Phased Retirement: A Solution for Employers and Employees?

by Anna M. Rappaport
Phased retirement programs can help employers fill a need for talent and experience while improving retirement outcomes for employees. The author describes options employers may consider for such programs along with some of the associated challenges.
As life spans are increasing, periods of retirement starting at traditional retirement ages also are increasing. This will often be too costly for households, employers and social programs, particularly those households without substantial employer-provided benefits. Employers need talent, and people with experience often can make very valuable contributions to the business and society. It also is important for individuals to remain engaged and active as they age, but staying at a full-time job may not be a good choice. Many households need income from continued work beyond traditional retirement ages. Phased retirement is an important option for all concerned.

**Approaches to Phased Retirement**

From the viewpoint of the retiree, any arrangement that permits gradual exit from the labor force is a form of phased retirement. If we examine population data, we find that many people have a number of steps between a career job and total exit from the labor force. Phased retirement can include a change in amount of work, place of work, responsibilities, a new job after retiring from another job, etc. The terminology surrounding the path between career employment and total exit from the labor force includes phased retirement, working during retirement, part-time work, bridge jobs, etc., but for this article, *phased retirement* will be used to describe the broad range of arrangements.

Phased retirement can be formal or informal and includes arrangements in which employees can modify their work arrangements and scale down responsibilities prior to retirement with the same employer, retiring from an employer and getting employment elsewhere, and retiring from an employer and getting rehired (often on a very limited basis) during retirement.

Rehire of retirees may be for specific projects, in a job similar to the prior job, as a temp through the use of a temporary pool, working through a third party such as a temporary agency, or as a contractor. Employers that offer defined benefit (DB) pensions have to decide whether to continue pension benefits during rehire. This is often handled by limiting the person rehired to working fewer than 1,000 hours annually and by requiring a period of separation prior to rehire.

Moving to new employment includes traditional employment, working as a temporary employee and working as an independent contractor. Employers who have part-time employees who can change their schedules are offering a form of phased retirement whether they recognize it or not.

**The Situation in 2018**

A 2017 Government Accountability Office (GAO) study, *Older Workers: Phased Retirement Programs, Although Uncommon, Provide Flexibility for Workers and Employers, Report-17-536*, found little use of formal phased retirement programs in the United States. GAO interviewed both employers and experts who present evidence that many people are working as part of retirement, creating their own phased retirement. These findings are similar to the author’s prior research.1

The GAO study describes eight case studies of phased retirement programs. All eight protect health care coverage, usually with a minimum work requirement, usually increasing the employer-provided health benefit. Most require supervisor approval for the individual to participate, as does the federal government phased retirement program, and most focus on a work arrangement with specific duties and possibly an explicit agreement. Only two of the eight organizations had DB plans, and most had defined contribution (DC) plans. The DC plans were not affected by the arrangement. Some had age requirements and/or limits on the period of phased retirement.

Hiring older workers and innovative work options are often discouraged because of fears of age discrimination complaints.

In the U.S., expectations about work in retirement and actual retirement age do not match actual practice. About

---

**learn more**

**Education**

37th Annual ISCEBS Employee Benefits Symposium
August 26-29, Boston, Massachusetts
Visit www.ifebp.org/symposium for more details.

**From the Bookstore**

**Get the Most Out of Retirement**

**Ready or Not: Your Retirement Planning Guide**
Elizabeth M. McFadden. 2018. MEI Publishing Inc.
five in ten people work after retirement or phase out in some way. More than seven in ten people say they want to work after retirement. In the 2017 SOA Risks and Process of Retirement survey, preretirees expected to retire at a mean age of 65, but retirees had actually retired from their main occupation at a mean age of 58.

In 2013, the Society of Actuaries conducted focus groups with individuals who had retired voluntarily in the last ten years. That focus group research indicated that many people who retired voluntarily were pushed into retirement because of work-related pressures, family needs or health problems.

Time spent in retirement has increased markedly as life spans have increased, without corresponding increases in retirement ages. The Expert Commission of the Future of the Quebec Retirement System observed that expected work life went from 46 to 38 years during the 39-year period from 1970 to 2009, while expected periods of retirement went from 13 to 23 years. The change was the result of a five-year decrease in expected retirement ages and a five-year increase in life spans.

