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DO AMERICAN WORKERS SAVE FOR RETIREMENT?

SOME LONG-RUN INFLUENCES IN THE CURRENT SITUATION

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"The only changeless thing about human society is change, and this is particularly true of American society. Many basic assumptions about American life made just a few years ago are already battered beyond recognition. New facts about the country are at hand, and, since they are fundamental to any understanding of what and where we are, some of them might bear recital here."

These words are quoted from the introduction of a recent broadcast by Eric Sevareid, the CBS news analyst. The observation also serves as the focus for the discussions of this Conference--the impact of change. The perspective from which we view the questions to which we address ourselves is all important. The present facts can be understood and the future foreseen only in the light of significant influences which affect the current picture of voluntary savings by American workers.

Retirement: The Perspective in Population Changes

Changes during this century in the population of the United States, in the American economy, and in American family living have been profound. The full import of their far-reaching effects sometimes escapes us because they have occurred during our lifetime. Our perspective begins with reviewing briefly some of the changes which contribute particularly to the relatively new phenomenon of retirement and many of its still unresolved problems.

Until quite recently there was no widespread retirement of older people from work unless it was compelled by physical incapacity, infirmity or senility. At the beginning of the century about two-thirds of all men aged 65 and over were in the labor force. Today, although the average age at which men retire to first claim benefits under the Old-Age and Survivors Insurance program is 69, only about 40 percent of the men 65 years and over are in the labor force.

The genesis of this change is found in the remarkable increase in the longevity of the United States population. Since 1900, the average life expectancy at birth has increased 20 years and is now about 68 years. The implications of this simple and well-known fact can be overlooked.

The Metropolitan Life Insurance Company recently reported on "The Continuing Rise in Longevity of the Industrial Population." According to the experience of its industrial policyholders, the average length of life of American wage earners and their families reached a new high of 68.5 years in 1952. In 1911-12 it was 46.6 years. The report states: "The record for gains among our wage-earning families, when compared with that of the general population, is particularly impressive. In 1911-12, the earliest year of comparison, the average lifetime for industrial policyholders was about 6-1/2 years less than that for the country as a whole; currently the two are on a par. It is significant of our American way of life that the health status of the wage-earning segment of our population has now caught up with the general average for the country." The improvement in average length of life for urban wage earners from 1911-12 to 1952 is almost 22 years! We need only speculate on the tremendous repercussions of this single change on the American economy and family living.

An important aspect of this increase in average life expectancy is the difference between that for women in comparison with men. Women live longer than men. At age 40 a white woman can expect, on the average, to live until age 76--almost 5 years more than a white man of the same age. The average age at which women are being widowed is now 51. Moreover, the number of widows increased by about 25 percent between 1940 and 1951, while the number of widowers increased only about 3 percent. Because of their increasing longevity, as compared with men, by 1975 women aged 65 and over may exceed men of the same age by about 3-1/2 million, more than tripling the comparable excess of one million in 1950. This fact has a significant bearing on financial planning for old age. It is perhaps reflected in the recent publication, among the mounting volume of texts on old age, of a book with the provocative, but slightly lugubrious title: "Teach Your Wife To Be A Widow."

Another aspect of the changes resulting from these added years of life is the growing gap between total life expectancy and work-life expectancy. (Refer to chart.) Studies by the Bureau of Labor Statistics show that in 1900 a 40-year old white male could expect to live an additional 28 years--that he could expect to remain in the labor force to age 64.5 years--and anticipate slightly more than 3 years in retirement. By 1940 he could expect to live to age 70, his work-life expectancy had declined slightly, and he could anticipate nearly 6 years in retirement. The span of retirement had nearly doubled between 1900 and 1940.

For the future, a continued widening of this gap between the total life span and working life span seems likely. This fact has a powerful effect on individual financial planning, as well as on private and public pension policies. Decisions in coming decades as to the disposition of the latter years of life between continued productivity and retirement are pivotal in the problems of old-age dependency. They will have important repercussions on the size of the Nation's labor force, consumption levels, the national income and the standard of living of all American families.

