Reinventing the Retirement Paradigm

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Chapter 4

Older Workers: Employment and Retirement Trends

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The timing of retirement can change individuals' economic circumstances and also influence the entire nation's economy. The number of people retiring each year affects the size of the labor force, which has a direct impact on the economy's capacity to produce goods and services. Other things equal, fewer retirements in any given year would result in a greater supply of experienced workers available to employers and fewer people relying on savings, pensions, and Social Security as their main sources of income. Consequently, changes in the age profile of the population or the average age at which people retire have implications for both national income and the size and composition of the federal budget.

This chapter begins by describing the aging of the US population and summarizing historical data on older workers' labor force participation. Next, we turn to information on older persons' employment and receipt of pension income, which are discussed in the context information on the proportion of workers who claim retired-worker benefits before the full retirement age (65 years and 4 months for people who reach age 65 in 2004). In a final section, we discuss recent proposals to promote phased retirement through amendments to sections of the Internal Revenue Code (IRC) that govern the taxation of pension income.

Defining Retirement

To understand the factors that affect retirement behavior, it is useful to first define what it means to 'retire'. In the US context, retirement is usually defined with reference to two observable factors: nonparticipation in the paid labor force, and receipt of income from pensions, Social Security, or other retirement plans. An individual who does not work for compensation and who receives income only from retirement benefits and financial assets would meet this definition of retirement. Someone who works for compensation and receives no retirement benefits (pensions or Social Security) would not be retired according to this definition.

Between these two extremes, of course, are many who might be counted as 'retired' according to one definition but not the other. For example, someone who retired from a career in law-enforcement or the military (both of which typically provide pensions after twenty years of service) often work for many years at other jobs, while also receiving a pension from prior employment. In such cases, having retired from a particular occupation does not necessarily mean that one has retired from the workforce. Conversely, many people who retire from full-time employment continue to work part-time to supplement retirement benefits. If most of their income is provided by social security, pensions, and savings, economists typically classify them as retired even though they continue to engage in paid employment. As these examples suggest, not everyone who receives pension income is retired, and some people who work for pay actually are retired.

Labor Force Aging, 2005–35. As the generation born during 1946–64 approaches retirement age, the proportion of the US population age 65+ will rise from 12.4 percent in 2005 to 20.3 percent in 2035 (US Census 2003). The age profile of the economically active population, however, already is undergoing a substantial shift toward a greater number of older workers and a relative scarcity of new entrants to the labor force.

Evidence in Table 4-1 shows how the age profile will change between 2005 and 2035. Census Bureau estimates suggests that there will be 193 million Americans age 25+ in 2005; by 2035, this number will increase by almost 33 percent to 255 million. But the number of people age 25–54 (the ages when labor force participation rates are at their highest levels) will rise by just 11 percent. At the same time, the number of people age 55–64 is projected to increase by 9 million, or 30 percent. In other words, while the 25–64 age group will grow by about 22.8 million between 2005 and 2035, as much as 40 percent of the increase is projected to occur among people age 55–64.

Table 4-1 US Population, Age 25+ Projections: 2005 and 2035 (Numbers in thousands)

	Age groups					
Year	*25–34*	*35–44*	*45–54*	*55–64*	*65+*	*Total*
2005	39,600	43,603	42,436	30,376	36,696	192,711
2035	47,548	46,296	45,584	39,397	76,641	255,466
Change	7,948	2,693	3,148	9,021	39,945	62,755
Percentage Change	20.0	6.2	7.4	29.7	108.8	32.6

Source: US Census (2003).

Long-Term Trends in Labor Force Participation Rates. The labor force participation rate (LFPR) is the percentage of the population that is either employed or unemployed and looking for work and it varies by age and sex. Moreover, LFPRs have changed over time, as people have responded to economic developments and as social norms have changed with respect to the employment of women and the retirement of older workers. Also, as the US moved from an economy based on smokestack industries such as mining and manufacturing, to one in which producing and distributing information is paramount, demand has grown for highly educated workers, while demand has slackened for workers who perform physically demanding labor. At the same time the economy has generated jobs that can be done by workers of more varied physical abilities, the two-earner couple has become the rule rather than the exception of decades ago. Finally, with near universal coverage by Social Security and about half of all workers participating in an employer-sponsored pension or retirement saving plan, many employees now anticipate retirement as an opportunity for leisure and recreation rather than as a time of financial dependency on their children.

