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AGE AND OTHER REQUIREMENTS FOR RETIREMENT ON PENSION

INTRODUCTION

This is the last of four preliminary memorandums in our current study of company experience and trends in pension planning. We dealt in the previous memos with such topics as extra pension payments supplementing plan benefits to offset inflation, the bases of pension plan coverage, eligibility requirements, methods of financing and funding pensions, and benefit determination.[1] Those findings were based on returns from 550 companies in a 1948 survey of pension practices, which was intended to bring up to date our earlier pension studies.[2]

Before we had finished our analysis of other phases of pension policy, the Inland Steel decision introduced a new factor, compulsory collective bargaining, which appeared certain to modify the then current trends and on which we made some preliminary comments.[3] The 1948 study therefore recorded the status and trends of industrial pension practices at substantially the close of the era of unilateral pension planning by employers. Meanwhile amendments of the Social Security Act also were under consideration and were finally enacted.[4] Then it became apparent too that inflation had undermined the effectiveness of established pension plans and if not soon checked would defeat the purposes of many plans.

During these developments no definitive report on pension trends seemed possible. But toward the end of last year—four years after the Inland Steel decision and two years after the basic Social Security Act amendments—it seemed reasonable to supplement our 1948 findings by trying to find out the extent to which these more recent developments had affected established company pension plans. To do so, we again sent a questionnaire in November, 1952, to the 550 companies that had co-operated in 1948 and were gratified to receive replies from 491 of them.

It is of interest that in the last four years 269 or 55 per cent of these companies (accounting for 85 per cent of the total personnel employed by the group and for 91 per cent of the plan participants involved) have changed their plans in some significant respect. Preliminary analysis indicates that the most frequent change has been the liberalization or introduction of minimum pension benefits.

As with the preceding releases in this series, this memo on the retirement age and allied requirements is based initially on the 1948 returns from the 550 co-operating companies, which had a total of nearly 4.2 million employees, with about 2.5 million participating in the plans. In addition, it traces the trends in this phase of pension policy on through to 1952, on the basis of an analysis of the data furnished by the 491 companies reporting recently. These companies employ a total of about 4.5 million employees, and over 3.5 million of them are plan participants.

Within the next few months we hope to complete and publish a consolidated report on experience and trends in pension planning, as disclosed by our continuing study of the subject.

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[1] Issued in our "Industrial Relations Memos" series: Extra Pension Payments (Memo No. 103, 1948); Pension Planning in the Light of Current Trends (in two parts—Memo No. 111, 1948; Memo No. 116, 1950).

[2] Murray Webb Latimer, Industrial Pension Systems in the United States, 1932 (2 Vols.), and its supplement, Murray Webb Latimer and Karl Tufel, Trends in Industrial Pensions, 1938 (88 pp.).

[3] The Inland Steel Decision and Pension Policy (Memo No. 99, 1948).

[4] The proposed legislation was analyzed in, Social Security Amendments and Company Benefit Plans (Memo No. 109, 1949) and, as enacted, in, Social Security Amendments and Private Pension Plans (Memo No. 115, 1950).

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AGE AND OTHER REQUIREMENTS FOR RETIREMENT ON PENSION

A central feature of any pension plan is the prescribed conditions under which employees may be permitted or required to retire and receive their pensions. Usually expressed in terms of age and service, the conditions for retirement on a pension have to be devised to accomplish objectives that are not wholly consistent with one another. The basic concept in this connection is that of a "normal retirement age." This is the age at which, sometimes subject to a service requirement, employees normally are expected to retire. It is the age at which they have the right voluntarily to retire on pension, and in plans with compulsory retirement it is usually the age at which they must do so.

What Considerations Determine a Normal Retirement Age?

Ideally, a pension plan should be designed to assure that employees will retire at the time when their withdrawal from work will best serve the interest of the company, i.e., at the age when their efficiency is so impaired that they cannot produce enough to earn their pay. However, the age and service requirements must be such as to give the average employee a feeling that he has a reasonable chance of qualifying for a pension. Otherwise, the plan would not appeal to employees sufficiently to accomplish the objectives of attracting competent workers and encouraging continuity of service. Few employees would be encouraged to continue in employment by the hope of a pension at, for example, age seventy-five. Finally, some assumptions about age and service requirements for retirement are necessary to permit estimates of the costs of a pension plan. And the actual age at which employees are pensioned very directly affects costs. Roughly, it costs from about 40 to 50 per cent more per dollar of benefit to retire an employee at age sixty than at age sixty-five, while deferring retirement to age seventy rather than sixty-five would cut pension costs—disregarding any possible loss from sub-standard output—by about one-third.

In theory, quite apart from the question of whether retirement should be compulsory, normal retirement age should vary by occupation, since employees pass their peak of usefulness at an earlier age in the more strenuous occupations than in those which call for less physical or mental exertion. In fact, largely by reason of imitation, the plans tend to fall into a pattern. The earliest plans almost always prescribed a retirement age of seventy. By 1929 Latimer's study found a noticeable trend toward a normal retirement age of sixty-five, a trend that was reinforced by the adoption in 1935 of that as the age of eligibility for federal old age benefits. Prevailing practice in 1948 was overwhelmingly to use age sixty-five as the normal retirement age. For male employees it was found in about 90 per cent of the plans. In this respect there was no difference between contributory and noncontributory plans.

About one-quarter of the plans still used a lower retirement age for women than for men, with a prevailing differential of five years. This difference in treatment, seldom found in the earliest plans, became increasingly common up to about 1925. Since then, and more particularly after the Social Security Act set the same retirement age for men and women, that trend has been reversed. In our 1938 study 45 per cent of the plans, as compared with the 1948 figure of slightly over 25 per cent, had a lower retirement age for women. The fact that women have a life expectancy about five years greater than men makes this policy of earlier retirement for women difficult to justify. There is no reason to assume that the efficiency of women workers generally declines more rapidly with age than that of men, although employers seem to believe that this is probable in certain mechanical occupations requiring special speed and dexterity. The difference in treatment is sometimes defended on the ground—which may be only a masculine prejudice—that temperamental difficulties occur more frequently among older women than among older men. The present trend is clearly toward the same retirement age for both sexes. However, there has been substantial pressure to make women eligible for federal old age benefits at age sixty, so as to provide more nearly adequate benefits for elderly couples, since wives are typically from three to five years younger than their husbands. Such an amendment is far from improbable and might tend to reverse the trend.

The 1952 returns served only to confirm these earlier findings. Twenty-nine companies had made some change in normal retirement age. Two adopted age sixty-five for all employees in substitution for seventy (men) and sixty (women). Twenty-two, with nearly 335,000 participants, increased the normal retirement age for women: sixteen from age sixty to age sixty-five, as for men; five from age fifty-five to sixty, while retaining age sixty-five for men; one from age fifty-five after twenty years' service to age sixty-five after twenty-five years' service, as for men. Five companies with 8,500 participants went against this trend: four changing from age sixty-five for all employees to age sixty for women; one from age sixty for all employees to age fifty-five for women. The overall situation in 1948 and at the close of 1952 is shown in the tabulation on the next page.

Early plans based eligibility for pensions not only on age but also on the completion of a specified period of service, although then retirement on the basis of substantial service, regardless of age, was not uncommon. Retirement on the basis of service only is now quite exceptional in private plans. The trend toward current funding and the trends during the thirties toward group annuity plans (under which annuities usually become payable at a prescribed age) and toward employee contributions have also made relatively infrequent the use of a minimum period of service as a requirement additional to attainment of a prescribed normal retirement age. Such supplementary service requirements were found in only forty-eight of the 550 plans reported on in 1948—a very slight and not significant increase over the proportion of plans with such requirements in the 1938 study. However, those forty-eight plans covered over 790,000, or 33 per cent, of the total participating employees. The most prevalent requirement was twenty years of service, found in twenty of the plans, having slightly more than 400,000 participants.

Since 1948 only five companies changed such a generally applicable service requirement.[5] A medium-sized chemical company reduced the requirement

[5] A large oil company dropped the requirement of forty years' service as alternative to attainment of age sixty-five, but this was a different type of requirement.

