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Phasing Into Retirement

“Phased retirement” programs of varying kinds are emerging on campuses across the country. Here are some general features and factors to consider if this relatively new benefit is available to you.

Phased retirement is a voluntary faculty benefit that offers reduced teaching or research responsibilities at reduced pay in exchange for an agreed-upon retirement date. Plan features differ considerably from one institution to another, with each institution setting its own plan terms and conditions for phased retirement. However, each plan is generally the same for all eligible persons within an institution.

How Programs Work

A typical plan allows you to work half time at half your salary for a given number of years. The plan may specify the length of your phase period, the ability to continue participating on committees, the continuation (or not) of tenure and the availability of subsidies (such as full or partial payment for health insurance). But how many classes you teach or how much time you can devote to research may be negotiable.

The financial benefit of phased retirement is that it generally gives you a higher salary for part-time work than comparable adjunct work. However, the most important benefit may be the opportunity to explore different possibilities as you transition out of academia. Of course, every benefit has its drawbacks and phased retirement is no exception.

Some phased retirees say they miss participating on decision-making committees and taking advantage of campus amenities, like having an office and a parking spot. Others indicate they'd prefer a longer phase retirement period than provided by their plan.

Phased Retirement Trends

But despite some faculty's reservations, these programs seem to be catching on. Robert Clark, professor of economics and of business management at North Carolina State University (NCSU), has studied these plans for years and estimates that “a third to half of all colleges and universities across the United States now offer phased retirement programs.” At NCSU, where Clark chaired the committee that developed NCSU's phased retirement program, nearly 95% of phasing retirees are pleased with their program and 90% indicate they would recommend it to colleagues.

Some educational institution leaders also believe that phased retirement will help recruiting efforts by offering eventual retirees a desirable flexibility. As David W. Leslie, chancellor professor of education at the College of William and Mary, Williamsburg Va., sees it, “at a time when salaries at colleges and universities must compete with those of the private market, and when both individuals and institutions are exploring how to best handle retirement,

phased retirement options at least theoretically offer an attractive benefit to both eligible and prospective faculty.”

For each faculty member, however, the decision to “phase” or not into retirement is a personal one. While some look forward to retirement, others find it difficult to accept that they won’t be teaching or pursuing research. But it’s because retirement presents such a dramatic change of life that some consider phased retirement as a viable way for transitioning out of academia.

You may begin evaluating your situation by asking yourself a question, “Are there things I want to do in life, other than working in my current position?” Maybe you want to write a book, work, volunteer your time, travel or just relax with family for a while. Whatever you might want to do, phased retirement will give you the chance to make new contacts or acquire new skills or credentials while you earn some money.

Factors to Consider

Who’ll Pay for Your Health Insurance During and After Phased Retirement? Some institutions pay for coverage completely, others pay for part of it, and still others don’t pay for any portion of it. Make sure you know exactly what terms apply to your plan.

How Much Money Can You Make? In some cases, phased retirees can make as much or more money working part-time as they do working full-time. They’re generally able to do this by taking Social Security income, a partial retirement plan benefit and their “phased” salary. But if a combination of only your phased salary and a partial retirement plan distribution is sufficient while you’re “phasing,” you may decide to delay Social Security income until you’re fully retired. Also remember that if you earn a salary above a certain amount while receiving Social Security income, your Social Security benefit will be reduced by the income taxes you’ll have to pay.

In a similar vein, you may be able to duplicate your full-time salary by receiving only half of what you currently make along with a partial retirement plan income benefit. However, you may not actually need 100% of your full-time salary during phased retirement. If this is the case, think about taking a smaller retirement plan benefit to allow your accumulation more time to grow, since living lavishly while you’re phasing may hurt you financially later on when you’re fully retired.

When Is It Sensible to Delay Retirement or Social Security Benefits? If you think that postponing Social Security income or taking a smaller retirement plan benefit is likely to affect your future financial picture, request a calculation or two to make sure your analysis is thorough. TIAA-CREF’s Counseling Services consultants will be happy to provide the calculations you need. When you call, please have handy all your retirement plan benefits documents, such as your Social Security benefits illustration and your current TIAA-CREF and non-TIAA-CREF retirement account statement(s).

The hypothetical calculations in the following table offer some idea of how different financial assumptions can play out in different situations. (Notice that annuity income at age 65 is illustrated with and without Social Security benefits.)

How phased retirement can affect retirement income*		
EXAMPLE 1	EXAMPLE 2	EXAMPLE 3
Work full-time until age 65, without phased retirement	Work 1/2 time from age 62 to 65, no pension withdrawal, with phased retirement	Work 1/2 time from age 62 to 65, take a pension withdrawal, with phased retirement
Total annual income until age 65: \$100,000 Annual payment starting at age 65: \$66,600 Annual payment with S.S. benefit, both starting at age 65: \$89,544	No pension account withdrawal Total annual income until age 65: \$50,000 Annual payment starting at age 65: \$65,500 Annual payment with S.S. benefit, both starting at age 65: \$87,952	Annual \$25,000 pension account withdrawal for 3 years Total annual income until age 65: \$75,000 Annual payment starting at age 65: \$59,850 Annual payment with S.S. benefit, both starting at age 65: \$82,302

***Calculation Assumptions for Examples 1, 2 and 3**

- Before phased retirement, annual salary is \$100,000
- Annual phased retirement salary is \$50,000, no increase
- Phased retirement from age 62 through 65
- 10% annual employer retirement plan contribution continues in phased retirement (on \$50,000 salary)
- Has \$800,000 accumulated in retirement plan
- Takes Single Life Annuity with a 10-Year Guarantee from CREF, or from the TIAA Traditional Annuity Graded Benefit
- 6% assumed investment return during phased retirement and benefit payment period

There's no denying that retirement is a monumental life event that can trigger significant emotional and financial consequences. If you're approaching retirement and are eligible for phased retirement, speak with your family about your feelings and personal plans. Also speak with a trusted advisor to analyze your phased retirement plan provisions objectively.

We can't overemphasize the importance of good, open communication as you evaluate all your alternatives. Of course, TIAA-CREF will be happy to help by reviewing all your retirement income distribution and settlement options and by providing calculations based on your situation. You can reach us at **800 842-2776**.

Phased Retirement Questions to Ask Your Benefits Administrator

- Is accepting a phased retirement package irrevocable?
- Can my salary increase during the phase period?
- Will the institution continue to contribute to my retirement plan during phased retirement?
- Will the institution continue to pay my health insurance coverage during and/or after the phase period?
- Do I have an option of selecting a 3-year or 5-year phase period?

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