Pensions
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THE AGING WORKER AND THE PENSION PROBLEM

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The striking growth of private pension plans during the 1950's is, by now, a thoroughly familiar phenomenon. At the beginning of the decade less than 10 million workers were covered by private pension or deferred profit-sharing plans. By the end of 1958, estimated coverage had increased to 19 million workers and was still expanding rapidly. Although the latter figure represented only about 28 per cent of the civilian labor force, it accounted for approximately 45 per cent of potential private pension plan coverage -- that is, of nonagricultural employees in private employment (excluding railroad workers, who are covered by the Federal Railroad Retirement program).

A good many pension experts are predicting that, although coverage will continue to grow, the rate of expansion is likely to slow down considerably. As Holland has put it, "the more likely situations for the extension of pension plans have already been tapped; and only the harder cases remain."

My own guess is that, although the rate at which new plans are adopted or old ones are expanded <u>is</u> likely to slow down appreciably, the proportion of workers covered by pension plans will probably continue to grow at a fairly rapid rate, largely because of the marked shifts that are occurring in the structure of employment. White collar employment is rapidly gaining ground over blue collar employment, and, indeed, in the last three or four years there has been no net increase in total blue collar employment in the nation as a whole. Under the influence of automation and other technological changes, many of our large mass production industries have reached a stage at which total employment of manual workers is declining. During the 1960's, there will probably be a moderate expansion of blue collar employment in most nonmanufacturing industries and in a few of the more rapidly growing sectors of manufacturing, but there is little doubt that the most rapid gains are likely to occur in white collar jobs.

Although the proportion of blue collar workers covered by pension plans increased impressively during the 1950's, white collar workers are still considerably more likely to be covered by a pension plan, at least in the larger metropolitan areas, where the Bureau of Labor Statistics has been collecting data. This means that, even though pension plans spread at a less rapid rate, the proportion of workers in covered employment is likely to increase.

Implications for the Aging Worker

What are the implications of the continued expansion of pension plan coverage for the aging worker? With the rapid growth in the number of workers aged 45 and older in the labor force, this has become a question of considerable concern. A less sophisticated audience might well wonder why the question should even be raised. If more and more older workers can look forward to private pension retirement benefits that will materially supplement their social security benefits, how can anyone doubt that pension plans are a net advantage to the older worker?

In this audience it is scarcely necessary for me to point out that, in the view of many labor economists and other experts, the rapid growth of private pension plans has not been considered an unmixed blessing for the older worker. One of the first labor economists to express grave doubts about certain implications of the postwar drive for private pensions was

Clark Kerr, now President of the University of California. Speaking before the National Industrial Conference Board in 1949, Kerr emphasized a number of disadvantages of private pension plans, some of which are particularly relevant to the problem of the older worker: (1) the impairment of employment opportunities of older jobseekers, since the higher costs of covering older workers under some types of pension plans will enhance the reluctance of many companies to hire them; (2) the interference with labor mobility, growing out of the fact that workers with pension rights that are not vested will be reluctant to shift jobs; (3) the tendency for compulsory retirement policies to be associated with private pension plans; * and (4) the serious obstacles to achieving coverage for sizable groups of workers -- particularly those in small firms and those in industries characterized by short-term or casual employment, with the result that there are wide disparities in prospective retirement income between these groups of workers and the more fortunate workers who can be readily covered.

In some respects, Kerr's indictments would be less valid today than they were in 1949 -- partly because vesting provisions have become more prevalent; in others, they would be equally forceful. What I should like to do is to evaluate his four points in the light of recent research findings and of changes in private pension provisions during the 1950's.

1. Pension Plans and Older Jobseekers

There is little doubt about the widespread reluctance of employers to hire older workers. So much has been spoken and written about this problem that there is little need to dwell on it here. There is also little doubt that pension plans tend to enhance the reluctance of employers to hire older workers. But it would appear that the influence of pension plans may have been over-emphasized in some discussions of the problem.

The Seven-City Study of problems of older workers, conducted by the U. S. Bureau of Employment Security in 1956, indicated that 25 per cent of the workers hired by firms without pension plans were aged 45 or older, as compared with only 14 per cent of those hired by firms with pension plans. But the study also showed that larger firms were much less likely to hire older workers than smaller firms, and that larger firms were also considerably more likely to have pension plans. It was not clear to what extent the apparent influence of pension plans on hiring might have been at least partly attributable to difference in size of firm.

