Older workers (1951)

MANAGEMENT'S RESPONSIBILITY TO THE OLDER WORKER

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Let it be understood from the start that I cannot assume the responsibility of talking about management's responsibility to the older worker. I can only present the point of view of one who is in the midst of the problem, and who so far has discovered far more questions than answers.

Indeed I wonder if it is timely for anyone to take a pronounced stand on this problem of men and women growing older in employment. The amount of valid information in the whole field is so small - and the problem is so big. This surely isn't a time for polemics, or slogans, or campaigns. This is a time for deliberate consideration of what is going to happen to every one of us, some sooner, some later.

This approach, I fear, will not produce many answers to our mutual problems. In discussing what I consider the three fundamentals of the aging problem - "when to retire," "on how much," and "on whom," I find that I can be only relatively positive on the "how much" - and that on the other two fundamentals I must ask rather than state.

When To Retire?

This question must be attacked first. It is the nub of our problem. Its successful treatment will automatically give answers to many of the questions aroused by "how much?" and "on whom?"

Among others, Sumner Slichter has repeatedly warned that an early retirement age (and by "early" he means 65) will create serious problems from both the national socio-economic side and from the individual psychological side. He

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suggests 70 as a more realistic retirement age.

Let us examine some of the reasons advanced for choosing a later retirement age:

The first reason usually advanced is that pensions can be more adequately funded. Life expectancy at 70 is about 9 years: while at 65 it is from 12-14 years. In addition, any money set aside can accumulate interest for 5 more years. For example, a man now aged 40 who wants a pension of $100 a month for life beginning at age 65 must put away about $435 a year for 25 years at 3% interest. The same man need put away only about $280 a year if he defers his retirement to age 70.

Surely, the fact that more money can be accumulated more easily should give management a real interest in studying a later retirement age, but do the savings in dollars make up for the disadvantages? Doesn't this whole matter rest on the question of what the country can afford? The cost of a pension is relatively fixed - the ability to pay for it may not be. In 1950, with 63 million gainfully employed, 7-1/2 million of the 11 million people now 65 years of age or older are not working. This is about 12% of our working population. It is estimated that 3/4 of these individuals are heads of families, which reduces the 12% figure to 9%. If we should pay each one of these heads of families a pension equal to half of what the actively employed person is now earning, the charge against the nation's payroll would be 4-1/2%. Is this too high? Even if the proportion of the retired individuals should rise to produce a cost of 10%, is that too high? What is the proper charge against the actively employed population for giving men and women who have labored for 35-40 years a chance to enjoy leisure and to approach the fulfillment of long-time dreams and desires?

A second argument in favor of choosing a later retirement age is that many skills are wasted by retiring men and women who have been trained at a cost of hundreds of dollars when these men and women are physically and mentally capable of producing at a fair rate. A supplementary argument toward this point is that it is better to have the several million people over age 65 working, producing and earning and spending at a rate, say, of $3,000 a year than it is to have the same group spending only at a rate, say, of $1,500 a year.

Again we entertain a problem of balance. Can the economy afford to have older people employed while younger people are unable to find employment? This is probably a poor time of the century to talk on this point, but we must base our propositions on normal employment conditions rather than emergency conditions. The student of history appreciates what happens to a nation when that nation's job holders grow old in service and the youth of the nation is forced to wait. The same condition holds in a business. Management consultants tell us that the most frequent failure for seemingly sound business ventures results from an aging management which has failed to infuse young blood into its system.

There are very few statistics in this field, but shouldn't we examine such questions as these: Is it better to deliberately sacrifice the skill and earning power of an older man for the lesser skills and perhaps lesser earning power of a younger man simply in order to assure a company and the nation continued vitality? Shouldn't we consider the skills of the 65 year man and older as a reserve strength of the nation to be set aside in as comfortable circumstances as possible in normal times but to be available as an emergency work force in an emergency? One more point to be considered - let us remember that the frustrations of a 20 year old man can last 45-50 years and affect during that time at least two generations, while the frustrations of a 65 year old are definitely limited in time.

A third argument for a deferred retirement age is that individuals go to seed when they retire, that it is psychologically bad for the individual, therefore dry rot for the community for a man or woman to cease gainful employment.

Is this a fact? In their studies of personal adjustments in old age, Cavan, Burgess, Havinghurst and Goldhamer emphasize the importance of two factors in producing satisfaction in retirement. The first and most important is, of course, an adequate retirement income. The second is the possession of an activity satisfactory to the individual. The repeated references of these retired individuals to a desire to return to employment apparently is not based on a desire to work but on the failure to have either the money or the activity. In view of the importance of keeping the way clear in industry and our nation for the younger man, shouldn't our efforts be concentrated on supplying adequate retirement incomes and adequate post-retirement activities rather than on taking the easy step of keeping these people in employment, which even they would not prefer?

