Retirement Planners LLC

Phased Retirement—How Baby Boomers Can Find a Way to Leverage Work and Play:

A Special Report for Benefits Managers

Executive Summary

It's no secret that Baby Boomers began to retire in large numbers beginning in 2011 when the first ones turned age 65. The question is…what are you and your employees doing about it? On one hand, are you preparing sufficiently for the "brain-drain" and the lack of sufficient younger workers to replace those who are retiring? On the other hand, do Boomers have sufficient income to be able to retire completely and do they even want to?

A concept known as "phased retirement" has presented itself as a solution to both sides of the question.

Simply stated, ***phased retirement*** is a program that allows employees to make a gradual transition from full-time work to full-time retirement, preferably with their same employer.

A phased retirement program can include such arrangements as:

- Reduced hours
- Job sharing
- Extended leaves of absence

For some employees, phased retirement can begin as early as age 50 or 55; for others it means continuing to work after age 65, maybe even up to age 70. For most, it means also being able to use some or all of their pension to supplement their income as they work fewer hours and earn less. Barriers, however, exist for phased retirement programs, especially at the federal regulatory level.

This report looks at phased retirement, the opportunities and challenges it presents to both employers and employees and how you can overcome the barriers and provide an effective phased retirement program for your employees.

To do this you will need a consultant who:

- Has an understanding of your company's culture, needs, and benefits programs
- Has an extensive knowledge of the myriad of federal regulations governing pension and retirement plan
- Can work with you to develop a phased retirement program that will benefit both you and your employees

A good phased retirement program is one that can keep your "brain drain" to a minimum.

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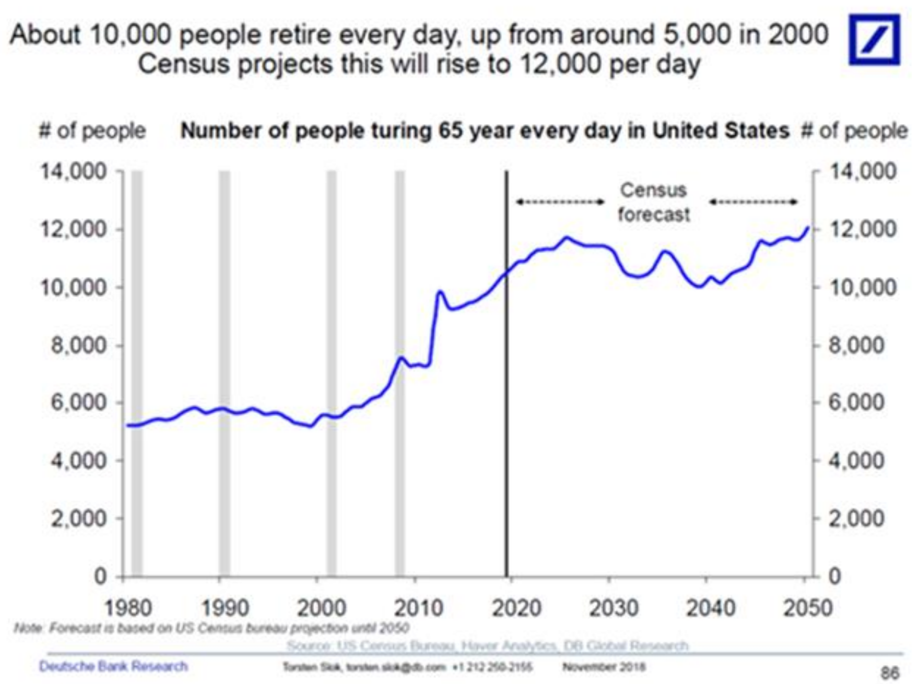
The problem of early retirement

The U.S. workforce is rapidly aging. Figure 1 shows that in 2018 10,000 Baby Boomers were retiring every day according to a February 2018 Deutsche Bank note.[1]

Yet many Baby Boomers continue to work. A recent study by the National Council on Aging estimated that by 2019 over 50% or Americans aged 55+ would be employed, making up over 25% of the workforce.[2] What does this mean? That in spite of the retirements in their cohort, Baby Boomers continue to make up a large segment of the workforce. Moreover, that number will only increase until all Baby Boomers reach age 65 in 2029. But are they really ready to retire, and how does that affect their employee/employer relations? Many are not ready, which presents challenges for both you and your employees.

