

# Don't throw baby boomers out with the bath water



## Can phased retirement help companies cut workforce costs while reducing the need for layoffs?

As baby boomers have grown older, many companies have toyed with the idea of establishing a phased retirement program. But now that the economic crisis is forcing organizations to reduce costs any way they can, more and more are giving phased retirement a serious look. In the past, it was not unusual for businesses to offer selected employees an informal opportunity to scale back their hours or continue working part time after they retired. However, until recently, a number of real and perceived barriers discouraged organizations from offering phased retirement on a widespread basis.

Should you take this opportunity to establish formal programs for phased retirement, or is it still best handled on a case-by-case basis?

	Point	Counterpoint
<b>Phased retirement won't really solve your problems.</b> <i>It's an appealing concept, but is it really practical?</i>	Nobody wants to shift from a full-time job to a part-time job. And even if they do, most can't afford to.	These days, many people are looking for an alternative to the traditional 40+ hour work week, and are willing to sacrifice some income to do it. A well-designed phased retirement program can reduce this short-term income hit by giving participants earlier access to their retirement savings.
	By the time you realize the savings from a phased retirement program, it will be too late to do much good.	Designing and implementing a phased retirement program is actually pretty straightforward. Most programs can be up and running in less than two months — allowing you to reap the savings faster than you might think.
	Legislative requirements force you to offer the program to everyone, meaning you could end up keeping a bunch of people you don't really want.	In theory, that's true. But in practice, phased retirement programs can be designed around the needs of critical workforce segments, so the vast majority of participants are people you actually want to keep.

	Point	Counterpoint
<b>Phased retirement deserves another look.</b>  <i>It's an idea whose time has come.</i>	Phased retirement is much better than laying people off. It enables a company to reduce labor costs while retaining key knowledge and talent.	Layoffs save more money, and are faster and easier to implement.
	Employees like the idea of phased retirement, so it improves morale and productivity.	Some employees might like phased retirement so much that you can never get rid of them. To be effective, programs must be carefully tailored to appeal most to top talent and critical workforce segments.
	Phased retirement programs put the company in a better position to capitalize on the recovery.	For some companies, short-term tactical needs might trump long-term strategic priorities.
	Many baby boomers are going to have to work longer to rebuild their retirement savings. Phased retirement helps address the financial needs of the company <i>and</i> its employees.	Helping employees is nice, but these days many companies are worried about survival.

## My take



**John Fiore, Principal, Deloitte Consulting LLP, National Leader, Human Capital Transaction Services, and North America Leader, Retirement Practice**

When the economy was growing, companies mostly viewed phased retirement as a way to retain experienced workers in the face of a talent crunch. But now that the economy is in full retreat, many organizations are taking another look at phased retirement as a way to cut labor costs without resorting to additional layoffs. Many have already reduced their headcount, and are worried that more layoffs will make it impossible to run the business, and put them at a serious disadvantage when the economy recovers.

Phased retirement allows baby boomers to reduce their work schedules and salaries to fit their maturing lifestyle, and in many cases allows them to work past the traditional retirement age. This can help a company significantly reduce its labor costs, without allowing critical knowledge and talent to walk out the door. It can also facilitate a smoother transition to the next generation of workers.

Given the advantages for companies and employees alike, phased retirement would seem to be a no-brainer. However, there have traditionally been a number of significant barriers — both real and perceived — that prevented companies from offering phased retirement on a broad scale. The good news is that recent events have significantly reduced these barriers and made phased retirement a viable option for many companies.

- The stock market crash is ravaging retirement accounts, giving prospective retirees a reason to keep working. Yet many of these folks have mentally geared up for retirement and would like to work less if they could. Phased retirement lets them maintain higher percentage of pre-retirement income while protecting institutional knowledge and producing significant savings for employers.
- Since people are staying healthier and living longer than ever, they have more time to enjoy retirement, but they are also forced to spread their recently impaired “nest egg” over a longer period. Factor in skyrocketing healthcare costs, and there is clearly a greater incentive for baby boomers to keep working beyond traditional retirement age — especially if phased retirement is an option.

When the economy was expanding, employees could retire and then quickly find another job to boost their income. But now that unemployment is on the rise, replacement jobs are hard to come by, so people are more likely to consider alternative working arrangements.

