abide by the law.

Furthermore, the structure of a program can help to avoid legal challenges. Poorly structured programs can put employers at risk of a range of discrimination issues and could hurt employees' final pension calculations. Whether the program allows employees to leave and go back to the company as independent contractors, should also be addressed.

Examples of Implemented Phased Retirement Programs

To date, the US government has created several initiatives to help expand phased retirement programs. The 2008 Advisory Council on Employee Welfare and Pension Benefit Plans was in charge of advising the Secretary of Labor on legal issues for private employers with DC and DB plans that wanted to implement phased retirement programs. One of the Council's recommendations was the development of expanded and updated materials to assist employers in implementing their own programs.

Another US government effort was the creation of a phased retirement program for employees of government agencies, which was put into effect in November 2014. The purpose of the program, as stated by the Office of Management Personnel (2014), is "... to enhance the mentoring and training of the employees who will be filling the positions or taking on the duties of more experienced retiring employees … it may also be used for any learning activities that would allow for the transfer of knowledge and skills from one employee to others." As the statement indicates, the objective of this program is to capitalize on the institutional knowledge of experienced employees. Although the government provides general program guidelines, individual government agencies can modify program criteria to suit their needs. Eligibility criteria are years of service, years of tenure with the government, a minimum age of 55, and type of benefits enrolled in, but the program is not an entitlement, and every agency reserves the right to approve or decline an employee's request to enter its phased retirement program. If an employee's application is declined, the agency has to provide a written explanation for the rejection. According to one expert, sorting the details and conditions within an agency can prove difficult, and this is one of the main

[4] Minimum age to join with valid reason—eligibility for full-retirement benefits—can be compliant with the law, but upper age limits to join a phased retirement program could result in issues with the Age Discrimination and Employment Act.

reasons why more agencies have not yet implemented a program. The National Aeronautics and Space Administration (2018) documented the benefits of and challenges inherent in fully implementing a phased retirement program, noting that skill retention and mentoring are valuable components of such a program.

Although the US government program is still young, it offers valuable insights for the private sector on how to set up a program. First, it shows that allowing phased retirees to join as early as they are eligible for retirement benefits takes away the ambiguity between general flexibility and making it easier for employees wanting to retire gradually to do so. Second, it shows the value of a mentoring component. Its mandatory training component requires that employees spend 20 percent of their time per pay period mentoring other workers; assuring agencies that some of the knowledge of experienced workers will stay with each agency. Third, it shows that detail documentation of eligibility can provide clarity and transparency as to who can join, for how long, and under which conditions. In addition, joining a government phased retirement program is voluntary and requires mutual agreement from both the employer and employee.

One expert who helped with the implementation of a formal phased retirement program at a large company almost two decades ago said that the main reason the program worked was because the company offered DC plans, which are more flexible and somewhat better suited to phased retirement. To avoid any discrimination based on age, gender, or compensation, the employer created two programs under the umbrella of workplace flexibility. The first was a part-time option for all employees and the second was a phased retirement program. The goal of the former was to provide flexibility for any employee, whether for time to spend with their families, to go back to school, or to do projects outside the company. The goal of the latter was to preserve intellectual capital while allowing employees to have more leisure time. Additionally, the company saw no value in providing a phased retirement program without allowing employees to keep their benefits. The employer expressed value in having a defined end date for the program but allowed for an extension to be negotiated between a manager and the employee.

All seventeen employers we interviewed employed workers over age 65, and 10 of the 11 employers that offer a phased retirement program agreed that the value gained from the program outweighed the cost of providing benefits to the phasing employees in the program.

An employer with 100 employees and an informal phased retirement program offers three flexible retirement options: on call, seasonal, and part-time. The criteria are seniority, commitment to mentoring, and willingness to return to full-time work if necessary.

A mid-sized financial services firm with an informal program gives phased retirees the option to choose their end date and provides full benefits to employees in the program. This employer prorates salaries based on hours worked and allows for the continuation of full commission benefits from clients brought to the firm by employees before they join the program. The program’s creation was motivated by the desire to help the 20 percent of the firm’s employees who were near, at, or beyond the general retirement age. The company noted that they were contemplating a switch to a more formal approach to save on the time spent negotiating and setting up each phased retirement contract individually.