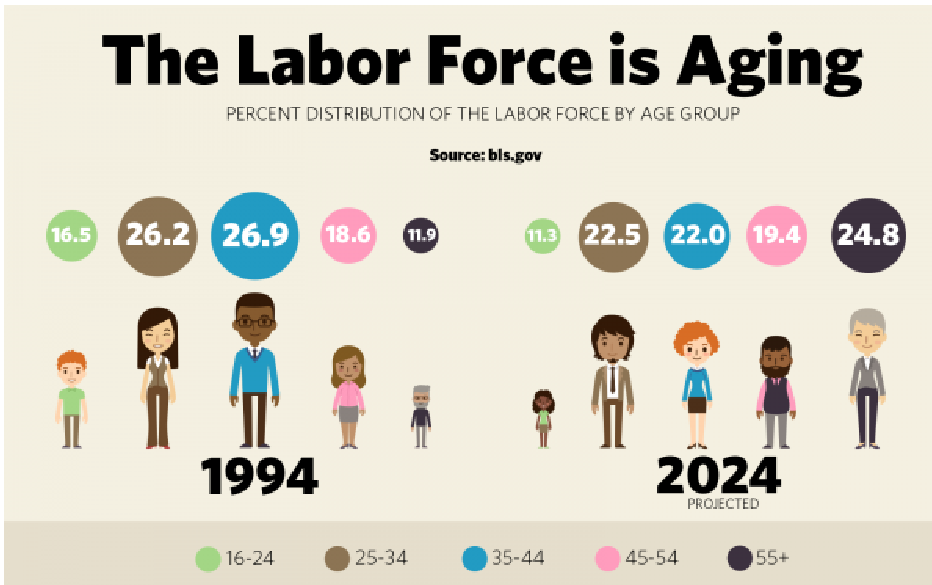
Figure 1: Number of People Turning Age 65 Every Day in the United States



Employers who used to be concerned about how to get older employees to leave the company to make room for the younger workers now have to be concerned about how to keep their older workers since there aren't enough trained knowledgeable younger ones to replace them. Employers in some industries, such as health care, education and manufacturing are already feeling the impact as Baby Boomers continue to retire early.

Baby Boomers are not the only ones getting older and trying to decide whether to retire or not. Figure 2 shows a 2016 Bureau of Labor Statistics (BLS) study that illustrates how the entire labor force is aging. The BLS estimates that approximately 1 in 4 workers will be age 55 or older by 2024.[3]

Figure 2: The Labor Force is Aging



Why do so many Baby Boomers want to continue working?

Many Baby Boomers, whether for personal or financial reasons, are finding they are not yet ready to retire completely. More than one study over the past several years has found an increase in the number of retirees (generally defined as someone receiving a pension) who continue working after they "retire." Several reasons for this trend have been identified, including:

- **Financial.** The downturn in the stock market in 2008 and the resultant recession left many retirees, and soon-to-be retirees, who were invested heavily in equities with less money in their retirement accounts. This, plus the well-documented low savings rate of U.S. employees, is causing many Baby Boomers to rethink their golden years and how they will spend them.[4]

  According to 2018 data from Northwestern Mutual, 21% of Americans have *no* retirement savings and 33% of Baby Boomers only have $25,000 or less saved for retirement.[5] For many, that means if they are relying solely on Social Security they don't have sufficient income to cover regular living expenses.

- **Health care.** The rising cost of health care is another reason retirees continue to work, especially those under age 65, or with a spouse under 65, where employer-provided health insurance is needed to cover the gap between retirement and Medicare eligibility. In addition, many corporate retiree medical programs are being curtailed or phased out entirely, leaving retirees scrambling to find a replacement.

  If early retirees purchase their own health insurance, they as "…an early retiree can expect to budget between $500 and $1,000 per person for health insurance each month prior to the age of 65," said Sahil Vakil, certified financial planner.[6] There are several alternative sources for health insurance. COBRA coverage is generally available for 18-30 months after retirement, and Obamacare remains an option as well. Both can be expensive, but generally not as expensive as a private policy.

- **Personal fulfillment.** Retirees are healthier and living longer. Many find they are not ready to retire completely, but want to continue being active and productive; they do, however, want more flexibility between work and leisure time, time with family and to stay active.