The shift of the American population from the farm to the city has brought spectacular and pervasive changes. At the turn of the century the people of the United States were predominantly rural. By 1950 almost two-thirds of the total population lived in urban areas. In 1953, about 12 percent of the total labor force was employed in agriculture compared with an estimated 21 percent in 1929. Our rapid industrialization and urbanization has brought dramatic changes in the pattern and manner of family living. The three generation family on the family farm which provided the major needs of food and shelter is a thing of the past. Under the typical urban living conditions today we have the two generation family in housing that does not easily accommodate the elderly grandparents. The basic needs of living must be purchased with money income.

Moreover, the goal of independent living on the part of each adult generation has become more general--and is accepted as psychologically sound. Its necessity is accelerated not only by urban living conditions but also by the trend toward the earlier age of first marriage (in 1949: 22.7 years for men and 20.3 years for women) and the currently prevailing high birth rates. Young people in their 20's are involved in new and demanding family responsibilities. The continuing high mobility of our population is another factor which separates elderly persons from children and other relatives. The Census Bureau finds that in recent years more than 3 percent of our people move from one State to another in each year.

#### The Perspective on Protection Against Old Age and Other Risks

Our particular discussion is directed to voluntary self-provision for retirement by urban wage earners in the medium and low income groups. Hence, we shall not consider here the ramifications of programs for providing retirement income by means of tax supported public systems or privately supported pension programs. They will be adequately dealt with by succeeding speakers. However, we can understand the current situation only in the perspective of developments in recent decades.

President Eisenhower, in his January 14 message to the Congress on Social Security said, "The human problems of individual citizens are a proper and important concern of our government. One such problem that faces every individual is the provision of economic security for his old age and economic security for his family in the event of his death. To help individuals provide for that security--to reduce both the fear and incidence of destitution to the minimum--these are proper aims of all levels of government, including the Federal Government. . . . . A basic Nation-wide protection against these hazards can be provided through a government social insurance system. Building on this base each individual has a better chance to achieve for himself the assurance of continued income after his earning days are over and for his family after his death. In response to the need for protection arising from the complexities of our modern society, the old-age and survivors insurance system was developed."

In 1935, the Committee on Economic Security in its Report to the President said, "No even reasonably complete data are available regarding the means of support of aged persons. At this time a conservative estimate is that at least one-half of the approximately 7-1/2 million people over 65 years now living are dependent. .... It is only through a compulsory, contributory system of old-age annuities that the burden upon future generations of the support of the aged can be lightened."

The general acceptance of this basic protection against the hazards of old age is unquestioned. It is significant that wage earners in general and all labor unions have supported the necessary increases in payroll taxes deducted from their earnings to assure an adequate program.

In little more than a decade the growth in privately sponsored retirement benefit plans has been tremendous. Labor's drive for "security programs"--health, insurance, pensions--first was given impetus during the war by the Government's wage stabilization and taxation policies, which made such programs feasible and less expensive to employers. Later, higher retirement annuities were sought because Federal old-age benefits, which had remained unchanged until 1950, proved increasingly inadequate in the face of rising prices.

Early in 1949, the legal obligation of employers to bargain on pensions under the Labor Management Relations Act of 1947 was affirmed by the United States Supreme Court. Later that year, organized labor received additional support by the Steel Industry Fact-Finding Board, which held that industry has both a social and economic obligation to provide its workers with social insurance and pensions.

As of June 30, 1953, there were 20,675 Treasury-approved retirement plans, and 1,349 requests for approval were pending. On January 1, 1940, a total of 659 plans were in effect. Although it is estimated that about 10 million workers are now covered by such programs, only about 500,000 persons--less than 4 percent of all persons aged 65 and over--currently receive benefits under them. It is also estimated that it will be 25 years before industrial pensions will provide payments to as many as 20-25 percent of the retired.