Age for Retirement on Pension	Plans		Participating Employees	
	Number	Per Cent	Number	Per Cent
1948				
70 for male employees[a]......	10	1.8	45,555	1.9
65 for all employees........	372	67.7	1,459,763	60.5
65 for males, 60 for females	123	22.4	472,232	19.6
65 for males, 55 for females	11	2.0	194,151	8.0
60 for male employees[b]......	10	1.8	208,711	8.7
Other ages[c]................	4	0.7	18,479	0.8
Sliding scales[d]............	20	3.6	12,519	0.5
Total..................	550	100.0	2,411,410	100.0
1952				
70 for male employees[a]......	5	1.0	23,670	0.7
65 for all employees[e].......	345	70.3	2,715,888	76.7
65 for males, 60 for females	106	21.6	602,799	17.0
65 for males, 55 for females	6	1.2	102,553	2.9
60 for male employees[b]......	7	1.4	79,085	2.2
Other ages[c]................	2	0.4	7,500	0.2
Sliding scales[d]............	20	4.1	10,743	0.3
Total..................	491	100.0	3,542,238	100.0

[a] Various ages are prescribed for women, as follows: 1948—70 in three plans, 65 in five, and 60 in two; 1952—70 in one plan, and 65 in four plans.

[b] The ages for women are: 1948—60 in six plans, 55 in three, and 50 in one; 1952—60 in four plans and 55 in three plans.

[c] Among the 1948 plans, one plan each prescribed: 68 for all employees; 68 for males and 58 for females; 63 for males and 60 for females; and 61 for all employees. Among the 1952 plans, one plan each prescribed: 63 for males and 60 for females; and 61 for all employees.

[d] The retirement age varies according to age of entry into the plan, from 75 (two plans in 1948, three plans in 1952) or 70 (eighteen plans in 1948, seventeen plans in 1952) to 65. In 1948 ten, and in 1952 eleven, prescribe from 70, for those aged 55 or over at entry, to 65 for those under 55. Two 1948 plans use a five-year lower age for women. One 1952 plan uses age 65 for all female employees. Somewhat similar sliding scales are fairly common as temporary provisions at plan installation, to permit older workers a minimum period of coverage, but this complication has been disregarded in the tabulation.

[e] One plan has age 70 and one age 68 as the normal retirement age for noncontributory benefits.

from twenty years to fifteen. A large steel company negotiated a reduction of the required service from twenty-five years to fifteen, but with a proportionate reduction of pension for each year of service less than twenty-five. A large metal products company substituted fifteen years of service for eighteen months' participation. Two small companies added a fifteen-year service requirement when they changed their plans from a contributory to a noncontributory basis. In short, three companies accounting for 58,000 plan participants added or raised a service requirement; two involving 159,000 plan participants lowered it. The following tabulation summarizes the service requirements found in the forty-nine plans that had such provisions in 1952:

Service Requirements in Addition to Prescribed Normal Age for Retirement on Pension	1952 Plans	Participating Employees
25 years[a]	6	27,414
20 years	19	461,492
15 years	16	359,813
10 years	3	6,217
Other requirements[b]	5	14,884
Total	49[c]	869,820

[a] One plan requires twenty years for women.

[b] One plan requires thirty years' service; two plans require ten years' plan participation and two others require five years' service.

[c] Thirty-six of the plans with 818,529 employees are noncontributory.

The foregoing tabulation does not tell the full story, however, since twenty-nine other companies (with over 800,000 plan participants) included a service requirement as a condition for the receipt of a pension under a noncontributory plan (primarily for hourly-rated or bargaining unit employees) when it was added to an existing contributory plan (primarily for salaried employees or based only on the excess of salaries or earnings over $3,000 or $3,600 per year). But no similar period of service was required for the contributory pension.[6] One of these companies (with 3,500 plan participants), which has the unusual normal retirement age of sixty-one, prescribes twenty years of service; twenty-one of them (with 194,600 plan participants) require fifteen years; and the other seven (with 599,000 plan participants) specify ten years.

While it is accurate in one sense to say that the proportion of participants subject to this type of service requirement, with respect to at

[6] One company did have a ten-year service requirement under its contributory plan, but it required fifteen years under its additional noncontributory plan.

least part of their pensions, has increased since 1948 from about 33 per cent to 47 per cent, it might be misleading to regard this as a fundamental change in the trend away from service requirements, as previously noted. It is rather an incidental aspect of the fact that the expansion of coverage or benefit liberalization in a small group of rather large companies was on a noncontributory basis, under the pressure of collective bargaining.

Service requirements appear more frequently and are generally more stringent in trusteed and noncontributory plans. The most prevalent requirement is twenty years of service. There is no apparent relation between service requirements and variations in normal retirement ages. It may be mentioned in passing that a service requirement of an almost similar kind may be concealed in the plans of those companies which enforce both a hiring age limit and compulsory retirement. If retirement is not compulsory a minimum service requirement for a pension is, of course, much less onerous from the employee point of view.

Requirements of this sort may reflect a survival of the belief that an employer has a pension obligation only to employees of very long service. They may be necessary in some cases to bring pension costs within limits a company can afford. They are out of harmony with the current theory that pensions are an earned right and should accrue with each year of service, after eligibility to participate in the plan has been established. The revival of such requirements in more recently negotiated pension plans in the mass production industries may be regarded as in keeping with the fact that most of these plans are noncontributory.

How Are Benefits Adjusted for Early or Postponed Retirement?

Once the normal retirement age has been set it is necessary to determine whether and under what conditions employees may retire at an earlier age or postpone retirement until after the normal retirement age.

Early Retirement: Provision for early retirement—usually at the discretion of the employer or at the option of the employee with the consent of the employer, apparently given quite freely—is now a standard provision. It is found in over 90 per cent of the plans in the 1938, 1948, and 1952 studies, as compared with only 40 per cent of the plans operating in 1932. Such a provision is advantageous to the employer, particularly at a time when it can be used to cushion the shock or reduce the number of otherwise necessary layoffs. It also facilitates the separation, at their own or the employer's initiative, of older employees whose health is impaired, although not to the extent of complete disability, or whose efficiency is declining, although not to the point at which their discharge could be justified. It is a provision greatly appreciated by employees who in their younger years often look forward to retirement at an age before they are too old to enjoy it, although seldom do they realize how drastically early retirement will reduce their possible pensions.

From 1948 to 1952, changes in provisions for early retirement followed no clear pattern. Four companies added such a provision for the first time. Three companies which had previously permitted early retirement only with the consent of the employer amended their plans to permit it also at the option of the employee under slightly more restrictive age or service requirements. Two small companies made the opposite type of amendment, to permit early retirement with company consent at earlier ages than those at which they continue to permit early retirement at the option of the employee. Six companies relaxed the requirements for early retirement. Seven others tightened the requirements. Eleven companies (over 1,700,000 participants) when adding noncontributory benefits, usually for hourly or bargaining unit employees, included somewhat more restrictive provisions for early retirement than those which they continue to apply under their contributory plans or to salaried employees.

By far the most common provision for early retirement is to permit it during the ten years prior to normal retirement age, i.e., usually after age fifty-five for men or after age fifty-five for men and fifty for women. Nearly three-fifths of the plans that authorize early retirement do so on that basis, but they cover only a quarter of the employees in such plans, as may be seen from the tabulation on the next page.

A minority, about 20 per cent, of plans permit early retirement during some specified period of from three to twenty years before normal retirement date, but only after the completion of a certain length of service or, very infrequently, of plan participation. These plans include, however, about 60 per cent of the employees for whom early retirement is permitted. These supplementary service requirements are somewhat more common in noncontributory than in contributory plans. The arguments suggesting that a minimum service requirement is usually unnecessary as a condition of normal retirement apply also in connection with early retirement. The very heavy reduction in pensions resulting from early retirement is so effective in deterring such retirements that it seems superfluous to hedge the provision with complex requirements.

Early retirement reduces the period during which contributions are payable and interest is earned on accumulated funds and also extends the period during which the pension will be paid. For these reasons and because a pension payable at early retirement may mean payments to an employee who might not live to the normal retirement date, early retirement involves a drastic reduction in the amount of the pension.[7]

Under a plan providing a benefit of 1 per cent of average earnings for each year of service, an employee who entered the plan at age thirty-five and averaged $3,000 per year would be entitled at age sixty-five to a pension of $75 a month. At age sixty his accrued benefit would be $62.50; at age fifty-five, $50. But these are the amounts which would become payable at age sixty-five. If he retires at age sixty, the funds credited to his account, sufficient to provide an annuity of $62.50 at age sixty-five, will provide an immediate annuity of only $39.25 per month. If he retires at age fifty-five the annuity then payable would be only $21.25.

