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Staff study by Harry S. Havens, Director, Program Analysis Div.

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Retirement is becoming an increasingly important issue primarily because of escalating costs and demographic changes. The three largest retirement systems under the jurisdiction of the Federal Government are Social Security, the Civil Service Retirement System, and Department of Defense Retired Military Personnel. These three programs made benefit payments to 35.6 million beneficiaries in 1976, and the number of people retiring is increasing. Findings/Conclusions: Because of the declining birthrate and deathrate, the population of the United States is aging. This trend, plus the declining rate of participation of persons 55 years of age or older in the labor force, has led to a decrease in the ratio of working to retired persons. Different age limits for retirement have been based on different needs of the systems involved. The "normal" retirement age for social security benefits is 65, but individuals may retire earlier with reduced benefits. Civil service retirement is based on age and service requirements. The average age of annuitants dropped by 6.4 years between 1940 and 1975. Career military personnel may retire after 20 years of service with pensions based on years of service with no age requirement. Retirement plans are allowing people to retire at younger ages, and benefits have been liberalized. These factors will seriously affect the funding of retirement programs and financial requirements of the Federal Government. Concern has also been expressed about the social, psychological, and physical effects of retirement on individuals. (HTW)

6069

STUDY BY THE STAFF OF THE U.S.

General Accounting Office

Inconsistencies In Retirement Age: Issues And Implications

Congress passed legislation dealing with the upper limits of retirement age. This report discusses the inconsistencies in what people refer to as "early" or "normal" retirement ages. It addresses such issues as demographic, funding, and sociological implications.

UNITED STATES GENERAL ACCOUNTING OFFICE

PAD-78-24
APRIL 17, 1978

PREFACE

Retirement is becoming an increasingly important issue in our society and to our economy, primarily due to its escalating costs, questions of future affordability, and the demographic changes resulting from declining birth and death rates.

This study examines the issues relating to retirement--and particularly the impact of retirement age on these issues. The questions addressed in the study include:

--Retirement in the United States: What are the expenditures for retirement programs, and how many people are covered? In what way is the population distribution of the United States changing? Why do retirement systems exist, and what is considered to be an appropriate age to retire? What is happening to participation in the labor force?

--Retirement funding: How is the Federal Government involved in retirement? What are the funding implications at various ages?

--Social aspects of retirement: Do people adjust well to retirement? What factors contribute significantly to retirement adjustment?

The study is being issued at this time to present information to the Congress about the aspect of retirement age that is commonly referred to as "normal" and "early" retirement, in both the public and private sectors. We recognize that the age at which people retire is not the sole issue involved in the evaluation of retirement plans. In the past, we have raised questions about the inconsistencies and inequities among Federal retirement systems and expressed concern about the future affordability of these systems. We realize the questions of affordability cannot solely be answered by adjustments to retirement age. However, retirement age is a cornerstone of any retirement plan and drastically influences workforce levels. It is hoped that this study will provide relevant information which can be used by the Congress in its current and future policy debates on retirement.

The Federal Government has jurisdiction over a number of retirement programs--the largest being OASDHI (Social Security), the Civil Service Retirement System, and Department of Defense Retired Military Personnel--and is the insurer of private pension plans. The number of people retiring is increasing, as are expenditures for retirement. (See ch. 1.)

Due to the steadily declining birthrate and deathrate, the population of the United States is aging. Whereas persons age 65 and older comprised only 4.1 percent of the population in 1900, this percentage increased to 9.8 percent in 1970, and is further projected to comprise between 11.1 and 12.9 percent of the population by the year 2000. These demographic trends impact on the labor force. Whereas the number of jobs are projected to continue to increase in the next decade, they are projected to grow at a considerably slower pace than in the 1970s. Further, the labor force participation rates of persons 55 years of age and older (with the exception of women 55-64), which has been declining, is expected to continue along the same trend. These factors cause the ratio of people working to those retired to increase. The Social Security Advisory Council, for example, estimates that there are now 30 beneficiaries per 100 workers; in 2030, the ratio is projected to be 45 beneficiaries per 100 workers. (See ch. 2.)

The trend toward more liberal retirement benefits, combined with the demographic and workforce changes, affect the financial requirements of the Federal Government. Retirement plans are allowing people to retire at younger ages. Historically, an "early" retirement pension has required a benefit reduction from the "normal" retirement age benefit (i.e., an adjustment is made in the payment of the employee's accrued pension to reflect the fact that pension payments begin at an earlier age and will consequently last for a longer period of time.) However, because such an adjustment may result in a small pension, employers are increasingly offering liberalized benefits, making earlier retirement a more realistic alternative. Due to the increasing incidence of retirement at earlier ages, the implications of such retirement options on funding of retirement programs are becoming more serious and a matter of increasing concern. For instance, for private plans, it has been estimated that lowering the age of retirement from 65 to 60 without a decrease in benefits may result in a 40 to 50 percent increase in pension costs. A further reduction in retirement age to 55 means a comparable increase in costs. (See ch. 3.)

Concern has also been expressed about the social, psychological, and physical effects of retirement on individuals. Research results in this area are sometimes inconclusive since studies usually focus on different segments of the population. In general, most people feel that a certain threshold level of income is needed in order to insure a reasonably adequate post-retirement living standard; people who see their health as declining are more likely to express plans for early retirement and to have difficulty in adjustment after retirement than those who feel their health is good or excellent; people who are retired involuntarily are not as likely to receive pre-retirement planning, an adequate post-retirement income, or to adjust as well to retirement as those who feel that their retirement decision is voluntary; and people in high socio-economic status (i.e., those with a combination of more years of schooling, higher earnings, and upper white-collar occupations) tend to have lower retirement rates and may experience more difficult retirement adjustments. (See ch. 4.)

Given the complexity of many of the issues and problems associated with retirement age trends and future impacts, we urge that additional assessments and analyses be made. This study does not present a position nor does it recommend a federally-mandated retirement age policy. It reflects a variety of viewpoints and discusses issues for which there are no simple, straightforward answers.

The study was prepared by our Program Evaluation Group. Any questions you may have regarding this analysis should be directed to Joseph Delfico, Assistant Director, or Odille Hansen, senior analyst, on 202-275-3581.

H S Havens

Harry S. Havens
Director
Program Analysis Division

Contents

ABBREVIATIONS

ERISA	Employee Retirement Income Security Act of 1974
IRA	Individual Retirement Account
OASDHI	Old Age, Survivors, Disability, and Health Insurance
PBGC	Pension Benefit Guaranty Corporation

CHAPTER 1

ISSUE DEFINITION

Retirement is becoming an increasingly important issue in our society and to our economy. Due to a steadily declining birthrate and deathrate, the population of the United States is aging. Along with this demographic trend is the offering of more liberal retirement coverage in the public and private sectors, making it possible for people to retire earlier.

The three largest retirement systems under the jurisdiction of the Federal Government are Social Security (Old Age, Survivors, Disability, and Health Insurance), the Civil Service Retirement System, and Department of Defense Retired Military Personnel. These three programs made benefit payments to 35.6 million beneficiaries in 1976--33.0 million Social Security, 1/ 1.5 million Civil Service, and 1.1 million military personnel.

The number of people retiring is increasing, as well as expenditures for retirement. In fiscal year 1976, Social Security made $88.3 billion in benefit payments. 2/ These payments are expected to increase by $27.1 billion, or 30 percent, by 1978. Of this total $15.9 billion is a budgeted increase for Old Age and Survivor Insurance; as shown below:

Social Security Benefit Payments

	Billions of Dollars		
	1976	1977	1978
Old-Age and Survivor	$62.1	$71.0	$78.0
Disability Insurance	9.2	10.9	12.3
Hospital Insurance	12.3	15.2	17.8
Medical Insurance	4.7	6.0	7.3
Total OASDHI	$88.3	$103.1	$115.4

1/Includes both old age and disabled beneficiaries.

2/Revenues may likewise increase. For example, the Social Security Amendments of 1977 provide for increased revenues to cover escalating expenditures. Though Federal revenues will increase, the tax burden on the working taxpayer will also increase, along with its attendant economic effects.

Outlays for Civil Service and the Department of Defense retired military personnel are estimated to be $20.2 billion in fiscal year 1978, an increase of $4.6 billion, or 29 percent, over fiscal year 1976. Of this amount, $11.2 billion, a 35-percent increase over 1976, covers 1.6 million Civil Service beneficiaries in fiscal year 1978. The remaining $9.0 billion covers 1.2 million retired military beneficiaries, an increase of 23 percent in expenditures. 1/

The Federal Government's financial responsibilities for retirement benefit expenditures has further increased since the passage of the Employee Retirement Income Security Act of 1974, which requires that private pension plans meet certain fiduciary standards plus certain minimum participation, vesting, and funding standards. The Government, through the Pension Benefit Guaranty Corporation, guarantees payment of certain vested benefits to plan participants if an insured pension plan terminates without sufficient assets to provide promised benefits.

Even more people are being added to retirement rolls because of an increasing trend toward earlier retirement ages. In December 1976, for example, 57.5 percent of all Social Security recipients were claiming actuarially-reduced benefits for retirement before the program's "normal" retirement age 65. 2/ Within Civil Service, the average age of annuitants added to the rolls decreased from 64.1 years in 1940, 3/ to 61.3 years for optional retirees in 1975. 4/

The growth in the retired population has an impact on society--socially and financially. Because of such a trend toward earlier retirement, a closer look at the

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1/The Budget of the United States Government FY 1978.

2/Social Security Bulletin, September 1977, Table Q-4. Percentage based on number of retired workers.

3/Actuaries, Civil Service Commission.

4/Civil Service Commission, Annual Report of Financial and Statistical Data for Fiscal Year Ended June 30, 1975, Table B-4. The average age of all annuitants added to the rolls in 1975 under all retirement provisions was 57.7.

nature of retirement systems in the United States is needed. Such questions arise as: What are the basic intentions of the Nation's major retirement systems? Are these systems being implemented consistently? What needs of management or employees are responsible for the differences between the systems? Although the issues are often difficult to quantify and available research results are sometimes conflicting, the implications of retirement systems are significant and warrant congressional awareness.