Men age 55+ today are less likely to participate in the labor force than were their counterparts half a century ago (Quinn 1999). The Census Bureau found in the 1950s that some 90 percent of men age 55–64 participated in the labor force (either working or actively looking for work; USBLS 1997). By 2002, only about 70 percent of men in that age group participated in the labor force (see Figure 4-1). Most of the historical

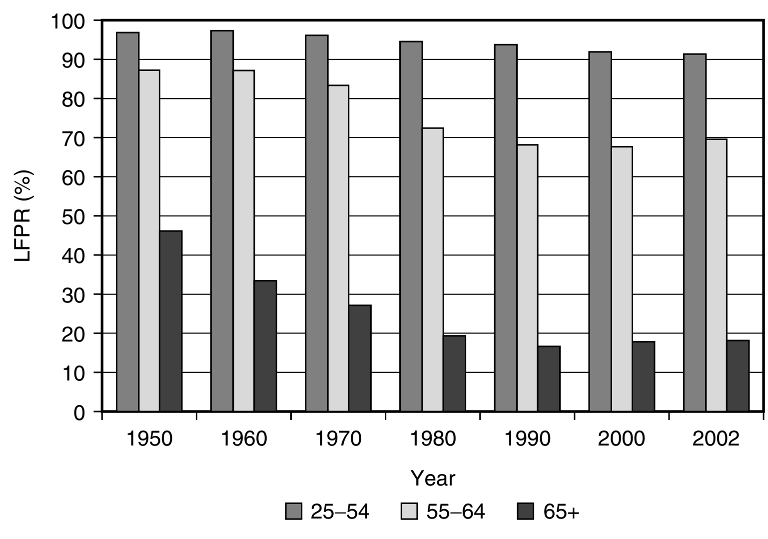

Figure 4-1. Men's labor force participation rates: 1950–2002.

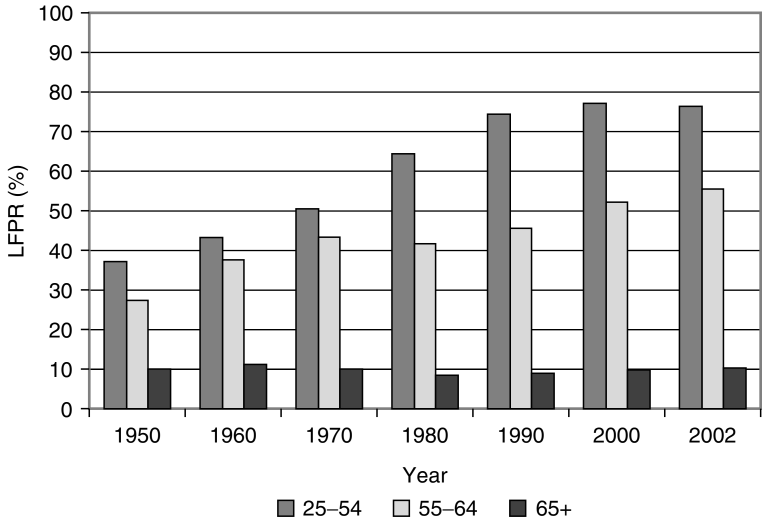

Figure 4-2. Women's labor force participation rates: 1950–2002.

decline occurred over a relatively brief period, from about 1970 to the mid-1980s. Among men age 65+, the decline in labor force participation began earlier but it also appears to have ended around 1985. Between 1950 and 1985, LFPRs of men 65+ fell from 46 percent to about 16 percent. Since the mid-1980s, the labor force participation rate among men age 55–64 has remained in the range of 66–69 percent, while for those age 65+ it has increased modestly, from 16 to 18 percent.

Women's LFPRs steadily rose from 1950 to the present (see Figure 4-2). Among women age 55–64, the rate rose from 27 percent in 1950 to 45 percent in 1990, and then to 55 percent in 2002. Among women age 65+, however, LFPRs have changed very little over the last half century, remaining between 8 percent and 10 percent over most of the 1950–2002 period.