A large employer with a formal program noted that when employees join their phased retirement program and switch to part-time work, the company is able to use the savings to hire a new employee and have the experienced, part-time employee in the role of trainer. The same employer said that having a formal program helps reduce any ambiguity around eligibility for and benefits associated with the program.

One employer stated that having an older workforce eager to train younger employees was not only good for the company but also changed the perception among older employees of being pushed out or not needed. Another employer with a formal program said that redirecting the roles of its phased retirees so that they could help with a variety of issues within the company saved them money they would otherwise spend on consultants. A large employer in the aerospace industry was worried about losing the institutional knowledge of employees who had been with the company for as many as thirty to fifty years and who essentially keep the company running. To incentivize these employees to stay on and mentor younger employees, the company added a special feature to their phased retirement program: every phased retiree had the option to team up with a newer, younger worker and collaborate on a project, but with the older employee providing only guidance. With this rule, the company incentivizes the transfer of knowledge and rewards retirees with the most completed projects with bonuses. The employer mentioned that this benefit has been an essential part of their phased retirement program.

Industries with Labor Shortages Can Benefit from Phased Retirement Programs

As the population ages and as we transition to a more knowledge-based economy, the demand for certain types of workers increases, leaving some industries scraping for workers with particular skills. To counter labor shortages, companies have offered improved benefits and flexibility to attract more workers. One example is the logistics industry, in which the need for truck drivers has increased in the past decade and signing bonuses have skyrocketed. Companies are offering signing bonuses of up to $8,000 per experienced driver, and this amount can be three times as large for a team of drivers.[5]

Other industries currently experiencing labor shortages are education, healthcare, manufacturing, and utilities. The US Bureau of Labor Statistics (BLS) uses the Job Openings and Labor Turnover Survey (JOLTS) to create a ratio of jobs filled to jobs available in every industry. The higher the ratio, the better an industry is doing at filling positions. A recent BLS (2018) report shows that the ratios in education, healthcare, manufacturing, and utilities have decreased in almost every year since 2008 (Oslund, 2018). Offering phased retirement can help companies in these industries retain workers.

The healthcare industry has benefited from offering flexible retirement options. Research has shown that nurses value flexibility around retirement (Uthaman et al., 2015), and that the retention of nurses can improve with the availability of flexible work arrangements (Cyr, 2005). Hospitals have started addressing the shortage of nurses by implementing programs that include clinical mentorship and flexible schedules (Grant, 2016), and by providing financial incentives for nurses who consider staying longer.

Another industry currently experiencing labor shortages is the energy industry. A recent report by the US Department of Energy (2017) examined the labor shortage in the industry, concluding that it is due to increasing retirement of the baby boomers, lack of skilled labor, and location challenges. To address the labor shortage on the public side, the Department of Energy implemented a phased retirement program in 2015.

[5] Team Truck Driver | $16,000 Sign-on Bonus per Team | Up to $0.57 cpm | Georgia. (n.d.). Retrieved from https://schneiderjobs.com/search-driving-opportunities/details/170274.

Section 5: How to Advocate for Flexible Retirement Options

Employers

Whether or not an industry has been affected by labor shortages, phased retirement options can improve the retention of human capital. One of the employers we spoke with, who offers an informal program, asked every phased retiree to write a full description of their role and their day-to-day duties. Since roles within a company evolve over time, having a written description of the roles of employees nearing full retirement helped this employer better plan for future workforce needs. Policies governing phased retirement can be included in the retirement benefits policies and, like other retirement benefits, phased retirement can become available at a given point in time. Moreover, workforce financial education programs can increase knowledge about how to plan for the future while improving financial decision-making.

Employees

There are a variety of ways that employees can advocate for phased retirement options that suit their needs. When an employee decides to retire, a conversation with the employer takes place, and the same dialog could be established for a phased retirement option. If an employer does not offer a flexible retirement option, an employee could request the option with a plan on hand that outlines their time devoted to the company, their years of experience in the industry, and their willingness to train other workers. Benefits are a key consideration for employees who are deciding whether to join a phased retirement program or to continue with an employer as an independent contractor. If a phased retirement program does not offer benefits or the employee works as an independent contractor, the employee could potentially demand a higher hourly wage to subsidize their own benefits.

