

POSITION STATEMENT

Phased Retirement

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Board of Directors, 25 June 2010***

Current demographic, economic and societal trends, including a rapidly aging work force, and increasing numbers of older workers who want or need to work beyond normal retirement age, are creating a significant challenge and a major opportunity for employers and employees in the United States and other developed countries.

Legislative, regulatory and attitudinal changes are needed to enable these older workers to continue to work on a full- or part-time basis. To help accommodate the needs of employers for capable workers, and the wishes of older Americans who want or need to work beyond the normal retirement age, IEEE-USA recommends:

- Increasing the maximum age of eligibility to accrue credits under Social Security from age 70 to 72
- Increasing the age at which eligible recipients must begin to draw minimum required distributions from IRA, 401(k) and other tax-deferred retirement savings plans from age 70-1/2 to age 72-1/2
- Adopting flexible legislative and regulatory approaches that enable and encourage employers to experiment with, and utilize, phased retirement programs that will serve the best interests of employers, older workers and society

These modest and carefully targeted changes will enable individuals who elect to work beyond the normal retirement age to continue to earn benefits and accumulate tax-deferred retirement savings. They will also help older Americans to deal with the very substantial erosion in the value of their retirement benefits they have experienced in recent years, and offset forecasted future shortages of younger workers.

This statement was developed by the IEEE-USA Career and Workforce Policy Committee and represents the considered judgment of a group of U.S. IEEE members with expertise in the subject field. IEEE-USA advances the public good and promotes

the careers and public-policy interests of the more than 215,000 engineers, scientists and allied professionals who are U.S. members of the IEEE. The positions taken by IEEE-USA do not necessarily reflect the views of the IEEE, or its other organizational units.

Background

Average life expectancies in the United States have increased from 66.7 and 73.2 years for men and women respectively in 1960, to 74.8 and 79.6 in 2005, with steady increases expected throughout the 21st century. Coupled with a drop in fertility rates from 3.6 in 1960 to 2.1 in 2005, fewer new workers are replacing those who are nearing retirement. As their life expectancies increase and their health and wellness improve, fewer and fewer Americans see traditional retirement as an attractive option, and not just for financial reasons.

From their employers' perspective, many older workers possess highly valuable critical skills, work habits and institutional knowledge that can help to meet growing needs for talented human resources. As a result, workers and employers alike are turning to phased retirement programs to enable older employees -- who might otherwise withdraw from the work force -- to remain actively employed, either on a part-time or a full-time basis. [1]

In the United States, an estimated 64 million baby-boomers (more than 40 percent of the labor force) will be eligible to retire in 2010, creating a potential shortfall of up to 10 million workers. Many employers face very substantial losses of experienced talent in key managerial, professional and technical positions, as well as in many skilled trades.

Compounding the problem, the number of 35-44 year-olds -- those normally expected to move into senior management ranks -- will decline by 10 percent by 2010. At the same time, the number of 45-54 year-olds will grow by 21 percent, and the number of 55-64 year-olds will expand by 52 percent. [2]

Boomer retirements will have the following very significant effects: a) **companies** will lose experienced workers; b) **communities** will face a decrease in full-time workers, an increase in retirees, and a loss of residents, if and when retirees relocate; and c) **national, state and local governments**, will experience reduced tax revenues and increased Social Security expenses:

- The imminent retirement for sizeable numbers of senior engineers will leave substantial knowledge gaps in key technological areas, most notably in power generation and distribution, and in aerospace and defense.
- The continuing reduction in the numbers of workers who are eligible for traditional defined benefit pension plans will threaten their economic security in retirement.
- By working an additional eight years, the size of the nest egg required to produce 80 percent of pre-retirement income (after taking Social Security benefits into account) can be reduced by as much as 80 to 90 percent.

- Working part-time, beyond the normal retirement age, in a phased retirement program will ease the retirement income security problem for many older Americans.
- Experienced seniors can serve as indispensable knowledge management and intellectual property resources for their employers, and as mentors for younger workers.

Not surprisingly, the notion of “phased retirement” – where older full-time workers are able to remain with their current employer and gradually reduce their normal working hours – has considerable appeal for workers, as well as for employers

Benefits of Phased Retirement – For Workers, Employers and Society

U.S. private-sector industries expected to feel the greatest pain in terms of imminent retirements and exacerbated skills shortages include oil, gas, energy and healthcare, as well as aerospace and defense. Federal, state and local government agencies in the public sector, as well as colleges and universities, will also be hard-pressed to replace aging knowledge workers, including engineers and scientists, and other skilled technical professionals.

Public- and private-sector employers recognize that older workers represent an increasingly important resource, one that must be utilized effectively to ensure continuing economic growth and productivity. The challenge is to find innovative ways to help older workers maintain career vitality by leveraging their knowledge, skills and experience -- and enabling different generations of employees to work together more effectively – especially in knowledge transfer.

For workers, phased retirement permits a gradual transition away from full-time employment to something less stressful. It allows older workers to “try out” activities that could become a much more important part of their lives in full retirement. But unlike full retirement, phased retirement permits workers to make gradual adjustments to age related changes in stamina and abilities, without having to sacrifice critically important social networks, earnings and their sense of being productive. [3]

Because of these potential benefits, substantial numbers of older workers express an interest in phased retirement. For example, A 2005 AARP study suggests that nearly 40 percent of workers age 50 and above would participate, if their employer offered a phased retirement plan.

Phased retirement also offers substantial benefits to employers. It can help employers retain experienced workers with specialized knowledge and skills, as well as demonstrate loyalty, reliability, and a strong work ethic to pass on to younger coworkers.

And finally, from the perspective of society-at-large, phased retirement promises to extend people’s working lives, thereby reducing pressures on increasingly expensive

social safety nets, including health and welfare programs, private pensions and Social Security.