These trends have made phased retirement more compelling than ever. But in order to capture the full benefits, companies need to do it right. Here are some practical tips to consider as you design an effective phased retirement program.

**Pick your spots.** In order to avoid regulatory pitfalls, phased retirement programs generally need to be open to everyone. But what if you want to keep certain types of workers more than others? The most effective programs are carefully designed around the needs of workforce segments that are particularly critical to business success. A similar principle applies when deciding which countries should consider phased retirement programs. Workforce and retirement laws vary widely from country to country, so it's important to choose markets where the potential benefits outweigh the potential headaches.

**Use existing retirement programs to supplement current income.** Many prospective retirees are interested in scaling back their hours, but are not able or willing to absorb the full hit to their income. By offering people early access to their retirement income programs, they can supplement their paycheck today while reducing their future retirement needs by remaining in the workforce longer.

**Capitalize on the transition.** Phased retirement not only allows a company to reduce its payroll, it also provides an opportunity to move people to less costly benefits programs. For example, one of the biggest draws in the US for phased retirement is that it allows employees to extend their healthcare coverage. But that doesn't mean their level of coverage has to stay exactly the same. Shifting to aggressive consumer-driven programs as a condition to the phased retirement program can save the company — and the employee — money without a significant decline in coverage or service quality.

**Phased retirement is a great option for older employees.** It allows them to scale back their work hours while maintaining a healthy income for a longer period of time. It also enables them to keep doing work that is meaningful and valuable, and helps them fulfill their personal responsibilities.

**The potential benefits for a business are even greater.** Phased retirement allows you to reduce your labor costs without undermining morale and productivity. Best of all, it lets you hold onto your most experienced workers so they can share their knowledge with others, and provides a ready source of talent for when the economy recovers.

## A view from the process and industrial products sector

**Tom Morrison, Principal, Deloitte Consulting LLP, U.S. Human Capital Leader, Process & Industrial Products**

The overall trends driving interest in phased retirement for the process and industrial products (PGIP) sector are the same as for other sectors, but the details vary. In Chemicals, for example, companies typically invest a lot of time and money in R&D, so their phased retirement programs tend to focus on researchers as a critical workforce segment. Chemical companies also tend to have a broad global footprint, so a greater amount of effort goes into choosing the right countries for phased retirement and tailoring the program to meet local market needs and legal requirements.

Across the PGIP sector as a whole, there is a strong focus on retaining senior plant managers, operators, and engineers. Many metals, paper, and chemicals companies have a severe shortage of middle managers with the skills and experience to replace the senior people currently running the companies' production facilities. In general, there seems to be less focus on the technical details of phased retirement — such as how employees can gain access to pension plans — and more attention on work/life balance and personal development. Primary focus areas include: part-time work, job sharing, and mentor programs. These activities are designed to retain senior people while helping to attract and develop the next generation of leaders.

## A view from the public sector

**Tim Phoenix, Principal, Deloitte Consulting LLP, U.S. Human Capital Leader, Public Sector**

As in the private sector, many public sector organizations are under intense pressure to reduce costs. They also face a long-term talent shortage that makes it critical for them to acquire and retain knowledge and talent. Phased retirement programs can help on both counts. However, some of the implementation challenges are different than in the private sector.

One unique public sector challenge is that changes to employee retirement programs and policies are likely to require direct legislative approval. Under normal circumstances, securing this approval could be a time-consuming and highly bureaucratic process. But in the current downturn, lawmakers have demonstrated an ability to act quickly on economic issues, which means public sector organizations may be able to roll out a phased retirement program in weeks or months, rather than years.

Another unique challenge is that older employees in the public sector tend to be more secure in their jobs and retirement. Often, they are protected by seniority and labor unions, and enjoy the peace of mind that comes from having a reliable pension plan and guaranteed health care. That said, many are worried about the declining value of their homes and other personal investments, and are looking for ways to rebuild their nest eggs.

Like their private sector counterparts, public sector employees find the flexibility of phased retirement quite appealing — whether it's scaling back their work hours, continuing to work beyond traditional retirement age, or a combination of the two.

Phased retirement in the public sector deserves a closer look. Although the issues and challenges are not exactly the same as in the private sector, the potential benefits are just as compelling.

For more information, please visit: [www.deloitte.com/us/debates/phasedretirement](http://www.deloitte.com/us/debates/phasedretirement).

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