

PHASED RETIREMENT: WHO OPTS FOR IT AND TOWARD WHAT END?

Introduction

A desire for continued employment by older individuals is well documented; however, it does not necessarily equate to a wish to work full time. Some employees are able to modify full-time status in some fashion in order to “phase down” their career employment as they approach full retirement. This phenomenon has not yet been extensively studied, but it may become increasingly common and important as the workforce continues to age.

Phased Retirement: Who Opts for It and Toward What End? by Yung-Ping Chen and John C. Scott examined various aspects of phased retirement, using six waves of the Health and Retirement Study (HRS) from 1992 through 2002. Several key questions were addressed:

- What factors are conducive to phased retirement?
- Does phased retirement extend the work life?
- What are the financial effects associated with phased retirement?

The study focused on the retirement patterns of 51-to 61-year-old full-time workers in 1992. For their analyses, Chen and Scott distinguished between *phased retirement* (still working for the same employer in 1994 through 2002 but at reduced hours) and *partial retirement* (still working part time for an employer different from the 1992 employer). They compared these two groups of workers to the “completely retired” and those who were “not retired at all.”

Four principal research methods were used in this study: (1) a comparison of group means or proportions to determine whether there were

statistically significant differences in characteristics between respondents who became phased retirees and those who did not; (2) a mixed repeated logistic regression model to assess the influence of individual variables on the likelihood of phased retirement over time; (3) the Cox proportional hazards regression to test the connection, if any, between phased retirement and the chance of full retirement over time; and (4) ordinary least squares regression to explore the change in individual earnings and total household income from 1992 through 2002 on a set of independent variables, including phased retirement status.

Principal Findings

Factors Conducive to Phased Retirement—A number of statistically significant differences were found between phased retirees (defined as those who were in phased retirement in one or more of the waves in the study) and other respondents. These differences include:

Personal Characteristics: Phased retirees were better educated and were less likely to be black. They were also more likely to have a positive view of work, that is, to express both a belief that work is by itself important, not solely as a means for acquiring money, and a desire to keep working even if income is not needed.

Household Characteristics: Phased retirees had greater household wealth and income.

Job-Related Characteristics: Phased retirees were more likely to be managers and in white-collar, highly skilled positions. They were less likely to face

Source: Yung-Ping Chen and John C. Scott, *Phased Retirement: Who Opts for It and Toward What End?*, prepared for the AARP Public Policy Institute, January 2006. © AARP. A copy of the full report can be obtained at www.aarp.org/ppi, or write for PPI Issue Paper 2006-01, Public Policy Institute, AARP 601 E Street, NW, Washington, DC 20049.

constraints on reducing hours and less likely to participate in a defined benefit pension plan.

Extended Work Life—Phased retirement did not appear to be associated with early exit from the workforce. Over time, phased retirees were less likely to retire fully compared to workers who did not enter phased retirement. Phased retirement may indeed extend the careers of workers, although this cannot be stated with certainty because the data do not indicate when phased retirees would have retired in the absence of phased retirement.

Financial Effects—Phased retirement status alone was not significantly related to changes in total household income and changes in individual earnings from 1992 through 2002. Although additional research is needed on the effects of phased retirement on workers' income and wages, it may be that persons entering into phased retirement are able to offset the drop in wages with other sources of income

Conclusions

The emerging picture of phased retirement is that of a process that is more available to persons who are best able to cope with change: those who are better educated, more financially secure, healthier, and in superior occupational positions. Given that phased retirement in the workplace is likely provided on a case-by-case basis rather than as part of a formal broad-based program, the findings in this study are not surprising. Moreover, the finding of significant associations between phased retirement and variables that show changes over time (for example, one's age) is similarly unsurprising. Phased retirement appears more prevalent at the younger end of the older worker age span, reflecting its role as a transition to full retirement.

Given the available data, it is difficult to say how a policy change encouraging phased retirement would affect older workers. Part of

the difficulty with exploring the effects of a policy change may be the lack of formal broad-based phased retirement programs. This study suggests that workers enter into phased retirement because they are able to negotiate arrangements with their employers. A policy change that encourages broad-based phased retirement might (or might not) affect the workers who would use phased retirement without the change. Ultimately, what we would like to know is whether a policy change would induce workers into phased retirement who otherwise could not access it, and whether such workers would be better off or worse off as a result.

Additional research is required to more thoroughly understand phased retirement and its impact. For example, this report did not consider changes in earnings (whether from reduced hours or reduced job responsibilities) or job sharing as indicators of phased retirement. In terms of financial effects associated with phased retirement, future research should explain the processes by which phased retirees plan for both the transition to retirement and retirement itself.

Despite the need for additional research, this study advances the state of knowledge about work-retirement outcomes in general and about phased retirement in particular. Phased retirees were shown to be a group with characteristics, including beliefs about work, distinct from those who do not enter into phased retirement. The study also begins to explore the financial outcomes associated with phased retirement. It is the authors' hope that their research will add to the policy discussion about encouraging or discouraging particular pathways to retirement.