Phased Retirement
Slow Pace of Implementation Means a Missed Opportunity for Many Outbound Feds

NOT FOR NOTHING IS THE FEDERAL CIVIL SERVICE CALLED A BUREAUCRACY, as the rollout of phased retirement shows.

It has been more than three years since legislation was enacted establishing the program, under which agencies are allowed, but not required, to permit retirement-eligible employees to work a half schedule and receive half their retirement benefits. And it has been more than a year since the Office of Personnel Management (OPM) issued rules and guidelines on implementing the program for those agencies that choose to offer it. But only a handful of federal agencies actually have
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launched phased retirement programs, despite vigorous advocacy for the program by NARFE, other employee organizations, unions and others. It has been a frustrating delay for many employees who considered themselves good candidates for the program and who eventually decided that they could wait no longer for their agency to offer the program and, instead, retired.

“If phased retirement had been offered, it would have allowed me to better care for my aging parents,” says Maryann Casoli, a former intelligence research analyst at the Department of Justice’s Bureau of Alcohol, Tobacco, Firearms and Explosives, who retired in 2014. “Instead, I retired because I was using too much leave and was 57 years old with 33 years of employment. I would have liked to have retired with 35 or 40 years of employment.”

Nonetheless, other NARFE members still expect to be able to take advantage of the program. “Phased retirement would be a perfect way to transition to retirement, and we need it because we have mostly younger employees,” says Charlie Rienhardt, a 66-year-old General Services Administration sustainability program manager in Denver. “I’m working until they make a decision. It isn’t being offered yet; but I have asked the managers above me, and they say that they would approve it at the regional level. I enjoy my work, so I can afford to be patient. I’m not alone; a bunch of us are on hold.”

RULES OF THE GAME

On August 8, 2014, OPM issued both phased retirement rules and a benefits administration letter providing plain-English guidelines for agencies that choose to offer the program to their employees. Agencies could offer the program starting November 6, 2014. Under the rules, employees must be eligible for standard retirement to take advantage of the program and must have been full-time federal employees for the preceding three years. Civil Service Retirement System (CSRS) employees are eligible to apply for phased retirement at age 55 with 30 years of service, or at age 60 with 20 years of service. Federal Employees Retirement System (FERS) employees are eligible with 30 years of service and their minimum retirement age (MRA), or at age 60 with 20 years of service. Employees subject to mandatory retirement (such as law enforcement officers, firefighters and air traffic controllers) are not eligible to apply for phased retirement. In addition, phased retirement participants must spend at least 20 percent of their work time mentoring other agency employees who will take their place.

A wide variety of other matters, however, are within an agency’s discretion, such as how long an employee can participate in phased retirement, which categories of employees are eligible and whether the agency will allow employees to return to full-time status if they change their minds.

THE GAMUT OF AGENCY RESPONSES

The first agency to offer the program was the Library of Congress, where 11 employees were approved to begin participating in a pilot phased retirement program beginning in March 2015. The employees and their managers elected to participate for periods of six months and a year, with an option for an extension of up to 18 months upon agreement by both sides, says Dennis Hanratty, the Library of Congress’ human resources director.

As with an agency buyout or an early out, phased retirement programs present key timing windows for those interested in participating. At the Library of Congress, the phased retirement program was announced in October 2014. An application window was provided between November and mid-December 2014, and, upon approval, accepted employees had a six-month window in which to begin participation in the program, Hanratty says. All Library of Congress employees were eligible to apply for the program but could be turned down based on a determination that their position was not suitable for phased retirement. This, in fact, occurred with two applicants, he says.

Hanratty says a key misconception of some Library of Congress employees who expressed interest in the program was that they had a right to return to regular status. “Some people thought they could try this for a couple pay periods and, if they didn’t like it, go back to their full-time arrangement,” he says. “We made it clear that there was no requirement for the agency to approve that.”
Another agency in the process of implementing the program is the National Aeronautics and Space Administration (NASA). “NASA finalized agency direction for phased retirement [in June], and each NASA center is currently in the process of implementing that direction,” says Sarah Ramsey, a NASA spokesperson.

The Department of Defense reportedly will unveil its phased retirement policy in the next few months. Many other agencies say they are in the process of developing their programs.

“Like almost every other federal agency, the Department of State is still working to develop agency-specific implementing procedures for phased retirement,” says John Naland, until recently the director of the State Department’s Office of Retirement. “State’s Bureau of Human Resources is working with various stakeholders to develop the department’s phased retirement policies, guidance and agreements for qualified participants.” The Department of Veterans Affairs (VA) hopes to implement a phased retirement program by fall 2015, says VA spokesman Randy Noller.

