*Reprinted with Permission of the International Society of Certified Employee Benefit Specialists

Employer Strategies for a Changing Workforce:

Phased Retirement and Other Options

by Anna M. Rappaport

▶**Although Americans are redefining traditional retirement, there are still surprisingly few formal phased retirement programs targeted to older workers.** *As a result, employers' ability to protect their human capital, attract quality employees and remain competitive may be compromised. This article presents results from a recent study of employers, focuses on employment policy for older workers and identifies options employers can adopt in order to remain competitive in a changing workforce.*◀

Since the first of the baby boomers turned age 55 in 2001, increasing attention has been paid to how and when people leave the labor force and other issues surrounding retirement. The traditional vision of retirement is that it is a one-time event, with an employee working full time for many years before retiring, somewhat abruptly, from the workforce. Today the picture is very different, with individuals building a range of options and opportunities for themselves—including everything from part-time work to new careers. It appears that, for many, retirement has become a gradual process of changes made over several years.

Despite the fact that Americans are beginning to leave the labor force in stages, most businesses have not formally addressed this growing trend. While many have begun to recognize the importance of human capital strategies and talent management to their long-term business success, they have yet to take the necessary steps to stem the substantial loss of talent they will suffer as baby boomers retire. This "labor drain" threatens to hurt a company's economic prospects and competitiveness.

For example, at one organization, seven key scientists in one vital research lab were approaching retirement age, forcing the company to quickly learn how to harness their knowledge and develop strategies to keep the lab functioning well. As a second company completed an early retirement window, it discovered that much of its intellectual capital had disappeared, causing great concern about how the company could recover it. Such anecdotes illustrate the importance of talent management and the need for employers to develop formal retention programs for older workers.

Many baby boomers will elect early retirement, which could escalate the war for talent as these older, experienced employees leave the workplace in significant numbers. As a result, employers are facing a combination of challenges and opportunities as they try to retain some of these veteran workers while continuing to meet their business goals.

This article presents results from a recent study of employers, focuses on employment policy for older workers and identifies options employers can adopt to retain experienced employees. It describes and suggests ways to develop strategies such as formal phased retirement programs, which incorporate reduced workdays and/or workweeks, reduced job duties, flextime, job sharing, and the hiring of retirees for part-time or temporary employment.

EMPLOYMENT POLICY MUST BE INTEGRATED

A recent William M. Mercer, Incorporated survey of older worker employment policies at 232 U.S. companies sought to identify what kinds of formal or informal programs exist for older workers wishing to phase out of work gradually. The research underscores the need for an integrated approach to dealing with the aging workforce. Options for work schedules, job definitions, pay and benefits all need to work together. Human capital strategies and more specific goals for utilizing older workers should drive the policy, together with an analysis of the workforce.

Here is an example of how one organization has put its programs together. A health care organization with more than 5,000 employees targets its retention efforts to workers with special expertise, key relationships or hard-to-replace skills. This organization offers several work options, including temporary work, part-time work and consulting assignments. Such options are available without special requirements; they are not linked to phased retirement but can be used to support it. Health benefits are available to part-time employees for higher premium contributions. Pensions are provided through a cash balance plan and generally paid as lump sums. Retirees can be rehired on a temporary or part-time basis. There are special assignments for individuals nearing retirement or for rehired retirees, including mentoring younger employees and working for smooth transition of responsibilities.

CHANGING PERSPECTIVES OF EMPLOYER AND EMPLOYEE

Until recently, most businesses were happy to see older workers retire early, rewarding them with extra benefits during early retirement window periods or providing special severance benefits during business transitions. Formal phaseout programs were not considered. When jobs had to be eliminated, companies thought it best to encourage employees who were at or nearing retirement age to leave rather than to terminate younger employees.

Research shows that although employees are often pleased with the incentive of extra benefits, they often feel a buyout is the best of the imperfect choices offered to them. Those who would have preferred not to retire at that point in time often move on to new jobs at other companies, taking advantage of the opportunities created by recent labor shortages.

Even without buyouts, the demands of increased workloads in recent years are such that many employees look for different options as they near retirement age. "Bridge jobs" have become much more common among older U.S. workers who are, in effect, crafting their own phased retirement plan, usually without the support of a formal employer program. Some workers take bridge jobs because of a lack of other suitable opportunities or because access to their retirement benefits is restricted if they remain employed by the plan sponsor. The employer described above is much more forward looking than most.