Stability of men's LFPRs for the group age 55+ since the mid-1980s is probably attributable to several factors. First, in the USA, Social Security now covers virtually all private-sector nonfarm workers.[1] The earliest age of Social Security eligibility for retired worker benefits was set at 62, for women in 1956 and for men in 1961; this early entitlement age has not changed since. Second, in the private sector, the expansion in pension coverage that started in the 1950s had ended by 1980. About half of all workers were covered by an employer-sponsored retirement plan in 2002, virtually the same percentage as in 1980. Finally, most traditional defined benefit (DB) pension plans have minimum age and length-of-service requirements that must be met before pension benefits can be paid.

These provisions, in effect, establish a minimum age below which retirement is not a viable option for most workers. According to the US Department of Labor (USDOL 2003), 23 percent of employees in the private sector who participated in a DB pension in 2000 were covered by plans that did not allow early retirement, and 67 percent were in plans that specified a minimum age requirement for early retirement benefits. Of workers whose pensions specified a minimum age for early retirement, 79 percent were covered by plans that had a minimum retirement age of 55 or older. Labor force participation among people age 55+ might also be affected by the trend away from DB plans, which often include early-retirement subsidies and pay a guaranteed benefit for life, toward defined contribution (DC) plans which tend to be age-neutral in design and often pay out a single lump sum at retirement.

Retirement Income Among Older Workers

An important determinant of retirement behavior is whether the retiree's anticipated income will be adequate to maintain a desired standard of living. Table 4-2 shows the proportion of men and women age 55+ who reported that they received pension income of some kind in the calendar year before the survey. In Table 4-2, pension income includes employer-sponsored pensions (including military retirement), veterans' pensions, and periodic payments from annuities, insurance policies, individual

TABLE 4-2 Receipt of Income from Employer Pensions and Retirement Saving Plans

	All individuals age 55 and older	
	55–64 years (%)	*65 and older (%)*
Men		
1995	23.3	47.0
2000	19.5	45.8
2003	18.0	44.2
Women		
1995	12.1	28.8
2000	11.7	29.4
2003	11.0	27.3

Source: Author's analysis of the data in the March supplement to the Current Population Survey.

Note: Retirement plans may include a traditional pension, a retirement savings plan, or both. The income year is the year when the income was received, which is the calendar year preceding the March CPS interview.

retirement accounts, 401(k) accounts, and Keogh plans for the self-employed. Not surprisingly, the fraction of recipients increases with age. In 2002, only 18 percent of men age 55–64 received income from a pension or other retirement plan; by contrast, among persons age 65+, 44 percent had this type of income. Results for women are similar: in 2002, only 11 percent of women age 55–64 received income from pensions or retirement savings plans, while 27 percent of those age 65+ received such income.

It is interesting that the 18 percent of men age 55–64 receiving pension income reflects a decline from 23 percent in 1994. During the same period, the proportion of men age 65+ receiving pension income fell from 47 percent to 44 percent. The pattern among women was more stable: 11–12 percent of women age 55–64 had pension income throughout the 1994–2002 period. Among older women (age 65+), the pattern was again stable, with 27 percent receiving income from pensions and retirement savings plans in 2002, one percentage point less than in 1994.

The data also indicate a strong negative correlation between receipt of pension income and employment for men: during 1994–2002, the correlation was −0.75 for men age 55–64 and −0.74 for men age 65+. The statistics do not indicate why employment rose among men age 55+ while pension income receipt fell. One explanation may be that DB plan coverage is falling, and workers who have only a DC (401(k)) plan might be delaying retirement to build up larger account balances or make up for investment losses due to the market downturn. It is also interesting that employment rates and receipt of pension income are not strongly correlated for women (0.16 for those age 55–64, and 0.20 for the 65+). The lack of a relationship is partly due to the fact that women's LFPR has been steadily rising over time, perhaps masking a decline in the percentage of working women who are (or will be) eligible to receive pension distributions.

Work by Recipients of Retirement Income. Table 4-2 also indicates the number and percentage of people age 55+ who received pensions or distributions from retirement accounts. This is supplemented by evidence in Table 4-3 which show that, among men age 55–64 who received income from a pension or retirement saving plan in 2002, some 34.9 percent were employed either full or part time when they were surveyed in March 2003. Relatively few men age 65+ who received pension income also worked for pay: only 12 percent were employed, on average, over the 1995–2003 period. Women receiving pension income are also less likely than men to be employed. Among the 55–64 age group receiving income from a pension or retirement saving plan in 2002, one-third was employed in March 2003. The average rate of employment for these women from 1995 to 2003 was 30.3 percent. Among women age 65 or older who received income from a pension or retirement savings plan, only 6–8 percent, on average, were employed during the 1995–2003 period.