But a growing number of agencies are reporting that they will not implement phased retirement programs, at least for the time being. “Social Security has decided not to implement a phased retirement program at this time,” says a Social Security Administration spokesperson, declining to provide elaboration.

“The Office of the Comptroller of the Currency (OCC) has determined not to implement a phased retirement program,” says a spokesperson. “The OCC has committed to revisit possible implementation of the phased retirement program at a future date.” In July, the U.S. Postal Service announced that it would not offer the program “at this time.”

LONG DELAYS AND REFUSALS

NARFE has steadily beat the drum for more action by agencies, notably in a May 28 letter from NARFE National President Richard G. Thissen to then OPM Director Katherine Archuleta. Thissen urged Archuleta, in her role as chair of the Chief Human Capital Officers (CHCO) Council, to encourage agencies to disclose the status of phased retirement at their agencies. NARFE Legislative Director Jessica Klement says that NARFE did not receive any feedback on the letter, and OPM declined to respond to a subsequent query as to whether the letter had been presented to CHCO Council members. “OPM’s role has been, and continues to be, to support agencies and to provide guidance on the use of phased retirement, not to mandate agency-specific policies, implementation plans or timelines,” says an OPM spokesperson.

Federal employee unions also have pushed for agency action, in some cases negotiating agreements with agencies on behalf of their members. “National Treasury Employees Union (NTEU) has entered into an agreement with the Nuclear Regulatory Commission to implement a phased-retirement program and has also initiated negotiations in all NTEU-represented agencies,” says NTEU National President Tony Reardon. “We continue to urge other agencies to write the rules to implement phased retirement without further delay, because we recognize the program benefits federal agencies and the workforce.”

The slow pace of agency action in launching phased retirement programs is disappointing, NARFE’s Klement says. “I can’t see why they would not want to offer this. It is a win-win all around: a win for continuity, for the employees, and for the taxpayers by saving money.”

The Library of Congress’ Hanratty notes that his agency was able to be the first to launch a phased retirement program because it was proactive in preparing for one.

“We were sensitive to the fact that we have a mature workforce, with 25 percent of our workforce eligible for immediate retirements, which was an important motivator for us,” he says. “We started laying the groundwork for the program as early as 2012, long before OPM issued its rules.
When OPM came out with its draft regulations in summer 2013, we began in earnest to focus on our program.”

Even so, Hanratty says, there was an unexpected three-month delay in allowing employees to begin participating in the program because of challenges reconfiguring the agency’s payroll computer systems.

As for some agencies deciding that the program is not for them, that is not too surprising, says Jeffrey Neal, a senior vice president for ICF International and formerly chief human capital officer for the Department of Homeland Security.

“Phased retirement is job sharing, two people doing one job instead of one, and that is harder for managers to manage and more expensive for agencies, which must pay someone in phased retirement status and hire someone new to learn the job,” Neal says. “And on the employee side, many people are ready to retire and don’t want to work part time. With all those qualifiers, I don’t expect large numbers of employees to participate in phased retirement programs.”

Still, it could make sense for a considerable number of employees, says John Palguta, a vice president with the Partnership for Public Service, a think tank on federal public service issues. “Most agencies, because of sequestration and the budget problems, have not been feeding the pipeline of employees and have a bimodal workforce of many older and many younger employees and fewer mid-career employees,” Palguta says. “The younger employees need training and seasoning, but the seasoned employees are retiring. Phased retirement will help agencies to manage that turnover.”

**ONE PARTICIPANT’S EXPERIENCE**

While agency employees currently participating in phased retirement programs are few and far between, they do exist. Ford Peatross is the director of the Center for Architecture, Design and Engineering in the Prints and Photographs Division at the Library of Congress, where he manages a program to select, manage and exploit several million photo and print items. In March, Peatross, who is 67 with 40 years of service at the Library of Congress, entered the agency’s phased retirement program.

Peatross says the program is a good fit. “My boss suggested I examine this program when I told them I would retire in March 2014,” he says. “It’s a very useful and rewarding process to pass on information and to leave the place neat for the next person. It means they will have to call me far less when I am gone. When you’ve been somewhere for 40 years and have started programs, you have a legacy; so you could say I am invested. The most important thing in this process is to tell my successor what isn’t expressly stated in the memos: what was between the lines in terms of how we did a negotiation or why we did what we did.”