Policy makers

Policy makers interested in supporting flexible retirement arrangements could start by looking at what other countries have done. Countries such as the United Kingdom and Australia have a Right to Request rule. Under this rule, employees can request flexible work arrangements and the employer has to provide a valid reason to deny such an application, should it do so.[6, 7] Although it works differently in the two countries, such a rule can serve as a guideline for American policy makers seeking to better meet the needs of workers nearing retirement. Several California cities have enacted Right to Request laws in the last five years (Siegel, 2017).

Policy makers could advocate for training programs that teach new skills to older workers, thus boosting their employability beyond age 65 or providing access to less demanding jobs. Some employers in the US healthcare industry are already doing this.

The retirement landscape is one in which DC plans are—or have become—the norm. With these benefits, employers have enough room to implement a phased retirement program but lack the security to prevent possible backlash from those who do not benefit from these programs (e.g., younger employees who

[6] Welcome to the Fair Work Ombudsman website. (n.d.). Retrieved from https://www.fairwork.gov.au/how-we-will-help/templates-and-guides/best-practice-guides/the-right-to-request-flexible-working-arrangements.
[7] Government Digital Service. (2018, December 18). Flexible working. Retrieved from https://www.gov.uk/flexible-working.

would like the same flexibility). A safe harbor that allows employers to offer flexibility to workers contemplating retirement could push forward the agenda of phased retirement (Rappaport, 2018).

One expert recommended the creation of policy that would make phased retirement programs appealing to employees in diverse industries. Policy makers could create formal definitions of what constitutes as physically demanding jobs and justify the inclusion on the list by citing the life expectancy of workers doing these jobs; allow for in-service distributions below age 59½, or develop training programs that would help older workers move into less physically demanding jobs.

DB plans offer 401(h) benefits, which allow retirees to set aside funds for medical expenses on a tax-free basis, with the maximum allowable contributions in a year varying based on contributions to the pension. These plans are valuable tools for the creation of a more secure retirement but are not available for individuals with 401(k) plans. The main difference between the 401(h) in a DB plan and a Health Savings Account in a DC plan is that the former allows for more contributions on an annual basis, is solely for post-retirement health expenses, and continues to fund dependents after the plan holder dies; the latter is designed for immediate medical expenses and has set annual contribution limits. Employees with DC plans could benefit from policy that allows for accounts similar to the 401(h).

Section 6: Analogs to Phased Retirement

There are additional work arrangements, besides phased retirement, that provide flexibility at an older age and, to an extent, also enable individuals to extend their working years on a part-time basis. These are the gig economy and bridge jobs.

One formal definition of the gig economy is "a free market system in which temporary positions are common and organizations contract independent workers for short-term engagements."[8] The gig economy has grown in the past decade partly because of the increase in online platforms that allow for easy exchange of labor and goods (Smith, 2016). Companies have become adept at reducing the friction between needed tasks and the resources available to do them (the workers). For example, with Amazon Mechanical Turk, a worker can sign in to her account and complete a task from her smartphone during a commute to work.[9] Conversely, a company in need of workers could post hundreds of opportunities in any given day. This type of fast, independent contracting is becoming more common among workers of all ages, and it makes it easy for individuals to use their disposable time to generate additional income. Some of the best-known gig marketplaces besides Mechanical Turk are Bark, UpBox, and TaskRabbit. These marketplaces post hundreds of jobs every day and workers are selected to complete a task because of their skills, because they win a bid for a job, or simply because they opt to do a specific task.

One of the main reasons that the gig economy attracts older workers is that its tasks are suited to all types of experienced workers who are not looking for a long-term commitment or career. They provide a flexibility that allows for the enjoyment of leisure time and the filling of idle time to generate income. One drawback of the gig economy is that its jobs do not consistently pay as well as or provide the benefits available from regular employment (e.g., health insurance, retirement accounts, and paid time off).

[8] Rouse, M. (n.d.). What is gig economy? - Definition from WhatIs.com. Retrieved from https://whatis.techtarget.com/definition/gig-economy.
[9] Amazon Mechanical Turk (MTurk) is a marketplace for work that requires human intelligence. FAQs. (n.d.). Retrieved from https://www.mturk.com/worker/help.