The Affordable Care Act (ACA) enabled new options by making it possible for people who leave jobs before the age of 65 to get health insurance at a fair price in the marketplace. But the future of ACA is unclear, creating a new round of uncertainty about health insurance coverage and what will happen to those with health challenges if they need individual coverage, so fear of loss of health benefits is again a problem.

There have been years of discussion about phased retirement, and the rules were partly clarified and liberalized by the Pension Protection Act (PPA). Under this legislation, DB plans are allowed to pay benefits to participants who are phasing out of work starting at the age of 62. But there has been little use of these provisions, possibly because they are still complex to implement and there remain unanswered questions, and possibly because most of the focus has been on freezing or terminating the DB plans. More discussion of benefit plan issues follows below.

Phased Retirement for Federal Employees

The largest U.S. employer, the federal government, offers a phased retirement program that may provide an example to the private sector and offer ideas for legislation that can encourage or enable private sector practice. The federal program, which was enabled by legislation, allows full-time federal employees to work part-time schedules while starting to draw retirement benefits. The program was first implemented in 2014. Agencies were required to sign up for the program. Employees who are eligible for phased retirement and want to continue working on a part-time basis may do so with the agreement of their agencies. During phased retirement, employees receive a partial pension and keep accruing additional service credit for their final pension. Employees participating in this program are required to spend 20% of their time mentoring other employees.

Take-up of the program has been disappointing, however. As of June 27, 2017, 252 people had applied, and an additional 79 were retired under the program. But many agencies had not offered the program to employees or had started only recently. The lower-than-expected take-up has also been attributed to lack of flexibility in the program and the need for individual approvals.

When Congress enacted the enabling legislation, it was hoped that this would encourage more private sector organizations to offer phased retirement. However, with the experience to date, it is unlikely to do this, and it could have the opposite effect.

Focus on Rehire of Retirees

Much of the phased retirement today is in the form of hire or rehire of retirees, either by their prior employer or by a new employer. But it is not easy. Some modest policy changes would ease barriers to rehiring retirees and probably not be costly to anyone.

There are complexities involved in the rehire of retirees because of provisions in the pension and employment law and employee benefit plans and because these individuals may often want to have creative work arrangements. Rehire by the same employer where there are pensions being paid requires a bona fide termination of employment or the pension plan risks disqualification. However, there is no definition of bona fide termination in the law or regulations.

Employer options for rehire of retirees include:

- Avoid rehire entirely
- Make people wait a period to be rehired
- Limit work of rehires to less than 1,000 hours—usually done in connection with a waiting period
- Use a retiree pool
- Engage retirees as consultants
• Use independent contractor arrangements
• Work through third parties, like a temp agency or specialized consulting firm.

Pools and third-party arrangements can be limited to a firm’s own retirees, or they can offer access to a broader pool of individuals. The different methods of handling rehires can be used in combination. For example, a rehired retiree might be an independent contractor who cannot work more than a certain number of hours and can’t be hired as a contractor until six months have elapsed from termination of employment.

Employers seeking to rehire retirees are faced with a tangle of legal complexities and ill-defined rules. It would be a great help to clarify and define what bona fide termination of employment is and to offer safe harbors so that employers could know what approaches are safe and could choose the best ones for them. Ideally safe harbors should deal with the combination of issues related to termination of employment and age discrimination and serve to keep independent contractor status issues from raising added roadblocks.

For example, an arrangement that does not include a regular ongoing job and involves less than 750 hours of work per year could meet a safe harbor test. Participation in a pool with a limit on total hours worked also could qualify.

Contracting can create practical difficulties for the employer and individuals. The author is aware of difficulties with contracting in some cases. Many people who use phased retirement or continue to work at later ages do so as independent contractors. It is very important for the individuals and employers to have a clear written agreement defining the scope of work and compensation, as well as intellectual property and other rights. However, in many organizations, the formal process for contracting does not fit well to contracting with an individual phased retiree. The author’s experience is that there is usually no trouble when the contract is limited to what is needed for the situation, but it can get very troublesome when there is a standardized general contract that does not fit the situation well.