Hanratty says that one challenge expressed by some employees participating in the program is having half the employment hours to complete tasks, with available time reduced even further given the requirement to dedicate 20 percent of the remaining time to knowledge transfer. On the employer side of the arrangement, Hanratty says agencies like his will seek to measure the degree to which the program facilitates knowledge transfer from the phased retirees to the remaining employees.

**SHOULD AN EMPLOYEE PARTICIPATE?**

There are a number of considerations as to whether phased retirement is the optimal ending to a federal career. First, it is only one of a number of options that may be available to an employee looking to slow down or transition to retirement. Some agencies will allow employees to reduce their hours to a part-time schedule. Some agencies may allow retired employees to return to work as rehired annuitants under programs that allow re-employment without offset of retirement benefits. Telework, too, can help allow a transition away from the agency by eliminating commuting time and stress.

When an employee in phased retirement status decides to fully retire, the “composite retirement annuity” will equal the sum of: the phased retirement annuity, updated by any cost-of-living adjustments (COLAs) that were applied to the phased retirement annuity, plus the amount of the final phased portion of the full retirement annuity.

Generally, employees participating in phased retirement will receive more money than if they simply had converted to part-time status, since they also will be receiving half of their retirement annuity. They will receive, however, a smaller ulti-
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mate annuity than if they had worked their final phased retirement period full time, the exception being certain CSRS employees who have reached the 41-year-11-months CSRS cap.

“I wouldn’t consider phased retirement unless you want to be a part-time employee,” says James Marshall, a federal retirement benefits specialist and the owner of Charlotte, NC-based Federal Retirement Planning LLC. “I had a friend ready to retire who was not looking forward to commuting five days a week, who hopes to convert to phased retirement at age 61 and work in that status until age 62, which would allow him to use the 1.1 percent factor in determining the final portion of his FERS annuity, rather than the 1 percent factor for the entire annuity amount that he would otherwise have received had he retired at age 61. For him, that could amount to $600 more per month.”

Marshall urges employees to have their agencies’ HR people run alternate scenarios to help determine if phased retirement makes financial sense for them.

There are a number of other financial considerations. One advantage of phased retirement is that even though the phased retirement participant is working part time, if he or she dies while in that status, the survivor benefits are the same as a full-time employee who died in service.

Employees in phased retirement status also may contribute to their Thrift Savings Plan (TSP), though they are also subject to the normal restrictions regarding TSP loans; financial hardship withdrawals; and age-based, in-service withdrawals, says Carol Schmidlin, president of Sewell, NJ-based Franklin Planning. Phased retirees are not eligible for post-employment withdrawals and are not subject to required minimum distributions or the TSP withdrawal deadline. All sources of contributions (employee contributions, Agency Automatic Contributions and Agency Matching Contributions) to phased retirees’ TSP accounts will be calculated on basic pay received each pay period and will not take into account the annuity payment from OPM.

Phased retirement participants also will continue to receive a full government contribution toward their Federal Employees Health Benefits Program (FEHBP) plan and Federal Employees’ Group Life Insurance (FEGLI), which will be based on their full-time salary, Schmidlin says. Marshall also says that because the agency will make its full FEHBP contributions to an employee in phased retirement, but will not to part-time employees, this also is a relative advantage over those employed part time.

One phased retirement disadvantage is that employees will not be eligible for any voluntary separation incentive payments (VSIPs) or voluntary early retirement authorities (VERAs), Schmidlin says.

Some negative considerations are that benefits received by a fully retired employee will be reduced or not available for a phased retirement employee. Partial or full withdrawal options from TSP, for example, cannot be exercised until full retirement, Marshall notes. In addition, the FERS Annuity Supplement, generally available until age 62, is not payable during phased retirement.

Some narfe magazine readers responding to a reader survey said that even without implementation at their agency, they could tell that phased retirement would not make sense for them. “I thoroughly reviewed proposed and final regulations on phased retirement, commented and received a response to my comments,” says one National Park Service ecologist. “For a person like myself who had reached minimum retirement age, but was not yet 62, phased retirement would be a bad deal, reducing the lifelong annuity by more than 5 percent. By averaging my annuity before and after age 62, the age benefit would be halved. Consequently, I asked to take intermittent leave without pay during my last year of work and did not put in for retirement before age 62. I would have preferred working half-time, because there were insurance complications with leave without pay, such as no salary for payroll deduction, but phased retirement would have cost too much.”

Another common refrain from survey participants skeptical about the program is that the culture at their agency or department might cause any “part-time” arrangement to morph into a full-time one. [1]

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