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[7] It is difficult to explain this to employees. Visual demonstrations are sometimes useful. Esso Standard Oil Company has worked out such a demonstration, which seems very effective. They use marbles of three different colors in graduated beakers to illustrate the build-up of the pension during the contribution period and the pay out of the pension over life expectancy. The three colors represent, respectively, company contributions, employee contributions, and interest.

Specified Period Before Normal Retirement Date Within Which Early Retirement Is Permitted[a]	1952 Plans		Participating Employees	
	Number	Per Cent	Number	Per Cent
10 years regardless of service	262	56.6	805,889[b]	24.8
5 years regardless of service.	20	4.3	746,803[b]	23.0
10 years after 10 years of service....................	18	3.9	80,623[b]	2.5
10 years after 20 years of service....................	25	5.4	261,903[c]	8.1
10 years after other periods of service................	23	5.0	102,527	3.2
5 years after 15 years of service....................	6	1.3	129,435	4.0
5 years after 20 years of service....................	7[d]	1.5	699,664[c]	21.5
5 years after other periods of service....................	16	3.5	192,075	5.9
Other requirements...........	21	4.5	121,563	3.7
No specified requirements.....	65	14.0	106,694	3.3
Total....................	463	100.0	3,247,176	100.0

[a] Eighteen companies with nearly 105,000 participating employees do not permit early retirement of hourly-rated or bargaining unit employees, and thirteen others have different provisions applicable to salaried and hourly-rated employees. Where there are different requirements for early retirement with the consent of the employer and retirement at the sole option of the employee, the less restrictive requirement has been used.

[b] About 90 per cent of these employees are in contributory plans.

[c] Over 85 per cent of these employees are in noncontributory plans.

[d] Two of these companies have alternative requirements permitting early retirement also within ten years of normal retirement age after twenty-five years' service and with company consent at earlier ages after thirty-five years of service. Fifteen other companies have alternative requirements permitting early retirement, for example, after age sixty regardless of service or at any age after thirty years of service, but little would be gained by detailing all such variations.

The difference between the benefit accrued at any age prior to normal retirement and what the benefit would have been at normal retirement will vary from plan to plan and from individual to individual in accordance with plan provisions, each individual's status under his plan, and other factors. But the reduction in the accrued benefit to provide an immediate benefit is more nearly standardized, varying only slightly with differences in interest rates, mortality tables and related factors used in the computation of contribution rates. Under one fairly common group annuity schedule using interest at 2 1/4 per cent and the 1937 Standard Annuity Table set back one year, the pension payable at early retirement—when normal retirement is at age sixty-five—is "discounted" or reduced to the following percentages of the benefit accrued to the date of early retirement:

Age at Early Retirement	Amount of Pension, Expressed as Percentage of Benefit Accrued at Given Age and Payable at Age Sixty-Five	
	Males	Females
64	90.5	92.0
63	82.2	84.9
62	74.9	78.5
61	68.5	72.8
60	62.8	67.6
55	42.5	48.4

A few companies provide for the reduction of early retirement pensions by less than the full actuarial discount. For example, the figures below give the discounted values used by the Standard Oil Company of California, as compared with the actuarially discounted values shown in parentheses.

Age at Early Retirement	Discounted Values (For Men)
64	97% (90.3)
63	94 (81.9)
62	91 (74.5)
61	88 (67.9)
60	85 (62.1)
59	78 (57.0)
58	71 (52.4)
57	64 (48.3)
56	57 (44.6)
55	50 (41.3)

General Motors has another variation under its retirement program for salaried employees. After age sixty they may be retired at the option of the company or they may retire by mutual consent without any actuarial discount whatever. Nevertheless, if the employee retires voluntarily the full actuarial discount is applicable.

Such adjustments greatly facilitate early retirement when it is in the interest of the company. They make it possible for some employees in poor health to retire early even when the individuals are not so incapacitated as to be eligible for special disability retirement.

Retirement at any age earlier than sixty-five results, if there is no special adjustment, in a smaller total retirement income up to age sixty-five than after that age, when federal old age benefits become payable. The hypothetical employee in the last illustration would have an income of $39.25 from age sixty to sixty-five but one of $104.25 thereafter if his federal old age benefit were $65. If his company pension were increased for the first five years and decreased thereafter his income could be leveled out. At one of the standard annuity rates it would thus be possible to provide him an income of $81.72 per month for life from age sixty.

Of the 491 plans only 168 with not quite 500,000 participating employees make provision for this type of adjustment. Only seventeen plans with 41,000 participants added it since 1948. There is no obvious reason why it should not be a standard arrangement in connection with all early retirement provisions.

Disability Retirement: One of the most difficult problems in pension planning is to provide for the retirement of employees who become totally and permanently disabled prior to normal retirement age. The difficulty is threefold. First, any early retirement without the drastic actuarial discount just mentioned is disproportionately expensive. Second, no generally accepted tables of the incidence of disability and of the mortality of disability cases have yet been developed. It is therefore difficult to estimate the costs of disability benefits and include them in contribution rates. Third, it is difficult to frame a definition of disability that will permit proper control of claims.

The insurance companies had such an unsatisfactory experience with disability insurance in the thirties, when their premium rates proved inadequate to support the large volume of claims believed to have been stimulated by unemployment, that they are generally not willing to provide disability benefits under group annuity contracts. Many plans, therefore, make no special provision for disability benefits other than the early retirement provisions above mentioned.

Growing recognition of the need for special provision for disability retirements is, however, clearly evidenced. In the 1938 study only 7 per cent of the plans made such provision, but by 1948 the proportion had increased to 14 per cent, and in 1952 to about 25 per cent. In 1952 this minority of 120 out of 491 companies included most of the very large plans and covered over 2.7 million employees, representing more than three-fourths of the total number of participating employees.

Extension of this type of provision was probably the second most significant change between 1948 and 1952 in the pension plans under study.[8]

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[8] The most frequent change was the addition of provision for substantial minimum pensions by 100 companies.

Twenty-seven companies with nearly 440,000 participating employees introduced this provision for the first time for all employees. Twenty others, most of whom had some such provision for salaried workers, extended this protection to a total of over 621,000 hourly employees.

Seventeen other plans changed their provisions. Three tightened the eligibility requirement, one of them also reducing the minimum benefit. One imposed a maximum benefit. The other thirteen liberalized their provisions: four by increasing the basic disability benefit formula, one by lowering the eligibility requirement and increasing the minimum benefit, two by increasing the minimum benefit, and six by adding a substantial minimum benefit.

Most of the plans which include this provision make employees eligible for disability retirement after a specified period of service, most commonly after fifteen years, but as the tabulation below shows there is a wide range in such eligibility provisions. Usually these requirements are somewhat less stringent than those for early retirement. For example, early retirement may be permitted only after twenty-five years of service, while disability retirement may be after age fifty-five and fifteen years' service; or early retirement may be permitted only after age sixty, but disability retirement may be after fifteen years' service.

Requirements for Disability Retirement	1952 Plans	Participating Employees
10 years of service..................	19	170,847
15 years of service..................	29	1,359,285
20 years of service..................	14	184,926
Other service requirements[a]...........	7	19,591
Participation requirements............	6	67,914
Age 50 and 15 years' service..........	12	612,636
Age 55 and 15 years' service..........	6	202,092
Other combinations of age and service[b]	16	90,537
No specified requirements.............	16	58,130
Total............................	125[c]	2,765,958

[a] Ranging from three to twenty-five years.

[b] One small plan has only an age requirement of forty years. Other combinations range from age thirty-five and ten years of service to age sixty and fifteen years of service. In three plans the service requirement decreases as age increases.

[c] Includes five companies each with separate plans having different requirements for hourly and salaried employees, in three of which the requirements for salaried employees are more stringent than for hourly employees. Three other plans with 5,128 participating employees apply only to salaried employees. In fourteen plans with 173,690 participating employees special provision for disability retirement covers only hourly employees.

