



# Pros and Cons of Phased Retirement

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# What is Phased Retirement?

Have you ever thought about when to retire? Or ever wondered whether you have to stop working all at once? If so, you're not alone. Many pre-retirees are currently wondering the same thing.

Phased Retirement is the process of retiring *gradually*, in stages, rather than all at once. According to a report by TransAmerica<sup>1</sup>, two-thirds of baby-boomer and pre-retirees "envision a phased transition into retirement during which they will either continue working, reduce hours with more leisure time to enjoy life, or work in a different capacity that is less demanding and/or brings greater personal satisfaction. Only 21 percent expect to immediately stop working when they retire."

This growing trend is known as **Phased Retirement**. Here's how it works: Instead of picking a day to simply stop showing up for work, older workers can gradually *reduce* their work hours over a period until they decide to hang up their spurs for good. For many people, Phased Retirement makes a lot of sense, because it allows you to:

- Reduce your workload so you can pursue other interests.
- Test the retirement waters to see whether or not you will enjoy life without a job.
- Ease the transition from full-time work and a full paycheck to full retirement and no paycheck.

# Pros of Phased Retirement

1. **Emotional preparation.** Phased retirement can offer you an ideal situation if you are of retirement age but are not yet ready to leave the work force. It gives you a chance to test the waters of retirement and determine exactly what you will want to do when you are fully retired. For example, you can keep working part-time and use your extra free time to experiment with various activities and lifestyles to figure out which will be right for you once you are fully retired. A phased retirement can be perfect if you aren't quite ready to retire, but you would like to scale back your hours at work to spend more time with family and friends.
2. **Financial benefits.** A phased retirement means a continuation of income and even workplace benefits, such as health care. Even if you have a pension or plan to take Social Security at age 62, Medicare eligibility doesn't begin until age 65. The continued part-time income from a phased retirement can allow you to delay claiming Social Security retirement benefits. It can also possibly prevent you from withdrawing from your retirement assets right away which will allow them to continue to grow. This will improve the long-term financial picture for you and for a surviving spouse.
3. **Mental health benefits.** A skewed work-life balance can be a major source of stress in our lives. Endlessly working for the weekend is no fun at all. Phasing into a retired life can relieve some of that stress. Some psychological research indicates that retirees who work part-time are healthier than those who transition abruptly into a complete retirement. The same study showed that a phased retirement was also beneficial to mental health, if the part-time work was related to the retiree's previous career.
4. **Keep your options open.** Another advantage of a phased retirement is that you can begin a phase-out period while keeping your options open. While working part-time you can assess economic conditions and their impact on your finances before deciding when to stop working entirely. Maintaining options in a volatile economy is less stressful than being forced to un-retire if things don't go well financially. This can add an extra sense of security and better protection against financial disaster.

## Cons of Phased Retirement

1. **Employer Participation**—Check with your employer to see if they are on the growing list of businesses to offer Phased Retirement programs. Leading the way is the Federal government, which now allows some federal workers to keep working part-time while still receiving half of their pension and full health benefits.
2. **Health Care Benefits**—Many employers do not offer health coverage to part-time employees. This means that if you are on a phased retirement plan and are not yet eligible for Medicare (age 65), then you will be paying for any health care you require all by yourself. This can become very expensive, very quickly.
3. **Social Security**—You can begin receiving retirement benefits at age 62. However, the amount you receive might only be 70% to 75% of your benefit versus waiting until you reach your full retirement age of 66 to 67. But remember, if you work part-time into retirement, the extra income you still receive from your job could allow you to delay drawing on Social Security, resulting in larger benefit payments later.
4. **Pension Plan**—Generally, you accrue the most benefits during the last few years of working, and if you retire early, your benefits could be reduced. So if you end up working half the time with half the pay, that could affect your average salary calculation and reduce your pension benefit. Ask your employer if you'll continue to accrue pension benefits if you switch to part-time work.
5. **401(k)**—Many plans allow you to tap into your 401(k) to make up for a smaller paycheck. However, if you do, you'll pay ordinary income tax and may be liable for a 10% penalty if you're younger than 59 ½. Furthermore, if you work less than a set number of hours, some plans eliminate employers' matching contributions. You should consult your plan documents to make sure your Phased Retirement won't lead to any unforeseen problems with your 401(k).

While a phased retirement plan can offer some substantial benefits, there are also some potential drawbacks that you must be aware of. Depending on your own personal situation, hopefully you can compare these various pros and cons to better determine if a phased retirement plan is right for you.

## How to know if this is right for you?

Much of our emotional makeup comes from our job, so it's easy to feel a loss of self-worth when we stop working. Frankly, it's sometimes hard to decide what to do with ourselves. How can we still be productive and contribute to society? The good news is that there are *many* ways to remain productive ... but they aren't always obvious to new retirees.

That's why, preparing ourselves emotionally is so critical. Failing to do so can make even the best financial plan irrelevant.

To help people prepare themselves emotionally, I usually recommend all pre-retirees ask themselves the following questions:

- 1. What is my vision for retirement?*
- 2. Do I want to retire as soon as I am eligible?*
- 3. What outside interests do I want to pursue in retirement? Do I want to volunteer in the community, explore a part-time job, or begin a second career?*
- 4. What lifestyle changes will my new days in retirement include?*
- 5. How will my marriage be affected?*

If the answer to any of these questions is "I don't know," then it's worth considering Phased Retirement. Phased Retirement is often a good option precisely because it makes the emotional transition easier to bear. It's easier to acclimate to a major life change over time than it is all at once. It gives you an extended period of time to find the answers to those questions.

Making retirement what you want it to be requires both thoughtful planning and experimentation. With Phased Retirement, you can ready yourself emotionally while learning about all the opportunities a well-planned retirement can bring.

To put it simply, dipping your toe in the water is sometimes easier than jumping in all at once.

It is very important to have a solid financial plan as you think about Phased Retirement. Part of having a solid plan is ensuring that your plan is specific to your personal goals. This will help you avoid many of the difficulties associated with this particular form of retirement.

However, it is always a good idea to discuss any retirement planning decisions with a financial advisor or retirement professional, as this can give you a better understanding of the options available to you and the implications of any decisions you make.

The more you understand Phased Retirement, the more you'll understand the short and long-term effects of your decisions.

Creating a Phased Retirement plan now may greatly increase your options for retirement. The sooner you start planning, the more time you'll have to make adjustments. This is one of the best ways I know of to help ensure your retirement is exactly what you want it to be. You'll definitely want to review your retirement plan regularly, and update it based upon changing conditions and any new laws that might affect you.<sup>5</sup>

Whether you're interested in a Phased or traditional retirement, remember that all of us at ProVest Wealth Advisors are here to help. Please don't hesitate to contact me at 1-800-277-0025 with any retirement planning questions you have.

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