However, the foregoing programs together with other Federal and State and local retirement systems indicate that we have progressed most rapidly in recent decades toward measures for general protection against the risks of old age. The other vicissitudes of an industrial society are still a threat to such savings and other assets as the wage earner may accumulate. The present unemployment insurance system is not designed to meet the problem of long-term unemployment. Catastrophic illness can wipe out savings and increase family indebtedness. The means of protection against loss of earnings due to chronic illness or long-term disability, occurring in advance of normal or desirable retirement age, remains an unsolved problem. Efforts to meet the problem through a lowering of the permissive retirement age, in failing to meet the issue, would undoubtedly become an increasing threat to the soundness of income maintenance programs for retirement.

## The Perspective on Income and Expenditures

Our perspective on changes in the manner and level of American living is illuminated by citing some general indicators during fairly recent years.

In 1951, 54 percent of all non-farm families owned their own homes, compared with 41 percent in 1940. (Among wage and clerical worker families the increase was more pronounced, from 30 percent in the mid-Thirties to 49 percent in 1951.) In all occupied dwelling units, almost 95 percent had electric light compared with less than 80 percent in 1940; 80 percent had mechanical refrigeration, almost double the 44 percent in 1940; almost 75 percent had an installed tub or shower compared with about 60 percent in 1940.

Private passenger car registrations in 1950 showed that there was about one for every 4 persons in the population, compared to one for every 5 in 1940. During the same decade the number of telephones increased from 17 to 28 for every 100 persons in the population. The number of TV sets per hundred persons increased from 7 in 1950 to 17 in 1953.

These few examples are a general reflection of rising income and standard of living among workers' families. Significant changes in their expenditure patterns will be discussed later in further detail. According to data computed by the Bureau of Labor Statistics in 1934-36, the average income of a worker's family with an average size of 3.8 persons was \$1,524. Of this 57 percent was spent for food, housing, heat and utilities. In 1950, the average income for a family of 3.4 persons was \$3,872. The percentage of income spent for food, housing, heat and utilities in 1950 had dropped to 48 percent.

The change in earnings is more precisely reflected by citing figures for 1939 and 1952 on the average weekly earnings of production workers in manufacturing.

	: : In current : dollars :	: : In 1947-49 : dollars :	: : Net spendable average : weekly earnings--Worker : with 3 dependents : 1947-49 dollars
1939	\$23.86	\$40.17	\$39.76
1952	67.97	59.89	56.05
Percent increase, 1939-52	185%	49%	41%

(Refer also to chart on Gross and Net Spendable Earnings.)

A Bureau of Labor Statistics' comparison of the distribution of types of consumption expenditures among wage and clerical worker families in the mid-Thirties and 1952 shows the shift in expenditure patterns. (See Appendix, Table A.) The relative importance of expenditures have shifted from the more basic items of food and housing to a wide variety of items previously considered less essential or not available. Examples are: increases (4.9-6.2 percent) in the percentage spent on "other foods" to be prepared at home, which includes semi-processed foods; the increase in the proportion spent for meals away from home. In the housing component the increase in the relative expenditures for housefurnishings reflects increased purchases of heavy durables; in transportation, the increase is due to the increasing importance of automobile transportation for the worker. In 1953, 61 percent of all wage earner families owned automobiles in comparison with 44 percent in 1934-36. The increases in reading and recreation reflect purchases of durable goods such as radios and television.

The Federal Reserve Board Survey of Consumer Finances shows that in 1952, among spending units in the \$3,000-\$4,000 income class: 28 percent were buying automobiles; 41 percent were buying furniture and major household appliances, 13 percent were purchasing TV sets.

Accompanying and contributing to these changes in buying patterns were sharp and divergent increases in consumer prices. Between 1935-39 and 1953, prices on the average increased about 92 percent. Commodities such as food, apparel, and housefurnishings increased more than 100 percent, and others, particularly rent and utilities, increased less than 50 percent.

These summary facts on changing patterns in consumer expenditures are given to indicate their significance in the American economy as a whole, as well as to indicate a changing concept of living standards. Also, any approach to the question of savings must include an appreciation of trends in expenditures and family living standards.

