



of San Diego

HOME

PLANNER RESOURCES

PHASING INTO RETIREMENT

Retirement ain't natural.

Through the eons of humankind, people never retired. They worked until they died or couldn't physically continue. Only in the last 100 years or so, have people intentionally stopped working in order to "take it easy" in their later years. No wonder people often have difficulty adjusting to retirement—it isn't in their genes. But phasing into retirement, or semi-retiring, through a reduced work schedule can provide an invaluable psychological and financial bridge to full retirement, say financial planners.

A 2002 survey by the retirement community builder Del Webb Corporation found that half of retired baby boomers wanted to return to work. Half of those wanting to go back did so because they needed the money, but a fourth said they missed their friends at work and a fourth were just plain bored.

That's where phasing into full-time retirement via part-time work, say 20 or even 30 hours a week, or perhaps a few weeks on and a few weeks off, allays several of the major challenges workers face when they retire full time. Take financial need, for example. The bear stock market has shrunk many retirement accounts, and working part time can reduce the pressure to dip into those accounts, allowing them to recover some of their value when the market eventually rebounds. You may even earn enough income from part-time work to be able to continue to contribute to your retirement accounts, allowing for yet greater post-retirement income.

Beyond financial security, semi-retirement provides important psychological, social and even health benefits. While the notion of no longer working at all may sound wonderful, full-time retirees often find themselves bored in those early years, and some return to work just for something to do. They miss the intellectual stimulation and emotional rewards, and yes, some even miss the stress. Of course, instead of coming back to work after retiring full time, it's usually easier and more satisfying to gradually work your way out of work.

Phasing into retirement allows time to "practice" full retirement by trying out hobbies and interests you may never have had time to pursue before, or vacationing extensively in a region of the country you're thinking about moving to when you eventually stop working.

Many of a person's closest social connections are with fellow workers, and gradually reducing the work hours can cushion the social withdrawal retirees often feel. Much of a person's identity and self-worth can be tied up in their job, too. They think of themselves first as a teacher, a police officer, a CEO, a manager, a business owner. Gradually shifting into retirement allows them time to discover a deeper self.

Experts point out that some of the very things retirees most miss about work—the structure, the sense of financial security, perhaps physical labor, the social contacts, the intellectual and emotional rewards—contribute to the quality of their health. There is truth in the saying that after some people retire, they just “curl up and die.”

So how do you best move into full retirement? Continuing to work part time at your old job, assuming you like it and your employer allows it, is the easiest path to follow. You often can continue receiving health and retirement benefits instead of having to wait if you take a new job. And your colleagues are there, too. Some workers retire and consult independently to the very company or industry where they worked.

Or you may prefer a complete change of scenery, a whole new career, either with a new employer or perhaps starting up your own business.

You’ll need to keep some key financial issues in mind in order to make the most of a phased retirement. The larger the nest egg you can build before you start phasing out of work, the better. It will allow you to be choosier and more flexible in what options you take, particularly in a weak economy. Phasing into retirement can reduce the amount of required withdrawals from your retirement accounts should you continue to work past age 70 1/2.

On the other hand, part-time work may reduce your Social Security benefits. If you start collecting benefits before your normal retirement age (65 to 67, depending on when you were born), you lose \$1 for every \$2 earned above a certain threshold—\$11,520 in 2003. Too much income also may result in your Social Security benefits being taxed.

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