The area of retirement is becoming the focus of several conflicting trends. Pension plans are increasingly providing for retirement at earlier ages and with liberalized retirement benefits. 1/ Simultaneously, the population distribution is changing to reflect an increase in the over-65 age group while the workforce participation rate of persons aged 55 and over is decreasing.

Chapter 2 will discuss the issues related to demographic and workforce changes in more detail. Chapter 3 will focus on the provisions of earlier retirement ages and the financial problems of existing pension plans--both public and private. The Social Security trust funds, for example, have had severe financial problems as was addressed by Congress recently. Benefit liberalizations and increasing numbers of persons on retirement rolls add to the financial problems of public and private pension plans. Because these trends are conflicting and because available revenues are limited, retirement plan funding must ultimately increase, or benefit levels must be frozen at present levels or decreased.

What retirement means to the retiree is the focus of Chapter 4. As increasing numbers of people retire, the social and psychological factors experienced by these people increase in importance. Issues such as mandatory or involuntary retirement, continued desire to work, feelings of depression and uselessness, and ability to enjoy increased leisure time are discussed.

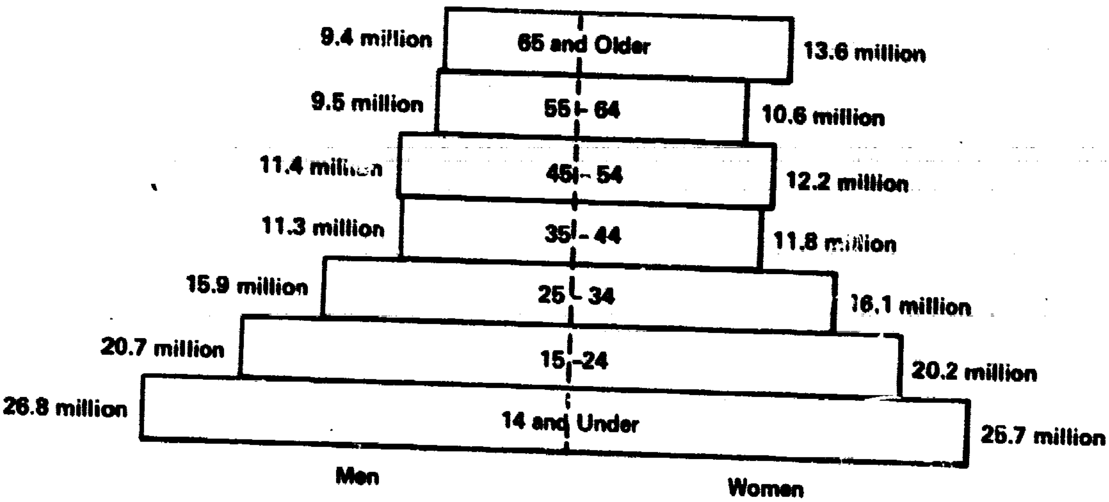
1/The age requirement in the Government's plans have remained constant, however, over the last few years.

CHAPTER 2

DEMOGRAPHIC, RETIREMENT, AND WORKFORCE TRENDS

The U.S. population, as of July 1, 1976, was distributed into the following age and sex groupings:

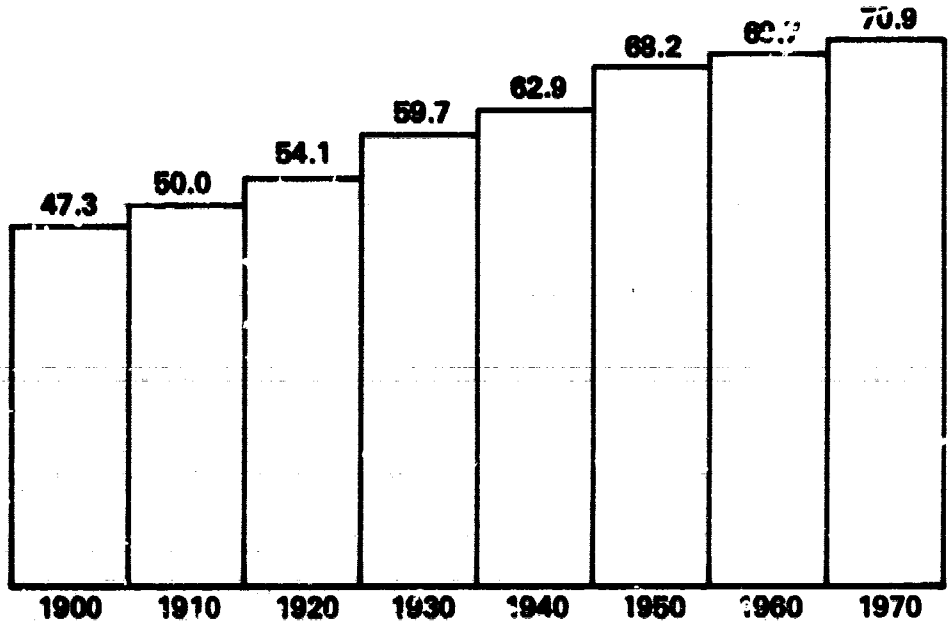
Estimates of the U.S. Population By Age and Sex: 1 July 1976



Source: U.S. Bureau of Census, *Projections of the Population of the United States: 1977 to 2050*, Series P-25, No. 704, July 1977, Table 6.

The age composition of the population has been changing over time. The expectation of life at time of birth has increased significantly--from an average of 47.3 years at the turn of the century to 70.9 years in 1970--as illustrated in the following graph.

Expectation of Life (in Years) at Birth: 1900 to 1970
(Total Population)



Source: *Historical Statistics of the United States: Colonial Times to 1970,* **Series B-107-115.**

Furthermore, both the birth and death rates nearly halved since 1900 as shown below.

<u>Birth and Death Rates of the U.S. Population: 1900 to 1970</u>

(Rates per 1,000 population)

Year	Birthrate	Deathrate	Year	Birthrate	Deathrate
1900	32.3	17.2	1940	19.7	10.7
1910	30.1	14.7	1950	24.5	9.7
1920	27.7	13.0	1960	23.9	9.2
1930	21.3	11.3	1970	18.0	9.4

Sources: U.S. Bureau of Census data, <u>Historical Statistics of the United States</u>, Series B-5-10 and B-167-180; and <u>Projections of the Population of the United States: 1977 to 2050</u>, P-25, No. 704, July 1977, Table 1.

Whereas persons age 65 and older comprised only 4.1 percent of the population in 1900, this percentage increased to 9.8 percent in 1970. The U.S. Bureau of Census has further projected the growth of the population, assuming varied fertility rates of women.

As shown, the birthrate is generally projected to continue to decline while the deathrate may go up slightly, as noted below:

<u>Projected Birth and Death Rates of the U.S. Population: 1980-2000</u>

(Rates per 1,000 population)

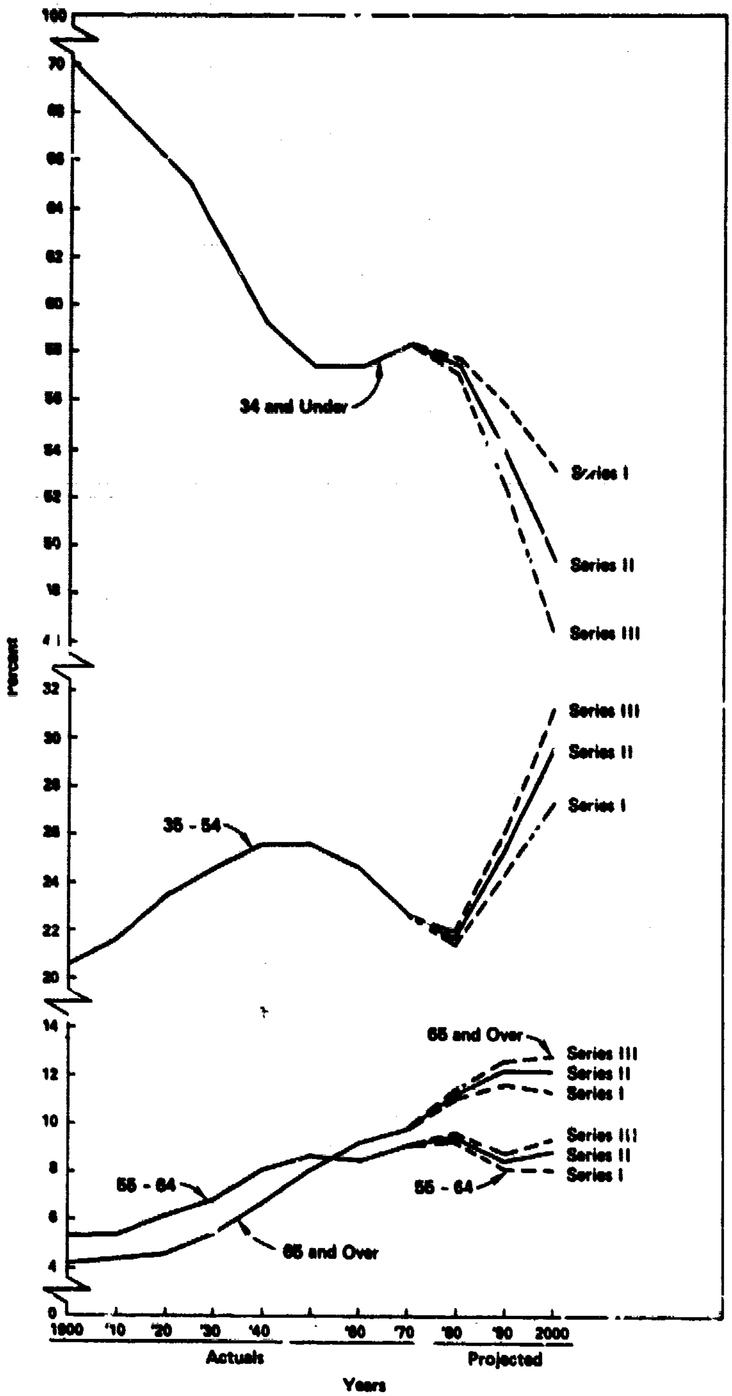
Year	Birthrates I	Birthrates II	Birthrates III	Deathrates I	Deathrates II	Deathrates III
1980	19.7	16.7	14.6	9.3	9.3	9.4
1990	19.8	16.2	13.7	9.3	9.7	9.9
2000	17.6	14.0	11.5	9.3	10.1	10.6

Source: U.S. Bureau of Census, Projections of the Population of the United States: 1977 to 2050, P-25, No. 704, July 1977, Table 2.