Forty-five of these plans are insured, eighty are trusteed; sixty-two are contributory, sixty-three are noncontributory. But these differences in type of plan seem to have no discernible effect on the stringency of the requirements for disability retirement nor on the liberality of the disability benefits. The most that can be said is that this type of protection is found somewhat more frequently in trusteed than in insured plans.

It is difficult to give any meaningful description of the level of disability benefits without a plan-by-plan comparison of normal and disability benefits. Some impression of the formulas used can be gleaned, however, from the following tabulation:

Disability Benefit Formulas	1952 Plans	Participating Employees
Accrued pension actuarially reduced..........	21	124,123
Accrued pension reduced less than actuarially	13	203,605
Accrued pension............................	27	344,456
More than accrued pension till age 65, accrued pension thereafter.................	29[a]	1,174,976
More than accrued pension....................	5	308,402
Flat $50 to $60 per month till age 65, accrued pension thereafter.................	9	29,630
$3 a month per year of service, minimum $50, maximum $90, till age 65, thereafter $1.50 a month per year of service................	6	522,283
Other formulas.............................	15	58,483
Total.................................	125[b]	2,765,958

[a] Seventeen of these plans with 1,038,000 participating employees are of the "envelope" type providing benefits including federal old age benefits in whole or part, which in effect are paid by the company till age sixty-five. The concept of an "accrued" pension is, therefore, somewhat different from that in the other twelve plans which provide a plan benefit in addition to federal old age benefits. These twelve increase the accrued plan benefit in various ways to take account of the fact that federal old age benefits do not become payable until age sixty-five, but they do not tie the adjustment directly to federal old age benefits. The six $3 a month plans, of course, do somewhat the same thing.

[b] Including five companies each with two plans as previously indicated.

The least benefit a disabled employee could reasonably be paid is the accrued pension payable at normal retirement age but actuarially reduced because of the younger age at which it starts. As indicated, twenty-one plans follow this practice. Except for employees very close to normal retirement age actuarially reduced pensions are nearly always so low that they really do not meet the problem of the incapacitated employee, either from his or the company's point of view. Such pensions can hardly be regarded as providing special benefits for disability. As indicated in the foregoing tabulation, a large majority of the plans provide more than this minimum. The typical procedure is to provide not only the accrued pension without any actuarial discount at all but even more than this amount, at least until age sixty-five. It seems entirely reasonable to provide, as fifty of the 125 plans do, for larger disability benefits till age sixty-five with an adjustment thereafter in consideration, directly or indirectly, of federal old age benefits.

None of the plans paying only accrued pensions with the full actuarial reduction provide for minimum disability benefits. More than half of the others, fifty-five plans with over 2 million participating employees, do provide such minimums, as shown in the tabulation below. In twenty the minimums are payable for life; in thirty-three, only till age sixty-five when the basic formula becomes controlling; in two, till age sixty-five with a reduced minimum thereafter. As the following tabulation shows, by far the most common minimum is from $50 to $60 per month till age sixty-five.

Minimum Disability Benefits	1952 Plans	Participating Employees
$30 to $45.50 per month till age 65	4	10,377
$50 to $60 per month till age 65...	21	1,035,940
$30 to $35 per month for life......	3	7,886
$50 per month for life.............	4	91,295
$75 or $80 per month[a].............	4	815,995
Percentage of pay[b]................	11	72,968
Other minimums.....................	8	44,885
Total.........................	55	2,079,346

[a] Two plans pay the minimum for life. Two others pay $75 per month, till age sixty-five, thereafter $100 per month minus one-half federal old age benefits.

[b] Two plans pay the minimum till age sixty-five; nine for life. Three plans provide 20 to 25 per cent of average pay; seven 20 to 25 per cent of final or final average pay; one 33 1/3 per cent of final pay.

Eighteen plans set maximum limits on disability benefits ranging from as low as $60 per month in one plan to as high, in another, as two-thirds of the average of final five years' pay, or $5,000 per year. Unless there is some eccentricity in the basic pension or disability benefit formula, there seems to be little need or justification for such maximums.

We could not determine how many of the 125 plans with disability provisions fund such benefits in the same manner as normal retirement pensions.

It is known, however, that in many of the insured plans disability benefits in excess of the actuarially reduced pensions are separately financed on an out-of-pocket basis. Since disability cases are likely to be relatively few, there is much to be said in favor of doing so, pending the accumulation of more experience with the problem. It would be prudent also to provide that the amount of such benefits could be adjusted, but not retroactively, if permanent disability benefits should become payable, otherwise than on a public assistance basis, under federal or state legislation.

Postponed Retirement: Whether or not retirement is nominally compulsory at normal retirement date, most plans, either expressly or by practice, have some flexibility in this respect and permit employees, perhaps only in exceptional cases, to be retained in service beyond normal retirement date, at the discretion of the employer. Such extensions may be authorized only on a year-to-year basis and, in the most restrictive plans, may even have to be authorized by the company's board of directors. Continuance at work of employees eligible to retire raises the question of when their pensions should become payable. Under the typical group annuity contract the pension is automatically payable at normal retirement age. The question then is whether the employee's salary should be reduced by the amount of his pension or otherwise adjusted. If the pension is deferred till actual retirement, the question then is whether it should be payable in the same or in an increased amount.

In 354 or 64 per cent of the 550 plans in 1948, the annuity commenced at retirement date. Unfortunately, it was not clear in what proportion of them retirement could be postponed beyond normal retirement date. The Equitable Life Assurance Society found that the annuity begins at normal retirement age in about the same percentage of the 335 group annuity plans they analyzed and that retirement can be postponed in 76 per cent of those plans.[9] In this last group, the annuity begins at normal retirement age in about 70 per cent of the plans and does so without any reduction of the employee's earnings in about two-thirds of those cases.

In our 1948 study, the annuity is deferred until actual retirement in 197 plans, 36 per cent of the total, but covering 67 per cent of the participating employees. This postponement of the annuity is somewhat more frequent in noncontributory and trusteed plans than in contributory and insured plans. In only twenty-eight small plans covering 2 per cent of all participating employees—twenty-five of them are contributory—is the annuity increased because of its postponement.

Between 1948 and 1952 nineteen plans, under which annuities in all cases used to become payable at normal retirement age, changed this provision to defer the annuities until actual retirement. In seven plans the postponed annuity is payable in the same amount as it would have been at normal retirement age. In twelve the annuity is increased because of its postponement to its actuarial equivalent, or some approximation of that, at the postponed retirement date.

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9 Equitable Life Assurance Society, Survey of Retirement Practices, 1950, 15 pp. (processed).

These variations in policy seem to have resulted less from careful consideration of pension plan objectives than from such chance factors as standard provisions in group annuity contracts. To start the payment of retirement income at normal retirement age even if the employee does not then retire is quite illogical, although consistent with the contractual provisions of an insured and especially a contributory plan. It results in one of two anomalies. Either it gives the employee a larger than normal income for a year or so before retirement or results in a reduction of his wages or salary by the amount of his pension. The first practice undoubtedly increases the difficulty the employee will face in adjusting to a greatly reduced income after retirement. It also provides a strong incentive for the employee to try to postpone retirement. The second practice is inconsistent with sound wage and salary policy of paying the rate for the job. It tells the employee he is contractually entitled to his annuity at normal retirement age and then in effect takes it away from him as the price for the privilege of postponing his retirement. Every consideration of logic suggests that retirement incomes should not begin until retirement.

If payment of the pension does not begin until the date of postponed retirement, mathematical equity would require that the pension then should be payable in a somewhat larger amount. Although contributions invariably stop at normal retirement date (there are only three exceptions among the 491 plans in 1952) interest accruals will be somewhat larger, and the deferred pension will be payable for a shorter period because of the normal decrease in life expectancy. For a man, a straight life annuity, without death benefit, of $100 per month payable from age sixty-five is the actuarial equivalent of about $108 payable from age sixty-six or $130 payable from age sixty-eight. It would seem almost axiomatic that if an employee is sufficiently valuable to be continued in service beyond normal retirement date he should be entitled to enjoy the increase in pension made possible by delaying its payment. The same factors that justify the actuarial reduction of pensions on early retirement warrant with equal force a comparable increase in pensions if retirement is postponed.

