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Phased Retirement: Work Less, Retire Happier

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We, as humans, tend to view retirement as “all on” or “all off.” That’s the wrong approach, if you ask Nick Defenthaler.

By Nick Defenthaler

Saving 1% more towards retirement for the final 10 years of your career has the same impact as working one month longer. Yes, you heard that correctly. Saving 15% in your 401(k) instead of 14% for the 10 years leading up to retirement has the same impact as delaying retirement by only 30 days! Hard to believe but that’s exactly what the National Bureau of Economic Research found in their 2018 research paper titled “The Power of Working Longer.” To make your eyes pop even more, saving 1% more for 30 years was shown to have the same impact as working three to four months longer. Wow!

If you’re like me, you find these statistics absolutely incredible. This clearly highlights how big of an impact working longer has on your retirement plan. When you’re getting very close to retirement (usually five years or less), most of us won’t be able to make a meaningful impact to our 25-35 year retirement horizon by increasing our savings rate. At this point in our careers, it just doesn’t move the needle the way you might think it would. Without question, the best way you can increase the probability of success for your retirement income strategy in the latter stages of your career is to work longer. But when I say “working longer” I don’t necessarily mean working longer on a full-time basis.

An exciting trend I am seeing more and more of is a concept known as “phased retirement.” This essentially means that you’re easing into retirement and not going from working full-time to quitting work cold turkey. We, as humans, tend to view retirement as “all on” or “all off.” That’s the wrong approach, if you ask me. You need to be thinking of part-time employment as part of your overall retirement/financial game plan.

Phased Retirement Case Study

Diane, age 61, came in for her annual planning meeting and shared that the stress of her well-paying sales position was completely wearing her down. At this stage in her life and career, she no longer had the energy for the 50-hour work weeks and frequent travel. Now a grandmother of three, she wanted to spend more time with her kids and grandkids but was fearful of how retiring at 61, compared to our plan for age 65, would impact her long-term financial picture.

After further conversations, it became evident that Diane did not want to stop working completely; she just could not take the full-time grind anymore. When pen was put to paper, it was concluded that she could still achieve her desired retirement income goal by working part-time for the next 3 ½ years (until 65 to get her to Medicare age). Her income level would be dropping to a level that would not allow her to save for retirement at all, but believe it or not, that did not have a meaningful impact on her long-term plan! The key factor for this was earning enough money to cover virtually all of her living expenses and dramatically reducing portfolio distributions until age 65.

Having conversations surrounding your desired retirement age is obviously a critical component to your overall planning. However, a question that is sometimes overlooked is, “WHY do you want to retire at that age?” As a society, we do a good job of creating social norms in many aspects of life, and retirement is not immune to this. I’ve actually heard several clients respond to this question and say, “Because that’s the age you’re supposed to retire!”. When I hear this, I get nervous because these are the folks who usually make it six months into the retirement transition only to find that they are not truly happy. They found purpose in their career, they enjoyed the social aspects their job offered and they loved keeping busy, whether they realized it at the time or not.

The bottom line is this – don’t discount the effectiveness easing into full retirement can have, both from a financial and lifestyle standpoint. Some clients have found a great deal of happiness during this stage of life by working less, trying a different career or even starting a small business they’ve been thinking about for years. The possibilities are endless. Have an open mind and find the balance that works for you, that’s what it’s all about.

About the author: Nick Defenthaler

Nick Defenthaler, CFP®, RICP®, is a partner, CERTIFIED FINANCIAL PLANNER professional and Retirement Income Certified Professional® at Center for Financial Planning, Inc.® (offices in Brighton and Southfield Michigan). Nick specializes in tax-efficient retirement income and distribution planning for clients and serves as a trusted source for local and national media publications, including WXYZ, PBS, CNBC, MSN Money, Forbes, Financial Planning Magazine and OnWallStreet.com.

Articles written by Nick Defenthaler, partner, financial planner with Center for Financial Planning, Inc. 24800 Denso Drive, Suite 300, Southfield, MI 48033, 248-948-7900. Securities offered through Raymond James Financial Services, Inc., member FINRA/SIPC. Investment advisory services are offered through Raymond James Financial Services Advisors, Inc. Center for Financial Planning, inc. is not a registered broker/dealer and is independent of Raymond James Financial Services. Every investor’s situation is unique and you should consider your investment goals, risk tolerance and time horizon before making any investment. Prior to making an investment decision, please consult with your financial advisor about your individual situation. Neither Raymond James Financial Services nor any Raymond James Financial Advisor renders advice on tax issues, these matters should be discussed with the appropriate professional. This case study is for illustrative purposes only. Individual cases will vary. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Prior to making any investment decision, you should consult with your financial advisor about your individual situation. The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee that it is accurate or complete, it is not a statement of all available data necessary for making an investment decision, and it does not constitute a recommendation. Any opinions are those of Nick Defenthaler and not necessarily those of Raymond James.