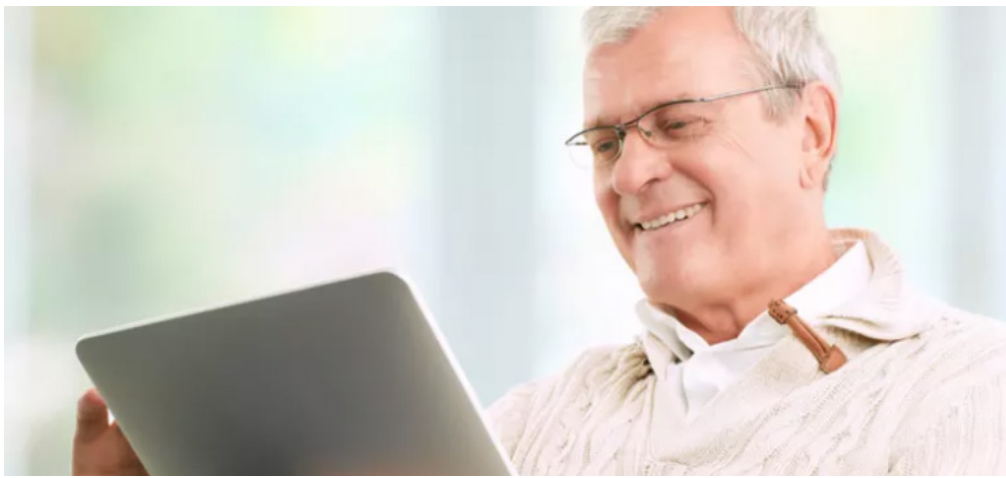


Taking Phased Retirement Options to the Next Level

Employees may think ad hoc approaches are arbitrary or even discriminatory

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BY JOANNE SAMMER



Employers have long developed ad hoc arrangements with some older workers who, approaching the end of their careers, are looking to phase into retirement instead of making an abrupt break. These arrangements benefited both parties, allowing employers to ensure adequate knowledge transfer and letting these employees smooth their transition to full-time retirement.

Less clear is whether employers are willing to make such arrangements more widely available to workers throughout their organizations. A study of 14,400 active and 1,600 retired employees conducted by Transamerica's Aegon Center for Longevity and Retirement found that:

- 55 percent of employees age 55 and older want to retire gradually.
- Only 27 percent say that their employers offer the ability to wind down by shifting to part-time work as they age.

TRYING OUT A COMPANY-WIDE PROGRAM

Amazon is testing alternative work arrangements organization-wide with retirement-age employees. The company started the program last year with a pilot including a small group of employees working in HR. These employees will work certain baseline hours from 10 a.m. to 2 p.m. Monday through Thursday that can be supplemented with additional flexible hours to reach a required 30 hours per week. The company will adjust employees' salaries to reflect the lower number of hours worked.

"Once certain companies do this, others may start to think through where this approach might work for various employee groups who want a reduced schedule," said Jackie Breslin, director of human capital services with TriNet, a HR consulting firm in San Francisco." Employers that want to emulate this approach can begin by analyzing each department to see which ones could accommodate a 30-hour or other reduced work week.

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“If companies can demonstrate that they can attract and retain high-level workers who want part-time hours, this could be a creative way to retain employees who otherwise would be looking at retirement,” she noted.

FORMALIZING THE AD HOC

The risk of ad hoc arrangements occurs when they are seen as arbitrary or potentially discriminatory by offering something to favored employees but not to others.

To avoid such legal exposure, employers can create parameters for these arrangements by, for instance:

- Adopting clearly articulated criteria for eligibility, such as tenure or position in the company.
- Determining and communicating how any reduction in work hours will impact pay and eligibility for employee benefits, including health insurance, vacation time, retirement plans, paid holidays and so on.

It is also a good idea to have an end date at which point the employee retires fully. Otherwise, the employee may like the arrangement so much that they try to extend it indefinitely.

To avoid this problem, “it is a good idea to have the employee submit a letter of resignation that is post-dated to the end of the agreement,” said Louis Rabaut, a partner with law firm Warner, Norcross and Judd in Grand Rapids, Mich. “HR can detail how duties will end and how power will be transferred to others over the phased retirement period.”

DO THEY KEEP THEIR BENEFITS?

Part-time work could reduce make workers ineligible for employer-paid health insurance, which is especially of concern for retiring workers who do not qualify for Medicare. Given Congress and President Trump’s intention to repeal the Affordable Care Act (ACA), it is uncertain how phased-retirement employees would get health insurance and how expensive that might be.

“It is unlikely that any ACA repeal will dismantle the ability of someone who is less than 65 to be able to purchase health insurance,” said Joseph DiBella, managing director and executive vice president of employee benefits at consultancy Conner Strong & Buckelew in Philadelphia. However, the options available to these retirees could be expensive and come with extremely high deductibles.

For that reason, employers that are interested in offering phased retirement programs may need to provide education about and access to health savings accounts (HSAs) during employees’ working years, when employees can build a health care nest egg to help them afford pre-Medicare health policies (if retiring under age 65) or “Medigap” policies that supplement Medicare (if they’re over age 65).

“Further health care reform or ACA repeal could force active employees to think long and hard about how to better use their HSAs as an investment vehicle to fund their retirement,” DiBella said.