Bridge jobs are used to ease the transition into retirement through a different role and at a different company. These roles can be part time, full time, on call, or seasonal, and their main function is as post-retirement work that follows a job that a worker has been at for at least ten years (Topa, Alcover, Moriano, and Depolo, 2013). Bridge jobs are often used as a transition into self-employment. They have a higher level of commitment and tenure than jobs in the gig economy.

The previously discussed options offer options for meeting the flexible employment needs of people entering their retirement years but they do not accomplish the same goals as phased retirement programs. Phased retirement programs offer employees a smooth transition into retirement, often with the same employer. To employers, phased retirement can offer the assurance that new employees will be mentored and that institutional knowledge will be transferred. The characteristics of the analogs to phased retirement programs do not make them inferior to phased retirement but expand the options available to employees. The main difference is that a phased retirement option does not require an employee to find new employment.

Conclusion

Phased retirement programs are becoming more prevalent as Americans extend their working lives beyond age 65. A 2005 study found that only 10 percent of employers offered formal phased retirement programs (Burke, 2005). Today, 20 percent of employers have formal phased retirement programs (Collinson, 2018). It is in the best interest of employers and policy makers to adapt to this trend.

Financial need and health are two key drivers of the trend toward later retirement and phased retirement programs are helping employees retain skilled workers while transferring their institutional knowledge to less experienced workers. The examples cited in this report highlight how employers have established their programs and offer expert views on ways to address legal challenges relating to phased retirement.

There is no recent or substantial empirical evidence indicating the extent to which these programs have increased labor force participation or addressed labor shortages. Future research with firm-level data in diverse industries would be valuable in helping to assess the true impact of these programs. Additionally, an in-depth view of how other countries are using flexible retirement options to address labor shortages and access the intellectual capital of older workers would provide valuable insight for the US economy.

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Figure 1: Life Expectancy at age 60 in Developed Countries