BENEFITS OF PHASED RETIREMENT PROGRAMS FOR EMPLOYERS AND EMPLOYEES

We anticipate that many more employers will want to build integrated approaches to dealing with an aging workforce. Looking at these patterns, businesses are now seeing an opportunity to address the labor shortage by cultivating the fastest growing segment of the population—older workers—through flexible phased retirement programs. The benefits for both em-

The Author

Anna M. Rappaport, FSA, is a principal of William M. Mercer, Incorporated located in Chicago. Her focus is on women and the aging population. Ms. Rappaport led the firm's study on phased retirement and consults on strategy for total retirement benefits. She is a past president of the Society of Actuaries and serves on the boards of the National Academy of Social Insurance, the Pension Research Council, WISER and the Metropolitan Chicago Information Center.

TABLE I

Percentage of Employees Over Age 50

	Today	In 5 Years	In 15 Years
Under 5%	5%	3%	2%
5%-15%	27	10	6
15%-25%	36	26	16
25%-35%	23	28	21
Over 35%	9	33	55

ployers and employees are significant. Programs provide a way of retaining institutional knowledge and specialized skills, boosting productivity by keeping highly experienced workers, lowering hiring and training costs, and attracting the best employees over time. Benefits for employees include a greater sense of control over the transition from work to retirement, lower risk of economic insecurity and better social support.

Some organizations, such as utilities and communications companies, often have large numbers of employees nearing retirement age. Phased retirement options would help improve the productivity of these employees and foster a culture that allows employees to shape their "golden years" according to their own needs. It is likely that most employees who would like to continue working under modified conditions don't, because the employment options offered by the companies and their retirement and/or health benefit plans don't support phased retirement. Some are rehired as contractors or temporary employees, either directly or through an outside agency. But growing mutual discomfort with these arrangements and the prospect of losing critical, experienced workers is forcing companies to rethink their positions.

Public policy is shifting to favor phased retirement programs. Social Security amendments enacted in 2000 allow employees age 65 and over to collect full Social Security benefits while working at their same job or elsewhere. However, many laws and regulations that pertain to employer-sponsored retirement programs are in conflict with the goals of phased retirement. Clearly, employers that address the changing demographics as a strategic human resource issue will have an advantage over those that ignore the changing demographic landscape.

THE AGING OF THE WORKFORCE: THE DEMOGRAPHIC IMPACT ON EMPLOYERS

Given the dramatic and mounting change in the age composition of the workforce—an estimated 76 million baby boomers are fast approaching their retirement years—it is surprising that so few companies have taken steps to address these changing demographics. The aging of skilled workers is not uniform across industries or geographic areas, with differences marked by organization, location and business unit.

Respondents to the Mercer survey generally report that they see their own company's workforce as aging. And while only 9% say that more than 35% of their employees are over age 50 today, 55% expect that to be the case 15 years from now. (See Table I.)

Among the survey respondents, smaller organizations—those with fewer than 1,000 employees—tended to have older workforces than larger organizations.

The importance of a workforce's demographics will depend on several key considerations:

- How difficult it will be to replace some of the people who are likely to retire soon
- Whether the people likely to retire have significant relationships with key customers or other important audiences
- Whether those people are important to the

development and maintenance of intellectual capital
- Whether they represent a major, important component of the corporate culture
- Whether their skills are transferable
- The steps needed to transfer their skills.

SETTING GOALS AND ASSESSING THE IMPACT OF EARLY RETIREMENT

The process of setting goals and dealing with older worker employment issues will ideally start with an evaluation of human capital strategies and identification of the people near retirement, their skills and their contributions to the organization. This assessment will enable an employer to determine what problems would be created by the departure of these workers. Depending on the outcome of that process, there will be issues related to structuring roles and designing jobs. Pension and health benefits will also need to be addressed.

The extent of a company's concern may vary with its character and business model. But it seems that more companies should be concerned about this trend than are. In our survey, more than half of the respondents (55%) said they have no specific goals with regard to the employment of older workers. Other respondents cited multiple goals. Those organizations with older workforces were no more likely to have specific goals than those with younger workforces. The incidence of particular goals is shown in Table II.