Nevertheless, this concept of mathematical or actuarial equity must be weighed against the fact that the underlying purpose of a pension plan is to facilitate and encourage the retirement of employees at an age when it is presumed their efficiency on the average is probably impaired, or will soon be impaired, to the point that they cannot really earn their pay. Sound policy, it can be argued, should therefore avoid any provision that would induce employees to try to postpone retirement. If retirement is not mandatory at normal retirement age, the problem of deciding who may and who may not postpone retirement beyond that age is difficult enough without weighting the scales, from the viewpoint both of the employees and of sympathetic supervisors, in favor of postponement. However, no reference to management's objectives in adopting a pension plan could convince an informed employee that if roughly $16,000 has been accumulated to provide him a pension of $100 a month from age sixty-five, he should be satisfied to receive the same pension at age sixty-eight when it would be worth only something like $12,000. From the point of view of good employee relations, the $16,000 should be regarded as his money. It certainly is to the extent that pensions are regarded as a form of deferred wages.

Consideration must also be given to the unfortunate fact that because of recent inflationary trends few pension plans provide really "adequate" benefits. Were it otherwise, the argument against increasing them on account of postponed retirement would be much more persuasive.

Perhaps the best compromise is to regard the pension as payable at normal retirement age but to hold the payments in trust for the employee. This would make any election of a joint survivor option effective and would permit the use of the accumulated payments as a death benefit, if he should die before retirement, or as the purchase price of a supplementary annuity at actual retirement. Because no allowance would be made for possible mortality between normal and actual retirement dates, the increase in his pension resulting from this procedure would be slightly less than the full actuarial increase illustrated above.

Should Pension Plans Prescribe a Compulsory Retirement Age?

The question of postponed retirement is only one facet of the very controversial question of whether retirement should be compulsory at normal retirement or some other specified age. Even in 1932, Latimer noted a trend away from compulsory retirement, which continued to be in evidence in our 1938 study. Our returns in the 1948 study were not clear on this point—because of ambiguity in plan provisions and known variations in practice, despite plan provisions—but collateral evidence, although somewhat conflicting, indicated that the trend was continuing.

In the Equitable study of group annuity plans previously mentioned, retirement was not compulsory at normal retirement age in 201 or 57 per cent of the plans. It was compulsory in 150 or about 43 per cent, but in seventy of these it was subject to exceptions. A more recent study of 496 plans finds retirement not compulsory in 40 per cent of the plans but compulsory in 52 per cent; in 22 per cent retirement is compulsory unless the company requests the employee to continue in service; in 11 per cent the compulsory retirement age is later than the normal retirement age.[10] In 1948 the New York State Joint Legislative Committee on Problems of the Aging reported that, out of a sample of 176 New York companies, 30 per cent of the 112 companies without pension plans but 60 per cent of the sixty-four companies with such plans enforced compulsory retirement.[11] In 1951 only 40 per cent of 148 collectively bargained pension plans in New York State included this provision, and nearly all of them authorized exceptions.[12] In late 1951 we made a special canvass of forty-five large companies, whose plans cover about 900,000 participants, and found that retirement was not compulsory in twenty-one plans, although five hoped to insert that requirement at a later date; it was compulsory in fourteen and compulsory with some exceptions in ten. Out of the 113

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[10] Edwin Shields Hewitt and Associates, Company Practices Regarding Older Workers and Retirement, 1952, (Libertyville, Ill.) p. 24.

[11] New York State Joint Legislative Committee..., Birthdays Don't Count, 1948, (Newburgh, N. Y.) p. 155.

[12] New York State Department of Labor—Bureau of Research, Collectively Bargained Pension Plans in New York State—1951, (Albany) p. 13.

largest corporations in the United States, seventy with over 2.75 million employees co-operated in another survey which indicates that over 84 per cent of them enforce compulsory retirement.[13] On the other hand, out of a sample of 403 companies, each with 2,500 or more employees, two-thirds make exceptions to the maximum age for retirement for executive and salaried employees, one-half of them for hourly-rated workers.[14] All studies seem to show that compulsory retirement is more common in large than in small companies.

The general development has been somewhat as follows. Compulsory retirement at normal retirement age was, despite some trend away from it, at least implicit in most pension plans during the 1930's. The labor shortage during World War II led many companies to suspend or at least make more frequent exceptions to the requirement of compulsory retirement. It was the attempt by the Inland Steel Company to resume the enforcement of compulsory retirement after the war that resulted in the decision by the National Labor Relations Board that pension plans and their provisions are matters for compulsory collective bargaining. This decision encouraged unions generally to challenge the application of compulsory retirement in both old and new pension plans—with varied results in arbitral and court decisions as to its propriety under established plans. The union challenge received encouragement from a growing public interest in problems of the older worker, evidenced by a ballooning literature and innumerable conferences on the subject. Another shortage of labor produced by the Korean defense emergency—though neither as general nor as severe as that during World War II—again led some companies to defer retirements and recall some retired employees.

Uncertainties about current practice led us to include some specific questions about compulsory retirement in our 1952 questionnaire. The returns confirmed the continuance of the trend away from compulsory retirement, but less emphatically than might have been expected. Of the 269 companies (3.2 million plan participants) which changed their pension plans in some respect since 1948 only sixty-two (350,000 plan participants) changed their policy or practice about compulsory retirement. Hence, of the 491 co-operating companies (3.5 million plan participants) 429 (3.1 million plan participants) made no such change. Of those that did so change, forty-four (333,000 plan participants) could be said to have relaxed the compulsion to retire, while eighteen (35,000 plan participants) tightened this requirement.

Of the forty-four companies that relaxed their requirements, ten (82,000 plan participants) abolished compulsory retirement entirely, subject to some qualifications; thirteen (92,000 plan participants) reported making

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13 Jacob Tuckman and Irving Lorge, "Retirement Practices in Business and Industry," Journal of Gerentology, January, 1952, p. 80.

14 Lawrence J. Ackerman and Walter C. McKain, Jr., "Retirement Programs for Industrial Workers," Harvard Business Review, July-August, 1952, p. 103. On the other hand, the Equitable reports that the majority of companies in its study treated wage and salaried employees alike and that in the small minority that treated them differently the most common variation was to apply mandatory retirement most frequently to salaried employees. Compare also tabulation on p. 19.

more frequent exceptions to their policy of compulsory retirement—some simply as a matter of practice, some as an announced policy, and some others by a temporary suspension of enforcement either entirely or in individual cases at management option; eighteen (148,000 plan participants) raised the compulsory retirement age; two discontinued positive encouragement of voluntary retirement at normal retirement age; and a fairly large automobile parts company, having had compulsory retirement at age sixty-five only for salaried employees, adopted sixty-eight as the compulsory retirement age for all employees and later suspended the policy completely "until further notice."

Of the eighteen companies that raised the compulsory retirement age, one went from age sixty to sixty-five, except for executives; three (35,000 plan participants) went from age sixty-five to sixty-six or sixty-seven; eight (85,000 plan participants) went from age sixty-five to sixty-eight; and six (20,000 plan participants) from age sixty-five to seventy. Of the last fourteen, three did not raise the retirement age at all for executive and supervisory personnel, and two raised it less than for nonsupervisory employees.

The foregoing figures do not include three large automobile or related companies which negotiated compulsory retirement for hourly-rated employees for the first time. The negotiated age in these instances was sixty-eight. Two of these companies also raised the compulsory retirement age for salaried employees. The three tightened compulsion at one end of the scale; two also relaxed it at the other.

It is of interest that of the forty-four companies that relaxed compulsory retirement, plus the three last mentioned, sixteen of them did so when or shortly after they first introduced or first bargained about a pension plan for hourly-rated employees. Just to prove the standing rule abou exceptions and generalizations, one company, which otherwise raised the compulsory retirement age from sixty-five to sixty-seven for executives and supervisors, but to seventy for other employees, was forced to retain age sixty-five in one plant by the CIO local with which it deals.

As previously noted, eighteen companies ran counter to the trend toward less mandatory retirement. Of these, six (22,000 plan participants) introduced compulsion for the first time—four at age sixty-five (one with sixty for women, another with sixty for flight personnel), two at age seventy (one with sixty-five for executives). Twelve of them (12,000 plan participant reported granting fewer exceptions, i.e., more rigorous enforcement of an established policy of compulsory retirement.