And herein may lie the solution to your dilemma with a tight job market—find a way to tap into the expanding retiree workforce, preferably your own. The challenge is how to meet both what you, who don't have enough employees, needs and the older employee, who wants to work, but not necessarily full-time.

Phased retirement programs

Types of phased retirement arrangements

The answer may very well be in what is being called "phased retirement." Phased retirement programs such as the samples in Table 1 benefit you by enabling you to retain skilled employees while meeting the needs of your older employees. Phased retirement programs can benefit your employees by allowing them to take time for leisure activities and family, and to have additional income through continued work.

Table 1: Types of Phased Retirement Arrangements

Type of Arrangement	Parameters
Flexible work arrangements such as reduced hours/responsibilities	Many companies regard 32 hours/week as still full-time; reduced hours often go as low as 20 hours/week
Job sharing	Each partner works a half day; partners coordinate projects and leave notes when they leave for the day
Alternative work arrangements such as transferring to a different position in which part-time work is feasible	Part-time work is not always feasible in certain positions and departments; some companies encourage cross--training for just these types of situations
Seasonal employment	Employee works during peak business times, such as summer for example, to stand in for vacationing employees
Rehiring retirees	Retiree decides retirement is not for him; company rehires retiree but with flexible hours
Retaining retirees as consultants	A popular way to make use of the experience and brain power of the retiree; this is especially popular with executives
Extended leaves of absence	Employee takes fixed amount of time, a month or two for example, off every year

Pros and cons of phased retirement programs

As with any program, pros and cons that must be considered and weighed against your benefit structure, especially your existing retirement plan program, are shown in Table 2. In addition, of course, the phased retirement program must comply with federal, state and local regulations.

Table 2: Phased Retirement Pros and Cons[7]

Pros	Cons
Allows knowledge transfer between existing staff members and their replacements	Can impact your employees pre-existing benefits
Helps retirees ease into their retirement	Sometimes makes it harder to retire
Retains top talent	Laws may not allow you to have a customized plan
Shows employees that you care about them even when they are leaving your organization	Employees may be resistant
Reduces "brain drain"	Needs flexibility to work properly, hard to implement a one-size-fits-all policy
Future-proofs your workforce by starting the retirement conversation earlier	Requires a plan in place for knowledge transfer/mentorship
Allows you to plan your workforce, a competitive advantage that many HR teams wish they had	Can be challenging to get employee buy-in

Barriers to phased retirement programs

Phased retirement programs can be either formal or informal, with informal programs more common currently. This is in large part due to the many barriers that exist to implementing a formal program. The main barriers are federal regulations, plan design and corporate culture.