A significant proportion of respondents are pursuing both types of targeted retention efforts listed in Table II.

Enabling early retirement is clearly not a prevalent goal. The findings with regard to early retirement are very different from what we would have expected a few years ago. However, what has not changed is that mergers and acquisitions are leading to the displacement of a significant number of people. Targeting other companies' early retirees is still an uncommon goal.

BUILDING PHASED RETIREMENT PROGRAMS

Although formal phased retirement programs are quite rare, they seem to be of growing interest to employers. Successful ones need to address certain essentials: a method of redefining job duties, work arrangements and schedules; culture, support and training; criteria for program participation; eligibility requirements and potential time limits; approval processes; and adjustments in pay and benefit plan provisions.

To achieve a successful phased retirement program, each new job must complement the organization's business mission and the participating employee's needs. What is needed for an effective program?

- Like all major human resource initiatives, a phased retirement program needs support from management.
- The basic pension and compensation systems need to be compatible with the job structures, and both employer and employee must find them fair. (Pension issues may be the most difficult and are discussed below.)
- Health benefits must be available to the phased retiree and should link effectively

TABLE II

Goals With Regard to Employment of Older Workers

Target retention efforts to workers with special expertise or key relationships	30%
Target retention efforts to individuals or groups with hard-to-replace skills	29
Encourage all older workers to stay on	16
Enable early retirement	10
Target early retirees from other companies to fill open positions	7

"To achieve a successful phased retirement program, each new job must complement the organization's business mission and the participating employee's needs."

to any postretirement health benefits program.

- An employer must be able to assess an employee's performance and provide a forum for response. In most cases, the normal performance evaluation systems should suffice but, in some restructured jobs, these systems may need to be refined.
- Rewards must be available for managers who retain older workers.
- Job flexibility must exist, and arrangements must be tailored to the job.
- Appropriate and continual training should be available.
- Recognition and rewards for alternative work arrangements should be provided.

A variety of approaches can be used to help people phase out before collecting retirement benefits. Table III shows the approaches included in the Mercer survey and the percentage of respondents offering them.

In companies where phaseout programs are offered, a variety of approaches are used. Of the 23% of respondents that provide at least one program, the prevalence is as shown in Table III.

For some respondents, we were able to link implemented programs with goals. For others we were not. Some organizations did not indicate goals, but stated that they had programs in place. Others had goals but no programs in place. Our conclusion is that many organizations are working with selected individuals to retain them and capitalize on their skills, but that these efforts are not part of major integrated programs.

TABLE III

Approaches to Supporting Phased Retirement—Respondents With Formal Programs

Reduced hours or schedules	47%
Special assignments	45
Temporary work	42
Consulting work	42
Job sharing	17
Telecommuting	10

ALTERNATIVES TO FORMAL PHASED RETIREMENT PROGRAMS

Formal phased retirement programs are still in their infancy, and businesses are still learning about the varied approaches they may pursue. Many businesses use individual arrangements and special assignments as a way of providing flexible work alternatives for older employees.

In our survey, 77% of respondents offer no such formal phaseout retirement programs for a variety of reasons, some for multiple reasons. (See Table IV.)

It is not surprising that over half of the respondents prefer to make individual arrangements, given the reported prevalence of targeting retention efforts to employees with special skills or expertise. In addition, specific employment needs are often handled locally, where it is much easier to make individual arrangements rather than to encourage development of new corporate programs. However, in the marketplace, cost and legal concerns are often cited as barriers to phased retirement, so it was surprising that so few respondents gave those reasons.

Rehiring Retirees

Thus far, we have focused on phasing out work before retirement benefits are collected.

An alternative would be to allow employees to retire and collect benefits, and then return to work later. The 1999 study by the American Association of Retired Persons (AARP), *Easing the Transition: Phased and Partial Retirement Programs*, supports our survey findings and shows that rehiring retirees is much more common than using formal phased retirement programs.

