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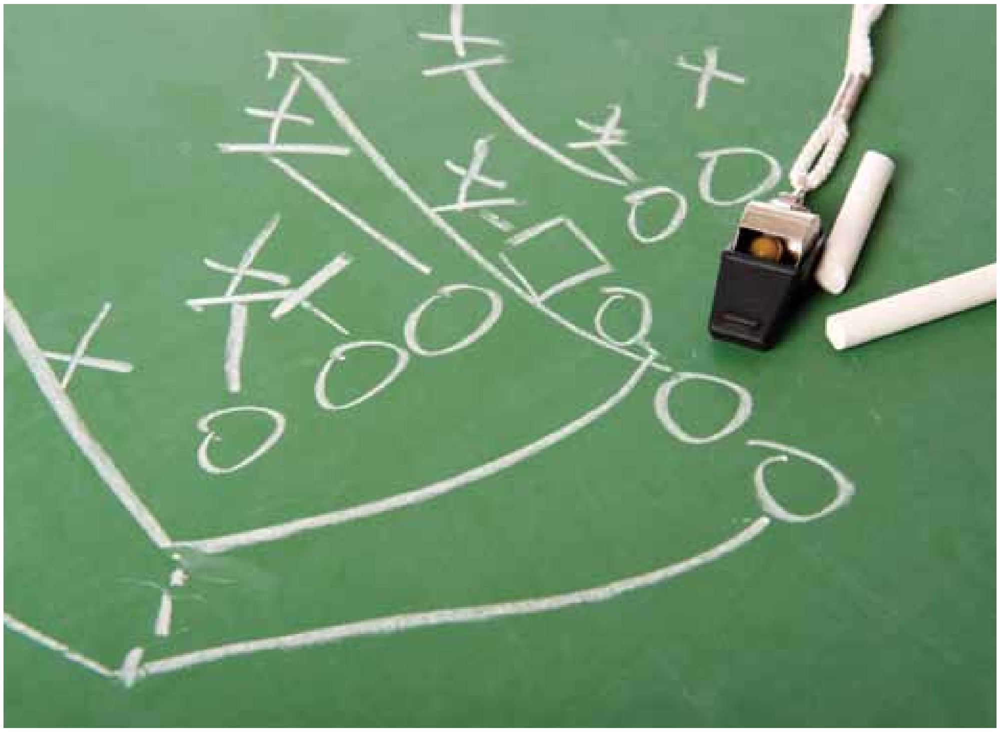

Do the Downshift:
A Win-Win Workforce Strategy

by Sally Hass and Steve Vernon

The authors advocate that employers make available a more gradual transition to retirement. "Downshifting" can help employees gain more work-life balance, while giving employers a competitive advantage by keeping seasoned professionals engaged and productive. Such a program can take a wide variety of forms, but should be a deliberate workforce management strategy.

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Do the Downshift: A Win-Win Workforce Strategy

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Darn! I'm late for the meeting. Gotta stop reading this latest directive and run for it! I wish I could slow down, just a little. I like my work—it's just that there's too much job. And for years I've wanted to have time to get into better shape—exercising more and not wolfing down this junk food. And I've wanted to take up painting. And, and, and . . . I thought I'd get the time when I retire, but it doesn't look like that will happen any time soon. Work-life balance—ha! What's that? Oh, hi everybody, sorry I'm late. I've got some ideas I want to share. . . .

Could this be you—now or in the not-too-distant future? Or employees in your workforce? Or your boss? Many workplace veterans yearn for more work-life balance. They have valuable knowledge and contacts, and are still engaged and productive—and will be for years to come. They're not ready for retirement (even if they could afford it). Is there an opportunity here?

The last 18 months of economic turbulence have shaken the eggs in the nest of workers nearing retirement. Many people were already underfunded for a retirement of 25-plus years and now have even greater challenges. The majority of workers aged 55 and over don't have the financial resources for a traditional retirement (see "Baby Boomers' Retirement: Bold Action Needed Now" in the March 2009 *Benefits & Compensation Digest*). Clearly, working longer could be the only solution for many people, but the thought of an additional decade or two of full-time work might be depressing, to say the least. Are there other options?