#### Savings--The Current Picture in General

"People Pass New Thrift Milestone, 'Nest Egg' in Long-Term Savings Reaches \$200 Billion Mark" headlines a November 1953 Bulletin of the Institute of Life Insurance which reports:

"Total accumulated long-term savings of individuals came to an estimated \$200.4 billions on June 30, according to figures compiled by the Home Loan Bank Board, a rise of some \$6 billions since the end of 1952. These savings consist of funds accumulated behind life insurance policies, thrift accounts in commercial banks, deposits in mutual savings banks and in Postal Savings, savings capital in savings and loan associations, and current redemption value of U.S. Savings Bonds owned by individuals.

"While available in an emergency, long-term savings represent the bedrock of individual and family security and protection programs, and are distinct from other items that are frequently labelled as savings such as currency or demand deposits.

"Growth of accumulated savings in recent years has been persistent, and at times spectacular. Back in 1940, less than a decade and a half ago, the total of these savings added up to just over \$59 billions, or less than a third of today's aggregate. The \$100 billion mark was crossed in 1944. Right now, these savings figure out to nearly \$4,300 for every American household as compared with \$3,600 per household in 1945, approximately \$1,700 in 1940, and less than \$1,000 in 1920. The life insurance portion of these long-term savings includes only the savings accumulated behind the policies and not the face amount of protection, which now amounts to around \$6,200 per household.

"Of course, population and living costs have also risen greatly in recent years, but the figures show that accumulated personal savings in the aggregate have more than kept pace with these changes in rate of growth."

This increase in personal savings is all the more impressive when it is realized that it was achieved during a period when spending for consumer goods and services was also at record high levels and the size of the personal tax liability was bigger than ever before.

Significant also is the fact that a large proportion of spending units hold such savings. In 1953, according to the Federal Reserve Board's Survey of Consumer Finances, 71 percent of the spending units held liquid assets such as savings accounts and U.S. Government bonds, with a median holding of \$790. In 1951, 77 percent of American families had life insurance policies.

The increase in home ownership during this period likewise is significant for the security of the older person. Among families whose heads were 55 years or older, 67 percent owned their own home in 1951 as compared with 59 percent in 1940.

There is real question, however, as to how much of this saving is available for retirement. In the life cycle of a family, many emergencies can arise which will dissipate its savings before reaching retirement, and recent surveys show that a large part of the savings are made in anticipation of almost immediate spending.

A study of "Pensions in the United States," prepared in 1952 for the Joint Committee on the Economic Report of the 82nd Congress, includes the following statements which shed some light on the question:



"One measure of the effective ability of persons to save for old age is the amount of assets held by those now aged. There is some indication that asset holdings tend to be largest in late middle age, just before retirement. When spending units in an earlier (1949) Federal Reserve Board survey were classified by the age of the head of the unit, those with unit heads 55 to 64 years of age appeared to be the group with the highest proportion of any assets other than real estate, and with \$5,000 or more of assets other than real estate. Yet, one-third of the spending units in that Federal Reserve Survey with unit heads 65 years and over had no assets if real-estate holdings were excluded. One-half, including the spending units with no assets, had asset holdings of less than \$500. About 7 out of 10 had assets valued at less than \$2,000. Approximately the same proportions were found among spending units with heads retired from the labor force and for the most part consisting, presumably, of persons over 65 years of age.

"..... Recently a Nation-wide sample survey of old-age and survivors insurance beneficiaries showed that at the end of 1951 about 60 percent of the old-age beneficiaries had some savings other than real estate. Only 13 percent, however, had as much as \$5,000. Home ownership was the major significant asset of most families with assets. About two-thirds of the married men owned their own homes, 80 percent free of mortgage. Generally, those who owned homes were also the ones who had some additional savings. One-fourth of the old-age beneficiaries, however, had no assets whatever, and about two-thirds had no assets other than real estate, or had assets amounting to less than \$1,000.