TABLE 4-3 Employment of Recipients of Employer Pensions and Retirement Saving Plans, Age 55+

	Retirement income recipients age 55 and older	
	55–64 years (%)	*65 and older (%)*
Men		
1995	37.5	11.9
2000	36.7	11.6
2003	34.9	11.6
Women		
1995	31.2	6.2
2000	30.7	7.3
2003	33.7	8.0

Source: Author's analysis of data in the March income supplement to the Current Population Survey.

Note: Retirement plans may include a traditional pension, a retirement savings plan, or both. The income year is the year prior to the survey. Employment is in current year.

Age When Social Security Retirement Benefits Begin. In the USA, retired-worker benefits under Social Security are first available at age 62, but benefits taken before the normal retirement age are subject to a permanent actuarial reduction. As a result of the Social Security Amendments (SSA) of 1983, the normal retirement age will be raised to 67 incrementally over a twenty-two-year period; in 2004, the normal retirement age went up to 65 years and 4 months. Reduced benefits will continue to be available as early as age 62, but when the full retirement age reaches 67, the benefit payable at 62 will be just 70 percent of the amount that would be paid if not for the early retirement reduction.

Notwithstanding the reduction, most people elect to begin receiving social security retirement benefits before the normal retirement age. Table 4-4 shows that approximately 75 percent of men and 80 percent of women who began receiving retired worker benefits between 1990 and 2001 applied for these benefits younger than age 65. It is also interesting that in 2000, the distribution of benefits awarded to retired workers shifted substantially, with a higher-than-average percentage of new benefits awarded to persons age 65+. This was mainly attributable to the repeal of the earnings test for workers at or above the normal retirement age. Before this, benefits of recipients younger than age 70 were reduced if their earnings exceeded specific thresholds. As of 2000, the earnings test has been eliminated for people at the normal retirement age or older;[2] thereafter, the earnings test applies only to beneficiaries younger than the normal retirement age. With this change, workers who had deferred receipt of Social Security benefits now had an incentive to apply for the same

TABLE 4-4 Social Security Retired Worker Benefit Awards, by year

	Age in year when retired worker benefits began					
	62–64		*65*		*Over 65*	
	Awards	*Percentage of all awards*	*Awards*	*Percentage of all awards*	*Awards*	*Percentage of all awards*
Men						
1990	637,100	74.4	158,300	18.5	60,800	7.1
1995	614,700	76.1	144,400	17.9	48,700	6.0
2000	637,000	64.5	226,000	22.9	124,800	12.6
2001	650,000	75.1	179,000	20.7	36,700	4.2
Women						
1990	494,800	80.0	85,900	13.9	37,700	6.1
1995	492,900	79.9	87,800	14.2	36,300	5.9
2000	574,700	74.5	118,700	15.4	77,700	10.1
2001	556,200	78.5	102,000	14.4	50,100	7.1

Source: SSA (various years).

Note: Initial awards exclude conversions from disabled worker benefits to retired worker benefits.

benefits. Workers who delay receipt of benefits until they are beyond the normal retirement age remain eligible for a delayed retirement credit, which permanently increases their benefits, thus creating an incentive for older workers to remain in the labor force.

Older Workers and Phased Retirement

In the traditional view of retirement, a worker moves from full-time employment to complete withdrawal from the labor force in a single step. In fact, however, some workers choose to continue working after they have retired from their 'career' jobs. The process of retiring often occurs gradually over several years, with many workers retiring from year-round, full-time employment and moving to part-time or part-year work at another firm, often in a different occupation. For example, more than one-third of men and women age 55–64 who received income from private pension plans in 2002 were employed in March 2003.

As members of the baby boom generation move into retirement, millions of skilled and experienced workers will exit the labor force. As this occurs, employers may find it necessary to alter their employment practices and pension plans to induce some of those who would otherwise retire to remain on the job, perhaps on a part-time or part-year schedule. This process, sometimes referred to as phased retirement (see Chapters 5 and 8), has been described by Schopp (2000:1) as 'the situation in which an older individual is actively working for an employer part time or [on] an otherwise reduced schedule as a transition into full retirement. [It] may also include situations in which older employees receive some or all of their retirement benefits while still employed.'

