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Article

The Rhetoric and Reality of Phased Retirement Policies

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Gradual Retirement as the Stepping Stone Towards a Longer Working Life

The nature of retirement has changed over time, both in terms of timing and design. Labor force statistics provide strong evidence that the era of early retirement belongs to the past. The one-time, one-way, irreversible transition from full-time employment to complete retirement has gradually disappeared, and the current retirement development may be viewed as a complex process unfolding over time and varying considerably across individuals (Szinovacz, 2013). Judging from official retirement data from the Organisation for Economic Co-operation and Development (OECD), in most countries, the twenty-first century is so far a turning point (see Figure 1), and retirement ages are moving swiftly upwards. In the United States, the effective retirement age for men in 2018 was back to the level from 1970 of 68 years, and the retirement ages for U.S. women are also rising and getting close to 67 years of age.

Whereas the men in Europe exited the labor force at more or less the same age in 1970, the European average retirement age in 2018 is around 64 years, suggesting that this process of reversal is not uniform. The diversity in speed and intensity of national pension reforms within Europe is a notable reason why retirement ages differ. Spain, Portugal, Greece, and Italy are still hovering around the average of 61–62 years, whereas in Northwest Europe retirement approaches 66 years of age.

The pension reforms that have been enacted in the past 10–20 years define higher statutory pension ages and, in general, this amounts in practice to working much longer than workers previously envisioned. This is particularly a concern for employees who might be worried about their ability to maintain their job performance until their date of retirement, either physically or mentally (Van Solinge & Henkens, 2017). It also fueled concerns from employers about the employability and health of older workers (Van Dalen et al., 2019). Gradual retirement—the gradual withdrawal from the labor market by reducing work hours—is often put forward as a policy tool that can satisfy both the desires and needs of employers and employees. It is, however, a catch-all phrase that covers different concepts. Conceptually, we can make a distinction between phased retirement arrangements, which allow employees approaching statutory retirement age to reduce their hours worked while staying with the same employer (Chen & Scott, 2006; Hutchens, 2010), and bridge employment. Bridge employment is defined as paid employment taken up by older workers after the end of a career job and before they completely and permanently withdraw from the labor force. This may be employment in a new job, self-employment, work with a new employer, or work in a new industry (Cahill et al., 2015; Cahill & Quinn, 2020).

In this article, we focus on phased retirement as a human resource policy measure. The tacit assumption behind phased retirement arrangements is that it may help older workers to reach their (higher) statutory retirement age in good health,

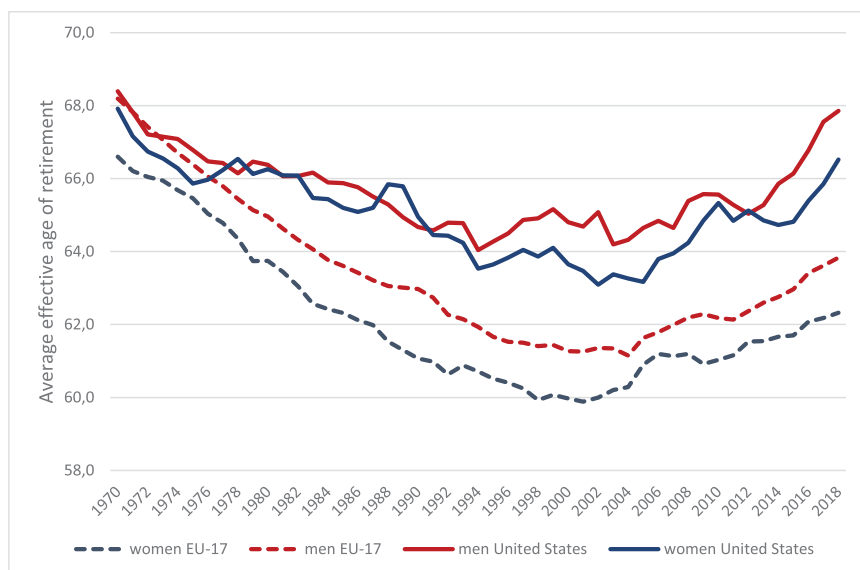


Figure 1. Effective retirement age in Europe and the United States (men and women), 1970–2018. Source: OECD (2019). The OECD estimates are based on the results of national labor force surveys, the European Union Labor Force Survey, and, for earlier years in some countries, national censuses. The average effective age of retirement is defined by the OECD as the average age of exit from the labor force during a five-year period for workers initially aged 40 and over. Europe in this figure refers to the group of EU-17 countries as defined by OECD (2019): Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Spain, Sweden, United Kingdom.