"Available data, then, suggest that most people do save, in varying amounts and for a variety of reasons, and that in recent years more than half the aged have been able to accumulate some savings. Such savings are generally small, however, and for most persons not large enough to provide an adequate source of support in old age. Saving enough money for self-support in old age is extremely difficult for most wage earners. To buy from an insurance company a modest annuity of say \$75 a month beginning with age 65 requires for a man an accumulation of about \$11,900, and for a woman, since women live longer than men, about \$13,900. Such large savings for this one purpose from an average worker's income are seldom accomplished. Old age is the last of many risks to which a worker is subject. What savings he can make tend to be used up during illness or unemployment, or they are spent in bringing up children. Very frequently the only significant savings which last until retirement are those which are invested in a home. If most workers, their wives or their widows are to have sufficient money income in old age, a foundation must be supplied by some sort of pension arrangement which does not



depend for its success on voluntary savings. On the other hand, pension arrangements do not, of course, eliminate the role of individual savings. Rather they serve as a base upon which the individual will be encouraged to build, through savings, toward greater retirement security."

#### Savings--Pertinent Facts About Urban Wage-Earner Families

Recent surveys of income, expenditures, and savings of urban consumers, made by the Bureau of Labor Statistics, indicate that wage-earner families on the average have spent in excess of their current incomes in the postwar years. Included in their expenditures, in addition to outlays for current consumption goods and services, were expenditures for certain items which had in them elements of saving. For example, in 1950, expenditures of such families for automobiles averaged about \$206; for heavy household durable goods about \$163; for personal insurance, \$124; and for payments on owned homes, \$214.

These studies do not provide data on the size and type of savings held by wage-worker families. For this we turn to the 1953 Survey of Consumer Finances, conducted by the Board of Governors of the Federal Reserve System which yields data on "net worth" of various occupational groups, including wage earners. ("Net worth" is defined in this study as the difference for each spending unit between assets and debts. Assets were defined to include accounts in banks and other savings institutions, stocks and bonds, real estate and automobiles; life insurance reserves and household goods were excluded. Debts include mortgages, installment debts, single-payment loans, and debts to banks, insurance companies and individuals.) According to this survey, the median net worth of wage earners, early in 1953, was \$1,900. In this occupational group, 18 percent had debts in excess of assets. More than one-third of the wage earners had resources equal to less than 3 months of their 1952 money income before taxes. A third had resources equal to at least the previous year's income. About one-tenth had built up net worth equal to three years or more of current income.

#### Saving and Spending--Some Observations

Any observations on the savings "potential" of urban families must be made in the light of prevailing drives and forces in our economy.

"Orthodox Thinking Is Financial Suicide" is the title of an article in the September 1953 issue of The Journal of the American Society of Chartered Life Underwriters. The author says "The orthodox formula for yesterday's success is a sure road to failure today. And yet it is surprising how strong is the hold of orthodox thinking to prevent men from moving into successful methods of meeting today's problems." This author advocates, in place of the methods formerly covered by the old adage "Work hard--and save your money," the adoption of the annuity principle. He defines this as "pooling of resources with many others in order to take advantage of the mortality table instead of letting the mortality table have all the advantage of you."

An earlier issue of the same Journal has an article on "Revolution in Old-Age Security Planning." It is by Dr. Henry T. Owen, Professor of Insurance at the University of Texas, who says: "A most important economic and social change, the full effect of which many people are not completely aware, is the almost complete breakdown in the effectiveness of older methods of estate building through savings and conservative investment. . . . . The older pattern simply will not work today."

The importance of the maintenance of high consumption levels by all American families to an expanding dynamic economy is revealed almost daily by the apprehension attending any evidences of a decline in consumption expenditures. The consuming public is constantly confronted by a seemingly endless array of merchandise, attractively displayed in increasingly efficient markets. The urge to spend and have now, rather than to save for the distant future is stimulated by all sorts of advertising--radio, television, movie, and the printed page. Even the advertising for saving itself puts the emphasis on saving so that one can buy--a home, an automobile, a college education for the children, or that vacation trip. About \$8 billion was spent in the United States during 1953 on advertising.

