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Noel Swain: Phased Retirement, part 2

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In my last column, I introduced you to Otis, and to a growing trend known as phased retirement.

Otis, as you may remember, wanted to retire, but didn't know how he would handle it emotionally. His financial advisor then introduced him to phased retirement, which is the process of retiring gradually, in stages, rather than all at once.

While we discussed how critical it was for Otis to prepare both emotionally and financially, I focused on just the emotional questions he needed to answer to determine whether phased retirement was right for him.

This column will discuss how important it is for Otis to have a solid financial plan as he thinks about phased retirement. This could help him avoid many of the difficulties associated with it.

The more Otis understands phased retirement, the more he will understand the effects of his decisions.

So here are five different aspects of phased retirement that Otis' adviser asked him to consider as he plans his transition away from full-time work:

Employer participation: Does Otis' employer offer phased retirement programs?

Health care benefits: Will Otis' employer extend his health benefits into his phased retirement before age 65? If not, he will need to calculate the cost of insurance until he becomes eligible for Medicare coverage.

Social Security: At age 62, the amount Otis receives might only be 70 percent to 75 percent of his benefit versus waiting until he reaches his full retirement age of 66 to 67. But if he works part-time into retirement, the extra income he gets from his job could allow him to delay drawing on Social Security, resulting in larger benefit payments later.

Pension plan: Otis has accrued the most benefits during the last few years he's worked, so he needs to know if taking a phased retirement will reduce his pension benefits. If he ends up working half the time with half the pay, could that affect his average salary calculation and reduce his pension benefit? Otis needs to clarify that with his employer.

401(k): Many plans allow their employees to tap into their 401(k) to make up for a smaller paycheck. However, if they do, they will pay ordinary income tax and may be liable for a 10 percent penalty if they're younger than 59½. Furthermore, if they work less than a set number of hours, some plans will eliminate employers' matching contributions. Otis needs to consult his plan documents to make sure his phased retirement wouldn't lead to any unforeseen problems with his 401(k).

Creating a Phased Retirement plan now may greatly increase Otis' — and your — options for retirement.

The sooner you start planning, the more time you'll have to make adjustments. This may be the best way to help ensure your retirement is exactly what you want and expect it to be.

You'll definitely want to review your retirement plan regularly with your financial adviser, and update it based upon changing conditions and any new laws that might affect you.