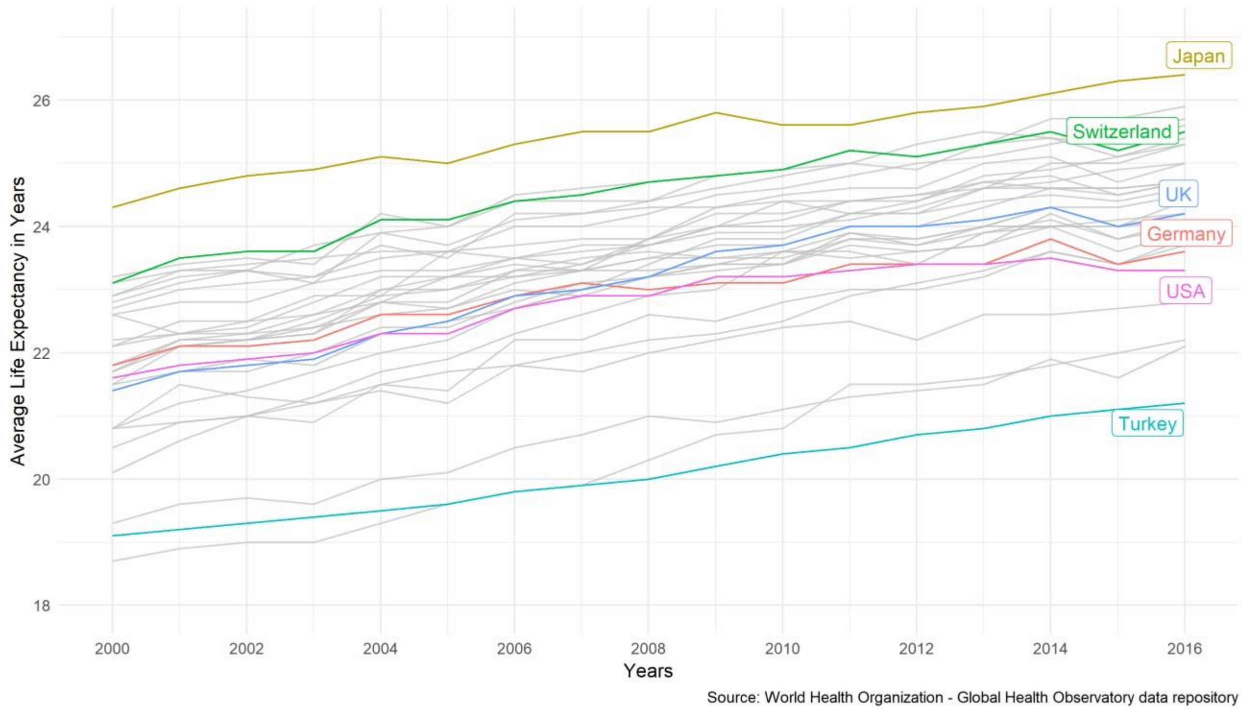


Figure 2: Men's Average Life Expectancy at age 60 in Developed Countries

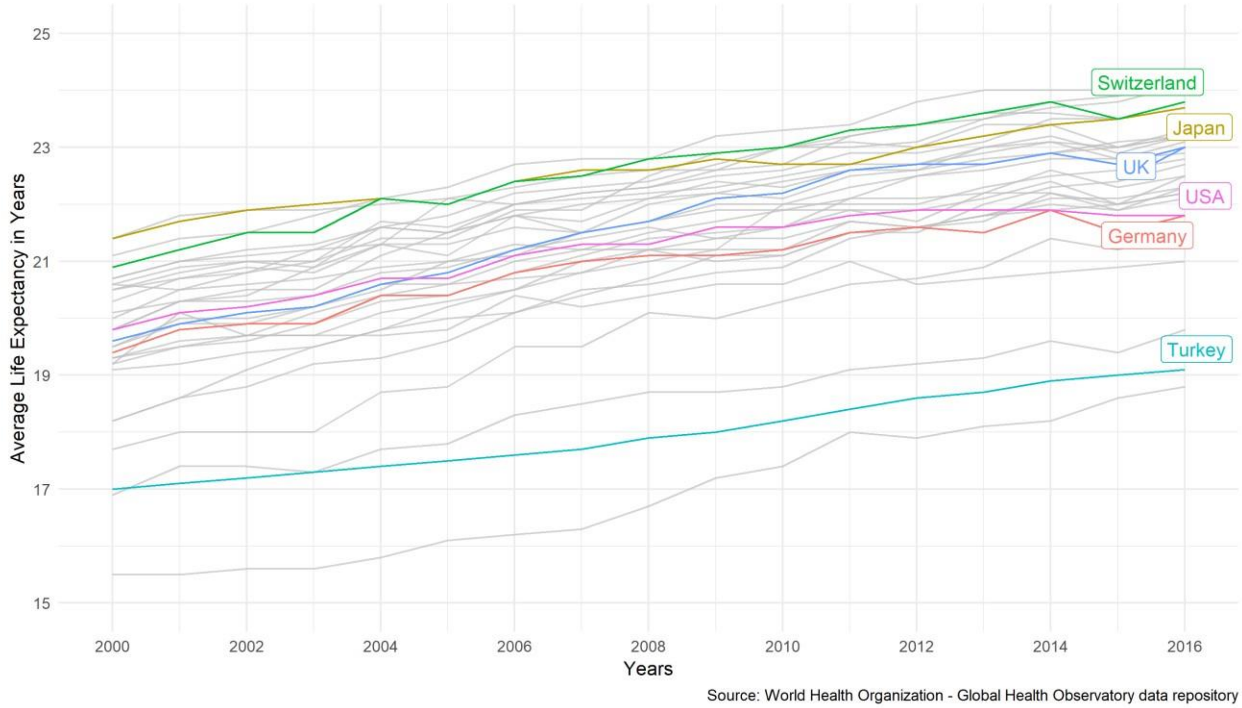
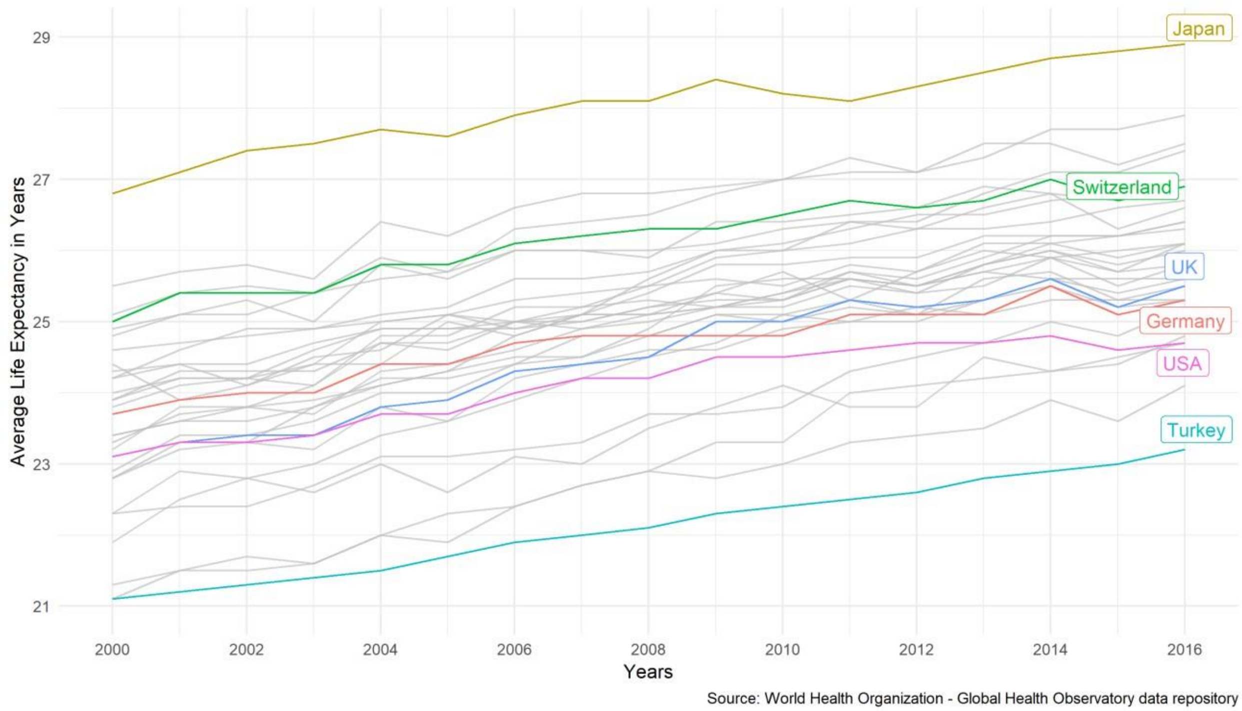