Just a month ago, the major professional organizations in the economic field held their annual conferences in Washington. At a meeting of the American Marketing Association Under Secretary of Commerce Williams said advertising "will play an increasing role as we move again into a strong buyers' market. . . . . Today, the total of cash and demand deposits is three times the total of consumer debt. It is clear that we have the purchasing power to support a rising volume of sales. The time is ripe for expanding our selling effort and for sharpening our selling tools."

At the same meeting a similar theme was voiced by Arthur H. Motley, publisher of the weekly newspaper supplement "Parade." He said that business should give major attention to creating new demands and suggested that American living standards reflect what people have been persuaded to want. Mr. Motley further observed that "filling" only needs creates a static economy while creating wants brings an expanding economy." He called for greater reliance on market research and salesmanship.

"The Standards We Raise" is the title of a recent book by Paul Mazur, senior partner of the investment banking firm of Lehman Brothers. Mr. Mazur is also fiscal counselor to several mercantile organizations. The contention of his book is that "not purchasing power, but purchases, not production, but consumption are the ruling factors of our economy." Only as a consuming Nation can we remain a producing one. His emphasis is upon constantly expanding mass consumption as the basis for continued American prosperity, saying "We are a Nation which consumes its way to property, security, prosperity and freedom." Growth of consumption is merely another way of saying "dynamic standard of living." Mr. Mazur emphasizes "the right to seek equality of consumption and standard of living." He views installment selling as one of the great inventions of the American economy.

Among industrialists too, there is recognition that today we have a consumer economy. Alexander R. Heron, vice-president of Crown Zellerbach Corporation, in his book "Sale Behind the Job" points out that it is essential for private management to provide jobs if consumers are to continue to consume and private management is to continue to manage the economy.

These views, in the light of some of the facts which have preceded them, will at least challenge more orthodox thinking on potential savings by lower income wage earners. The prospect, we can safely assume, is that they, as has been true of their more favored fellow citizens, will not forego the desire to improve their standard of living in order to save more for a distant old age.

What we must do, as a community, is to share in the risks of the insecurities of old age, rather than to expect each family to provide adequate savings for the years of retirement. Savings, important as they are, must undoubtedly continue to be a supplement to a basic system for old-age protection. Savings can be the means by which older persons can have more assurance of approximating the standard of living they attained as wage earners.

TABLE A.--Percent of Consumption Expenditures by Type--Wage and Clerical Worker Families <sup>1/</sup>