Where contracting departments are active, the contracts often seem to be designed to work with larger contractors and with contractors who will be involved with technology. They may include provisions that do not apply and/or make contracting difficult or impossible for a phased retiree. These comments are based on personal observation and not research.

Building Solutions

The Conference Board report, Phased Retirement After the Pension Protection Act, lays out many of the issues in structuring work arrangements and offers illustrations on how they may apply to different jobs. Some of the key issues and questions for the employer include:

• Will hiring retirees create business advantages and opportunities for us?
• Will a program be offered to all employees, to all in specific groups or only on individual approval? It seems that individually approved arrangements are more common.
• How can the business define a range of acceptable work arrangements and make the information available to the employee and supervisor so that they can structure something that works? Hospital systems are examples of organizations that offer a range of work options.
• What support is needed for the supervisor, and what sharing of decision making is needed between local and central operations so that implementation is not difficult? It is much easier for people with responsibility if they have more flexibility, but organizations want to maintain some consistency and be sure they are legally compliant. A balance is needed.

Phased retirement includes arrangements in which employees can modify their work arrangements and scale down responsibilities prior to retirement with the same employer, retire from an employer and get employment elsewhere, or retire from an employer and get rehired during retirement.

Use of phased retirement programs is limited in the United States, according to a recent report from the Government Accountability Office (GAO). A federal government phased retirement program has seen low usage.

One of the challenges of offering phased retirement is how to handle workers who have defined benefit (DB) pension plans. Issues include how to calculate benefits paid to phased retirees and whether they will earn pension credit for additional work.

Options for employers that want to encourage working longer include expanding part-time work options for older employees or establishing a retiree pool to allow use of retirees for temporary assignments and special projects.

• Phased retirement includes arrangements in which employees can modify their work arrangements and scale down responsibilities prior to retirement with the same employer, retire from an employer and get employment elsewhere, or retire from an employer and get rehired during retirement.
• Use of phased retirement programs is limited in the United States, according to a recent report from the Government Accountability Office (GAO). A federal government phased retirement program has seen low usage.
• One of the challenges of offering phased retirement is how to handle workers who have defined benefit (DB) pension plans. Issues include how to calculate benefits paid to phased retirees and whether they will earn pension credit for additional work.
• Options for employers that want to encourage working longer include expanding part-time work options for older employees or establishing a retiree pool to allow use of retirees for temporary assignments and special projects.

Phased retirement includes arrangements in which employees can modify their work arrangements and scale down responsibilities prior to retirement with the same employer, retire from an employer and get employment elsewhere, or retire from an employer and get rehired during retirement.

Use of phased retirement programs is limited in the United States, according to a recent report from the Government Accountability Office (GAO). A federal government phased retirement program has seen low usage.

One of the challenges of offering phased retirement is how to handle workers who have defined benefit (DB) pension plans. Issues include how to calculate benefits paid to phased retirees and whether they will earn pension credit for additional work.

Options for employers that want to encourage working longer include expanding part-time work options for older employees or establishing a retiree pool to allow use of retirees for temporary assignments and special projects.
Phased Retirement

- Will phased retirement be in employees’ same jobs, something that uses the same skills and organizational knowledge or something different? Retiree pools are an example of an arrangement that has no set schedule and in which the employee could move into a variety of different roles.
- Will pay be based on the old or the new role, and how will it be defined?
- How will retirement, health, life insurance and disability benefits be managed? What is the minimum amount of work commitment needed for benefit eligibility? Will benefits payable to retirees be affected?
- Will phasing include a reduction in schedule before retirement and/or some work after retirement? If there is a pension plan, how will the plan be adjusted?
- What time limit, if any, is there on phasing?
- If we want to work with independent contractors, how can we streamline the contracting process for both parties?

Benefit Plan Issues

Health benefits are a very important issue for many employees. Access to benefits may determine people’s decisions about how much they plan to work as they near Medicare age and about whether they decide to phase out. As mentioned above, the uncertainty with regard to health policy again makes this a more important issue. Once employees are eligible for Medicare, phased retirees would be subject to the same rules as other retirees and individuals with current jobs. If they have employer-provided medical coverage offered because of current employment, Medicare would become the secondary payer. If they are covered by retiree medical coverage and not active employee medical coverage, it would not be linked to current work, and Medicare would be the primary payer.