This brings in another question which is being considered seriously by American management. Should management assume a responsibility to prepare the older worker for his retirement; in short, to supply him with an activity satisfactory to him? I question very seriously whether management should take on this responsibility for several reasons:

- The pre-retirement programs we have observed in action are not very effective, in that in all too many instances they have not won the support of the pensioners themselves.

- Also, too frequently guidance breeds at least an attempt to control, or what is equally bad, it leaves the impression of dictation.

- If this is a real problem, isn't it one for a community rather than a business? That it can be handled in a community, and has been successfully, is told in the May 1951 issue of "Popular Economics."

As I see it, management has several definite, but limited, responsibilities in this problem of preparing the older worker for retirement:

1. Providing an adequate retirement income.

2. Informing the employee well in advance when he will retire.

3. Keeping him posted on how much he will receive and when he will receive it, and

4. Cooperating with a community plan rather than instituting management's own plan which would affect only its own employees.

Before anyone in this audience cudgels me on this position, please let him consider how ineffective have been vocational guidance programs with youngsters. Then imagine transferring this kind of program to men and women whose habits, prejudices and desires are relatively fixed!

A final argument for later retirement is that we should dispose of a chronological measure of retirement and substitute a psychological, physical and mental age concept. You hear in this connection such simple statements as: "Many men are younger at 70 than others are at 50."

No one can dispute the reasonableness of this concept, but there are many questions concerning its application. Who is going to decide "how old" a man is at 65? Are we going to set up another Board? Will it produce the same series of disgruntlements which, for example, the Naval Reviewing Board has been producing for many years? Will unions cooperate by relaxing their increasingly strong seniority concept in favor of a policy of shifting the older worker into a job he can perform? Will unions actively support the continued introduction of mechanical aids so that we can supply muscles of steel to aid the failing muscles of men? Will the individual himself, as J. Douglas Brown has so well cautioned, agree to be continued in employment on a job he can do and not necessarily on a job which he held prior to retirement? Will it ever be possible to establish a system where the older man can be viewed with absolute objectivity and will accept the decision without rancor toward his union, or his fellow-employees, or his company?

These are very important questions and we don't have answers to them as yet. Isn't it worth serious consideration as to whether we should attempt to find the answers? Are the inequities of a fixed age or a fixed limit less dangerous to our national psychology than is the unequal treatment of people on unsound criteria? After all, we have used a fixed age for an automobile driver's license, for the exercise of our voting options, for the selection of men for the army, and in many other areas involving masses of people. Everyone realizes there are exceptions, but the history of many centuries points to the desirability of a fixed objective limit rather than a variable opinion limit in arriving at answers to problems of this kind.

On How Much?

It might be ideal, from the individual and the national point of view, to retire employees on something approximating full earnings - but for a variety of reasons, some good, some questionable, it's not now feasible for the great majority of American business. Here again we need answers laid against some accepted bench mark - and about all we have is opinion. There are some criteria - for example, the Federal Security Agency figures that a budget comfortable (not subsistence) for an elderly couple, corrected to a 1951 price level, should range from about $110 to $150 per month, depending on the region. Another and perhaps more reliable criterion is what pensioners actually are receiving - inadequate statistics from Social Security tell us the average income of current F.O.A.I.B. recipients who are partially employed is somewhere around $90 per month. A suggested desirable figure is called an "equivalent retirement income" which is an amount equal to normal pre-retirement income less expenses which presumably are not required in retirement - such as educational charges, rent (because the home is owned) work clothes, and the like. This figure is variously estimated at from 50 to 75%. Still another indicator is what leading firms in the United States consider a fair percentage of prior earnings as a retirement income - and that figure is somewhere between 35 and 50%.

We in Procter & Gamble approached this problem from three distinct fronts:

1. What could we do now to provide a minimum pension which would produce a reasonable income at current costs of living?

2. What could we provide for the future in building on this minimum to

provide a more comfortable retirement income?

3. And how could we make the transition from the minimum pension to the fuller retirement income without incurring very large fixed obligations for a future period about which we can forcast little at this time?

The first problem was met about 4 years ago by revising our basic pension plan to provide, for the single individual who is being retired currently, a basic pension of 40%of his average pay during his last years of employment or $125, whichever is the lesser. With an average case, this might be made up of $80 from Social Security and $45 from our Pension Fund. The married employee whose wife is 65 would, of course, receive under this plan $165 from both sources. This basic plan, then, provides a floor for a retirement income in line with pensions provided by the better existing American plans.