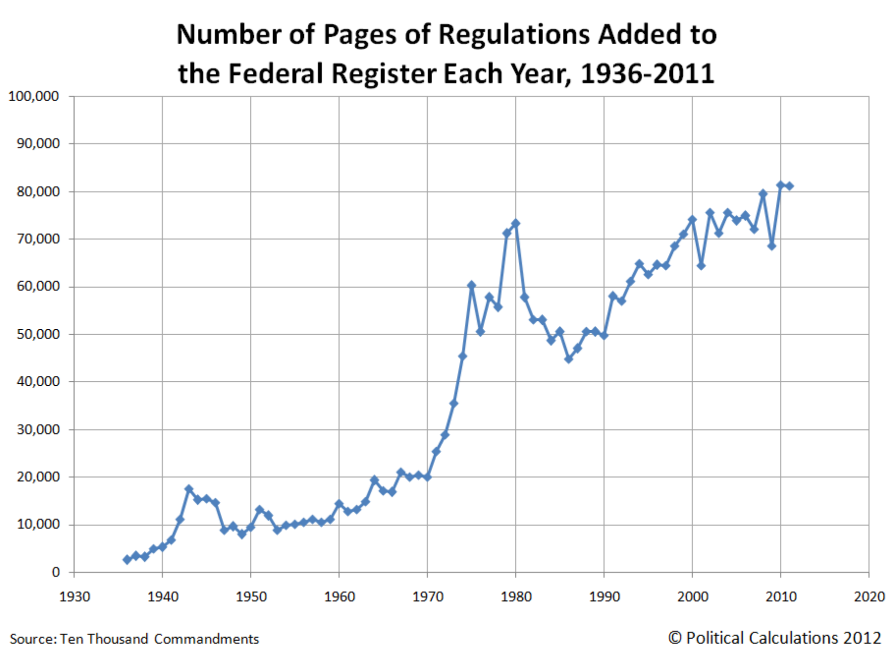
Federal regulations

- **Prohibition against in-service distributions.** Employee benefit plans are subject to complex rules in the Employee Retirement Income Security Act of 1974 (ERISA), Internal Revenue Service (IRS) and Department of Labor (DOL) regulations (Figure 3). For employers with defined benefit pension plans, IRS rules have generally prohibited payment of pension benefits to an active employee before the plan's normal retirement age (usually age 65), though phased retirement distributions can now be taken as early as age 59 ½ thanks to the SECURE Act.[8]

  401(k) and Roth 401(k) plans and 403(b) programs also usually allow employees to take in-service withdrawals upon reaching age 59½.

  The end result? If an employee wants to both draw a pension and work at a younger age than 59 ½, it usually means terminating from one employer and getting a job somewhere else.

Figure 3: An Overabundance of Federal Regulations



- **Age discrimination.** The Age Discrimination in Employment Act (ADEA) could also play a role in any formal program, particularly in the area of retiree health benefits. Laws also govern treatment of older employees, so it's always wise to check with the legal department to ensure there is no discrimination.
- **Social Security.** The age Baby Boomers can receive full Social Security benefits has gradually risen from 65 for those born before 1937 to 66 for those born in 1946 while those born after 1950 will have to wait until age 67.[9]

  And although Congress repealed the Social Security earnings limit for retirees who continue to work past their normal retirement age, an earnings limit still exists for those between the ages 62 and normal retirement age. If these retirees continue working, they will see their Social Security benefits reduced $1 for every $2 earned over the annual limit, which is $18,240 for 2020.[10] The upside is that if an employee works past their normal retirement age, their benefit is increased by 8% per year for every year worked up to age 70.

Plan design

There are two major types of pension and retirement plans: defined benefit pension plans and defined contribution plans. Both types of plans now allow for early distributions while the retiree is still working. However, in order for these provisions to be effective in your plan, you must first adopt the provisions and put them into the plan document.

- **Defined benefit plans** used to be the stalwart of retirement income as they paid regular guaranteed monthly benefits to millions of retired employees. The company pays 100% of the cost with little or no risk to the employee. No more. According to a 2017 report by Willis Towers Watson, only 16% of Fortune 500 companies still offer a defined benefit plan; that's down from 59% in 1998.[11] In addition, many companies have simply frozen their plans so no additional benefits accrue, and replaced them with 401(k) plans.

  The SECURE Act of 2019 changed the rules to allow early distributions upon reaching age 59 ½, even if the retiree is still working. This means that employees covered by a defined benefit plan can now benefit from a phased retirement program as early as age 59 ½.[12]

- **401(k) plans** are a relatively new kid on the block. And they have rapidly taken over the retirement scene. These plans, including Roth 401(k)s, are funded not by the employer but by the employees themselves through pre-tax contributions, although many times employers will make matching contributions. The contributions are then invested by the employee and are subject to the ups and downs of the stock market. At retirement, the employee's benefit is his or her accumulated account balance. Employees can take a distribution upon reaching age 59½ even if they're still working. This means that employees covered by these plans can benefit from a phased retirement program as early as age 59½.

- But wait! There's an even newer kid on the block—the **cash balance plan**. This is a hybrid plan that works like a defined benefit plan but looks like a 401(k) plan. Because of their structure, cash balance plans offer more flexibility with regards to distributions. It can be a good alternate choice in the right situation.

Corporate culture

A strong culture, one with effective leadership and which engages employees, is essential to a successful company. Conversely, an ineffective culture can "sink the ship" with low morale, absenteeism, and high turnover leading to lower profits.

Communicating and maintaining your company's culture usually falls in the lap of the HR department, in conjunction with leadership. A strong communication program is essential in bringing the message to your employees. Cultures can be friendly, customer-oriented, fun, ethical and family-centered. They can also be negative and impersonal. The type of culture that exists within your company will help determine whether a phased retirement program will work for you.