When the Institute of Industrial Relations (at Berkeley) interviewed a sample of about 65 employers in the San Francisco Bay Area at some length several years ago, we found that the influence of pension plans was one of the reasons most frequently mentioned by representatives of the <u>larger</u> firms for refusing to hire older workers. Even so, it should be noted that representatives of <u>some</u> of the larger firms indicated that their pension plans were only a very minor influence, if any, on their hiring practices and that other considerations were much more important in explaining their reluctance to hire older workers. The study seemed to indicate clearly that, among the larger firms, the whole constellation of modern personnel practices -- hiring at entry rates, training programs, orderly wage and salary increases within a classified structure, and emphasis on promotion from within -- tended to militate against hiring an experienced older person. Pension plans were simply a part, and not necessarily the most important part, of this broad pattern.

Nevertheless, it would be a mistake to ignore the fact that pension plans do figure prominently in the minds of a good many employers as a deterrent to the hiring of older workers. Some management representatives emphasize the point that pension costs tend to be substantially higher for those who become members of the plan at a relatively late age, while others emphasize the point that an employer who enters the plan at an advanced age will not accumulate enough years of service under the plan to qualify for adequate retirement benefits or will not be eligible for retirement benefits at all under eligibility requirements that call for a minimum number years of service.

Pension costs. On the matter of pension costs, I am impressed with the lack of adequate and readily available information on the manner in which age differentials in pension costs will differ under various benefit formulas and financing methods. Even the supposedly authoritative report on Pension Costs in Relation to the Hiring of Older Workers, issued by the U. S. Bureau of Employment Security in 1956, seems to me to be misleading in certain respects. And most books on pension plans simply do not focus on this issue directly at all.

The inescapable fact seems to be that pension costs are usually somewhat higher for those who enter the plan at a comparatively late age, and often substantially higher -- for a number of reasons. But the differential will tend to be less marked if retirement benefits are related to years of service, if the plan has vesting provisions, and if the benefit formula calls for relating benefits to final earnings or highest earnings. It is also extremely important to recognize that the differential will be influenced by the actuarial assumptions on which the cost estimates are based -- particularly assumptions as to future interest rates, withdrawal rates, and changes in life expectancy. It is sometimes argued, for example, that because many actuaries make little or no allowance for future changes in life expectancy, they tend to understate true pension costs for younger workers as compared with older workers.

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When contributions to a pension fund are made on a flat cents-per-hour-per-worker basis, as under many negotiated plans, there is, of course, no apparent cost differential based on age. Even here, however, the age composition of the covered group will clearly influence the adequacy of the pension benefits that can be purchased with the available funds -- along with turnover rates and other factors.

If we are to be in a position to arrive at sound judgments on the question of pension costs, we need far better information on how age differentials in costs will differ under various combinations of provisions, and under various sets of actuarial assumptions. And then, even if it turns out that pension costs are somewhat higher for older workers under a particular plan, we need to consider the question as to whether these higher costs may not be offset by other factors, e.g., lower turnover rates for older workers.

This brings me to the point at which I'd like to air my "pet peeve" in relation to the research and writing that has been done on the employment problems of older workers. It seems to me that virtually every discussion of the issue is plagued by a piecemeal approach. Various questions are raised as if they were totally unrelated to one another. Are pension costs higher or lower? What about the costs of other fringe benefits? What about absenteeism rates? What about turnover rates? And what can be said about the relative productivity of younger and older workers?

What we need is some studies that would shed light on the combined influence of all these variables. Such studies would have to be based on careful analyses of cost and productivity data for particular firms. The critical difficulty of developing adequate data on the productivity of individual workers -- where incentive payment plans are not used -- might at least partially be overcome by using detailed supervisors' evaluation forms. This technique would probably have to be used, in any event, if such studies were to be made of white collar workers.

I'm not at all sure what such studies would show, though I strongly suspect the results would vary somewhat for different occupation groups. But suppose, for purposes of discussion, that, for at least some occupation groups, it appeared to be uneconomical, on the average, to hire jobseekers above a certain age. Would the employer than be well advised to enforce a rigid policy of hiring no workers above that age? I would urge that the answer is no. For if there is one clear finding that seems to have resulted from research on job performance and age, it is that individual variations in productivity within age groups are likely to be higher than differences between age groups. A finding that relates to variations in average job performance in relation to average labor costs by age does not, logically, provide support for a blanket rule of refusing to consider highly qualified older jobseekers.