As of late 1952 the 491 co-operating companies specifically reported their policies about compulsory retirement as given in the tabulation on the following page. Although the classification of retirement policies shown there is not entirely precise, the tabulation does indicate that compulsory retirement is still the dominant practice in a large majority of companies with pension plans and is applicable to an overwhelming majority of employees covered by such plans.

Retirement Policy	1952 Plans		Participating Employees	
	Number	Per Cent	Number	Per Cent
No compulsory retirement				
Settled policy........	125	25.5	490,018	13.9
Temporary suspension..	18	3.6	22,235	0.6
Total...............	143	29.1	512,253	14.5
Compulsory retirement				
Fairly frequent exceptions........	45	9.2	80,216	2.3
Infrequent exceptions.	192	38.9	2,292,505	64.7
No exceptions.........	87	17.7	514,561	14.5
For some classes of employees but not others[a]...........	24	5.1	142,703	4.0
Total...............	348	70.9	3,029,985	85.5
Grand total.......	491	100.0	3,542,238	100.0

[a] Two plans, only for executives; fifteen plans, only for executives and salaried employees; three plans, only for nonexecutive salaried and hourly employees; four plans, only for hourly employees. Only about 30,000 of the 142,703 participating employees are subject to compulsory retirement.

Whether a company enforces compulsory retirement with frequent, infrequent or no exceptions would depend in part on the compulsory retirement age. As might be expected, all except three of the forty-six plans that use a compulsory retirement age higher than sixty-five for some or all employees apply compulsory retirement with infrequent or no exceptions.

The tabulation on the next page shows that age sixty-five is still much the most common compulsory retirement age but that there may be a slight tendency to raise it, especially for hourly or nonexecutive employees.

Before summarizing the arguments for and against compulsory retirement it is well to recall that employee attitudes toward retirement are very variable. Younger employees, to the limited extent that they think about retirement at all, are somewhat inclined to favor retirement at relatively early ages. Trade union literature contains many demands for the lowering of the normal retirement age. As employees age, they become more and more impressed with the difficulties of the readjustment involved in retirement and wish to postpone it. In times of high level employment, high earnings and high living costs, continued employment after normal retirement age is not only more frequently possible but also relatively much more attractive than retirement. In times of business recession and unemployment, retirement of older workers on assured incomes, small though they may be, is advocated by

Compulsory Retirement Age	1952 Plans		Participating Employees	
	Number	Per Cent	Number	Per Cent
70	16	4.6	65,560	2.2
70 (males), 65 (females)	7	2.0	34,685	1.1
68	4[a]	1.2	8,867	0.3
65 (executives), 68 or 70 (others)	5[b]	1.4	228,770	7.6
65 (executives and salaried), 68 or 70 (hourly)	8[c]	2.3	448,771	14.8
65	227[d]	65.2	1,659,326	54.8
65 (males), 60 (females)	69[e]	19.8	480,154	15.8
Other ages	12[f]	3.5	103,852	3.4
Total	348	100.0	3,029,985	100.0

[a] Compulsory retirement applies only to hourly employees in two plans.

[b] One plan uses age 70 for nonexecutive employees.

[c] One plan uses age 60 for female executives and salaried employees; two plans use age 70 for hourly employees.

[d] Compulsory retirement applies only to executives in one plan, only to executives and salaried employees in thirteen plans, only to nonexecutive salaried and hourly employees in three plans, and only to hourly employees in two plans.

[e] Compulsory retirement applies only to executives and salaried employees in one plan.

[f] Two plans use age 65 for males and age 55 for females. One plan each uses: age 70 for executive and salaried personnel and age 65 for hourly workers; age 68 for executive and salaried personnel and age 70 for hourly workers; age 67 for executives, age 70 for salaried personnel, and age 65 for hourly workers; age 67 for all employees; age 66 for all employees; age 61 for executive and salaried personnel, and age 65 for hourly workers; age 60 for executives, and age 65 for others; age 60 for males and age 55 for females; for executives only, age 63 1/2 for males and age 60 1/2 for females; age 68 for executives and age 65 for other salaried employees.

employees and their unions in preference to the layoff of younger workers. A change in economic conditions may lead a union which is fighting compulsory retirement today to fight for it tomorrow. With some recognition of the fact that attitudes of employees and the public may thus change from time to time, it might be helpful to state the pros and cons of compulsory retirement as they line up today.[15]

Arguments for Compulsory Retirement:

1. The basic managerial objective of a pension plan—the graceful separation of workers from the payroll when they cannot continue to earn their pay—will not in fact be achieved unless retirement is compulsory. In one large oil company not enforcing compulsory retirement in 1948 because its pension plan benefits were admittedly inadequate, supervisors insisted that employees aged over sixty-five were fully and efficiently discharging their responsibilities. Less than six months later, after the pension plan benefits had been increased to a reasonable figure, these same supervisors favored compulsory retirement of all such workers on the ground that for several years past most of them had not been worth their pay. Unless retirements are automatic the probabilities are that employees will not be retired when it really becomes necessary in the interests of company efficiency.

2. Without compulsory retirement, a second major pension plan objective—providing an incentive to capable younger employees by maintaining open channels for promotion—will also be defeated. The American Can Company, with about 35,000 employees, described the result of the retirement of the chairman of the board and one vice president in April, 1951, as a chain reaction. Their retirements led directly to about 100 promotions at various management levels.[16] It would be difficult to exaggerate the renewed enthusiasm and vigor that such a series of changes would infuse into the ranks of any management. This argument obviously is most important in connection with executive and supervisory retirements and promotions, but there are many situations where it is significant also for rank-and-file employees. Ambition certainly is stifled if the only opportunities for promotion are to fill dead men's shoes.

3. Compulsory retirement avoids charges of discrimination and favoritism. It reduces retirements to a matter of accepted routine and treats all employees alike at the compulsory retirement age. The same arguments that justify layoffs on the basis of seniority—as against the ideal of

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15 See also Helen Baker, Retirement Procedures Under Compulsory and Flexible Retirement Policies, 1952, (Princeton University, Industrial Relations Section) 65 pp.; and A. N. Turner, Employment and Retirement in an Aging Population—a Bibliography, 1951, (Harvard University Graduate School of Business Administration) 50 pp.

16 The company's employee magazine gives a preliminary report about the first twenty-six such promotions by early June, 1951. "Chain Reaction," Canco, July, 1951, p. 8.

individualized treatment against which unions have long and successfully fought—support automatic retirement on the basis of age. Conceding that there is no age at which employees suddenly become unfit for work, it is reasonable to assume that in any large organization there is some age at which the average employee begins to be of substandard efficiency. It is better to make retirement compulsory at this age for all employees—although some should have been retired earlier and others could well be kept at work—and avoid the mistakes, disappointments and grievances that selective retirement might cause.

Few elderly workers, unless physically disabled, can themselves judge impartially the extent to which their abilities have deteriorated, and there are no objective and acceptable criteria by which the decline of work capacity can be measured, without possible dispute. Physical capacity is difficult enough to evaluate in purely medical terms. Mental capacity, judgment, attitudes and emotional stability are infinitely more difficult to assess. This problem too is more important and difficult of solution with respect to executives and supervisors than with respect to employees in routine rank-and-file jobs. The output of a worker on a simple assembly job may be readily measurable. The effectiveness of a department head or vice president depends on intangibles, much more difficult to measure, and can decline imperceptibly with very serious possible consequences for the company.

4. Compulsory retirement on the basis of a chronological age is indeed arbitrary but it is impartial, impersonal and objective. It thus preserves the dignity of retiring employees. Even employees reluctant to retire have at least the consolation that compulsory retirement carries no adverse personal implication. It occurs as had been expected in accordance with a predetermined plan. The so-called "retirement shock" would be very much greater if every retirement on a selective basis implied that the employee was being thrown into the discard because of his inability to fill any available job in the company.

5. Compulsory retirement encourages preparation for retirement on the part of both management and employees. If there is a good chance that retirement can be postponed indefinitely, employees will normally put off until it is too late the difficult task of planning the financial and other aspects of that major adjustment. When employees see their colleagues retiring automatically at the specified age, they are much more likely to be impressed with the necessity for advance preparation.