Likewise, for many employers, trying to stay competitive during the downturn has meant a sharper focus on cost cutting. Wages, benefits or other employee perks have not been enhanced. Preservation of talent and human capital management have not been on the critical list—or on any list. But should they be? Or better yet, can they be while remaining competitive?

In this article, the authors advocate that employers create a much more gradual transition to the current abrupt retirement event, for a host of good reasons. The article is not about phased retirement, as addressed in recent IRS proposed regulations. It's about creating an extended period in seasoned workers' lives where the employer benefits from their substantial work and life experience at an acceptable cost, and the workers get more work-life balance. It's a win-win for both employers and employees alike to do the downshift.

The best source of talent for any employer is the talent they already have. Not only are mature workers highly loyal, but they also have the know-how, know-who and judgment that comes from years of experience. Employers that don't make an effort to retain critical talent are losing a vital competitive resource.

What's in It for Employers?

The economic downturn has thwarted or stalled projected workforce shortages; unemployment figures were approaching double digits by late 2009. Some employers—for example, utilities, engineering firms, health care institutions and oil or chemical companies—remain concerned with attracting and retaining skilled employees. But employers with an oversupply of labor might ask why they should consider putting into place human resource and benefit policies to elongate the careers of workers approaching or in retirement. The reasons are twofold:

1. If the economy rebounds soon or swiftly, there could be a workforce whiplash with many employers in fierce competition for skilled resources. Those companies that have thoughtfully and deliberately hedged their bets with programs to extend careers will be in a better position to ramp up. Those without programs could be left scrambling.
2. The best source of talent for any employer is the talent they already have. Not only are mature workers highly loyal, but they also have the know-how, know-who and judgment that comes from years of experience. Employers that don't make an effort to retain critical talent are losing a vital competitive resource. Implementing a downshifting program promotes a more orderly transition of knowledge and prepares the individual and the organization for eventual full retirement.

A company vice president told the authors: "If you can delay the departure of one of my key scientists by just six to 12 months, that is worth every bit of money we spend on getting a program going."

Downshifting programs are also good for morale: The employer sends a clear message that it wants to treat older workers well, and that younger workers might be treated well when they get older.

Yet when surveyed, few employers have taken the time to implement formal phased retirement programs, for reasons that are more perceived than real. Many think they need to comply with complex IRS regulations that allow for partial work and partial pension payouts. Downshifting is different: It's about reducing hours, restructuring work arrangements and adjusting the benefits program in a way that meets the needs of the employer and individuals. It also allows individuals to defer drawdown of retirement resources to let them grow further, until they're needed at full retirement.

Doing the downshift isn't a one-size-fits-all exercise. It can involve formal part-time work, seasonal work, project work or job sharing. Downshifting can be informal, allowing employees who have exhausted vacation time to take unpaid leave during slow times. And unfortunately, the economic downturn has given us a new term for downshifting: furloughs. A specific employer might need to use a variety of these methods for different positions or situations, depending on circumstances of the position and workplace.

In fact, many employers are already doing the downshift—they just don't know it. One of the authors (Vernon) has a favorite story of addressing a group of HR professionals about phased retirement programs. "How many of you have a phased retirement program?" he asks. Only a few people raise their hands. "How many of you have had to clean up after line supervisors who have made special

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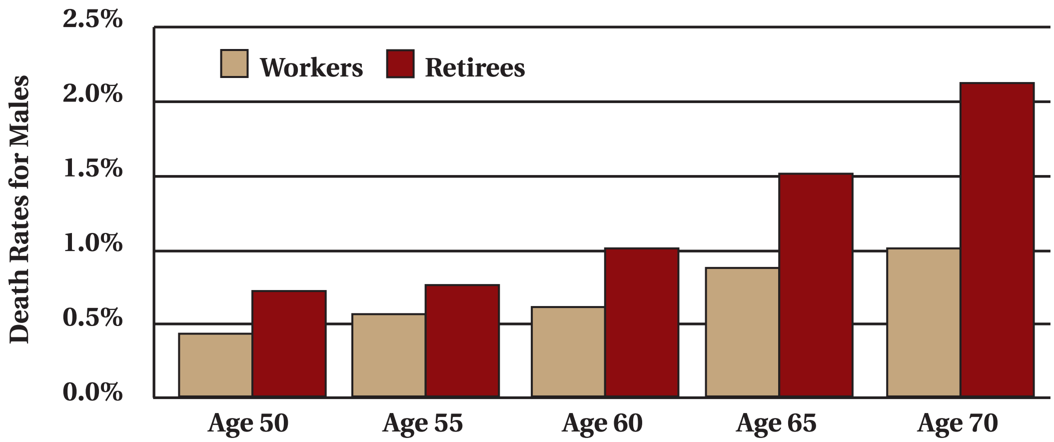
Figure

