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Phased Retirement Programs

With the baby-boom generation approaching retirement and fewer young people entering the workforce, employers with operations in Europe and North America will soon be facing a double demographic squeeze. One possible solution to the looming workforce shortage is the concept of phased retirement, in which employees nearing retirement reduce their workloads and start drawing retirement benefits while remaining in the workforce. ■ Phased retirement is becoming an attractive option for employers, but countries differ in their readiness to adopt the programs. Here are two perspectives on how and when employers might be able to push forward with this new retirement strategy.

Just Do It

By Kevin Wesbroom, Consultant, Hewitt Retirement and Financial Management Practice

In the United Kingdom and other European countries, phased retirement is more a question of "when" than "if." European companies that tackle the issue today have hopes of gaining an early competitive advantage.

In the next 20 years, there will be an estimated 1 million fewer people in the U.K. under the age of 50 and 2 million more over the age of 50, according to the U.K. Government Actuary's Department Population Projections (2004 revision). Other European countries report similar demographic shifts, with birth rates dropping dramatically over the last 20 years. As a result, governments and companies are seriously considering phased retirement as a way of easing demographic pressures.

In phased retirement programs, employers retain the experience of older workers, enable the transfer of knowledge to younger employees, and gain increased workforce management flexibility. Employees can then ease out of the workforce gradually while maintaining the personal satisfaction of meeting career-related challenges.

The manner in which governments are dealing with this issue varies by country. For example, the U.K. passed a new pension law, scheduled to take effect in April 2006, allowing retirement distributions to employees while they're still with the company, starting at age 50. France and Germany have richer state benefits, and tend to tackle phased retirement from a government perspective.

Companies experiencing skill shortages, especially in declining industries, are likely to be early adopters of phased retirement. Other early adopters may be companies

It's Harder Than It Looks

By Ari Jacobs, Consultant, Hewitt Retirement and Financial Management Practice

The concept of phased retirement holds promise, but why aren't more U.S. companies offering it today? The simple answer is that they're not ready. According to a recent Hewitt study, only 20% of companies believe that phased retirement is important to their HR strategies today. However, 68% believe that it will be important to their HR strategies in five years. As more of the baby-boom generation retires, discussions about phased retirement programs are expected to increase in prevalence and urgency.

The primary barriers to phased retirement in the United States today tend to be regulations that bar in-service benefit distributions, challenges related to benefit-accrual patterns, concerns over the loss of talent, and cost. Since Europe's demographic shifts are more extreme than those of the U.S., American companies may want to watch and learn from their European counterparts.

Given the current regulatory framework in the U.S., it's easier for companies to offer older employees the option of working part-time, thereby avoiding the administrative issues surrounding in-service benefit distributions. Or, employees who want to phase into retirement will do it themselves by finding another job within the organization or by taking a different job outside the company.

Implementing a phased retirement program can be costly and complex. In addition to the obvious administrative challenges, companies would need to create eligibility selection criteria and new compensation structures, and decide what type of benefits they'd like to offer employees in phased retirement programs.

Clearly, while phased retirement programs

whose strategy it is to hire an older workforce to match an older customer base. Obviously, there are a number of larger organizational issues to think through before implementing a program, but beginning work on a phased retirement program now could benefit both companies and employees in the near future.

figure prominently in the future, some employers will want to wait until legislation in the U.S. makes it possible for the concept to deliver on its full potential. **H**

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