as it is assumed to improve the work–life balance of older workers approaching full retirement. Phased retirement may also benefit employers because they can benefit from the (firm-specific) knowledge and networks of older workers. It may also prevent the loss of firm-specific knowledge embodied in older workers and facilitate the transfer of this knowledge from senior to younger workers. Phased retirement arrangements can be both informal practices and formal workplace policies. Due to definitional issues, estimates of the prevalence of phased retirement work vary greatly and are difficult to compare across nations, and even within a national context. United States studies using longitudinal data from the Health and Retirement Study found phased retirement (reductions in hours on the career job) rates around 10% (Cahill et al., 2015). Recent data for Europe are even more difficult to establish, but the general impression is that the take-up is low (Dubois et al., 2016; Kantarci & Van Soest, 2008). Official figures for the Netherlands of the Dutch pension regulator suggest that the uptake over the past two decades was quite low: up to 2012, the use of phased retirement programs offered by pension funds was 3% (of those aged 60–64) and from that point onwards it dropped to 1%. Needless to say, in practice there are different arrangements that are close substitutes that *de facto* function as a phased retirement program. But even then, the uptake for organizations that offer this option remains low and comes close to 10% at most.

International evidence on who is opting for phased retirement and the potential benefits for older workers, organizations, and society are limited. Hutchens and Grace-Martin (2006) show for the case of the United States how employers can differ in their willingness to grant phased retirement to employees and that they tend

to offer it to white-collar workers who perform well. Allen, Clark, and Ghent (2004) show that phased retirement plans in higher education can create value for both the institution and individual faculty. However, it turned out that low-performing faculty started the retirement process earlier, instead of the retirement plan inducing extended careers. In the European context, Berg, Hamman, Piszczek, and Ruhm (2020) show how German partial retirement programs have extended the working lives of participants. For the Dutch case, clear-cut evidence on the impact of phased retirement on activity rates is scarce, though there is some evidence that those older workers who use phased retirement benefit slightly in terms of their health (Van Solinge et al., 2021).

To determine whether there are visible or invisible barriers in the use of phased retirement arrangements, we present recent findings from a study carried out in the Netherlands on the perspective of employers and employees. We draw on the Netherlands Pension Panel Study (NPPS): a large-scale panel study among 6,600 workers 60–65 years old who are members of the largest pension providers in the Netherlands, covering half of the Dutch workforce. In 2015, everyone was at work but, over time, we can track some key pension decisions. In addition, we present findings from a large-scale study among Dutch employers carried out in 2019 ($N = 783$ organizations).

The Netherlands may offer an insight into the European case, as the country is one of the forerunners in reforming the public pension system in Europe by a step-wise increase of the statutory retirement age to the age of 67. By the year 2022, this retirement age will be automatically linked to the average life expectancy at age 65. The concerns of employers and employees in making the extension of the

working life sustainable is at the center of attention in pension debates and policy reforms at national and firm levels.

A View From the Older Worker

In the NPPS study, we asked older workers (60–65 years of age) to state their views on the prospect of using phased retirement. In our study, 10% of the older workers actually opted for phased retirement, whereas another 25% considered but did not use it. These figures did not differ by level of education or occupation. The barriers for using phased retirement were highly diverse; 40% of the older workers stated that it would be a financially bad deal for them. Especially, workers in low-skilled jobs stated that this would be the case: 55% of the low-skilled workers stated this, compared to 37% of workers in high-skilled jobs. Two elements of the Dutch arrangement are important in this respect. First of all, phased retirement is financed on an actuarially neutral fashion by pension funds, meaning that a shifting of pension resources towards the present implies a lowering of the average pension benefit for the remainder of the employee's life. Second, it is an irreversible decision: once you choose to begin phased retirement you cannot go back on your choice, and this may be of particular concern for workers who have serious doubts about their (future) financial situation or doubts about how this part-time arrangement may turn out in practice. What may have added to the hesitance in participating in phased retirement programs is that employees have been used to a host of employer-sponsored arrangements that allowed phased retirement and, more or less suddenly, employees have to pay for their own retirement choices.

Financial barriers tied to phased retirements are not, however, the only barriers, as organizational barriers to taking phased retirement can also be perceived to be large and diverse: 17% of those surveyed claimed that the content of their job would become less enjoyable due to phased retirement and 26% claimed that phased retirement is not possible for their particular job. Active discouragement by the employer is less frequently mentioned: only 10% stated that this is actively discouraged within their organization. If we combine the organizational barriers, our study makes clear that 38% of older workers mentioned at least one of these impediments for using phased retirement arrangements.

Organizational barriers to taking phased retirement can also be perceived to be large and diverse.

The Employers' View on Phased Retirement

The insights generated from older workers suggest that there is substantial room for making more use of the tool of phased retirement. Some insights from the employer's survey would give the impression that this interest is

matched by support from employers, given their concern about extending the working lives of their employees. Indeed, the results presented in Figure 2 show that no less than 75% of the employers expect that phased retirement will make it easier to some extent for older workers to reach the higher statutory retirement age in good health. In light of these positive expectations about gradual retirement, it is puzzling that the uptake of phased retirement is generally so low in most countries, and also in the Netherlands.