In the Mercer study, 41% of the surveyed organizations said they have no policy regarding the rehire of retirees. Of the 59% of the entire survey group that reported having a policy:

- 63% will rehire retirees as part-time or temporary workers (benefits eligible if sufficient hours are worked).
- 61% will rehire retirees as independent contractors or consultants (not benefits eligible).
- 24% will rehire retirees full time after a waiting period.
- 15% maintain a pool of retirees for temporary work.
- 4% prohibit the rehiring of retirees.

Among the 73% of employers that will rehire retirees full time, the average waiting period is 5.2 months.

Considered together with the responses covering individual arrangements, it seems that many organizations are rehiring retirees, even without a formal program in place. One of the respondents indicated that local management would do what is necessary to get the job done, including rehiring retirees. If "official" company policy is opposed to rehiring retirees, managers become creative and may use a local temporary service to manage the rehire, or use the retiree as a consultant. In such situations, the retiree does not appear in company records as an employee.

Retirement Benefits for Rehired Retirees

A key question in the event of rehire is what to do about pension benefits. Virtually all survey respondents (97%) say their companies sponsor company-paid retirement plans, and many offer more than one type of plan.

When a company with a defined benefit or cash balance plan rehires retirees on a benefit-eligible basis, the company needs to address the issue of suspending any pension benefits already in payment. Of the 117 respondents in this category that provided details about suspension of benefits:

- 51% suspend benefits both before and after normal retirement age.
- 21% pay lump-sum benefits, hence suspension is not an issue.
- 19% do not suspend benefits for those after normal retirement age.
- 2% let rehires choose between suspension and waiver of plan participation.
- 7% use a combination of strategies.

Of those that suspend benefits both before and after normal retirement age, 67% then give additional credit for service after rehire. Of the rest, 13% provide actuarially equivalent benefit increases, and 5% do both.

Looking more broadly at companies that adjust retirement benefits for rehired retirees, 60% provide added credit if rehires work more than a minimum number of hours, and 17% provide actuarial increases.

Suspension of benefits has been customary in the past, but that may change. Rehired retirees often tailor their work schedules in order to avoid suspension of benefits. Repeal of the Social Security earnings limit provides a strong example promoting continued payment. We have found relatively few examples of companies that do not suspend benefits. The net result is that the suspension rules often work as a practical limit on the number of hours a retiree will work. Generally retirees will limit their activity in order to avoid suspension.

COMPARISONS WITH OTHER STUDIES

Other studies have also found rehire much more common than programs designed to help

TABLE IV

Reasons for Not Offering Formal Phased Retirement

Has not been a priority for us	65%
Prefer to make individual arrangements	53
Lack of employee interest	11
Legal/administrative issues too complex	4
Too costly	2

TABLE V

Experience	Number of Companies
Currently offers phased retirement	1
Had phased retirement in the past	3
Considered phased retirement	4
Hires back retirees	40
Offers part-time and/or flexible schedules	20
Reports no related experience	13

people phase out on the front end. A 1999 AARP/EBRI study conducted by Mathew Greenwald included telephone interviews with 65 companies included among the "100 best companies for working mothers" listed in *Working Mother* magazine. See Table V for a summary of the findings.

Companies can use multiple approaches.

CONCLUSION

As the labor shortage worsens and the baby boomers age, the need for phased retirement programs increases correspondingly. As we have seen, Americans are redefining traditional retirement, but there are still surprisingly few formal phased retirement programs targeted to older workers. Employers thus far have been reluctant to implement them, choosing instead individual arrangements that give them the flexibility to assess their department needs and choose people with specific skills, without making wholesale changes in policy.

When phased retirement happens informally, opportunities may be lost and there can be inequity among different groups. A formal policy that is widely supported will allow a company to align its actions with corporate policy and minimize the number of employees "retiring" early to go work for the competition.

Old stereotypes about aging workers still influence decisions, including concerns about older workers' productivity, their adaptability to change and their prospects for being retrained. But in light of labor shortages and the federal government's enactment of policies to promote phased retirement programs, all the signs point toward their implementation. Of course, more regulatory flexibility would also accelerate their acceptance.

Therefore, businesses should begin designing and implementing formal programs and other flexible work options as a strategy for winning the war for talent and retaining their key long-time employees. Employers need to protect their human capital and attract quality people if they want to remain competitive.

This article is based on Mercer's phased retirement study and is a condensed version of the Mercer white paper "Phased Retirement and the Changing Face of Retirement."