Employees in a culture that is supportive, sharing and friendly are much more likely to be willing to look positively at a phased retirement program, thinking of the positive benefits of the program versus thinking the program is just another way you're getting rid of them when they get too old. An effective culture would enable flexible hours, cross training and job sharing, thus allowing the retiree to work part-time and also have leisure time for family. A phased retirement program would work if your company and the employee's department were supportive of the program; it wouldn't work very well otherwise.

Therefore, it's worthwhile for you and your leaders looking at implementing a phased retirement program to look carefully at your company's culture as part of your decision process.

Developing the phased retirement program policy

No two phased retirement programs are alike. Each is based on a company's benefit structure, especially their pension and retirement plan offerings, its organizational culture, and management's objectives in curbing the "brain drain" in their company. Moreover, as has been shown, an informal program may be almost as effective as a formal one that has been adopted company-wide.

As a result, there's no single formula for a phased retirement program policy statement. It is, however, a necessity for a formal program, just as other major corporate programs have written policies and procedures.

After all, what does the old adage say? "If it's not in writing, it doesn't exist."

So if you decide to have a formal program, it should be in writing. It should also be written in plain English and set forth the major provisions of the program:

- Eligibility, i.e., age and years of service
- Pay formula and hours worked in order for the retiree to continue to receive full benefits
- Length of the application window—a set period of time or indefinitely
- Special provisions if you have a defined benefit plan, taking into consideration whether the phased retirement program would negatively impact your retiree's ultimate benefit (most pension plans require 1,000 hours for earning a year of service and an additional benefit)
- Reference to applicable regulations, especially federal ones, plus state and local laws

The major hurdle here is how to coordinate with an existing defined benefit plan, which has strict rules about in-service distributions, though these rules have been relaxed somewhat under the SECURE Act. 401(k) and Roth 401(k) plans and 403(b) programs have a lot more flexibility since they are based on both employee and possible employer contributions; they usually allow in-service distributions at age 59½, but you still have to be mindful of their restrictions as well.

A phased retirement program solution

A well thought-out phased retirement program can effectively overcome many of the barriers that are undoubtedly affecting your ability to offer your Boomers the opportunity to work less and still keep their jobs and benefits. It creates a cooperative work environment that shows you relate to your older workers' needs, both work-wise and financially.

You've decided you want a phased retirement program. But what's the best approach to implementing such a program? An approach that can address the barriers?

Fortunately, a consultant who can meet your needs is available and already widely used in the pension and retirement plan industry. A consultant who brings an innovative approach with them to help you plan your phased retirement program and write the program's policy. A consultant who:

- Has an understanding of your company's culture, needs, and benefits programs

- Has an extensive knowledge of the myriad of federal regulations governing pension and retirement plans
- Can work with you to develop an effective phased retirement program that will benefit both you and your employees

Conclusions: a phased retirement win

In summary, this report has shown that a well-thought-out phased retirement program can be a win-win situation for both you and your employees, whether formal or informal. As more and more Baby Boomers retire, it will be an ever more important program for forward-looking companies.

Employers:

- Retain experienced employees who know the corporate culture
- Retain valued employees versus losing them
- Reduce the cost of training new employees to replace retiring ones
- Enhance productivity by using phased retirees as mentors and new employee trainers

Employees:

- Have more flexible working hours and schedules
- Have an easier transition to full retirement
- Don't have to go job hunting if they want to work part-time
- Can supplement current income, or increase future retirement income

Does your HR department have the expertise to develop a phased retirement policy program and write the necessary policy? Most don't. And looking for a consultant is a big challenge. They're sometimes hard to tell apart.

Use this report to develop a short list of two or three possible consultants. We hope you'll consider working with Retirement Planners. We've been helping companies with their retirement programs for40 years and would love to help you with yours.

About Retirement Planners LLC

Founded in 1979, Retirement Planners LLC is a full-service actuarial and consulting firm that provides individualized phased retirement programs for its clients, as well as plan design and actuarial services.

Retirement Planners LLC has over 1,500 clients throughout the United States. They specialize in presenting solutions to difficult pension problems. Retirement Planners LLC provides their clients with an effective, workable solution that meets their needs and stays without the boundaries laid out by federal regulations. The company is based in Los Angeles, California.

For more information, call 1-800-123-4567 or visit www.retirementplannersllc.com

(note: this is a fictitious company)

Endnotes

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