Note: Series (column) I is based on 2,700 births per 1,000 women; Series (column) II uses 2,100 births per 1,000 women; and Series (column) III uses a fertility rate of 1,700.

All the resultant Series projections show declines in the age group 34 and under as a proportion of the total population, while the 65 and older population is projected to comprise between 11.1 and 12.9 percent of the total population by the year 2000. (See attached graph.)

Percent Distribution of the U.S. Population By Age: 1900 - 2000

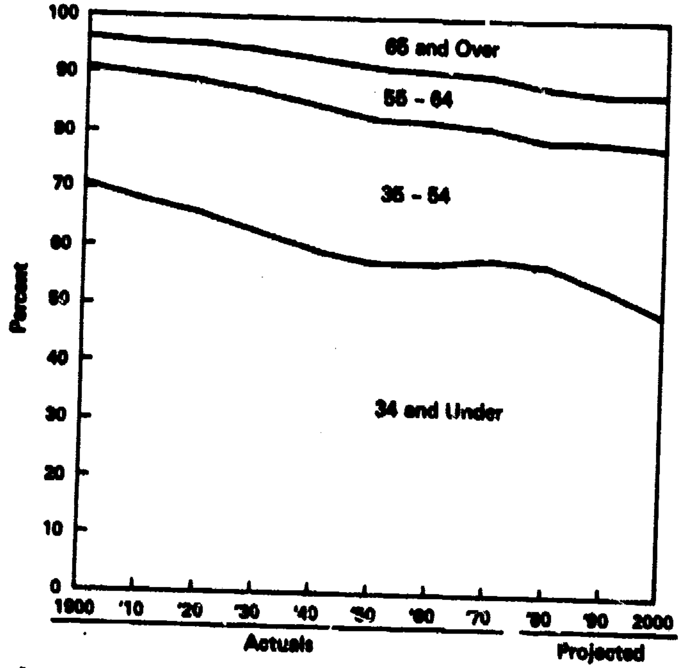


Sources: U.S. Bureau of Census data: *Historical Statistics of the United States: Colonial Times to 1970; Statistical Abstract of the United States, 1976;* and *Projections of the Population of the United States: 1977 to 2050.*

Notes: Series I, II, and III projections assume slight improvements in mortality rates, annual net immigration of 400,000, and fertility rates of: 2,700 births per 1,000 women (I), 2,100 (II), and 1,700 (III).

Assuming that Series II may depict the most likely population distribution, the following graph shows the changing distribution of the population over the years 1900 to 2000.

Cumulative Percent Distribution of the U.S. Population By Age: 1900 - 2000*



*Using Series II projections which assume birthrates of 16.7, 16.2, and 14.0, and deathrates of 9.3, 9.7, and 10.1 for the years 1980, 1990, and 2000, respectively. The 1970 birthrate and deathrate were 18.0 and 9.4 per 1,000 population.

WHY RETIREMENT SYSTEMS?

Retirement systems provide a level of income to individuals who reach a certain age and/or who contribute a certain number of years of service to an employer. The retirement benefit is usually designed either to provide an individual with an income that would be adequate so that he/she would not have to live at an income level substantially below that of his/her working years or to reward an individual for his/her years of work within a system.

Although providing retirement benefits incurs costs to employers, there are also a number of benefits. For example, retirement assists an employer (1) to provide incentives for well-qualified employees who seek mobility to remain with the organization by making room at the top of the ladder; (2) to replace people who have "run out of steam;" (3) to avoid the need and cost of retraining individuals who have been in the organization for a number of years due to the introduction of new technology; (4) to reduce the number of people on the payroll, especially those in higher paid positions; and (5) to open up high level positions for the recruitment of new people from outside the organization. On the part of the employee and unions, retirement benefits are viewed primarily in terms of a more liberalized benefit package and retirement is measured by the ability to maintain socially adequate living standards and the ability to enjoy leisure time in old age.

The designs of retirement systems, especially at the Federal level, vary. Social Security is an income maintenance program, composed of employer and employee contributions to a fund. Whereas a certain "threshold" income is provided the employee upon retirement, the fund is designed in a way that the working young support the retired old population--i.e., the contributions made during the individual's working years are used to finance benefits for those currently retired. Such contributions do not determine the retirement income of the individual making them.

The Civil Service System also has employer-employee contributions to a fund, but an employee receives a certain monthly annuity and pension at retirement. This amount is based on a formula using certain factors--e.g., the employee's length of service and the average of the highest three years of consecutive pay.

Military retirement is based on a different formula. It is paid directly out of annual Department of Defense appropriations and constitutes one-half of base pay after 20 years of service, increasing incrementally for each year after the twentieth.

There is wide variation within the private sector. Of the nearly 30 million workers covered by private retirement plans in 1974, the majority were in pension plans (as opposed to deferred profit sharing plans). Under pension plans, amounts are normally paid into a trust, managed by a bank or trust company, which holds and invests the funds and pays benefits in accordance with the terms of the plan provisions.

Historically, union-negotiated plans have generally been noncontributory--i.e., completely financed by employers. A study completed by Banker's Trust Company found that the conventional, or nonnegotiated, plans are increasingly becoming noncontributory--67 percent of these plans neither required nor permitted any employee contributions in 1974. The study also found that the average employee contributions as a percent of compensation ranged from 1.2 percent for the

$9,000 per year employee to 2.3 percent for the $25,000 per year employee. 1/

Retirement systems normally specify age and service requirements, as does the Civil Service System; although Social Security basically considers age (with a service requirement of 40 quarters), and military retirement considers years of service.

Establishment and management of retirement systems involve long-range considerations. The person who first becomes covered by a retirement plan at age 25 may still be receiving a retirement income when he is 85 or 90. There may be a 30 to 40 year lag between the time when retirement contributions are made and the time that retirement income is received.

WHAT AGE RETIREMENT?

Various ages are mentioned in relation to retirement--70, 65, 62, 55, 50; with 65 being the accepted "normal" retirement age for persons covered by Social Security--the vast majority of gainfully employed persons in the Nation. The differing age limits for retirement seem to be based upon the various foci and needs of the systems themselves. According to the Department of Defense, for example, military retirement is primarily concerned with service factors such as maintaining a vigorous force and desired rank structure. 2/ Hence, the age when one first receives military retirement benefits may be quite young compared to a private plan which allows payment of retirement benefits only after a certain age, such as 65 (due, perhaps, to more complex cost factors or to the continuance of a traditional policy set when Social Security first established its retirement age).

In 1935 Social Security provided the following reasons for its decision concerning retirement age:

> "The original selection of age 65 as the minimum retirement age for insured workers was, to a considerable extent, arbitrary and empirical.

1/Alfred M. Skolnik, "Private Pension Plans, 1950-74," Social Security Bulletin, June 1976, pp. 3, 15, 17.

2/For further information, see "The 20-Year Military System Needs Reform," FPCD-77-81, Mar. 13, 1978.

Age 70 seemed too far advanced * * * although many private pension plans * * * had such a minimum age in the mid-1930's. On the other hand, age 60 was too low an age. * * * Accordingly, the compromise 'even quinquennial' age of 65 was selected." 1/

In 1956, age 62 was introduced in Social Security for wives, widows, and female dependent parents--the reasoning being that wives are normally 3 years younger than their husbands. The age limit for women workers was then lowered to 62 on the grounds that they make direct contributions. In 1961, the retirement age for men became comparable at age 62. However, benefits between ages 62 and 65 are actuarially reduced. 2/

The setting of Social Security benefit ages also coincided with periods of high unemployment. When the original act was passed, the Nation was in the midst of a Depression; at the time the decision was made to allow men to receive benefits at age 62 with reduced amounts, unemployment was severe. By encouraging people to retire, it was felt that more jobs would become available, and unemployment would be reduced. 3/

Within the Civil Service System, legislative history shows a consistent trend over the years toward the liberalizing of age and service requirements--with unions being the mainforces behind the changes. In 1920, when a retirement program was initiated for Federal employees with 15 years of service, a mandatory retirement age of 70 was established for classified employees. Age 65 was established for mechanics, letter carriers, and post office clerks; and age 62 for railway postal clerks. Retirement eligibility for involuntary

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1/Robert Myers, Social Security, pp. 106-107.

2/An actuarial reduction in an employee's retirement benefit is an adjustment made in the employee's pension to reflect the fact that payments begin at an earlier age and, consequently, will last for a longer period of time. Such reductions, theoretically, equalize an organization's retirement costs associated with an individual's retirement, regardless of the age at retirement.

3/Juanita M. Kreps, "Social Security in the Coming Decade: Questions for a Mature System," Social Security Bulletin, March 1976, p. 24.

separation was added in 1922--a full annuity at age 70 with 15 years service or a reduced annuity at age 55 with 15 years service. In 1926, lower mandatory ages were set for additional groups of employees--65 for laborers; and 62 for hazardous duty employees and for employees who served 15 years in the Tropics. Optional retirement became available in 1930 for individuals who had 30 years of service and wanted to retire two years prior to the mandatory retirement age. In 1942, the age and service requirements for optional retirement were reduced to 62/15, 60/30, and 55/30; the latter being with an annuity reduced for age. Investigative personnel of the FBI could opt to retire at age 50 with 20 years. By the mid-1950s, involuntary retirement was changed further so that persons may retire at age 50 with 20 years of service or at any age with 25 years of service. The age and service requirements for optional retirement have been set at 62/5, 60/20, and 55/30, with no benefit reductions for age, since the late 1960s. 1/

Military retirement is allowed at any age with 20 years service. Provisions for mandatory retirement vary and are dependent on the member's age, rank, promotion record and years of service.