Advocates of phased retirement contend that more people would choose to continue working if employers could offer them the opportunity to collect pension benefits while still on the employer's payroll. Under current law, this option can be offered only to employees who have reached a pension plan's normal retirement age. Some employers have suggested phased retirement would be embraced by more firms if this option could be offered to employees at the plan's early retirement age. Employers generally would prefer to offer the option of receiving these 'in-service' distributions only to selected categories or classifications of plan participants (CED 1999). In order for either of these actions to be taken, however, the IRC and the Employee Retirement Income Security Act (ERISA) of 1974 would need to be amended.

Current Approaches to Phased Retirement. Employer surveys often indicate that few companies have adopted formal phased retirement programs. For instance Graig and Paganelli (2000) report that 16 percent of the 586 firms participating in the survey offered some form of phased retirement to their employees. Rappaport (2001) found that of 232 employers surveyed in 2001, only 23 percent reported they had adopted formal policies to accommodate phased retirement.[3]

A number of strategies are available to retain the services of valued employees who are eligible for retirement and who might be lost to the firm if the only options provided were either full-time employment or full-time retirement. For instance, some firms allow retirement-eligible employees to work fewer days per week or fewer hours per day; others permit employees to reduce their workload through job-sharing. Occasionally companies will rehire retired employees on a part-time or temporary basis, or bring them back as contractors rather than as employees of the firm (Hutchens and Papps this volume). Two of these arrangements, hiring retired former employees on a part-time or temporary basis, and hiring retirees as contractors, require that worker separates from the firm before returning under an alternative work arrangement. This introduces considerable uncertainty into the process for both the retiree and the employer, because once the employment relationship is severed, neither party is legally bound to renew it.

Phased Retirement and Pension Distributions. Another complexity is that unless an employee has attained the pension plan's normal retirement age, that pension is not permitted to pay retirement benefits to the individual while he or she remains employed by the firm, even if only part-time. Thus to qualify for the favorable tax status granted to qualified pension plans, the plan must pay benefits only on condition of death, disability, termination of employment, plan termination, or at the normal retirement age.[4] A plan that pays benefits to an employee who has not yet reached the plan's normal retirement age could lose its tax-qualified status.[5]

An employee who has reached the pension plan's normal retirement age can begin to receive distributions from the plan, even if he or she continues to be employed by the firm.[6] Likewise, an employee who has reached the plan's early retirement age can begin to receive distributions from the plan upon separation from the firm, provided that he or she has met the required number of years of service stipulated by the plan. If a participant has separated from the employer and has begun to receive distributions from the plan at the early retirement age, he or she can continue to receive these distributions, even if at some future date the participant becomes re-employed by the plan sponsor. However, the employer may be required to demonstrate to the Internal Revenue Service (IRS) that 'both a bona fide retirement (or other termination of employment) and a legitimate rehire have occurred'.[7]

Issues Raised by Phased Retirement. Some workers would find it financially impractical to cut back to a part-time work schedule, if they were unable to supplement their earnings with pension income. Nevertheless, employers are prohibited from making in-service pension distributions to employees who have not yet reached the plan's normal retirement age. One way around this conundrum would be to lower the plan's normal retirement age. For example, if the normal retirement age under the plan were age 62 and the early retirement were age 55, the firm could reduce the normal retirement age to some age between 55 and 61. Some employers would see at least two drawbacks to such an approach. First, it could result in an unintended exodus of workers into retirement, because all eligible plan participants would be able to receive full pension benefits at an earlier age than previously. Second, it could result in an increase in the cost of funding the plan, because full benefits would be payable at a younger age.

Policy Responses to an Aging Population

The federal government influences employers' decisions about whether to offer pensions through regulation, such as the ERISA and the Age Discrimination in Employment Act; through social insurance programs such as Social Security; and through the financial incentives created for both employers and employees by the IRC. In turn, workers' decisions about where they will work and how much they will work are directly affected by employers' decisions about the amount and type of compensation that they offer to employees.