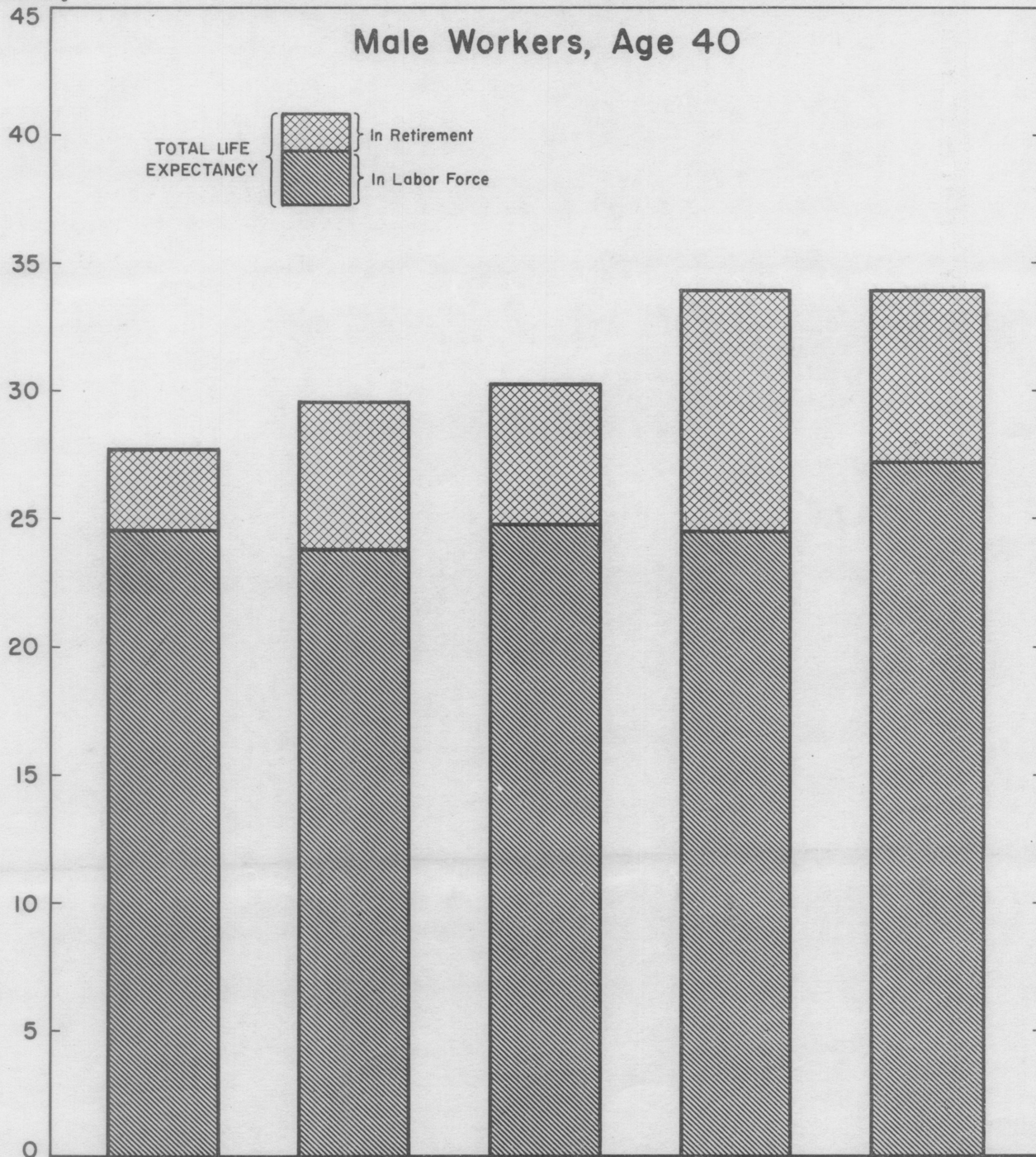
Groups and Subgroups	1935-39	1952
FOOD	35.4	32.4
Meats, poultry, and fish	9.0	8.5
Fruits and vegetables	7.0	4.9
Dairy products	6.2	4.5
Cereals and bakery products	5.0	3.3
Other foods bought to be prepared at home	4.9	6.2
Food away from home	3.3	5.0
HOUSING	33.7	26.6
Shelter <sup>2/</sup>	18.8	10.6
Housefurnishings	4.3	7.1
Household operations	4.7	5.4
Gas and electricity	3.3	2.1
Solid fuels and fuel oil	2.6	1.4
TRANSPORTATION	8.1	11.9
APPAREL	10.6	10.5
READING AND RECREATION	3.2	5.8
MEDICAL CARE	4.1	5.1
PERSONAL CARE	2.5	2.3
OTHER GOODS AND SERVICES	2.4	5.4
ALL ITEMS	100.0	100.0

- <sup>1/</sup> Estimated from base weights used in the Consumer Price Index.  
<sup>2/</sup> Includes rent and current maintenance costs for home owners; does not include cost of home purchase.

