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THE BLOG

Making Phased Retirement Work for You

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Phased retirement is a catchall term that covers a variety of part-time and reduced-hour work arrangements for workers getting close to retirement age. Whether you're within a few years of retirement or maybe looking ahead a decade or two, the trend of "phasing out" one career or maybe moving on to another is apparently here to stay.

Washington is leading the way. The federal government authorized the move for its own employees several years ago and began accepting applications in late 2014 from workers aged 55 and up with a desire to switch to half-time employment in exchange for receiving half their salary and annuity.

What's behind this move? Employers are considering phased retirement as a way to preserve a diverse workplace in terms of seniority so older workers don't bottleneck opportunities for younger workers. At the same time, waves of departures by experienced workers can send substantial amounts of intellectual capital out the door. Some employers are looking at phased retirement paired with organized mentorship programs to make sure valuable knowledge and skills are left safely with the next generation of workers and managers.

For employees with a long-term view, phased retirement can offer significant benefits, but it requires due diligence and planning. Among the advantages, phased retirement means that there doesn't need to be a hard stop on a successful career. In fact, a 2014 study by Merrill Lynch in partnership with Age Wave found that 72 percent of pre-retirees over the age of 50 report that their ideal retirement will include working "often in new, more flexible and fulfilling ways." The study also noted that 47 percent of current retiree respondents were already working or planning to work during their retirement years.

Additionally, a 2015 study by the TransAmerica Center for Retirement Studies found that 41 percent of respondents envision transitioning into retirement by reducing their hours to allow for

more leisure time to enjoy life (26 percent) or by working in a different capacity that is less demanding or brings greater personal satisfaction (15 percent).

Here are ways to evaluate this choice, no matter what your age:

Determine what's next. The first question workers should ask about phased retirement is, "What do I want to phase into?" For some workers, retirement really will mean a classic vision of travel and leisure leading into old age. But for others, the picture may be different. Some retirees will want to work and some will have to work due to their financial situation. If you're considering phased retirement, think through the next stage carefully before you settle on a decision.

See what options your employer offers over time. While the federal government is moving its agencies into a phased retirement mindset, private employers are generally behind in setting up formal phased retirement programs. The Society for Human Resource Management, in a 2013 benefits study, noted that only 6 percent of employers had a formal phased retirement program that provided a reduced schedule and/or responsibilities prior to full retirement. In short, these programs are evolving and very likely to reflect the state of the economy over time.

Listen to your senior colleagues. As phased retirement evolves, keep a conversation going with your older colleagues and friends about how they're preparing for retirement. There's nothing like direct advice from individuals getting ready for such a transition to help you build the retirement you want. Even if there's no phased retirement program at your organization right now, it's still worth talking about retirement preparation with more senior colleagues willing to do so. Also, keep in mind that you're never really too young to start asking those questions.

Know that retirement planning needs to start early regardless of how you want to end your career. The decision to make a full or transitional exit from one's employer actually requires years of saving and investing both at home and at work. Before deciding how you want to leave your employer, talk to qualified retirement experts about your personal financial circumstances and what you want to do in the next phase of your life. If it's a new career, volunteer work or full retirement, above everything, know what you want to do and plan for it.

Ask how phased retirement will affect all of your current benefits. Realize that your final pension benefits will be tied to your salary level before you leave your employer for good. If phased retirement is an option, ask how working fewer hours for less money at the end of your career could affect your pension and benefits overall. Also make time to investigate how working at a lower salary level before official retirement may affect your federal benefits and if your company offers a profit-sharing plan, whether you might see a lower payment from that program as a result. In short, make a list of all the benefits and perks you now receive as a current, full-time employee and investigate how every single one of them could be affected by phased retirement. If you leave the company permanently before qualifying for Medicare, know how you'll pay for health insurance. If you have the opportunity to consult with a qualified financial or tax advisor, bring them into this discussion.

Bottom line: Phased retirement allows workers to gently transition into full retirement or perhaps new careers. Before you accept, ask every conceivable question about how such a move will affect your long-term financial picture once you leave employment.

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