Years-of-service provisions. I shall deal more briefly with years-of-service provisions of pension plans and their impact on hiring policies. The reluctance of a large firm to retire a worker with only a token pension, or with no pension at all, is understandable. But this consideration carried more weight several decades ago, when social security benefits were unavailable, than it does today, when almost every retiree will qualify for social security retirement benefits. Clearly, also, it would carry even less weight if social security benefits were more nearly adequate. Despite the fact that OASDI benefit levels have been substantially improved during the 1950's, the average single retired worker receives only about $72.50 a month, and even those who are coming on the rolls at the present time are receiving only about $82 a month, on the average.

Whether it is wise to include provisions in private pension plans that require a minimum of, say, 10 years of service before an employee will be eligible for any pension benefits is a debatable question. Even more debatable is the question as to whether such requirements should be used as a basis for rigid policies of refusing to hire a worker who is less than 10 years below the normal retirement age. Our San Francisco study indicated that a few large firms with this type of pension-plan provision were hiring workers in the critical age bracket but making it quite clear to them that they would not be eligible for a pension.

The fact that a rising proportion of pension plans are including vesting provisions will, of course, tend eventually to ease this problem. To the extent that older jobseekers have pension rights that have accrued in previous jobs, the prospective retirement benefits from this source can be added to any prospective benefits from a new job.

2. Pension Plans and Labor Mobility

In a dynamic economy, the efficient utilization of manpower resources depends to a large extent on the willingness of workers to shift from contracting to expanding industries and from areas of declining employment opportunities to areas of rapidly expanding opportunities. Yet research on labor mobility has indicated clearly that most voluntary job-shifting, even in an era when pensions and other fringe benefits were less prevalent than they are today, occurred among comparatively young workers. And the young worker for whom retirement is a distant prospect is not likely to be overly concerned about pension rights and, in any case, probably has not worked long enough for any one firm to have accumulated appreciable pension rights.

It is basically for this reason that I am inclined to think the impact of pensions on voluntary labor mobility has been exaggerated. Furthermore, a number of recent studies have cast doubt, in various ways, on the widely accepted notion that pensions have interfered materially with voluntary labor mobility. Robert Tilove, in a study for the Fund for the Republic, emphasizes the point that older workers are not likely to be very mobile, in any event, and goes on to call attention to the way in which early retirement features of pension plans may actually facilitate shifts of older men out of jobs that are taxing their strength into lighter jobs. Arthur M. Ross, in a recent article in the American Economic Review, points out that those who view the alleged decline in labor mobility with alarm are forced, for want of more adequate data, to rest their case that a decline has occurred on changes in quit rates in manufacturing. Yet, if cyclical fluctuations and disruptions brought on by major wars are ignored, it is clear that any long-term decline in quit rates has been quite moderate and can be largely explained by (a) the failure of manufacturing employment to expand in recent years and (b) the associated aging of the manufacturing work force. In a very different type of study, based on interviews with workers in firms with and without pension plans, and as yet unpublished, Herbert Parnes has found that the influence of accumulated seniority far outweighs any influence of pension rights as a deterrent to voluntary labor mobility.

If it is difficult to demonstrate that pensions have interfered appreciably with voluntary labor mobility, it is not difficult to build a strong case for the vesting of pension rights to protect the economic position of those older workers who are forced to shift jobs involuntarily. The older worker who loses his job because of a plant relocation, merger, business failure, or because the introduction of automation or other technological improvements has closed out an entire department, is likely to find, in many cases, that he has lost all his pension rights. And there is a good deal of evidence that the frequency of such involuntary job separations has been increasing.

3. Pension Plans and Compulsory Retirement Policies

We come now to the relationship between pension plans and compulsory retirement policies. There is little doubt that the association is a close one, and it scarcely needs belaboring in a conference of experts on personnel problems. Very few firms that have not adopted pension plans have a formal retirement policy of any sort. Retirement tends to occur on an *ad hoc* basis, usually when the worker becomes too old or too ill to keep on with his job. A few large firms that lack a pension plan provide individual retirees with pension benefits on a basis of need, but such policies are comparatively rare.

The introduction of a pension plan means the inauguration of a formal and orderly retirement system, and in the great majority (one New York study indicated seven-eights) of single-employer unilateral plans, some type of mandatory retirement provision is adopted. Furthermore, there is little or no evidence of any trend away from mandatory retirement provisions in this type of plan, although there is a good deal of variation from firm to firm in the rigidity or flexibility with which retirement at the mandatory age is enforced.

Negotiated pension plans are somewhat less likely to include involuntary retirement provisions. Even so, a recent BLS study indicated that three out of five negotiated plans provided for involuntary retirement, and that there had been no significant change in this proportion in the previous six years. However, there is some evidence that there had been something of a trend away from compulsory retirement provisions -- and toward later compulsory retirement ages -- under the so-called "pattern" plans, in the late 1940's and very early 1950's.