Source:  
U.S. Department of Labor  
Bureau of Labor Statistics  
January 1954

# TOTAL LIFE EXPECTANCY AND WORK-LIFE EXPECTANCY

Years  
Remaining



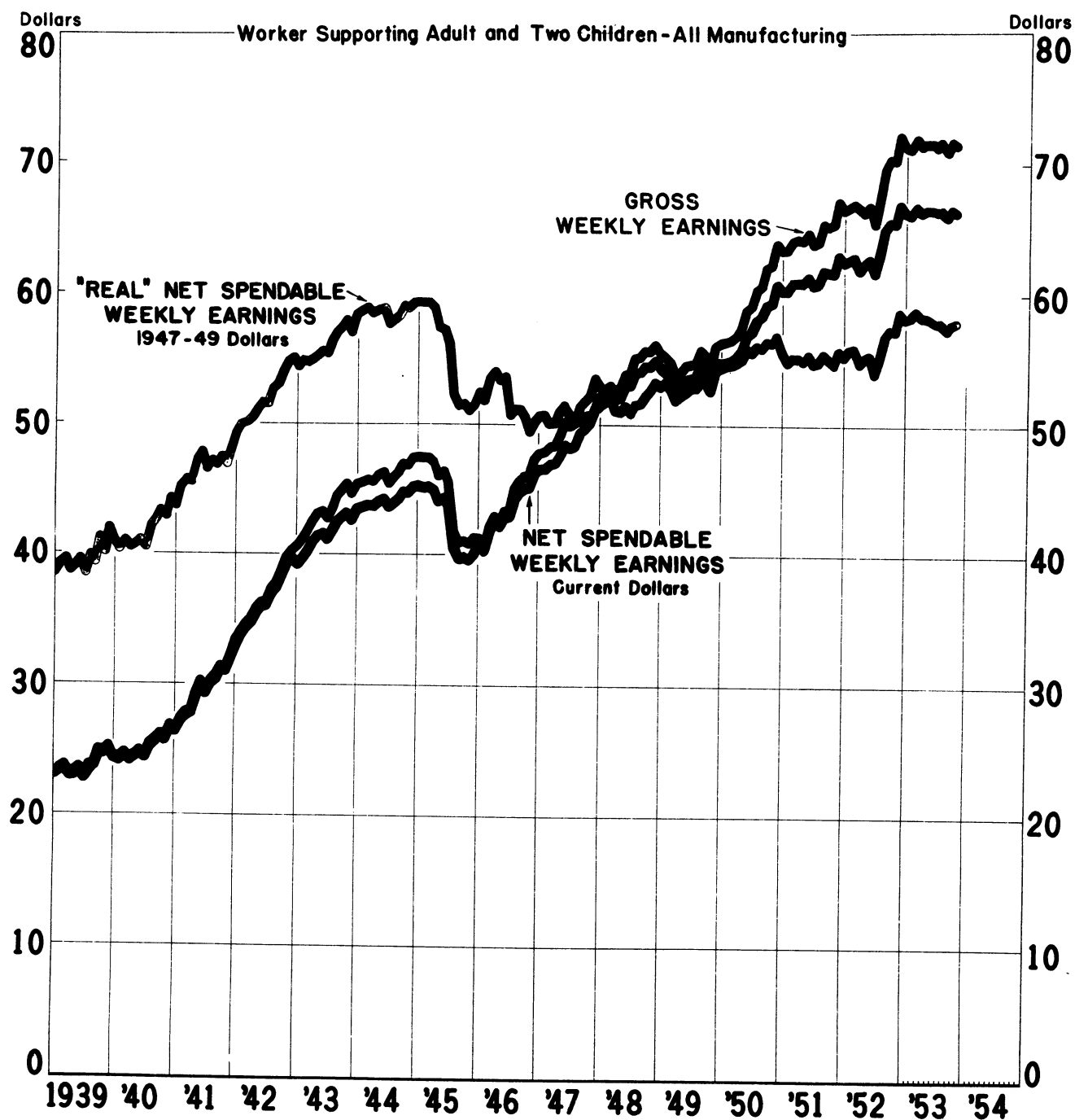
UNITED STATES DEPARTMENT OF LABOR  
BUREAU OF LABOR STATISTICS

(A)  
Projection of  
Prewar Trends

(B)  
1947 Patterns

\* WHITE MALES, DEATH REGISTRATION STATES

# GROSS AND NET SPENDABLE WEEKLY EARNINGS COMPARED WITH REAL NET SPENDABLE EARNINGS EXPRESSED IN 1947-49 DOLLARS



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