Within the private sector, almost all pension plans require that a worker attain a specified age, usually 65, to be eligible for unreduced retirement benefits. A number of plans have adopted provisions making voluntary retirement with unreduced benefits possible before age 65--generally at age 62, when reduced Social Security benefits become available. For technical reasons related to other benefits, however, some of these plans continue to term age 65 as the normal retirement age. Studies of the Bureau of Labor Statistics and Bankers Trust Company sampled different plans to determine the age requirements currently in use. The Bureau of Labor Statistics study, for example, found that more than one-half of the 150 plans studied in 1974 made retirement with full benefits available prior to age 65 to at least some of their members; this was an increase from one-third of the plans in 1970. The increase in early retirement provisions was largest among multiemployer plans--the proportion of employees covered by early retirement provisions increased from 23 percent in 1960 to 82 percent in 1973. 2/

1/Lynn Waldorf, History of the Civil Service Retirement System: Inception to 1970.

2/Alfred M. Skolnik, "Private Pension Plans, 1950-74," Social Security Bulletin, June 1976, pp. 7-8.

Among pattern (union-negotiated) plans, service only provisions have grown in popularity, largely attributable to the adoption of the 30 years and out options in the automobile, steel, aluminum, container, and copper negotiations. In contrast, conventional (nonnegotiated) plans have increased their use of age-and-service requirements, as shown in the following table, tabulated from Bankers Trust Company studies:

Percent of Plans With Early Retirement Provisions, 1964-1974

(By Age and/or Service Requirements)

	Pattern plans			Conventional plans		
	Age and service	Service only	Age only	Age and service	Service only	Age only
1964	100%	-%	-%	64%	3%	33%
1969	79	19	2	68	2	30
1974	63	32	5	74	3	23

In the plans specifying age and service requirements, the shift is toward age 55. In 1974, four-fifths of the conventional plans and 7 out of 10 of the pattern plans used age 55 as the requirement. 1/

Under special conditions, some plans are structured so that an employee retiring early can receive a level income throughout retirement--initially from the private pension plan, and then from the combined pension and Social Security. In 1974, the Bankers Trust Company found that 56 percent of the pattern plans surveyed provided a special benefit at age 65 or when OASDHI reduced benefits began. The Bureau of Labor Statistics found that 16 percent of the multiemployer plans with an early retirement provision had this option. 2/

THE LABOR FORCE

Whereas the life span for men increased by twenty years over the period 1900 to 1970--from 46.3 to 67.1--the participation rate in the labor force (i.e., the percent of the population that is in the labor force) has been declining

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1/Alfred M. Skolnik, "Private Pension Plans, 1950-74," Social Security Bulletin, June 1976, p. 8.

2/Ibid, p. 9.

steadily over the years. Since 1950, the participation rate for men age 65 and older declined consistently and rapidly--from 45.8 percent in 1950 to 21.7 percent in 1975. For the ten years immediately before the retirement age of 65, the labor force participation rate declined from 86.9 percent to 75.8 percent from 1950 to 1975--the 1975 rate being below that of the average for all men 16 years of age and older; as shown in the graph on the following page.

Unlike the rate of participation for men, women have been joining the labor force in larger numbers--the rate increasing from 33.9 percent in 1950 to 46.4 percent in 1975. (See illustration on the following page.) Among the women in the age group 65 and older, the rate held steady around 10 percent over the years until the 1970s when it started to decline; the rate being 8.3 percent in 1975. For the age group 55-64, the labor force participation rate increased rapidly from 27.0 percent in 1950 to 43.1 percent in 1969, and then steadily declined to 41.0 percent in 1975.

Annual average figures from the Bureau of Labor Statistics show that the majority of persons in the labor force age 55 and older (with the one exception of men 55-64) worked in white-collar occupations in 1973, as noted in the following table.

Major Occupational Groups of Persons 55-64 and 65 Years of Age and Over By Sex, 1973

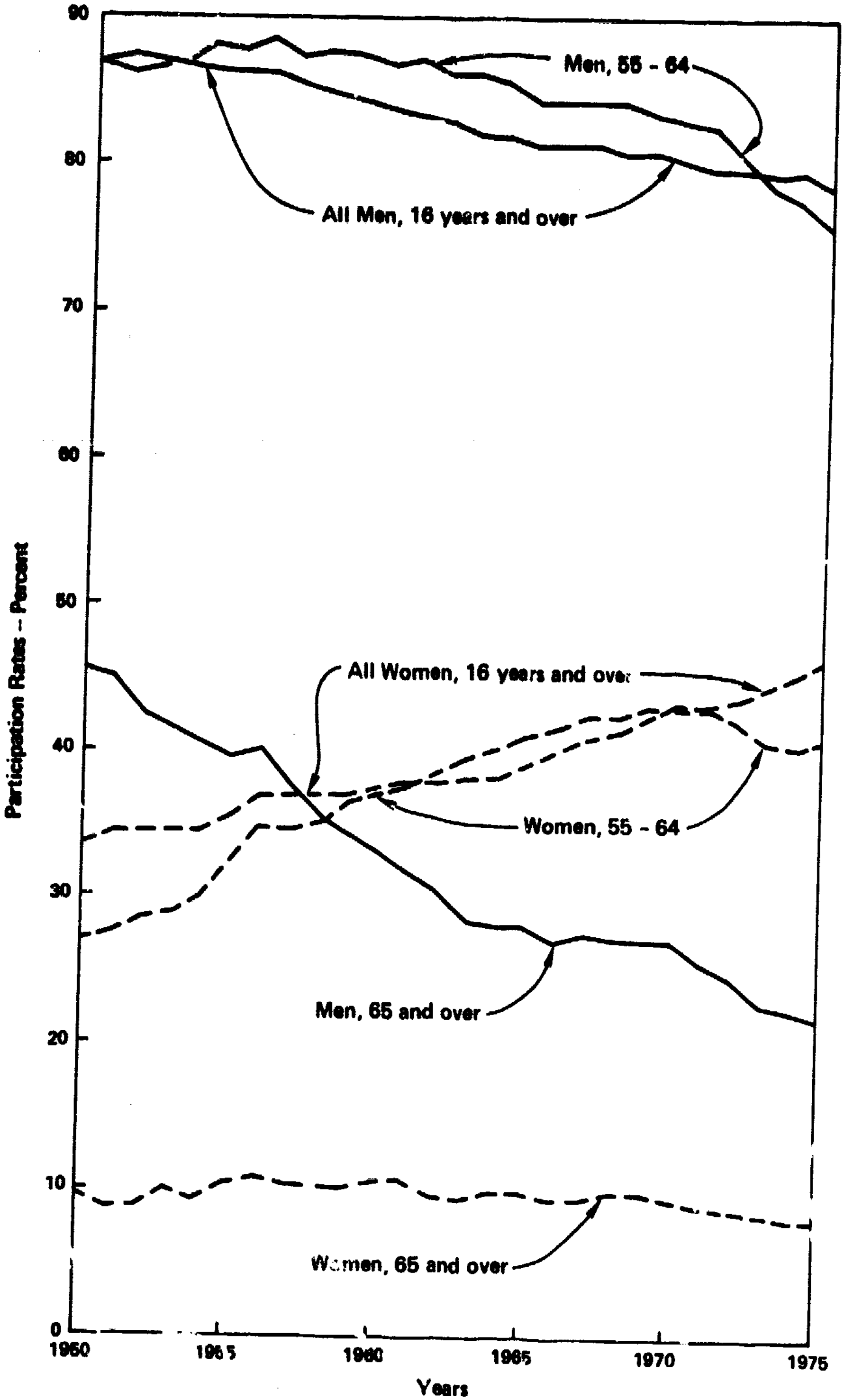
Occupational Groups	Men 55-64	Men 65 & Over	Women 55-64	Women 65 & Over
White-collar workers	39.8%	41.8%	55.4%	51.6%
Blue-collar workers	43.7	27.0	17.6	10.4
Service workers	8.8	13.0	24.9	34.1
Farm workers	7.7	18.3	2.1	3.9

Source: Bureau of Census, *Social and Economic Characteristics of the Older Population, 1974*, P-23, No. 57, Table 29.

In addition, by and large, persons over 55 who have completed more years of schooling tend to have higher rates of participation in the labor force than those with few years of school completed. 1/ Hence, these people tend to retire at a later age. The Bureau of Census concluded that:

1/Bureau of Census, *Social and Economic Characteristics of the Older Population, 1974*, P-23, No. 57, Table 27.

Labor Force Participation Rates, 1950 - 1975



Sources: Bureau of Labor Statistics, *Handbooks of Labor Statistics*, 1974 and 1976, Table 2, and *The U.S. Labor Force: Projections to 1990*, Special Labor Force Report No. 156, Table A.

"This phenomenon could be the consequence of several factors, such as more highly educated persons being in more personally satisfying and better paying positions which they are reluctant to leave; being in positions in which their skills are in relatively short supply and their employer is reluctant to release them; and being self-employed in greater proportions and thus not subject to arbitrary retirement ages." 1/

During the recession of the mid-seventies, the unemployment rates among those age 55 and over were low. (Refer to the following table.) The highest rates of unemployment were experienced by persons age 24 and under.

Unemployment Rates by Age and Sex, May 1976

Years of Age	Men	Women
16-19	17.4%	16.1%
20-24	11.1	10.7
25-34	5.5	7.1
35-44	3.5	5.3
45-54	3.4	4.5
55-64	3.9	4.0
65 & over	5.3	3.5

Source: Bureau of Labor Statistics, Employment and Earnings, June 1976, Table A-8.

During that period, the occupational group least affected by unemployment has been white-collar workers. Service and blue-collar workers experienced unemployment rates twice those of the white-collar and farm workers; as shown below.

Unemployment Rates by Occupation: January 1977

Occupational Groups	Rates
White-collar workers	4.5%
Blue-collar workers	8.4
Service workers	8.6
Farm workers	4.8

Source: Bureau of Labor Statistics, "The Employment Situation: January 1977," Table A-2.

1/Bureau of Census, Social and Economic Characteristics of the Older Population, 1974, P-23, No. 57, p. 24.

The Bureau of Labor Statistics is projecting continued growth in employment for the upcoming decade. One projection estimates a 20-percent growth in employment between 1974 and 1985--from 85.9 million to 103.4 million jobs. White-collar jobs would continue to constitute the largest group, increasing from 11.5 million, or 28 percent; as shown below.