Workers Have Lower Death Rates Than Retirees!



deals with key, mature employees, just to get the work done?" Most people in the room raise their hands. "Then you have a phased retirement program—it's just being designed in the field, one at a time, probably inconsistently within your organization and possibly out of compliance with benefits and labor laws. And because it's not being done deliberately and thoughtfully, you're probably missing out on retaining some valuable talent."

What's in a name? The authors prefer the term *downshifting* over *phased retirement*, although the concepts are similar. The advantages to the term *downshifting* are that it opens up the possibility to mature workers who aren't close to retirement, and it also allows for a longer period than implied by phased retirement. But whatever it's called, it's a smart strategy to consider.

What's in It for Individuals?

Various surveys and studies from sources such as the Bureau of Labor Statistics, AARP Employee Benefits Research Institute and the University of Michigan show that the majority of mature employees—up to 80%—have an interest in continuing to work in their retirement years, for a variety of good reasons. They need the money, need health insurance, want to remain engaged, want to contribute to society, and so on.

One of the authors (Hass) did an informal survey at a former employer, and the results are insightful. At this company, 70% of workers over the age of 55 said that they would be interested in working longer if:

- They continue to do meaningful work.
- They had greater control over their schedule, not just going to part time each week, but flexibility about when the work is done.
- Their work arrangements—in terms of where work is done—could be flexible when such flexibility is feasible.

Those 70% of workers were willing to take a reduction in direct pay as a tradeoff for reduced hours. They also were very concerned about preservation of health care benefits and did not want to take too much of a hit on eligibility for other benefits, such as pension and 401(k) plans.

One other item of note: Men were more interested in working longer than were married women. Perhaps that's because women often are caregivers for elderly parents or grandchildren, which draws them from the workforce, or because a woman's retirement plans and timing are orchestrated or influenced by her husband, who may be a few years older.

Another good reason to downshift is longevity. A person in his or her 50s or 60s could live for an additional 30 or 40 years. It takes a boatload of money to be fully retired this long. Delaying full retirement for even a few years can make a significant difference in financial security, as illustrated in the sidebar, "One Example: How Doing the Downshift Can Improve Retirement Security."

Some fascinating research suggests that people who work in their later years have lower death rates. A study from the Society of Actuaries shows that men between the ages of 50 and 70 who worked had roughly half the annual death rates of men who were fully retired, as shown in the figure. The effect is similar for women, although not as pronounced.

While the reasons for this phenomenon aren't fully understood, it seems that important contributing factors are remaining engaged with life, continuing to use one's faculties and enjoying the additional income.

Anybody can do the downshift: management, rank-and-file workers, professionals, blue-collar workers, government employees, private sector employees and so on. For one person's story, see the sidebar, "Smoother Transition to Retirement."

Do the Downshift Right

Thinking through the myriad of HR and benefit policies and regulations, and then developing internal guidelines and communications, is not something that can be done overnight. A thoughtful, deliberate program on downshifting should be integrated into workforce management.

An employer should start by doing census forecasts of its workforce. Given expected turnover and retirement rates, how many people will there be in three to five years? It's insightful to do this for the

One Example: How Doing the Downshift Can Improve Retirement Security

Joe Hardwurker, who makes $75,000 per year, is aged 59 and single. With 22 years at his job, he can't wait to retire at aged 62 so he can hike, fish and generally take it easy. He attends a retirement planning seminar and hears about the possible financial advantages of delaying retirement, but he doesn't like the thought of working full time until aged 65. An older friend recently cut back to a half-time schedule at aged 62 and loves it. Joe realizes that a half-time schedule would allow him time for hiking and fishing; he figures it would be worth investigating how this strategy could improve his financial situation.