An important reason for the low level of uptake might be traced to the attitude of employers. Employers do not, of course, make the actual decision on (phased) retirement of their older workers, but they may control the retirement process by constraining or increasing older workers' agency in opting for phased retirement (Leber & Wagner, 2007). A novel insight coming from our survey is that the large majority of employers see the decisions of older workers on phased retirement as a private affair (see Figure 2, middle bar), not a matter to be discussed within employer–employee relationships, such as during annual personnel reviews. Employers might be reluctant to address the issue because it might be interpreted by older workers as a form of age discrimination and a signal that the employer wants to downsize the number of older workers. Lawsuits on the basis of age discrimination are, however, rare. Possibly out of fear of such lawsuits, only relatively few employers actively stimulate the use of phased retirement options in their organizations (23% to some degree and only 3% to

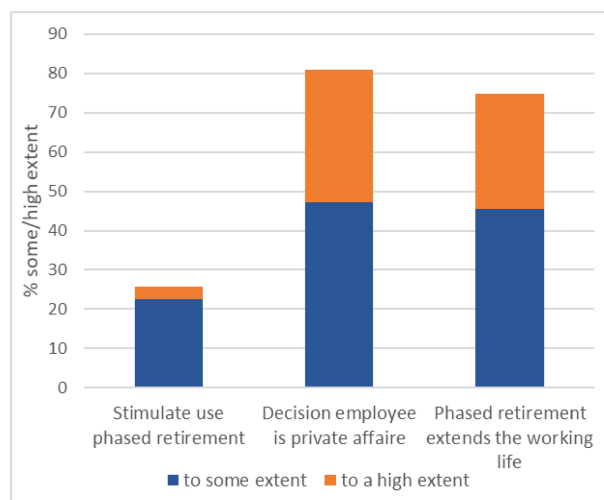


Figure 2. Attitudes of employers with respect to phased retirement in the Netherlands. Source: Netherlands Interdisciplinary Demographic Institute employers survey (2019). $N = 783$ organizations. The questions on which these three attitudes are based were: “to what extent is phased retirement within your organization actively stimulated?”; “to what extent do you consider the choice to take up phased retirement a private affair of individual employees?”; and “to what extent do you think that phased retirement makes it easier to extend the working life?” The answers were on a scale where 1 indicates “not,” 2 indicates “to a low extent,” 3 indicates “to some extent,” and 4 indicates “to a high extent.”

a high degree). These results make clear that while older workers point to the importance of organizational barriers for using phased retirement arrangements, employers hardly seem to see a role for themselves even though they acknowledge the potential positive impact of phased retirement in extending working careers.

The large majority of employers see the decisions of older workers on phased retirement as a private affair.

Are Phased Retirement Programs the Silver Bullet for Aging Societies?

Phased retirement can be an important arrangement for societies making the transition to an older work force. These arrangements may offer older workers burdened by poor health and demanding working conditions the opportunity to improve their work–life balance and, hence, may improve or maintain their productivity up to the statutory retirement age. Results from studies conducted in Europe and the United States suggest that a large discrepancy exists between the preferences of older workers to reduce their working hours as they move closer to retirement and the actual use of phased retirement programs (Clark & Ritter, 2020b; Dubois et al., 2016). Part of this discrepancy might be explained by financial disincentives that reduce older workers' enthusiasm to actually opt for gradual retirement. What our study focusing on the Netherlands makes clear is that in addition to these financial disincentives, older workers are reporting major work-related obstacles that prevent them from using phased retirement programs. It is likely that these impediments are widespread in the United States as well, and will remain as long as the dominant social norm is to work full time (cf. Moen, 2020). In addition, Clark and Ritter (2020b) note that despite the introduction of phased retirement programs, management problems and age discrimination issues may prove a stumbling block in making these programs work.

The large gap between the potential and actual use of these programs remains worrisome and may be exemplary for similar well-intended programs. Of course, it would be a mistake to expect miracles and large impacts from a program that intends to gradually decrease the number of hours worked, and one should try to look beyond the common rhetoric that accompanies such programs. Sustainable adjustment to an aging workforce within organizations necessarily covers a broad range of policies and not just a single-policy instrument. Clark and Ritter (2020a) provide examples of how large U.S. firms have altered personnel policies and working conditions to accommodate an aging

workforce and address the looming age–productivity gap. Turek, Oude Mulders, and Henkens (2020) show for the Dutch case the emergence of comprehensive personnel policies among employers, including measures aimed at training, work flexibility, and health care for their older workers. Dutch employers, triggered by the sudden public reforms in raising the statutory retirement age, have become more aware that recharging the older worker is the golden route to making the best use of an aging work force, and that sending older workers off to early retirement—a common practice in the 1980s up to 2005—is a thing of the past. Phased retirement programs are one of the measures that could be part of the human resource package if well designed. However, like all well-intentioned programs, one should also be wary that badly designed phased retirement programs may reduce the labor supply (Börsch-Supan et al., 2018), trigger the selective exit of high-performance workers (Allen et al., 2004), or be used selectively by privileged workers who can financially afford to opt for phased retirement (Krekula & Vickerstaff, 2020), instead of vulnerable older workers who are in need of improvement of their work–life balance but who cannot afford it.

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Conflict of Interest

None declared.

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