Employment by Occupational Groups: 1963, 1974, 1985

Occupational groups	Employment 1963	1974	1985	1963 to 1974 Increase/decrease Absolute	Percent	1974 to 1985 Increase/decrease Absolute	Percent
	(millions)						
White-collar workers	30.0	41.7	53.2	11.7	39%	11.5	28%
Blue-collar workers	25.0	29.8	33.7	4.8	19	3.9	13
Service workers	9.3	11.4	14.6	2.1	23	3.2	28
Farm workers	4.8	3.0	1.9	(-1.8)	(-38)	(-1.1)	(-37)
Total	69.1	85.9	103.4	16.8	24%	17.5	20%

Sources: Bureau of Labor Statistics, Employment and Earnings, June 1963, Table A-21, and "Revised Occupational Projections to 1985," Max L. Carey, Monthly Labor Review, November 1976, p. 11.

Within the total projected increase in employment, there would be 17.4 million new jobs created and 40.2 million openings due to deaths and retirements. 1/

A second projection of the Bureau of Labor Statistics also shows a continued growth in the civilian labor force, but at a decreasing growth rate between 1980 and 1990. In this projection, the labor force is estimated to grow by 1.9 percent per year during the latter part of the 1970s until it reaches 101.7 million workers in 1980. For the decade 1980-1990, the rate is expected to decrease to 1.1 percent per year until the labor force reaches 108.6 million in 1985 and 113.8 million in 1990. The participation rates of persons 55 and older in the labor force would continue to decline, with the exception of women between the ages 55-64. Given the change in the age distribution of the population, the median age of the civilian force is projected to increase after 1980, as shown below. 2/

1/Max L. Carey, "Revised Occupational Projections to 1985," Monthly Labor Review, November 1976, p. 19.

2/"New Labor Force Projections to 1990," Fullerton and Flaim, Monthly Labor Review, December 1976, pp. 3-9.

Projected Participation Rates and Median Age of the Labor Force

Year	Labor Force Participation Rates				Median Age of the Civilian Labor Force		
	55-64		65 & Older				
	Men	Women	Men	Women	Total	Men	Women
1970	81.8	42.5	26.9	9.6	39.6	39.6	38.5
1975	75.7	41.0	21.7	8.2	36.0	36.7	34.9
1980	74.3	41.9	19.9	8.1	34.9	35.5	34.1
1985	71.6	42.2	18.0	7.8	35.3	35.9	34.6
1990	69.9	42.3	16.8	7.6	36.5	36.9	35.7

The decrease in workforce participation rates, combined with the aging population, causes the ratio of persons working to those retired to decrease.

CHAPTER 3

IMPLICATIONS OF RETIREMENT ON FUNDING

The trend toward more liberal retirement benefits affects the financial requirements of the Federal Government. The demographic changes affecting the working population should become more pronounced in the future. Fewer and fewer workers will be available to help support the funding requirements of the existing retirement programs. This situation is only exacerbated by the trend toward earlier retirement ages which removes even more workers from the active working population. Additionally, since people's lifespans are increasing while retiring at earlier ages, their productive years in the Nation's workforce are decreasing.

The resources of the Federal Government are not unlimited. Demands from various sectors are competing for the same resources. The basic questions of retirement funding center around the Government's future affordability of these programs. Therefore, a careful examination of retirement policies is needed.

PROGRAMS AND EARLY RETIREMENT PROVISIONS

Social Security covers virtually all gainfully employed persons in the country with the major exceptions of police in most States, Federal civil service employees, low-income self-employed persons, and domestic workers with irregular employment. 1/ The program is designed in a way that the working-age population, and employers, contribute to a fund that provides benefits to the covered retired population. The benefits are intended to offer a "floor of protection" in retirement, which would be supplemented by private savings and pensions. Since 1965 Social Security benefits also include Medicare, composed of hospital insurance and supple-

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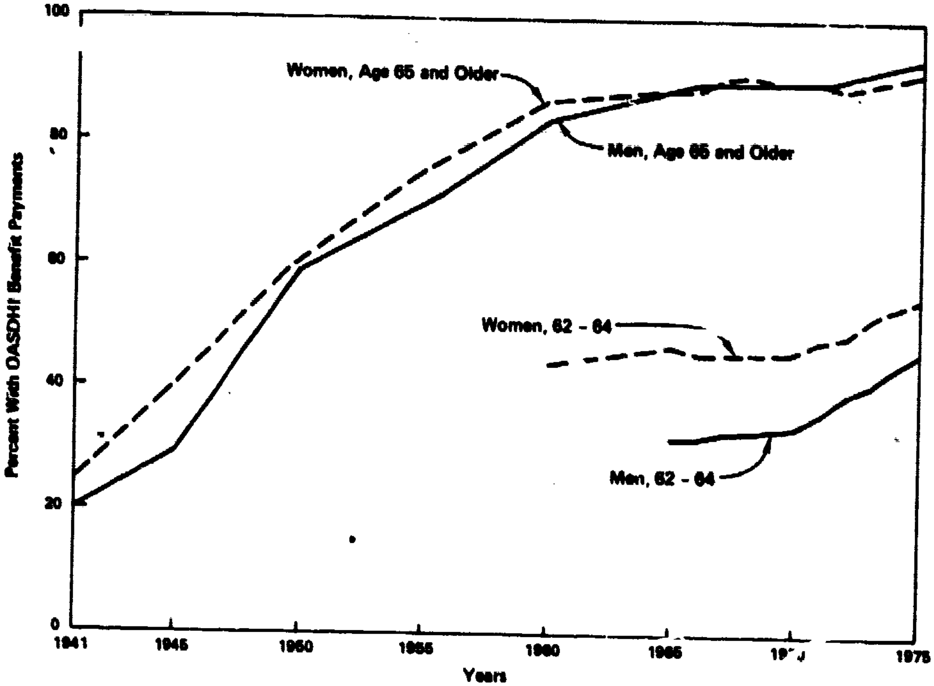
1/ Robert Myers, Social Security, p. 28 .

mentary medical insurance for persons aged 65 and over. 1/

The "normal" retirement age for Social Security benefits is 65. However, since 1956 for women and 1961 for men, individuals could retire earlier and receive actuarially-reduced benefits beginning age 62. In 1975, 55 percent of the women and 46 percent of the men, ages 62 to 64 in insured benefit status, were receiving benefits with reductions for early retirement, as shown in the following graph.

Percent of Insured Workers Age 62 and Over in
OASDHI Benefit Payment Status, 1941 - 1975



Source: "Retirement Patterns in the United States", Lenore Bixby, Table 3.

1/Medicare coverage also extends to certain disabled persons and persons with chronic kidney disease. Hospital insurance coverage is provided to persons aged 65 and over who qualify for Social Security benefits. Persons not meeting this criteria may pay a monthly premium designed to cover the program's entire cost and receive the same coverage. Supplementary medical insurance enrollment is available on a voluntary basis to practically all persons reaching age 65. The enrollee pays a standard premium rate; the Government pays the remainder of the rate.

Social Security also provides for an increase in benefits of 1/4 of 1 percent for each month the initial benefit payment is delayed between the ages of 65 and 72 (due to either no-election of benefits or to exceeding earnings under the earnings test).

Since the purpose of the Social Security program is to furnish a partial replacement of earnings which are lost due to death, disability, or retirement in old age, retired persons claiming benefits are required to meet a "retirement test." (In 1977, for example, maximum earnings of $3,000 were allowed without reductions in benefits for persons under age 72. Over $3,000, OASDHI benefits are reduced by $1 for every $2 of earnings (wages and other earned income)). 1/ Although this retirement test has existed since the 1930s, its definition has been modified a number of times over the years--in that the age of beneficiaries was lowered and the amount of earnings allowed was increased.

Strong arguments are presented for and against the retirement test. Proponents of the test claim that if the objective of the insurance program is a loss of earnings, a loss must occur. In addition, they feel that only a privileged group of people would benefit from the elimination of the test since the majority would not work anyway--they retire because of ill health, lack of a suitable job, etc. Some, including representatives of organized labor, express concern that the elimination of an earnings limitation would depress wage levels in that Social Security recipients may be willing to work at lower wages. Further, elimination of the test would be costly to the already financially-burdened

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1/The Social Security Amendments of 1977 increased the allowable earnings for claimants over age 65. Beginning in 1982, earnings for persons 70 and older will not be subject to the test.

Social Security program. 1/ Opponents of the test, on the other hand, argue that Social Security benefits should be paid as a matter of right at a minimum retirement age. This, they say, is consistent with the insurance concept of the system. The test was established during the Depression when jobs were needed for the unemployed; not during a high-employment economy. As a result, the skills and productivity of older persons are lost to the country. Many (such as gerontologists and other social scientists) believe that retirement sometimes ages people (physically and emotionally) in that they no longer feel needed. Work, therefore, should not be discouraged or penalized. Additionally, some people feel that the test causes inequities in that recipients may need a greater income than the Social Security benefit or the maximum amount allowed to a retiree.

The Civil Service Retirement Fund is also composed of employer and employee contributions; paying pensions and annuities to voluntary retirees who meet the following age and service requirements, respectively: 62/5, 60/20, and 55/30. Involuntary retirement is possible for persons age 50 with 20 years of service or at any age with 25 years of service; though with a reduction in benefits for every month under 55.

As shown below, the average age of annuitants added to the Civil Service Retirement rolls dropped by 6.4 years between 1940 and 1975:

1/The Social Security Administration estimates an additional burden of $6-7 billion in 1978 if the test was eliminated for all retirees age 62 and over; or, $2.9 billion if the test was eliminated for persons age 65 and over. These estimates, however, assume that no changes would take place in people's behavior; i.e., they do not take into consideration a possibility of people working beyond their present earnings limitations or additional people joining the labor force. Additionally, since the $6-7 billion and $2.9 billion estimates assume no change in labor force participation, the Social Security Administration has not estimated the financial effects on the Federal Government as a whole; as, for example, additional income taxes that would be collected given increased participation in the labor force and reductions in payments to the elderly from other Federal programs.

Average Age of Civil Service Annuitants: 1940-1975

Year	Average age	Year	Average age
1940	64.1	1960	61.6
1945	61.4	1965	60.4
1950	61.5	1970	59.7
1955	62.0	1975	57.7

Source: Office of the Actuary, Civil Service Commission.