Many managements procrastinate in selecting and training replacements for executives and supervisors approaching retirement age. Fairly rigid enforcement of compulsory retirement will at least provide a stimulus to more systematic executive inventory and development procedures. A medium sized multi-unit company, a leader in its industry and generally regarded as well managed, was recently galvanized into action, when the attention of its president and board of directors was called to the fact that prospective retirements, even at age seventy, within the next five years would necessitate the replacement of fifty-four executives in the upper management levels alone.

From the point of view of the economic health of a management and the ultimate welfare of its employees, both active and retiring, the strongest argument for compulsory retirement probably is that it encourages preparation for retirement, which generally has been a badly neglected area of pension planning. If pensions were reasonably adequate and employees were encouraged to plan effectively for retirement, the controversy about compulsory retirement would be greatly reduced.

Arguments Against Compulsory Retirement, Especially at Age 65:

1. The great majority of workers do not want to retire while in good health. From 1940 to 1947 only 5 per cent of federal old age insurance beneficiaries "left their jobs of their own accord, in good health, to enjoy a life of leisure. They [the studies] also show that in given years from a fourth to a half of the beneficiaries had some employment after their entitlement."[17] At the beginning of 1951 about 40 per cent of those eligible for federal old age benefits remained at work. In two sample months (December, 1950, and July, 1951) about 9 or 10 per cent of those previously awarded such benefits were not receiving them because they had returned to covered employment and were earning more than $50 per month.[18] In 1950 Business Week found that 60 per cent of the workers eligible for retirement in the automobile and steel industries of Detroit and Pittsburgh preferred to continue work.[19] By mid-1952 only about one-third of the employees eligible to retire at age sixty-five under plans negotiated by the United Automobile Workers (CIO) had done so.[20] A survey of the retirement aims of 3,000 male policyholders of Northwestern National Life showed that only 24 per cent wanted complete leisure at retirement age. Seventy-six per cent want either to keep on at their present jobs or at the most, if financially able, to ease up a little.[21]

2. Much of the reluctance to retire stems from the fact that the average worker resists and resents the drastic reduction in his standard of living that retirement causes. Two-thirds of federal old age and survivors' insurance beneficiaries have little or no other retirement income. Only one beneficiary out of eight has independent retirement income, apart from federal benefits, of $50 per month per person. Only 40 per cent of the single beneficiaries or couples has as much as $50 per month per person including

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[17] M. L. Stecker, "Beneficiaries Prefer to Work," Social Security Bulletin, January, 1951, pp. 15-17.

[18] R. J. Myers, "Retirement Ages Under Old Age Insurance," American Economic Security, September-October, 1951, p. 40.

[19] "Old Hands Snub Pensions," Business Week, November 8, 1950, pp. 124-126.

[20] The Bureau of National Affairs, Inc., "What to Expect Under Your Retirement Plan," Facts for Bargaining, August 29, 1952, p. 1.

[21] "Problems of Supporting Aging Population Increasing Rapidly," Management Review, January, 1952, p. 21. (Abstract from Insurance Advocate, October 27, 1951)

federal benefits.[22] In January, 1952, despite the liberalization of social security, the average old age and survivors' benefit for a retired worker was only $42.[23] This average income will tend to increase to an average in 1953 of $60 per month for a retired worker alone and of $95 per month for a retired worker and his aged wife.[24] Even if these amounts are supplemented by an average monthly benefit of $65 a month under private pension plans, they will fall somewhat short of the budget estimated as necessary for the slightly more than minimum subsistence of an aged couple, which ranged from $1,600 to $1,900 per year in different localities at 1950 prices.[25]

The relative inadequacy of both public and private pensions, plus the increasing difficulty of individual savings because of high taxes and living costs, makes compulsory retirement for the average worker a sentence to a substandard plane of living or dependence on public or private charity.[26] General compulsory retirement at age sixty-five or thereabouts is simply impracticable because retirement incomes are too low and the cost of raising them to acceptably adequate levels would be too great for the taxpayer, the average employer or the average worker. Income from productive employment is still the healthiest and most satisfactory method of support for older persons able and willing to work.

3. Even if retirement incomes were thoroughly adequate many workers—although the evidence is far from conclusive—would still not wish to retire. They realize, as the psychologists, gerontologists and geriatricians are emphasizing more and more, that work is a biological and social necessity and duty, and that inactivity speeds degeneration. As long as an individual remains able to work and wants to do so, compulsory retirement may be a cruel relegation to uselessness. It disrupts the pattern of life, which for all of us is organized around the regular performance of work. Hobbies and other leisure time activities are grossly inadequate substitutes for a productive job which carries status and gives meaning and purpose to one's existence. Leisure is good but only when it is desired and can be used constructively. Compulsory and permanent leisure is as incongruous as compulsory fun. Furthermore, the reduction in the normal hours of work and the spread of holidays and vacations with pay have so widely distributed leisure that the concept of retirement as a period of well earned leisure after a lifetime of exhausting work is becoming increasingly inappropriate.

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[22] E. C. Wentworth, "Resources of Aged Insurance Beneficiaries, 1951 National Survey," Social Security Bulletin, August, 1952, pp. 3-6.

[23] W. J. Cohen, Strengthening Weak Spots in Public and Private Pension Plans, January 31, 1952, (Social Security Administration, Washington) 5 pp., processed. (Prepared for the New York State Joint Legislative Committee on Problems of the Aging)

[24] Federal Security Agency, Report on Old-Age and Survivors Insurance, April, 1952, (Washington, D. C.) p. 13.

[25] "Budget for an Elderly Couple, Estimated Cost, October, 1950," Monthly Labor Review, September, 1951, p. 304.

[26] In August, 1951, one aged insurance beneficiary in eight was receiving supplementary assistance. W. J. Cohen (as cited in footnote 23), p. 8.

4. Compulsory retirement at an arbitrary chronological age disregards both differences in individuals and differences in job requirements. There is no simple and inevitable correspondence between an individual's chronological and biological or physiological age. At any given age health and work capacity vary between individuals. Different jobs make very different demands on individual capacities. The average clerk on routine work can be expected to maintain his efficiency for longer than a sandhog or a structural steel worker. Also, some executives, of course, as elder business statesmen can be more "productive" in their sixties than in their younger years.

5. By arguing that compulsory retirement is necessary for administrative convenience and the avoidance of discrimination and grievances, management abdicates part of its basic responsibility. The selection of employees for retirement cannot be intrinsically more difficult than the selection of new employees nor the necessarily continuing process of selecting employees for retention, merit increases and promotion. If special techniques are necessary for the selection of employees for retirement, they will not be developed until a policy of flexible retirement forces each management to study the problem in its own special setting.

6. It is fallacious to argue that compulsory retirement is necessary to keep channels of promotion open. This assumes that there are always more workers than jobs. The argument can be reduced to an absurdity since, if it is valid with respect to age sixty-five, it would be even more valid with respect to age fifty-five or forty-five. Promotions should depend on growth and on naturally occurring vacancies, not on vacancies arbitrarily created.

7. Compulsory retirement is economically wasteful. The proportion of men aged sixty-five or over in the labor force declined, despite a presumed improvement in the health of older workers, from 68 per cent in 1890 to 46 per cent in 1951. Professor Sumner H. Slichter estimates that universal enforcement of compulsory retirement would deprive the economy of the output of about 3,000,000 workers and decrease the net national product by about $12 billion a year. Conversely, the discontinuance of compulsory retirement might increase the labor force by about 960,000 persons aged sixty-five years or over and increase the national output by about $3.8 billion per year.[27]

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[27] S. H. Slichter, "Can the Economy Afford the Loss of Production of Its Older Workers..."; Monograph III of Three Monographs prepared for a Conference on Retirement of Older Workers sponsored by the McGregor Fund and the National Committee on the Aging of the National Social Welfare Assembly, New York, 1952, p. 81.

Slichter's carefully qualified estimate of the potential increase in the labor force from those aged sixty-five or over and therefore of the loss occasioned largely by compulsory retirement is substantially greater than a semiofficial estimate of the Social Security Administration. Allowing for the prevalence of disability among the aged and assuming that employment among the aged is unlikely to again exceed peak wartime rates, the aged labor reserve is estimated at about 600,000. The contribution that this reserve, whether 600,000 or 800,000, could make to production if totally employed full time could equally be achieved by an addition of less than one-half hour to the average work week. "Size of the Aged Labor Reserve," Social Security Bulletin, June, 1952, pp. 15-17.