Impediments to Phased Retirement

Although the past decade has seen increasing interest and understanding of phased retirement among workers, employers and policy-makers, four problems continue to constrain widespread acceptance and implementation of phased retirement programs. These impediments include: 1) federal laws and regulations governing defined benefit and defined contribution pension plans; 2) policies governing selection of eligible workers; 3) employer willingness and ability to provide health insurance benefits to part-time workers; and 4) related flexibility requirements. [4]

Pension Problems – Defined benefit pension plans impede employer willingness to establish phased retirement programs in two ways. First, under so-called final average pay plans, the value of earned benefits increases substantially in years just prior to retirement. This value increase means that older workers who choose to work half time at half pay stands to lose as much as half of their future pension benefits.

Another way that defined benefit plans impede acceptance of phased retirement relates to federal pension regulations. Prior to 2007, for example, federal tax code provisions governing private pensions made it difficult for active employees to receive pension benefits from a defined benefit plan operated by a current employer. More specifically, a person who was younger than the “normal retirement age” (generally age 65) could not both work for and receive pension benefits from the same employer. Although the *Pension Protection Act of 2006* changed the law and applicable regulations to permit workers to receive “in service” pension distributions from current employers beginning at age 62, older workers ranging in age from 55 to 62 – who might otherwise be interested in phased retirement – are still subject to the statutory prohibition on service pension pay-outs.

Current law and regulations also constrain phased retirement options under defined contribution plans. In the case of 401(k) and 403(b) plans, for example, the IRS Code does not permit employees to withdraw their own pre-tax contributions in the absence of a hardship – to pay for medical expenses, a home purchase or college tuition expenses – before they reach age 59.5. For Section 457 plan participants, the prohibition against withdrawals by current employees, other than in hardship situations, applies to all plan benefits and continues until age 70.5. [5]

Selection Criteria – In deciding whether to allow workers to take phased retirement, employers must also implicitly or explicitly decide how selective they wish to be in choosing which employees to include in a phased retirement offer. It is unusual for employers to make phased retirement available to any older worker who expresses interest. Understandably, most insist on retaining the freedom to choose from among high performing workers: those with highly specialized knowledge or skills, those who require little supervision and those who always “make an extra effort to get the job done.”

Health Insurance Considerations -- Another obstacle that employers sometimes face with respect to phased retirement involves health insurance. For those who offer health insurance benefits to full- and part-time workers, health insurance considerations are not a problem. Such employers already have a mechanism in place for providing health insurance benefits to phased retirees.

For those employers who do not cover part-time workers, health insurance coverage for phased retirees can be problematic. But unlike pension benefits, federal law and regulations do not appear to be the reason. The IRS Code and ERISA (*Employee Retirement Income Security Act*) do not impose any non-discrimination or coverage requirements on employers who elect to offer health insurance benefits. Cost and morale issues may be more important for employers unwilling or unable to provide health insurance coverage for some older part-timers, while not doing the same for younger part-timers.

Flexibility Requirements – Another problem for many employers involves the flexible hours that are an implicit part of phased retirement programs. For some jobs, most employers neither need nor want part-time workers. Full-time managers, for example, are often perceived as much more effective than part-time managers. When flexible hours are a real or perceived problem, employers can accommodate phased retirees by assigning older employees to different jobs – which may involve new skills requirements, different reporting relationships, changes in status, or changes in location.

Conclusions

Phased retirement programs offer significant potential benefits for workers, employers and society. But, to date, employers have been reluctant to implement such programs, in part, because of widespread concerns about prevailing statutory, regulatory and legal considerations; and in part, because of conventional perceptions about the capabilities and costs of older workers. Particularly salient impediments to phased retirement have been problems related to pension laws, worker selection criteria, health insurance considerations, and flexible hours issues.

Determined employers can and do find ways around all of these problems and more are certain to do so in the future, especially when faced with specialized knowledge and critical skills deficiencies in an increasingly competitive, technology-driven global economy.

IEEE-USA strongly supports public and private sector efforts to harness the very significant potential benefits to be derived from optimally flexible phased retirement programs. To this end, we urge policy-makers to eschew overly broad statutory and regulatory solutions to real and perceived obstacles to the adoption and implementation of such programs. In our opinion, the imposition of too many restrictive rules is likely to reduce the willingness of public- and private-sector decision-makers to experiment with

formal and informal programs and, in so doing, reduce their attractiveness and practical utility to employers and employees.

References

- [1] American Benefits Council and HR Policy Association, Statement submitted for the record of a hearing on “The Aging Workforce: What Does It Mean for Business and the Economy” before the U.S. Senate Special Committee on Aging (28 February 2007).
- [2] K. Dychtwald, T.J. Erickson and R. Morison, *Workforce Crisis – How to beat the coming shortage of skills and talent* (Cambridge: Harvard Business School Press, 2006)
- [3] Robert Hutchens, “Phased Retirement: Problems and Prospects” Issue Brief, Center for Retirement Research at Boston College (February 2007)
- [4] Hutchens, op.cit., page 4.
- [5] American Benefits Council, supra, page 3.

Additional Resources

CRS Report for Congress, Older Workers: Employment and Retirement Trends, Library of Congress, Congressional Research Service, Washington DC (September 2009)
http://assets.opencrs.com/rpts/RL30629_20090916.pdf

ERISA Advisory Council, Report on Phased Retirement, US Department of Labor, Employee Benefits and Services Administration, Washington DC (September 2008)
<http://www.dol.gov/ebsa/publications/2008ACreport2.html>

Human Resources Policy Association, Phased Retirement Initiative – online at
http://www.hrpolicy.org/initiatives_pr_index.aspx