The average age and years of service, respectively, of annuitants added to the rolls in fiscal year 1975 were 57.7/25.1 (61.3/28.8 for voluntary retirees; 53.2/28.0 for involuntary retirees). 1/

The lack of an actuarial reduction in benefits combined with the increasing lifespan of the population adds to the Government's financial obligation associated with retirement at earlier ages. Aside from the direct cost impact of the lower ages of Civil Service retirees, there are also indirect effects on the health and life insurance provisions of the Federal Government. While the employee is working, the cost of life insurance is shared: two-thirds by the employee and one-third by the Government. Contributions cease upon retirement. Since a Federal employee who retires before age 65 with at least 12 years service retains his/her insurance coverage without premiums, contributions during the employee's working years must, of necessity, be higher. 2/ Likewise with health insurance, the Government's share is set by law and is equal to 60 percent of the unweighted average of six selected plans; the employee pays the remainder. Upon retirement, the same policy and contribution schedule remain in effect. In effect, then, when an individual retires at age 55, the Government makes contributions for a longer number of non-working years. 3/

1/Civil Service Commission, Annual Report of Financial and Statistical Data for Fiscal Year Ended June 30, 1975, Table B-4.

2/FPM Supplement 870-1, S6-1; and U.S. General Accounting Office, Changes to the Federal Employees Group Life Insurance Program Are Needed, FPCD-77-19, May 6, 1977.

3/FPM Supplement 870-1, S6-1, and S6-3; FPM Supplement 890-1, S1, p. 5 and S14-1, p. 47.

Career military personnel may retire after 20 years of service and receive a retirement package which includes a pension equalling one-half of base pay, plus free lifetime medical care and the use of commissary and recreational facilities. Two and one-half percent of base pay are added for each additional year of service past the twentieth year, up to a maximum of 75 percent of base pay. No age limit is imposed on the plan. The system may be considered an unfunded liability in that it is funded completely and directly out of annual Department of Defense appropriations.

Utilizing three studies of private pension plans--a Banker's Trust Company study, a Conference Board report, and a Bureau of Labor Statistics study--Alfred Skolnik writes that in the private sector:

> "The overwhelming majority of pension plans permit retirement before attainment of normal retirement age with an immediate benefit, commonly at the employee's election* * * To qualify for retirement, most plans require the attainment of a specified age (usually age 55), plus 10-15 years of service* * *" 1/

The Banker's Trust study found that, in 1974, 67 percent of conventional plans did not require employee contributions. The BLS study showed that average employer costs for retirement benefits as a percent of gross payroll for pensions, in 1973, was 5.7 percent. 2/

Two types of retirement plans are available to self-employed persons which provide retirement income that is supplementary to Social Security benefits. Keogh Plans allow annual contributions up to a maximum of 15 percent of earned income (net income after business deductions but before taxes) or $7,500. Within certain guidelines the plan's originator controls its investments. Plan contributions and all dividends and capital gains generated by and retained within the account are tax-free until distribution. All eligible employees of a self-employed person creating a Keogh Plan must be covered to the full extent of their

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1/Alfred M. Skolnik, "Private Pension Plans, 1950-74," Social Security Bulletin, June 1976, pp. 7-8.

2/Ibid., pp. 15-16.

salaries. Contributions on behalf of such employees must represent the same percentage of their earnings as the plan's originator contributes in his/her own behalf. Distribution of benefits, in a lump sum or installments, is made to employees at retirement and to the self-employed originator before age 70.5.

Another type of retirement plan available to any working person not covered by a qualified pension or profit-sharing plan is the Individual Retirement Account (IRA). Annual contributions up to 15 percent of earnings or $1,500 are allowed. As in Keogh Plans, contributions, dividends and capital gains accumulating in the plan are tax-free until distribution. Retirement withdrawals, in a lump sum or installments, may begin after age 59.5 but before age 70.5.

SOME FINANCIAL IMPLICATIONS

Historically, an early retirement pension required a benefit reduction from the normal retirement age benefit. That is, an adjustment is made in the payment of the employee's accrued pension to reflect the fact that pension payments begin at an earlier age and will consequently last longer. Theoretically, then, an organization's cost of retiring an individual early should be no greater than retiring him/her at the normal retirement age. Because the actuarial equivalent at an early age may result in a small pension, however, emloyers are increasingly offering liberalized benefits, making early retirement a more realistic alternative. A study by the Conference Board of private pension plans, for example, stated that:

> "Some 30 percent of the plans in the current study contain liberalized early retirement benefits, compared with 16 percent of the plans a decade ago." 1/

A Banker's Trust Study of corporate pension plans found that:

> "More striking than the trend toward more liberal early retirement requirements was the trend toward substantially higher early retirement benefits* * * Only 10 percent

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1/Mitchell Meyer and Harland Fox, Early Retirement Programs, The Conference Board, 1971, p. 5.

of the plans in this study provide only the actuarial equivalent* * * The majority of plans (64 percent) now pay a benefit greater than the actuarial equivalent but less than the accrued pension: 26 percent of plans in this study fall within this category." 1/

The early retirement provision could be costly to an organization. As employees opt to retire early, the cost to the employer increases. According to one actuarial estimate presented in Nation's Business:

> "A business which lowers the minimum age for full retirement benefits from 65 to 60 faces a 40 to 50 percent increase in pension costs * * * To drop it even further, say to age 55, means a comparable increase. For a 10-year drop in the retirement age without a reduction in benefits, the most conservative cost increase estimate is 75 percent." 2/

The article continues to say that one of the major factors that could make the problem grow to a crisis level in the private sector is the addition of cost-of-living escalators, as presently in existence for civil service and military retirees. 3/

Few private pension plans include cost-of-living escalators despite the high inflation rate and the problems faced by the retiree in trying to cope with spiraling living costs on a fixed income. The Conference Board reported that, as of 1973, only 4 percent of its office worker and 2 percent of its non-office worker plans had adopted cost-of-living adjustments related to changes in consumer prices. The Bankers Trust Company reported the inclusion of such adjustments in about 6 percent of the conventional plans surveyed in 1974. 4/

1/Bankers Trust Company, 1975 Study of Corporate Plans, p. 11.

2/"Early Retirement Time Bomb," Nation's Business, February 1971, p. 22.

3/Ibid, p. 24.

4/Alfred M. Skolnik, "Private Pension Plans, 1950-74," Social Security Bulletin, June 1976, p. 14.

Inflationary pressures have led to the inclusion of cost-of-living increases in some recent union-management negotiations. Negotiations provided for cost-of-living supplements in the aluminum and container industries and deferred increases in the basic steel and transportation equipment industries. 1/

The spread of such a trend is already increasing employer expenditures associated with retirement benefits. As the following table shows, such expenditures have increased steadily since the mid-1960s.

Average Employer Costs for Retirement Benefits As Percent of Gross Payroll for Pension Plans (note a) Paying Such Benefits, Selected Years 1965-73

Year	All industries	Manufacturing	Nonmanufacturing
1965	4.4%	3.4%	6.0%
1967	4.8	3.9	6.0
1969	4.8	4.0	6.1
1971	5.5	4.6	6.6
1973	5.7	4.8	6.7

a/Excludes deferred profit sharing plans.

Source: Alfred M. Skolnik, "Private Pension Plans, 1950-74," Social Security Bulletin, June 1976, Table 2, p. 16.

Such expenditures indirectly affect the Federal Government. As the cost-of-living increases, the employer's expenditures for retirement benefits also increase. Any erosion this causes in the employer's profit margin will also decrease the Federal Government's tax revenues from such profits. Too large an increase in retirement-related expenditures could force employers to make difficult choices such as decreasing benefits or reducing the size of the workforce.

Although there are benefits associated with employee turnover (e.g., infusion of new employees into the workforce and providing opportunities for mobility and advancement for existing employees), the organization does lose talent. The retiree takes with him/her years of experienced

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1/Evan L. Hodgens, "Key Changes in Major Pension Plans," Monthly Labor Review, July 1975, p. 24.

knowledge about the firm's operations and about the specific job vacated. People with special talents that the organization does not want to lose may likewise retire early if the opportunity exists.

As retirees are replaced, the organization normally incurs a cost of training. One viable alternative to the training cost is the recruitment of individuals who are already fully trained. Although liberal retirement packages may attract people to an organization, such a situation could be costly in itself.

Because of these various financial considerations and because of the long-term financial commitment related to retirement plans, any retirement policy should be considered within the framework of its total economic impact. As a worker retires, his/her earnings generally decrease. At the same time, the worker(s) replacing the retiree usually experiences an earnings increase. The net economic effect of a particular retirement policy should contrast both these effects, and should also evaluate the economic impact of the various direct and indirect financial implications to both the Federal Government and the employer. Items such as the spending patterns of the retiree and his/her replacement(s), tax expenditures and payments and productivity changes due to staffing changes deserve consideration.

ADDITIONAL FINANCIAL IMPLICATIONS FOR THE FEDERAL GOVERNMENT

In addition to the financial implications cited above, earlier retirement directly or indirectly has further impacts on the Federal Government. Some of these are discussed below.

--Since the Social Security program is based on intergenerational transfers between the working and retired populations, serious problems could arise in the future due to the demographic changes in the country. Starting around the year 2005, the people born during the baby boom of the 1940s and 1950s are expected to draw Social Security benefits in larger numbers while the workforce that pays for the benefits would not increase at a corresponding rate due to the lower fertility rate now existing and forecasted for the future. The Advisory Council on Social Security estimates that there are now 30 beneficiaries per 100 workers; in 2030, there will be 45 beneficiaries per 100 workers. 1/ Earlier retirement removes additional numbers of people from the workforce, resulting in less contributions from employers and employees. (However, history has shown that contributions are normally changed by legislation so that employees who remain in the workforce, plus their employers, contribute larger amounts.) As noted by Joseph Spengler, early retirement is particularly unfavorable in a stationary population. Removing those aged 55-66 from jobs would reduce the ratio of workers to retirees by 20 percent and increase the number of older dependents by 46 percent. 2/

The Social Security Advisory Council's 1975 report states that, today, the general demand is to reduce the retirement age. However, around the year 2005, pressures may develop to increase the retirement age beyond 65. This, they suggest, would modify the ratio between workers and beneficiaries and reduce the high benefit costs that would otherwise have to be met. 3/

--There is no known published cost estimate as of this writing of the Civil Service Retirement System provisions allowing employees to retire as early as age 55 without receiving an actuarial reduction in benefits; assuming the service requirement is fulfilled. In fiscal year 1975, 15,456 people retired under the provision of age 55 and 30 years of service; representing approximately 37 percent of all voluntary retirees added to the rolls during the year and averaging 57 years of age. The average monthly annuity for these retirees was $882 per month. 4/

1/Report of the Quadrennial Advisory Council on Social Security, 1975, p. 49.