Figure 3: Women's Average Life Expectancy at age 60 in Developed Countries



Appendix

Table A1: In-depth interviews with employers.

Company size: Small - 5-99 Midsize - 100 - 499 Large - 500+	Phased Retirement Program Type (Self-Reported)	Company Industry	Seniority Level	State
SMALL	NONE	Manufacturing	Senior Director / Director	TX
MIDSIZE	NONE	Financial Services	Senior Vice President / Vice President	NY
LARGE	FORMAL	Information Technologies	Senior Vice President / Vice President	PA
SMALL	INFORMAL	Insurance	Senior Manager / Manager	IL
LARGE	FORMAL	Aviation/Aerospace	Senior Manager / Manager	NJ
SMALL	INFORMAL	Healthcare	C-level Executive	VA
LARGE	NONE	Retail	Senior Director / Director	CA
SMALL	INFORMAL	Manufacturing	Senior Director / Director	MN
LARGE	NONE	Manufacturing	Senior Director / Director	GA
LARGE	FORMAL	Pharmaceutical / Biotech	Senior Director / Director	NJ
LARGE	FORMAL	Hospitality, Travel, & Leisure	Senior Vice President / Vice President	FL
LARGE	FORMAL	Information Technologies	C-level Executive	CT
MIDSIZE	FORMAL	Real Estate	Senior Director / Director	TX
LARGE	FORMAL	Transportation/Trucking/ Railroad	Senior Vice President / Vice President	CA
MIDSIZE	NONE	Manufacturing	C-level Executive	CT
LARGE	INFORMAL	Financial Services	Senior Vice President / Vice President	TX
LARGE	NONE	Hospitality, Travel, & Leisure	Senior Director / Director	TX

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