On net balance, however, it seems clear that the percentage of workers affected by compulsory retirement provisions has increased substantially during the last decade, along with the growth of pension plans, even though it still represents a minority of all workers.

There is probably no issue of personnel policy on which management attitudes vary more widely than on the question of compulsory retirement. To some extent these differences are related to differences in the age of the firm and the rate at which its employment is tending to expand or contract. The older the firm, and the less its employment is expanding, the more likely it is to favor compulsory, or even automatic retirement. But differences in attitudes toward retirement policy cannot be fully explained on these relatively objective grounds. Some managements have a strong attitudinal predilection for a fixed retirement age, with few or no exceptions allowed, on the ground that (a) such a policy is relatively easy to administer, (b) once established, it tends to be accepted by employees, and (c) there are as yet no satisfactory objective criteria for determining which employees should be continued on after the conventional retirement age. Other employers take an equally firm position in favor of a flexible retirement policy on the ground that it (a) contributes to employee morale and (b) permits the employer to retain the services of those workers who maintain a high degree of efficiency well beyond the conventional retirement age.

If management attitudes toward retirement policy vary widely, so do those of workers. And yet, despite a good deal of research on this question during the last decade, we still have an incomplete picture of the factors that influence employee attitudes toward retirement. One finding that has been quite clearly established is that the closer a worker gets to the age of retirement, the more likely he is to resist the idea. Some studies have also suggested that attitudes vary widely by occupation, but the Cornell retirement study -- one of the largest-scale studies to date -- suggests that prospective retirement income has a more important bearing on attitudes toward retirement than occupation. Those older workers who anticipate a reasonably adequate retirement income are much less likely to have negative attitudes toward retirement than those who expect a seriously inadequte retirement income.

Union policies toward the issue of compulsory versus flexible retirement also vary widely, depending to some extent on the age composition of the union membership, the employment situation in the industry, and other factors. On the whole, most unions have tended to oppose compulsory retirement provisions during the last decade, or to press for a later compulsory retirement age. But there has been growing evidence of a recent shift in sentiment toward compulsory retirement -- and at earlier ages -- in union circles in the last few years, under the influence of heightened concern over unemployment. In an environment in which the expansion of blue collar employment has slowed up appreciably, there are indications of a return to the prevailing sentiment of the 1930's, in favor of compulsory retirement of older workers in order to improve employment opportunities for younger workers.

It is clear that, if present trends continue, the question of how to meet the problem of impaired employment opportunities for many groups of manual workers is likely to be an important issue in labor-management relations during the next decade, as yesterday morning's session clearly suggested.

Whether office automation will result in a similar trend for clerical workers is not yet clear. In any event, there is likely to be pressure from the younger members of a good many unions to hasten the retirement of older members.

If this occurs, it is to be hoped that the alternatives will be carefully weighted and examined. What is needed, above all, is a flexible approach by both management and labor to the problems of technological change and declining employment in particular industries. The mechanization fund recently established for the West Coast longshoremen, and the agreements recently negotiated between the Armour Company and the meatpackers and between the railroads and the Brotherhood of Maintenance of Way Employees represent examples of flexible approaches.

And even if it appears in some industries that the retirement of older workers should be speeded up, alternative methods of achieving this result should be carefully explored. There is some evidence, for example, that employees tend to retire comparatively early in firms that have both flexible retirement policies and relatively generous retirement benefits. Thus the question may well be raised whether it is better to encourage earlier retirement through compulsory retirement policies or through more adequate retirement benefits.

One point that is frequently overlooked in discussions of retirement policy is that age 65 has been regarded as the conventional retirement age pretty much throughout the present century, and yet average life expectancy, even at age 65, has been increasing. In the face of this trend, does it seem wise to consider lowering mandatory retirement ages? Or would it not seen more appropriate to consider gradually increasing them? One advantage of this procedure, clearly, would be to reduce the cost of pension plans as currently constituted and to open up the possibility of utilizing the released funds for more adequate benefits.