2/Juanita M. Kreps, "Social Security in the Coming Decade: Questions for a Mature System," Social Security Bulletin, March 1976, p. 24.

3/Op. cit., pp. 49-50.

4/Civil Service Commission, Annual Report of Financial and Statistical Data for Fiscal Year Ended June 30, 1975, Table B-4.

Civil Service retirement provisions are based on both age and service, but the Federal Government's liability associated with a person's retirement benefit is also influenced by such factors as inflation, increases in the Consumer Price Index, and the employee's salary progression and grade. Though no estimate is available of the costs to the Government associated with Civil Service retirement under one age/service provision as opposed to another, the costs to the Federal Government of various retirement options should take into consideration such factors as: Federal contributions for retirement benefits, loss in tax revenues, employee productivity, and qualifications for more than one retirement benefit by individual retirees.

As an example, consider an employee retiring under the age 55/30 year provision. If this employee never reenters the labor force, the Government is obligated to providing for that person's retirement benefits, beyond his/her own contributions, throughout old age. Further, the Government loses tax revenues that were previously collected from the employee's salary. The retirement benefit is taxable, after reimbursement of the employee's contribution, but the taxable income and tax rate in retirement are lower than during one's active worklife. The Government also experiences a loss of productivity.

Alternatively, if this employee continues working and retires under the age 65/40 year provision, his/her retirement benefit would be higher due to the additional service years. Balancing this higher benefit payment by the Government, however, are such factors as employee contributions to the Fund for an additional ten years, Federal Government collection of tax revenues on wages earned, no productivity loss, and retirement benefits would be paid for a fewer number of years.

If the retired employee with age 55/30 years does begin a second career by reentering the Nation's workforce, he/she would enter the private sector. After working 10 years this individual would also be entitled to Social Security benefits and possibly benefits from a private pension plan. Such benefits represent an additional Federal retirement liability even though OASDHI payroll tax deductions were made on all covered wages. In addition, the Federal tax revenues on the wages earned during this 10-year period would represent a net revenue loss if the wages are lower than his/her Civil Service wages. Further, Social Security benefits are tax exempt.

The actual number of people beginning second careers after retiring from Civil Service is unknown. A survey prepared by the Civil Service Commission in 1972 has shown that of people aged 65 and over who retired with 30 or more years of service, 22.5 percent also received Social Security benefits. It is not known, however, whether employment under Social Security or Civil Service were the basis of the first or second careers. (See following table.)

Civil Service Annuitants 65 and Over With and Without Social Security Benefits in 1971

Years of service	Receiving Social Security Number	Receiving Social Security Percent	Not receiving Social Security Number	Not receiving Social Security Percent
Under 10	32,906	11.8	7,745	3.9
10-19	91,881	32.8	30,471	15.2
20-29	92,236	33.0	62,399	31.2
30 and over	62,988	22.5	99,589	49.8
Total	280,011	100.1	200,204	100.1

Note: Percentages may not total to 100.0% due to rounding.

Also, the survey of annuitants showed that 58.3 percent of all retirees were qualified for Social Security benefits. The average retiree without Social Security coverage had 28.1 years of Federal service as compared with 21.5 years for individuals who were getting both Social Security and Civil Service benefits. The average Civil Service annuity in 1971 for retirees age 65 and over not receiving Social Security benefits was also 50.7 percent larger than the Civil Service annuity for those who did receive Social Security--$425 as compared to $282 per month. 1/

--The military allows one to retire at half of base pay at the end of 20 years of service. The fiscal year 1978 budget estimates that $9.1 billion (or 8.3 percent of Defense outlays) will be needed for military retired pay, covering about 1.2 million people. 2/ Retirement from the military differs

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1/"Survey of Income of Civil Service Annuitants," September 3, 1973, p. 8.

2/Budget of the United States Government for Fiscal Year 1978, p. 83.

somewhat from the public and private sectors in that, according to the Department of Defense, the military retirement provisions are partly designed to maintain the services' vigor and desired rank structure. One consequence, however, is that when people retire they are relatively young in terms of a full working life and must seek second careers. Despite the problems of retirees seeking employment, possibly relocating, and adjusting to civilian life, the Federal Civil Service becomes one of the major sources of employment. It is estimated that in the mid-sixties, the Federal Government employed one out of five military retirees. 1/ The Civil Service Commission recently estimated that there are almost 142,000 retired military personnel on the payroll, receiving dual compensation from the Federal Government--one as a military retirement benefit and the other a Civil Service salary. 2/ (In addition, a retiree qualifies for a third benefit--through Social Security--upon reaching age 62.) Questions have arisen as to the feasibility and financial implications of the benefits being paid to retirees at such early ages. If military retirement incomes are meant to provide financial assistance during the retirement years, it is argued, the benefits should not be paid until the later years of life (as at age 65) or only in the event that the retiree's income is so low or nonexistent that the income is deemed to be needed (as in the Social Security retirement test).

--With the passage of the Employee Retirement Income Security Act of 1974 (ERISA), the Federal Government became the insurer of private pension plans. This act was intended to fulfill two purposes: to protect the interest of workers who are covered by private retirement plans, and to stimulate the growth of such plans. Since the law was signed, however, a sizeable number of notices of intent to terminate were filled. During calendar year 1975, 5,035 such notices of intent were filled; 3,950 of

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1/"The Case of Military Retirement," Journal of Industrial Gerontology, Spring 1973, p. 32.

2/U.S. General Accounting Office, "Federal Retirement Systems: Unrecognized Costs, Inadequate Funding, Inconsistent Benefits," FPCD-77-48, August 3, 1977, p. 30.

which were covered termination plans (i.e., plans insured by the Federal Government). According to a survey conducted by the Pension Benefit Guaranty Corporation (PBGC), 77 percent of the plan terminations covered by the insurance program cited reasons other than ERISA for termination--such as adverse economic conditions, change in ownership, or liquidation. Twelve percent of the plan terminations cited ERISA as the reason for termination. An additional 11 percent cited ERISA as well as other reasons for their terminations. 1/

The Federal Government's liability for retirement relating to ERISA is expected to grow. For example, the addition of mandatory ERISA coverage for multiemployer plans scheduled to take effect January 1, 1978, is expected to cause a number of plan terminations, particularly in what is termed "declining industries." Such industries do not have sufficient assets to continue funding their pension plans for more than a limited period of time. The Pension Benefit Guaranty Corporation is conducting a study of these multiemployer plans, but because of data collection problems, an accurate numerical estimate of terminations or associated liabilities is not presently available. However, if over the next 5 years the number of plans which the PBGC has roughly estimated to terminate actually do so, extensive additional Federal liabilities will be incurred. 2/

--There has been an increasing awareness in the country as to the plight of the aged and retired people. Programs have been initiated at all levels of government to provide additional services. As more people are added to the retirement rolls, such programs likewise need to be expanded to cover the larger target group.

SUGGESTIONS FOR INCREASING "NORMAL" RETIREMENT AGE

Other than the Social Security Advisory Council, proponents suggesting increases in the normal retirement age

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1/Pension Benefit Guaranty Corporation, "Analysis of Single Employer Defined Benefit Plan Terminations," 1975, p. i.

2/Pension Benefit Guaranty Corporation, Office of Program Development, September 8, 1977.

include Peter Drucker. 1/ Drucker, a well-known author and management expert, addresses the demographic changes in the United States that are being accentuated by early retirement. He states that the ratio of the working population to the no-longer working population will be declining sharply beginning in the late seventies as the number of young workers entering the labor force decreases. In the next ten years, the number of people past age 65 will rise to about 30 million while the number in the working population will increase more slowly. He states that today our demographic changes, operating through the retirement system, have created a one-to-four dependency ratio; but this ratio will decline to one-to-three in the next ten years. The American pension system still reflects the days in which the Social Security system was conceived; a time in which a labor surplus was being reduced by retiring people at a certain age. But the country now faces a future labor shortage. In order to add and maintain a sufficiently large labor force, he suggests that people retire later, not earlier.

1/Peter F. Drucker, "Pension Plan Socialism," The Public Interest, No. 42, Winter 1976, pp. 3-46.

CHAPTER 4

SOCIO-PSYCHOLOGICAL IMPACTS OF RETIREMENT

Much concern has been expressed about the social, psychological, and physical effects of retirement on individuals. For example, do people feel disillusioned and unneeded when they retire; or do they enjoy the added leisure time? For, as stated in the Journal of Industrial Gerontology:

> "* * *it can be argued that it actually costs more rather than less to live in retirement. When working the person receives certain amenities from the job, fringe benefits. a certain degree of sociability and recreation, and other psychological income, all at no money cost to him. After retirement, in order to obtain equivalent psychological benefits he may have to pay out cash." 1/

Although retirement income is a major factor in retirement adjustment, other non-monetary factors contribute as well. If an individual is not well adjusted to the stage of retirement, it may affect his/her health as well as emotional and psychological adjustment. If this is the case, continuing to lower retirement age may not improve the health and welfare of the Nation's retirees.

Research results in this area seem to be inconclusive. Some studies indicate that retirees enjoy life and improve in health, while others claim negative impacts in terms of health, income, and adjustment. These studies generally focus on different segments of the population. Some of the major ones are discussed below.

THE PROS AND CONS OF RETIREMENT ON ADJUSTMENT

Some studies have reported on the satisfactory aspects of retirement adjustment, as illustrated below.