Social insurance programs and the tax code differ from direct regulation in that their primary objectives are, respectively, to provide benefits to individuals and to collect tax revenue. Nevertheless, both the Social Security system and the tax code affect the labor market behavior of employers and workers by establishing financial rewards or sanctions for certain actions. Given that the aging of the population and the impending retirement of the baby boom generation are likely to affect the supply of labor and the productive capacity of the economy, both the Social Security Act and the tax code may be amended to provide incentives for people to work longer.

As mentioned above, rules governing eligibility for Social Security benefits are believed to have a substantial influence on workers' decisions about when to retire. Some evidence indicates that more retirements occur at age 62, which is the earliest age at which reduced retired worker benefits are available, and age 65, the earliest age at which full retired-worker benefits are available, than at other ages. The earnings test and the delayed retirement credit also may influence decisions to work, and how much to work, after becoming eligible for social security benefits.

Rather than reduce the normal retirement ages in their pension plans, some employers have suggested that Congress amend the IRC to allow in-service pension distributions to employees who have reached the plan's early retirement age (or some age between the early and normal retirement ages). On the other hand, such a policy might be contrary to the main purpose of pension plans, which is to replace wage income during retirement. If employers were permitted to pay pension benefits to persons still engaged in gainful employment, the benefits would become a tax-subsidized supplement to wages, paid to individuals still able to work. Permitting in-service distributions to current employees who have not reached the plan's normal retirement age might allow employers to compensate current employees with pension funds, effectively reducing their operating expenses by shifting some costs that would otherwise be paid as wages to the pension.

An amendment to the tax code to permit in-service distributions at the early retirement age would alter incentives to work or retire, as well as how much to work and for whom to work. Consequently, it would affect both labor force participation and hours worked among older employees. The net effect of these changes in labor force participation and hours worked would be impossible to predict. Some workers who otherwise would have fully retired before the plan's normal retirement age would choose instead to continue working for their current employer on a reduced schedule, because they would be able to take partial pension distributions while still employed. Other workers who would have taken early retirement and then sought other employment might choose instead to remain with their current employer on a reduced schedule. The net effect of this change in behavior on hours worked might be close to neutral, depending on the wages available from alternative employment and the income received from pension distributions. Finally, some employees who otherwise would have chosen to continue working until reaching the plan's normal retirement age might instead reduce their work schedule and supplement their earnings with partial distributions from the retirement plan. This would tend to reduce total hours worked.

Distributions from 401(k) Plans. In the USA, in-service distributions from a DC plan that occurs before the participant reaches age 59½ are subject to ordinary income taxes plus a 10 percent additional tax. Distributions may begin as early as age 55, however, if the employee has separated from his employer under an early retirement plan. Some advocates of phased retirement arrangements have suggested that the minimum age for in-service distributions from DC plans should be lowered from 59½ to 55.[8] The effect on labor force participation of such a change in tax policy would likely to be very similar to the effect of allowing in-service distributions from a DB plan at the plan's early retirement age. Some workers who might have fully retired from the labor force earlier than age 59½ so that they could begin taking distributions from the plan would be induced to work longer. Others who would have taken early retirement and then sought work elsewhere would remain with their current employers, because they would be able to combine wages from part-time work with distributions from the retirement plan. Finally, some employees who otherwise would have chosen to continue working until age 59½ or later would reduce their work schedules and supplement their earnings with distributions from the retirement plan.[9]

Flexibility versus Nondiscrimination. Section 410(b) of the IRC defines specific tests that must be applied to a pension plan to determine whether or not it discriminates in favor of highly compensated employees, in terms of either benefits or employer contributions. These tests consist of mathematical computations of the percentage of plan participants who are highly compensated employees, and the percentage of contributions to the plan or benefits paid by the plan that are made on their behalf. Pension plans that provide benefits mainly to the owners of a firm or to highly paid employees do not qualify for favorable tax treatment.[10]

It is a relatively common practice for firms to establish separate nonqualified retirement plans for company owners and senior executives. However, if a plan that was originally established as a tax-qualified plan were subsequently found to discriminate in terms of coverage or benefits in favor of highly compensated employees, it could lose its tax-qualified status. In most of these cases, the only viable options available to the plan sponsor would be to remove the discriminatory provisions or terminate the plan because covering rank-and-file employees under a nonqualified plan would result in significantly higher taxes for the participants.