Considering his pension plan at work and Social Security income, and leaving his 401(k) aside for the moment, Joe estimates the total income he would have if he were to retire at the age of 62. (Note: Joe's employer would continue to make health care available to him if he worked part time—one of the "tweaks" an employer might need to make to accommodate downshifting. Many people wouldn't work part time if it made health care much more expensive.)

Here's how Joe's calculations look:

Pension: $15,938/year, reflecting an early retirement reduction of 5% per year before aged 65
Social Security: $17,640/year, from the Social Security Web site, www.ssa.gov.
Total: $33,578/year.

Now he estimates the total amount of income he will receive over his remaining lifetime, considering his life expectancy. He starts by visiting www.livingto100.com, answers questions about his family history and lifestyles and learns he can expect to live an estimated 21 years after aged 62, or until he is aged 83. His total estimated remaining lifetime earnings look like this:

21 years of retirement times $33,578/year = $705,138.

He realizes that this isn't quite accurate, since Social Security increases for inflation each year. For this purpose, however, Joe wants to keep it simple, and he ignores the potential cost-of-living increase.

Then he estimates his total remaining lifetime income if he works half time from aged 62 to 65, and then retires full time. Here's how his calculations look:

Pension: $21,000/year, reflecting no reduction for early retirement
Social Security: $22,200/year, increased since he delays starting benefits
Total: $43,200/year.

Here's the estimation of his total lifetime income, considering he will have 18 years of retirement from aged 65 to 83:

18 years of retirement times $43,200/year = $776,600
Three years of half-pay salary times $37,500 = $112,500
Total remaining lifetime income: $889,100.

(An employer might also have to "tweak" its pension plan so that downshifting during the last five years before retirement wouldn't affect the pension. Many plans base a pension on the highest three or five years out of the last ten years of income, and some plans base the pension on a person's equivalent full-time base pay rate regardless of whether the employee is full time or not.)

Note that just on his pension and Social Security alone, Joe is ahead by $71,462 ($776,600 minus $705,138). When he counts his extra three years of salary, he's ahead by $183,962!

It can get even better. When Joe uses www.livingto100.com to estimate his life expectancy, it gives him tips about nutrition, exercise and lifestyle that could improve his life expectancy by five years. So he runs the numbers again, assuming he will live until aged 88. Now his total lifetime earnings are higher by over $233,000 if he works half time from aged 62 to 65.

Joe also realizes that contributions for his medical insurance premiums as a retiree are higher before aged 65 compared to his contributions as an employee. In addition, he can let his 401(k) balances grow for three more years, giving them time to recover from recent market losses. Now the half-time work idea seems like a no-brainer. And he likes the thought of easing out slowly and mentoring his replacements. Joe resolves to look for the right time to discuss these ideas with his supervisor.

Jay Johnston's Downshifting Story

"I'm glad I don't have the stress anymore, but I'm still helping people," says Jay Johnston (not his real name), a former public defender for a Northern California county.

Jay recently retired under the county's retirement program, but he's not done giving back to his community. He works four days per week for a nonprofit agency that provides contract attorneys on an as-needed basis to the public defender's office. Jay doesn't take court cases; he coordinates between his former office and a pool of contract attorneys who are available for unusual situations when the public defender's office cannot represent someone. "My 30-plus years of experience working in the system is invaluable in my new role, as it helps me make the right fit between the specifics of the case and the pool of available attorneys," Jay observes.

He keeps current on county court cases and mentors contract attorneys provided by his office. "I get to live vicariously through our attorneys by coaching them about their cases, but I don't lose sleep at night worrying about the outcomes, like I used to."

From Jay's perspective, it's a great deal: "I collect my county pension and get retiree medical coverage, plus a modest salary on top of that. While the total doesn't add to my prior salary, that's OK. I'm at a time in my life where I don't need as much income, and it's definitely more money compared to if I retired completely. There are tedious parts to the job—budgets and billing—and I'm still on call during my vacations, but I had that to a much greater extent during my career with the county."