The economic waste of compulsory retirement is more particulary demonstrated by the apparently satisfactory work record of older workers retained or recalled during the war and the current emergency and by the experience of such companies as the Endicott Johnson Company, the Ithaca Gun Corporation and the W. and L. E. Gurley Company, which have an unusually high proportion of older employees.[28] It is evidenced by the spread of the practice of hiring university professors compulsorily retired from other institutions, in accordance with the example set by the Hastings School of Law and the New School for Social Research. It is seen in the trend for retired executives to join or establish consulting services either on a commercial or an avocational basis, such as: the Mohawk Development Service, Inc., Schenectady, New York; Management Counselors, Inc., New York City; and Consulting and Advisory Services, Inc., Wilmington, Delaware.[29] It is indicated by the vigor and effectiveness long past normal retirement age of such leaders as Winston Churchill, Justice Holmes, and many others here and abroad.[30]

8. Whether the American economy can continue to afford to lose by compulsory retirement the output of a large proportion of its older workers and support them in unproductive idleness may be debatable, since projections of productivity and population trends are somewhat speculative,[31] but compulsory retirement at age sixty-five is increasingly difficult to reconcile with current population trends.[32] It flies in the face of what Bernard Baruch describes as the greatest American achievement of the first half of the twentieth century, that of adding twenty years to average life expectancy. It disregards the fact, according to a distinguished geriatrician, that "the average person of 65 is now as biologically efficient as the average person of 50 was a generation ago."[33] A few crude figures will serve to suggest the

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28 See the several reports of the New York State Joint Legislative Committee on the Problems of the Aging (Newburg, New York): Birthdays Don't Count (1948, 326 pp.), Never Too Old (1949, 216 pp.), Young at Any Age (1950, 192 pp.).

29 "Brains Out of Retirement," Dun's Review, February, 1952, p. 56; W. S. Dutton, "They Retired and Got Busy," Saturday Evening Post, June 16, 1951, pp. 36-37, 75-81.

30 See Martin Gumpert, "A Second 'Prime of Life' After 70," New York Times Magazine, July 8, 1951, p. 14.

31 J. S. Davis, "Our Changed Population Outlook and Its Significance," American Economic Review, June, 1952, pp. 304-325.

32 Gertrude Bancroft, "Older Persons in the Labor Force," The Annals, January, 1952, pp. 52-61.

H. S. Shryock, Jr., "The Changing Age Profile of the Population," in The Aged and Society, 1950, (Industrial Relations Research Association, Champaign, Ill.) pp. 2-23.

United States Bureau of Labor Statistics, Employment and Economic Status of Older Men and Women, May, 1952, (Government Printing Office, Washington) (Bulletin No. 1092) 58 pp.

33 Martin Gumpert, "Our 'Inca' Ideas About Retirement," New York Times Magazine, July 27, 1952, p. 10.

rate at which our population is aging. From 1900 to 1950 average life expectancy at birth increased from about forty-nine to sixty-seven years; at age sixty-five, from less than twelve to over thirteen years. Our population aged sixty-five or over increased from about 3,000,000 (4 per cent of the total) in 1900, to 12,000,000 (8 per cent of the total) in 1950. By 1975 it may increase to 21,000,000 (11 per cent of the total). The ratio of those of "working age"—twenty to sixty-four years—to those aged sixty-five or over has declined from about 13:1 in 1900 to 7:1 in 1950, and if present trends continue it might be as low as 4:1 at the beginning of the next century. Although these and similar figures may need refinement and qualification, they suggest that compulsory retirement at age sixty-five or thereabouts is becoming economically more expensive and politically less palatable.

Along What Lines Should Companies Examine Their Policies as to Older Workers and Retirement?

Unfortunately, the arguments just summarized are of different orders. It is difficult to weigh against one another considerations affecting the economic health of a given corporation, the retirement needs and desires of average workers, and the economic, social and political implications of our aging population. As one must so often tritely observe, each management must formulate its own policy about older workers and retirement in the light of its own situation and the pressures, union and others, to which it is subject. The propositions and discussion in the remainder of this section are set forth less as conclusions or recommendations than as starting points for management's reconsideration of the problem.

The Retirement Age and Compulsory Retirement: The problem of the older worker in industry is becoming increasingly important and will continue to receive public and political attention. Managements, therefore, should systematically review their policies about discrimination in employment on account of age, from hiring age limits at one end to retirement policy at the other. Some managements will certainly discover, if they analyze their own experience, that their policies have been adopted on the basis of some uncritically accepted assumptions about relatively older workers that are contrary to fact.[34] A striking illustration of such an assumption is the persistence of the belief that the employment of older workers increases workmen's compensation costs. The following points seem pertinent in any review of management policy as to the age at which retirements should be effected.

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[34] Each management should investigate the relative importance in its situation of the so-called assets and liabilities of older workers, which are often loosely summarized as follows:

Liabilities—(1) Increased frequency of chronic disease, (2) greater time loss from any accident, (3) slowly diminishing muscular strength, (4) less and rapidly diminishing mental ability, (5) reduced speed of reaction and adaptability, and (6) increasing rigidity of temperament.

Assets—(1) Reduced absenteeism, (2) lower turnover, (3) lower accident frequency, (4) increased skill, (5) greater loyalty, (6) better judgment, and (7) less restriction of output.

Careful evaluation of such factors would doubtless lead many managements to modify their present preconceptions about older workers.

1. The convenience of tying normal retirement age to the age of eligibility for federal old age benefits makes it probable that normal retirement age will continue for many years to be sixty-five in the great majority of private pension plans.

2. On balance, managements which can continue to do so should for the time being maintain the policy of compulsory retirement, with the possibility of carefully controlled exceptions, until generally acceptable techniques are developed for nondiscriminatory and objective selection of employees for retirement.

3. Consideration should be given, however, to raising the age for compulsory retirement to sixty-eight or seventy. The negotiated pension plans in the automobile industry have started a slight trend in the direction of normal retirement at sixty-five, with compulsory retirement at sixty-eight. Sixty-eight as the age of compulsory retirement has some color of justification in relation to the average age of between sixty-eight and sixty-nine years for actual retirements under the federal old age insurance system since 1940.[35]

4. Conversely, serious consideration should be given to the possibility of providing more adequate pensions for early retirement on account of disability or at management initiative.

5. Managements should explore the feasibility of selective retirement by more intensive research into job specifications and requirements and the adaptation of jobs to the work capacities and actual performance of older workers. The crucial question: When is a specific worker or when is an average worker too old to be economically and profitably carried on the payroll in his customary or any other available job? will never be answered in general terms. It must be resolved in terms of specific individuals or groups in specific occupations in specific industrial settings. The answer, if any, will come not from demographers or geriatricians but from first-line supervisors (if pressed) in terms of production records or other evaluations of job performance. This is the only escape from the dilemma that from the practical business point of view—given adequate pensions, public or private—the case for compulsory retirement is still as strong as the case for selective retirement from the broader social and human welfare viewpoints.

6. A policy of compulsory retirement may be much more safely relaxed or abandoned with respect to rank-and-file employees than with respect to executives and supervisors. A small proportion of bench workers of substandard efficiency will, of course, increase costs, perhaps only within tolerable limits, but the retention of a few key executives who should be superannuated may infect the whole organization with a dry rot that could be fatal. Selective retirement for executives is much more difficult than for rank-and-file workers. Their efficiency is much harder to measure objectively. Selectivity in retiring them is likely to be complicated by personal considerations. Knowledge on the part of the

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[35] R. J. Myers (as cited in footnote 18).

executives that their retirement can be postponed may encourage laxness in selecting and training possible replacements for their positions.

Compulsory retirement of executives, as compared with most rank-and-file workers, ought to involve less hardship. For them the financial problems of retirement should be much less serious. They should have mental and spiritual resources to permit constructive use of their newly released time. Their services are needed in innumerable public and community activities. The doctrine of retiring "not from but to something" should have much more meaning for them than for the average semiskilled worker. And when a company just cannot find a completely adequate replacement for a retiring executive, which should be the rare case, it can secure the benefit of his experience, judgment and wisdom by retaining him as a consultant after retirement—without blocking the significant channels of promotion. Vigor and decisiveness in the ranks of management personnel so transcends any other factor in business success that compulsory retirement of executives at age sixty-five is by far the safest course.