When DB plans are offered, phased retirement can mean partial pension payments or payment of pensions while someone is still working, leading to a need to consider a number of pension issues. For example, will reduced benefits be paid to phased retirees, and how will they be calculated? Will pension credit continue for the additional work? When will benefits be recalculated? How will early retirement adjustments be applied if phasing occurs during the early retirement period? When phasing occurs through rehire of retirees, there are also DB pension issues. Under what circumstances can retirees work and collect benefits? If benefits are suspended or partly suspended, how are benefits recalculated for the added service? These are a few of the technical issues. While plan sponsors choose exactly what they wish to do, the statute and regulations define what requirements and limitations apply.

When benefits are provided only through DC plans, there is no issue of partial pension payments. However, there may be issues of when the employee is allowed to receive plan benefits—at phased retirement or only at full retirement. DC issues are much simpler.

Disability benefits are often lost when an employee moves away from full-time employment. An employee with health challenges who would prefer to move to a lesser schedule may prefer to continue working at the level needed for disability benefits and then try to claim benefits as the problem worsens.

Moving Forward

Suggestions for employer options and support for employers to facilitate and encourage longer work include:

- It can be difficult for older workers to find work. Financial wellness programs can include information or coaching to help employees prepare to be employable longer, either by their current employer or in a new job. Keeping skills and contacts up to date are important.

Bio

Anna M. Rappaport, FSA, MAAA, is president of Anna Rappaport Consulting. She is an actuary, consultant, author and speaker and is a nationally and internationally recognized expert on the impact of change on retirement systems and workforce issues. Rappaport chairs the Society of Actuaries Committee on Post-Retirement Needs and Risks and serves on the Advisory Board of the Pension Research Council and the Board of the Women’s Institute for a Secure Retirement. She is a past recipient of the Lifetime Achievement Award from the Plan Sponsor Council of America. For more information, see www.annarappaport.com.
• Consider phased retirement health benefit programs, where employees who meet the eligibility requirements, both service and amount to be worked, can continue to be covered by the employer’s health insurance program, possibly with an additional subsidy.

• Evaluate all benefits to see what adjustments are needed to support the program.

• Consider expanding part-time work options and consider whether seasonal work options will work for the business.

• Consider establishing a retiree pool so that retirees can be used for temporary assignments, for special projects and to fill in when people are ill or on vacation. Some organizations have done this for many years.

• Make sure job training opportunities are extended to older employees.

• Evaluate whether contract work is feasible for the organization and whether contracting with retirees would work for special assignments. If so, establish model contracts and an effective procedure to implement.

Endnote

1. See Anna M. Rappaport, “Phased Retirement—An Important Part of Evolving Retirement Scene,” Benefits Quarterly, Second Quarter, 2009, for a discussion of the number of employees who have a path of some work between full-time employment and full-time exit from the labor force and for examples of what businesses and employment organizations were doing. The majority of people were working and getting hired after retirement, sometimes in their prior firms and often elsewhere. Organizations devoted to rehire of seniors are discussed and have grown. Today, RetirementJobs.com has more than a million members seeking work through the organization. See Rappaport, Anna M. and Tim Driver, “Working Longer to Improve Retirement Security: Addressing Workplace Issues,” Society of Actuaries, 2018 for some insight into their experience and a brief update on the situation in 2018.

References

For information on employer practices and issues:

GAO Report 17-536 Older Workers: Phased Retirement Programs, Although Uncommon, Provide Flexibility for Workers and Employers.


For survey and focus group data on individuals:


For a general discussion of phased retirement and for policy issues:


The Society of Actuaries published the Securing Future Retirements Essay Collection in 2018. For more information on phased retirement, please refer to two of the essays: “Working Longer to Improve Retirement Security: Addressing Workplace Issues” and “Working Longer to Improve Retirement Security: Improving Public Policy.” Both essays are co-authored by Anna M. Rappaport and Tim Driver and reflect a combination of their research and personal experiences with these issues over many years. This article extracts some of that content and focuses it on the needs of benefit and human resource managers.