4. Incomplete Coverage and the Problem of Equity

We come now to the fourth charge levied against private pension plans in relation to the aging worker -- the obstacles to covering workers in small firms and in industries characterized by short-term, casual, or seasonal employment. In an environment in which private pension plans have been encouraged in a variety of ways as a major part of the American effort to provide income security in old age, the aging employee of a firm that is unlikely to adopt a pension plan is in a very real sense the "forgotten man." And in a significant sense his employer is also a "forgotten man." Although the development of common trusts has made it somewhat more feasible for small employers to consider pension plans, a good many small employers are caught in a situation in which assumption of the sizable costs associated with a pension plan is not very practical unless their competitors are also adopting plans. I have discussed this situation with a number of small employers who can see the need for a more adequate retirement income for their employees but are hesitant to incur the costs involved.

Not only are there wide disparities in prospective retirement income between workers who can anticipate private pension benefits and those who cannot, but, as you are well aware, there are wide differences between the benefits available under various plans, even for workers at comparable earnings levels.

My guess is that this problem is likely to move into the forefront of public discussion in this country in the next decade, as it has recently in Great Britain. There are at least three alternative ways in which it can be met: (1) through a policy of drift, in which case pension coverage will gradually be extended to a slowly rising proportion of workers now excluded but will still leave sizable groups uncovered; (2) adoption of a policy similar to that enacted into law in Great Britain in 1959; ~~and~~ or (3) liberalization of social security benefit levels to the point at which prospective retirement income for those who must rely almost exclusively on these benefits will provide a modest, but adequate level of retirement income.

Clearly I am not particularly enthusiastic about the first alternative. As between the second and third alternatives, I suspect there will be a good deal of debate on both sides in the next few years, and I am not prepared at the moment to argue for or against the British solution.

What the British have done is to superimpose a supplementary graduated retirement benefit scheme on their former system of flat benefits. Retirement benefits that are related to earnings will be paid on that portion of an individual's income between 9 and 15 pounds sterling a week. (Average earnings are approximately 12 pounds a week.) However, private pension plans -- which cover approximately the same percentage of workers in Britain as in this country -- may contract out of the government scheme if they provide supplementary benefits that are at least as generous as those provided under the government program. Furthermore, private pension plans must provide for transferability of pension rights whenever a worker shifts jobs. It will be readily seen that the contracting out provision is very similar to the procedures under our California temporary disability insurance program.

Whatever approach is adopted, it is apparent that social security benefits cannot be substantially increased without an increase in the costs of the program. But, in this connection, I would suggest that there are several points that are frequently overlooked. In the first place, the original $3,000 ceiling on annual taxable earnings under the 1935 act included the total earnings of all but a tiny fraction of American workers, whereas at present about half of all regularly employed men earn more than the current $4,800 ceiling, while about a fourth of all covered workers earn more than $4,800. This means that as the system has matured and as social security tax rates have been increased, total social security contributions as a percentage of total payrolls have not risen in the same proportion. This consideration needs to be kept in mind in connection with discussions of the extent to which social security costs have increased and are likely to increase in the future.

The second -- and much more important point -- is that we rarely stop to consider, in hardheaded business terms, how much it costs <u>not</u> to have a more adequate social security system. For example, ~~It is quite clear that~~ a good many firms that do not have private pension plans keep a few elderly employees with failing physical and mental capacities on the payroll long after they have ceased to be of any real value to the firm, simply because the employer knows that the social security benefits these employees would receive in retirement are grossly inadequate. In some cases, as I have previously suggested, the firm will retire the employee with an individually negotiated pension designed to close the gap between social security benefits and minimal income needs in retirement -- but often this solution is postponed until the employee is <u>obviously</u> too old and infirm to continue workers. These procedures clearly cost money, and it is this type of expense that I have in mind when I refer to the cost of <u>not</u> having an adequate social security system.

Perhaps there is no better note on which to end this discussion than to look for a moment at the other side of the coin. As a management group, you are well aware of the fact that, if adequate social security benefits are costly, so are adequate private pensions. Given an economic environment in which long-run inflationary trends are expected to continue, there will be increasing pressure for pension benefits that are based on final or highest earnings, rather than on average earnings throughout the employee's period of service. As a member of the California State Employees Retirement System, I am well aware of the advantages of this type of benefit formula, and I am also well aware of its relative costliness.

What I am suggesting is that during the 1960's there will be strong pressures in favor of strengthening private pension benefit structures and also strong pressures in favor of strengthening the social security system. Management groups will be in a position to influence the decisions that affect relationships between the two systems. ~~Our discussion has been concerned with some, though by no means all, of the considerations that enter into the kinds of choices that have to be made.~~ Clearly my main point is that ~~in the past we have not always looked carefully at both sides of the ledger sheet in making these choices.~~ the decisions need to be made on the basis of a careful examination of the relative costs and relative advantages of the various alternatives available.