

PHASED RETIREMENT

What is Phased Retirement?

Phased Retirement is a new human resource management tool made possible by section 100115 of Public Law 112-141, the "Moving Ahead for Progress in the 21st Century Act," or "MAP-21," approved on July 6, 2012.

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 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 it 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 completed 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.

How Will Survivor Benefits Work?

To make this workable and avoid intractable administrative problems, no survivor benefits can be based upon a Phased Retirement annuity. If the individual dies prior to full retirement, survivor benefits will be those applicable for an employee who died in service, with provision for minor computational adjustments necessitated by the unique nature of Phased Retirement.

What Death-In-Service Survivor Benefit Adjustments are Required?

The period of Phased Retirement will be treated as a period of part-time service in the computation of the survivor annuity. However, the Basic Employee Death Benefit will be based upon the full-time salary of the position.

Who Is Eligible to Participate?

Participation is entirely voluntary, and requires the mutual consent of both the employee and employing agency. In order to participate, an individual must have been employed on a full-time basis for the preceding three years. Under CSRS, the individual must be eligible for immediate retirement with at least 30 years of service at age 55, or with 20 years of service at age 60. Under FERS, the individual must be eligible for immediate retirement with at least 30 years of service at MRA (minimum retirement age 55-57 depending upon year of birth), or with 20 years of service at age 60.

Are Individuals Subject to Mandatory Retirement Eligible to Elect Phased Retirement?

The law provides that employees subject to mandatory retirement (including Law Enforcement Officers, Firefighters, Nuclear Materials Couriers, Air Traffic Controllers, Customs and Border Protection Officers, or members of the Capitol Police or Supreme Court Police) may not participate. However, "grandfathered" Customs and Border Protection Officers who are not subject to mandatory retirement may participate.

How Will Domestic Relations Court Orders be Treated?

Phased Retirement Annuities will be subject to court orders providing for division, allotment, assignment, execution, levy, attachment, garnishment, or other legal process on the same basis as other annuities.

How Will Unused Sick Leave be Treated?

No unused sick leave can be used in the computation of the Phased Retirement annuity. However, at full retirement the unused sick leave will be taken into account. While the computational provisions are somewhat complex, the value of the sick leave in that computation will be the same as for an individual retiring from a full-time position.

How Will Life Insurance and Health Benefits be Affected?

FEHB and FEGLI will stay with the employing agency. FEGLI benefit coverage amounts will be based upon the full time salary for the position. The FEHB employer contribution will be the same as for full-time employees.

What Proportions of Work and Retirement are Permitted?

Initially, individuals will only be able to transition to a half-time schedule. After there is experience with the program, OPM may by regulation provide for other work and retirement proportions.

Can a Phased Retiree Return to Full-Time Employment?

Yes, if the employing agency agrees to the change. The Phased Retirement annuity will then terminate. Upon retirement, the individual's retirement will be calculated under the laws then in effect, with the period of Phased Retirement treated as part-time service. Once an individual has gone back to full-time employment, they cannot elect to go back into Phased Retirement.

How Will Periods of Service Subject to Deposits or Redeposits Be Treated?

Deposits and redeposits (including for military service) must be satisfied (either by payments or annuity reduction as applicable) prior to entry into Phased Retirement status. Any reduction in annuity or loss of service credit at the time of entry into Phased Retirement will be permanent for the employee. No deposits or redeposits can be made by the employee at a later time, including at the time of full retirement.

However, in the case of a Phased Retiree's death-in-service, the survivors can make deposits or redeposits on the same basis as if the decedent had not been a Phased Retiree.

When Will the Phased Retirement Program Become Available?

The program will become effective at the time set in the regulations to be issued. Implementation of the program is an important goal of OPM, and this will be accomplished as soon as possible.