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PHASED RETIREMENT FOR FEDERAL WORKERS

by Martin McCaulay

The U.S. Office of Personnel Management (OPM) issued final regulations on Phased Retirement, a human resources tool that allows full-time federal employees to work part-time schedules while starting to draw retirement benefits. Agencies began to send their requests for Phased Retirement to OPM in November 2014. Employees who are eligible for Phased Retirement and want to continue working on a part-time basis may do so with the agreement of their agencies. During Phased Retirement, the employee will receive a partial annuity and will keep accruing additional service credit for their final annuity.

Phased Retirement combines something that is good for the employer and the employee. For the employer, it provides an opportunity to keep skilled workers longer on a part-time basis to allow for more time for succession planning. For employees, this provides the option to retire gradually, and to move from full time employment to a total exit from the labor force in steps. Also, some employees have issues like family members needing care that make it difficult to work full time. The SOA Risk Survey and other research show an interest in gradually moving between work and retirement.

The following questions and answers on Phased Retirement are from OPM's website.

WHAT IS PHASED RETIREMENT?

Employees participating in phased retirement will be paid for the part-time service they continue to provide the government and will receive additional credit for that service toward their full retirement. These employees will also begin receiving annuity payments, consistent with the retirement benefits they were entitled to prior to entering phased retirement status, pro-rated for the portion of the workweek they spend in retirement.

When the Phased Retiree fully retires, the revised annuity calculation will provide



pro-rated service credit for additional time worked during phased retirement.

This law incents participants with valuable experience to phase into retirement by providing phased retirees with more income than they would earn working part time, and more income than they would earn by fully retiring. Once these individuals fully retire, they will be entitled to a greater annuity than if they had fully retired at the time of transition to Phased Retirement, but less than if they had continued employment on a full-time basis during the period of Phased Retirement.

WHAT IS THE PURPOSE OF PHASED RETIREMENT?

Phased Retirement will encourage the most experienced Federal employees to extend their contributions to the Nation, and will operate as a tool to ensure continuity of operations and to facilitate knowledge management. The main purpose of Phased Retirements is to enhance mentoring and training of the employees who will be filling the positions of more experienced employees who are preparing for full retirement. It is intended to encourage experienced employees to remain, in at least a part-time capacity, until less experienced employees



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are fully equipped to fulfill the same duties and responsibilities as those employees who wish to retire.

An effective Phased Retirement plan has been a long-sought goal. However, under prior law, the problem was that an individual who was retirement eligible but wished to continue employment on a part-time basis generally had little economic incentive to do so because an employee's potential retirement benefits would often be equal to or greater than their salary would be for part-time employment.

Phased Retirement will in essence permit an individual to retire from part of their employment, while continuing the remainder and continuing to earn additional retirement benefits proportionately based upon the additional less-than-full-time employment.

HOW WILL THE PHASED RETIREMENT PROCESS WORK?

To understand the concept of Phased Retirement, consider two half-time employees who fill one full-time job. Employee one retires while employee two continues working. Employee one receives an annuity based on half-time employment, and employee two continues to work half-time for half-pay. Eventually, employee two retires, and receives an annuity based upon half-time service, including credit for the time worked after employee one retired. Now assume that employee one and employee two are the same person. That is in essence how Phased Retirement operates.

While there are additional computational details, these are the basics. At entry into Phased Retirement, the employee's annuity will be calculated as if fully retired and then divided by two. That annuity would be paid while the individual worked a half time schedule receiving half pay.

When the Phased Retiree fully retires, there will be a computation of the annuity that would be payable if the employee had been employed full time and then divided by two prior to adjustment for survivor benefits. That amount would then be added to the original Phased Retirement Annuity, and that combined amount would then provide the basis for survivor annuity adjustment and benefits.

The individual's income during partial and full retirement appropriately reflects the individual's situation. During the partial retirement period, the income will be between full retirement and full employment, and the Phased Retiree would be increasing their lifetime retirement income. At the time of full retirement, the individual would be appropriately compensated for the value of both full-time and part-time service, with an annuity greater than if they had fully retired at the time of transition to Phased Retirement, but less than if the individual had continued employment on a full-time basis during the period of Phased Retirement. ■