The answer to the second problem - building on this minimum for the future - was not so easy. I must confess we struggled with it for some years before we reached what appears to be a satisfactory answer. It did not seem right to saddle the business with any further fixed pension costs - some way had to be found to provide for additional retirement income out of a fund created out of profits and fed into only when there are profits. Our solution for this second problem fortunately gave us an answer to the third problem.

As many of you know, we have had a Profit Sharing Plan for almost 65 years. This Plan until recently provided for profit sharing dividends varying with length of service on the first $2,000 of earnings. In early 1948 we amended this Plan to provide for paying these profit sharing dividends on base earnings in excess of $2,000 when and if Company profits are sufficient to do so. This Plan provides for a maximum annual Company contribution of 15% of the base earnings in excess of $2,000 of all participants, but incorporates also a carry-forward provision which enables us to make up in good profit years for previous less profitable years. In a given year, assuming Company profits are sufficient, an employee with over 15 years' service with average earnings will be credited with about $350.

Note that this money is held in trust primarily for retirement. It will add to the basic pension so that our average employee of 40 years of age can retire on an income (from F.O.A.I.B., the PensionPlan, and this trust feature of the Profit Sharing Plan) of about $160 a month if single, and $200 a month if married. A youngster starting in at age 20 can look forward to a monthly income from these sources in an amount which might be equal to about 65-70% of his present monthly base earnings, not including his wife's F.O.A.I.B.

This fund provides for complete payment at death or total disability and vests in any event after 16 years of participation in the Profit Sharing Plan.

Our present answer to the problem of providing an adequate retirement income appears to be working for us - a successful business in a basic commodity field. Whether this system would work in other industries is a subject for study, and not for opinion. It is interesting to note that in its recent and thorough analysis of pension funding the magazine Fortune reached the same conclusion we did several years ago - a basic fixed pension minimum, supplemented by additions paid out of profits if and when there are any.

<u>On Whom?</u>

I fear this question is becoming academic. The F.O.A.I.B. pattern of 50-50 contribution seems established, and the private plan supplementation is surely tending in the non-contributory direction.

If I may once again take a position, I would plead for a return to at least a partial acceptance of the merits, psychologic and economic, of individual thrift and its corollary - contributing to one's own retirement income. It will be extremely difficult for the average industrial firm to provide a combination of retirement benefits which approach the ideal of something abouve 50% of pre-retirement income. The deficit, so to speak, must be made up by the individual on his own and by his own motivation. But the opportunity should be made attractive and the procedure should not be made difficult.

Nevertheless, such individual thrift need not be tied alone to the salting away of dollars in bank savings accounts. The man who owns his own home by age 65 is ahead each month over the man who is forced to pay rent or who is still paying off a mortgage. The man who has invested his savings in a truck garden or a small farm is contributing not only to his economic betterment, but also to his individual full-life contentment.

Many years ago in Procter & Gamble we recognized the desirability of providing both encouragement and means for a thrift program. During the first 6 years of an employee's participation in our Profit Sharing Plan he contributes and the Company contributes into a fund for the purchase of shares of Procter & Gamble common stock. The accumulated shares are turned over to him at the end of 6 years - they form a tidy sum to be used as the nucleus for futher stock purchase, as collateral for a home loan, or as a reserve for unforeseen troubles. After 6 years of participation, profit sharing dividends on the first $2,000 of annual earnings are paid in cash quarterly. We try to emphasize to our employees the wisdom of living on their basic weekly pay checks, and of investing these cash profit sharing dividends in additional stock purchases, building and loan or credit union accounts, payments on homes, and the like.

Our people have appreciated the advantage of this opportunity. It is not unusual to find a Procter & Gamble employee retiring as the owner of several hundred shares of P&G stock over and above and apart from whatever retirement income he may receive from our combined plans and Social Security. It is usual to find this employee owning his own home, and, most fortunate, with his wife at his side to enjoy it.

This is the economic side - let us not overlook the tremendous importance of the psychological side - the importance of the employee realizing that he is contributing directly to his own security. Here, I believe, is a factor which we all are likely to overlook time and again, yet it is the center of every workable plan I have seen which has lasted. Have you ever stopped to consider that one rarely hears a man bragging about getting a Federal Old Age Pension - but that it's hard to quiet the same man talking about the shares of stock <u>he</u> acquired, or the house he bought, or the annuity <u>he</u> purchased? Isn't it part of management's responsibility to the older worker to offer <u>him</u> the chance to be proud of <u>himself</u>?