In general, most employers would probably prefer the flexibility to offer phased retirement to some (but not all) pension plan participants. Yet even if Congress were to amend the IRC to allow in-service distributions from pension plans before the normal retirement age, it might do little to spur the growth of phased retirement unless employers also were permitted to limit eligibility for this benefit to employees with particular skills or abilities. But a phased retirement option that offered in-service distributions only to managerial or professional employees could result in the plan failing to meet the nondiscrimination requirements of the IRC by altering the distribution of benefits among plan participants in a way that favored the highly compensated group.[11] A phased retirement option that offered in-service distributions to all participants meeting specified age and length-of-service requirements would not conflict with the IRC antidiscrimination requirements.

Some plan sponsors would like to have the tests for nondiscrimination replaced by the more subjective method of testing that was in effect until 1994, which was based on the 'facts and circumstances' surrounding the operation of the plan. In some cases, a phased retirement option that fails the mathematical tests for nondiscrimination that are required under current law might not fail if it could be tested under the earlier, pre-1994, approach.

Conclusions

It will be necessary to help workers unlock some of their pension benefits, to permit older workers to remain with their employers on a part-time or phased basis. This is difficult under current law, since pension legislation generally requires workers to leave the firm in order to receive benefits. While proposals have circulated to permit phased retirement plans, they have not yet sparked much interest. The key question is whether tax subsidies that have been created to promote pensions should be extended to include people who have not yet retired. It may be that slowing workforce growth, along with the ongoing need for health insurance, will drive this movement in the future.

Endnotes

1. See Anderson and Brainard (Chapter 12) for a discussion of public sector employees, where about one quarter do not contribute to Social Security.

2. In 2004 a Social Security recipient under age 65 and 4 months can earn up to $11,640 without having his or her benefit reduced. Benefits are cut by $1 for each $2 earned over that amount.
3. Although the firms participating in these surveys might not be representative of all employers, their practices with respect to phased retirement offer some insights into the strategies that employers have been able to employ under current law and regulations to promote phased retirement among their employees.
4. See the Code of Federal Regulations, 1.401–1(b)(1)(i).
5. In a tax-qualified plan, employer contributions to the plan are deductible business expenses for the firm and neither the employer contributions nor investment earnings on those contributions are counted as income to the employee in the years that they occur; instead, pensions are taxed as income when the benefits are paid to plan participants in retirement.
6. If a plan participant continues to work for an employer beyond the plan's normal retirement age, the plan must meet the statutory requirements for continued benefit accruals. See 26 USC 411(b)(1)(H).
7. See Fields and Hutchens (2002).
8. It might also seem reasonable that if legislation were passed to allow in-service distributions from an employer's DB plan at the plan's early retirement age, then distributions from the employer's DC plan should be permitted at the same age (perhaps with a lower limit of 55). However, such a policy would suffer from at least two drawbacks. First, the minimum age for in-service distributions from DC plans, which is now the same for all such plans, would differ from firm to firm, thus making the retirement planning process even more confusing for workers and their families. Second, it would be administratively difficult (and in some cases, perhaps, impossible) to tie the minimum age for in-service distributions in the DC plan to the early retirement age specified in the employer's DB plan.
9. The Phased Retirement Liberalization Act, introduced in 2000 (during the 106th Congress) by Representative Earl Pomeroy of North Dakota would have amended the Internal Revenue Code to permit in-service (pre-retirement) distributions from a DB or a DC plan when the participant either reaches the plan's normal retirement age, reaches age 59½, or completes 30 years of service, whichever comes first. The bill was not acted on and it has not been reintroduced in subsequent Congresses.
10. This section of the tax code states that a qualified pension trust is one in which 'the contributions or benefits provided under the plan do not discriminate in favor of highly compensated employees (within the meaning of section 414(q));' the term 'highly compensated employee' is defined at 26 USC 414(q) as a person who is at least a 5 percent owner of the firm or is paid compensation of at least $90,000 (indexed to inflation) 'and is among the top 20 percent of employees in the firm with respect to compensation'.
11. Employers whose approach to phased retirement does not affect eligibility for pension distributions are less likely to violate the IRC nondiscrimination provisions. Examples would be phased retirement plans that involve only reductions in hours of work, job sharing, transfers to other duties, or that are based

on rehiring retired former employees. These are conditions of employment rather than characteristics of the pension plan.

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