It's also a great deal from the county's perspective. The judges and the public defender's office know and respect Jay, which gives them confidence that these complex cases will be handled in the best possible manner at a reasonable cost to the county.

"I like to remain engaged, and plan on doing this indefinitely," says Jay. That's fine with the county as well. "I don't need the adrenaline rush to satisfy my ego anymore, but it gives me great satisfaction to be of service to the county and mentor the young attorneys."

total workforce and then for key positions and roles. These key positions need not be limited to management and supervisory positions; it's anybody that the employer needs to keep the business going, including skilled rank-and-file employees with critical knowledge.

Where is the company vulnerable to seasoned workers who may become demotivated, burned out or "retired on the job" or who actually leave the workplace? What type of downshifting might be possible for these positions, given the demands of the job?

Employers can learn from the experience of others that have implemented phased retirement or downshifting programs. What has worked? What hasn't? See the sidebar, "Jay Johnston's Downshifting Story."

Look at benefits policies and HR procedures. Do these support or obstruct the types of downshifting that may be desirable? Often, benefits plans have features that are barriers to downshifting programs but can be overcome with simple tweaks. Examples include making sure that pensions aren't reduced due to rules regarding calculating final average earnings or credited service, and considering extending health care benefits to older, part-time workers. Finally, performance management systems may need to be adjusted to accommodate downshifters.

Those developing a downshifting program should have good business reasons for its features; feel-good reasons may feel good but usually aren't sufficient to convince senior management.

Employers need to identify potential costs or savings, which can get tricky. Estimating the labor costs or savings in payroll and benefits associated with a downshifting program might seem to be straightforward. However, it takes imagination and research to estimate the potential gains of successful strategies and the consequences of ineffective workforce policies or the losses of key talent. It's worth the time, since these gains or losses can dwarf the estimated labor savings or costs of the program.

The program must comply with labor and age discrimination laws and regulations. Part of this involves documenting the valid business reasons for the program and making sure it is applied consistently across the organization. This doesn't mean a one-size-fits-all program; but if features apply differently across an organization, valid business reasons for those differences are necessary.

Even the best-designed program can go astray without thoughtful implementation. Supervisors and employees alike need to be informed of reasons for the program and its features. It's necessary to address potential unrealistic expectations that the downshifting program is available to all people and all jobs in the organization. Additionally, managers and supervisors will need to be given guidelines on how to conduct conversations relating to downshifting and eventual retirement. All parties usually need to be coached on the most effective way to tee-up the conversation about whether downshifting might be right for a specific individual. In many instances, long-held myths about the productivity, cost and commitment of older workers or part-time employees may need to be addressed.

Developing a successful downshifting

Smoother Transition to Retirement

After working 15 years for Lee Hecht Harrison, an international career management firm, former general manager Rolf Gruen piloted the concept of a "What Next" career transition. He downsized his role and hours, and shifted his focus to a specific product line instead of general management. This arrangement allowed him to attain a more balanced life, still contribute to the overall success of his office, and transition in new leadership. The lessons learned include:

- Communication about expectations of the new role needed to be clear and concise.
- Time management was his responsibility, and boundaries needed to be self-imposed rather than by the organization.

Both parties were pleased that they hadn't been constrained to traditional retirement beliefs and actions. There was a smooth transition to the next general manager, and Gruen had time to focus on the next steps in his life around potential work options, civic involvement and leisure.

program does require time and expertise, and there can be barriers to overcome, but doing so is a win for both the employer and the employee. The authors advocate that employers do the downshift—and do it well!

Boy, the meeting that I called with HR, benefits and legal on exploring the possibility of a downshifting program really seemed to gain some traction. Especially with the VP of HR who is nearing retirement! Everyone on the committee expressed interest in fleshing out the details. I haven't seen this much enthusiasm about a new HR program since. . . . **B&C**

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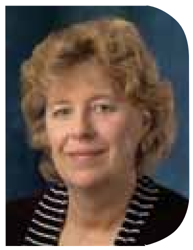

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