--Barfield and Morgan collected data from a representative sample of the National population and a random sample of older workers (around 60 years of age) from the automobile industry. In both parts of the study about three-fourths of the retired respondents

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1/Compendium, summer 1972, p. 41.

reported being "satisfied" or "very satisfied" with their life since retirement. Retirement satisfaction for the National sample was related to the adequacy of post-retirement income, good health, and pre-retirement planning. For auto-workers, it meant owning one's home mortgage-free, having cash assets, being married, having a substantial pension income, being in good health, having pre-retirement planning, and participates in leisure activities. 1/

--A longitudinal study conducted by Streib and Schneider concluded that:

> "The respondents themselves did not attribute a decline in satisfaction to retirement. While nearly half did not expect retirement to make them feel less satisfied, a sizeable proportion of our respondents overestimated the adverse effect of retirement on this feeling of satisfaction * * * Although role loss may occur with increasing age, the older person is apparently able to adapt to these changes, and, while he regrets the loss of role, he is able to maintain a positive evaluation of himself and satisfaction with life as a whole." 2/

--A pilot research conducted by the Graduate School of Management and Business of the University of Oregon investigated the financial, physical, social, and psychological status of over 1,000 early retirees nationwide.

> "Overall, the conclusion is that the majority of early retirees voluntarily elected early retirement because they perfer a retired life style of leisure rather than an extension of their working life. The majority appear to be financially secure, in good physical health, and have adjusted both socially and psychologically to retired life." 3/

Negative aspects of adjustment to retirement, however, have also been mentioned in the literature. Although the

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1/Early Retirement, pp. 4-5.

2/Retirement in American Society, pp. 115-116.

3/Early Retirement: A Survey of Company Policies and Retirees Experiences, p. 51.

writers addressed adjustment of retired people age 65 and over, the same application can be made to retirees at earlier ages. For example:

--A Nationwide attitudinal survey conducted by Elizabeth Meier concluded that:

> "The public aged 18-64 was more in favor of early retirement, leisure and retirement from work than those 65 and over, who were likely to have experienced these things. The older people were more apt to feel that retirement ages people." 1/

--William Withers stated that:

> "* * * the trauma of retirement comes not simply from decreased income, although many regard it as the prime factor. Society has created institutions and values which make the retiree a social reject. Since he no longer works, he is relegated to an inferior social status. Such social downgrading was caused by the Industrial Revolution, which placed prime value on work rather than leisure. Deprived of work, the social basis of self-respect, it becomes difficult for the individual to justify his leisure. 2/

--James Clare stated that age 65 is a basic, unquestioned element of pension plans. However, he said:

> "Perhaps the only way to make pensions adequate right now is to raise the normal retirement age. Most people over 65 can work and actually do want ~~to~~ work * * * And, besides providing a more sizeable pension, working in the later years can also fill the personal need for having something to to * * * Work productivity must be measured

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1/"Over 65: Expectations and Realities of Work and Retirement," Journal of Industrial Gerontology, spring 1975, p. 107.

2/"Some Irrational Beliefs About Retirement in the United States," Journal of Industrial Gerontology, winter 1974, p. 23.

with precise statistics free of the prejudicial belief that output declines around age 65." 1/

--A compendium of papers published by the National Council on Aging and dealing with retirement stated:

> "If given free choice probably the majority of men would retire well after the age of 65. Furthermore, the men who are better educated and better off financially, and who presumably would have the higher retirement pensions, are the ones who tend to remain in the labor force after age 65; we interpret this to mean that they prefer work to retirement." 2/

THE CASE OF INVOLUNTARY RETIREMENT

Not all people decide to retire or not retire. Of people aged 65 and over, Meier found that more than one-third have been forced to retire. 3/ Kasschau stated that one survey of Social Security beneficiaries found that as many as seven in ten early retirees retired involuntarily. 4/ Within the Civil Service Retirement System, almost 16 percent of the annuitants added to the retirement rolls in fiscal year 1975 retired involuntarily from the Federal Government, their average age being 53.2 years. 5/

1/"Age 65-Too Young to Retire?" Journal of Industrial Gerontology, spring 1972, pp. 132-133.

2/Compendium, Journal of Industrial Gerontology, summer 1972, p. 48.

3/"Over 65: Expectations and Realities of Work and Retirement," Journal of Industrial Gerontology, spring 1975, p. 107.

4/"Retirement and the Social System," Journal of Industrial Gerontology, winter 1976, p. 12.

5/Civil Service Commission, Annual Report of Financial and Statistical Data for Fiscal Year Ended June 30, 1975, Tables B-2 and B-4.

A study of retirement adjustments of white-collar and blue-collar workers reported on by Elizabeth Heidbreder found that:

"Those who did not have complete control over their retirement decision were not as likely to adjust well to retirement as those who felt that their retirement decision was voluntary * * * The attitude of the involuntary retirees to retirement and work was undoubtedly influenced by income, particularly for the hourly men * * * one-half felt that their retirement income was less than enough and that their standard of living had been lowered." 1/

Involuntary retirees are not likely to have experienced retirement planning nor to receive an adequate income. Barfield and Morgan's samples of both the National population and auto workers showed that retirement satisfaction was strongly related to retirement planning. 2/ The University of Oregon study summarized their findings by stating, among other items, that:

"There is a significant relationship between making plans for retirement and retirement adjustment scores * * * Employees who make financial plans indicate a tendency to have a higher income in retirement than those who make no financial plans * * * There is a relationship between making financial plans for retirement and satisfaction with retirement income." 3/

RETIREMENT AND INCOME

The National and auto worker surveys done by Barfield and Morgan indicated that the principal important factor in the decision to retire is the expected retirement income. Most people considered it important to have a "threshold"

1/"Factors in Retirement Adjustment: White-Collar/Blue-Collar Experience," Journal of Industrial Gerontology, winter 1972, p. 76.

2/Early Retirement, p. 5.

3/Early Retirement: A Survey of Company Policies and Retirees Experiences, pp. 49-50.

level of income in order to insure a reasonably adequate post-retirement living standard. 1/

The Retirement History Study (RHA) was a longitudinal study conducted by the Social Security Administration of persons born between the years 1905 and 1911. The survey data, originally collected in 1969 when the sampled population was on the threshold of the normal retirement age of 65, concluded that:

> "* * * Any notion of early retirement as added years of carefree leisure should be modified. Neither the health nor the financial situation of most men aged 58-63 who have withdrawn from the labor force supports the idea that early retirement is carefree." 2/

In this study, for example, married men in the labor force reported median incomes of $8,555, compared to $4,610 for married men out of the labor force. For unmarried men, the median income varied even more--$5,555 for men in the labor force versus $1,530 for men out of the labor force. 3/

Following the RHA cohort group four years later to 1973, the Social Security Administration reported that cessation of work was accompanied by about a 40-50 percent reduction in income (measured in constant dollars) over the period 1968-1972. Although income requirements may be reduced at retirement because work-related expenses are no longer needed, "few retirees enjoy anything close to their preretirement income * * *." Income adequacy can largely be related to employment and pension characteristics. In this respect, nonmarried women were found to have a tremendous disadvantage in that they were least likely to have private or government pensions other than Social Security; married men had a better chance of having benefits other than Social Security and for being most financially comfortable before and after retirement; and nonmarried men were generally

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1/Early Retirement, p. 3.

2/Karen Schwab, "Early Labor-Force Withdrawal of Men: Participants and Nonparticipants Aged 58-63," Almost 65, April 1976, p. 56.

3/Ibid., p. 51.

better off than the women but not as comfortable as the married men. The income of persons who continued to work kept pace with the changes in the cost of living. 1/

HEALTH AS A FACTOR IN RETIREMENT

A great deal of interest exists about the relationship between health and retirement. Is retirement, for example, injurious to health, or do people retire to safeguard their health and physical energies so they can enjoy leisure years?

The Social Security Administration concluded in their Retirement History Study that the availability of retirement benefits may encourage some men to withdraw early from the labor force, but most nonparticipants were out because of other reasons. Most (65 percent) of the nonparticipants in this study cited poor health as a reason for leaving their last job. 2/

Streib and Schneider found a moderate decline in the subjectively-rated health of the retired sample population from ages 65 to 70. This decline, however, was about the same as that of the respondents who continued to work; leading the researchers to conclude that:

> "The myth that retirement causes a decline in health does not appear to be supported." 3/

Barfield and Morgan found a strong correlation between subjective evaluation of health and planning for early retirement. Persons who saw their health as declining were more likely to express plans for early retirement. 4/

1/Alan Fox, "Work Status and Income Change, 1968-72: Retirement History Study Preview," Retirement History Study Report No. 10, December 1976, p. 26.

2/Karen Schwab, "Early Labor-Force Withdrawal of Men: Participants and Nonparticipants Aged 58-63," Almost 65, April 1976, p. 45.

3/Retirement in American Society, pp. 159-160.

4/Early Retirement, p. 3.

The University of Oregon study found that persons who say their health is poor or fair are more likely to score low on retirement adjustment as compared to those who perceive their health to be good or excellent. 1/

When Streib and Schneider looked at variations in reported health by occupational group, they found that some groups--the clerical and semiskilled--reported a slightly greater decline in reported health than those who kept on working. Persons engaged in unskilled labor (i.e., people who presumably engaged in harder physical work), on the other hand, reported slight improvements in health after retirement. 2/

Similar results were found in the Retirement History Study. The data gathered in 1969 showed that more men who had done manual work (e.g., men who worked as operators, service workers, farm and nonfarm laborers) were nonparticipants in the labor force than men who had done nonmanual work. Considerably smaller ratios of professionals, farmers, managers, and sales people were out of the workforce. Craftsmen and clerks were between the two groups. This led the researchers of the study to speculate that manual workers may fall prey to injury and occupational disease more frequently than nonmanual workers, and, therefore, must leave the labor force in greater proportions. 3/

RELATIONSHIP OF RETIREMENT ADJUSTMENT TO PLANNING, EDUCATION AND OCCUPATION

Studies in retirement adjustment seem to agree that, in general, the majority of people adjust well to retirement. There seems to be a variation between people, however, depending on their level of educational attainment, their types of occupations or income levels, and the degree to which they plan for retirement. Generally, the higher the socioeconomic

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1/Early Retirement: A Survey of Company Policies and Retirees Experiences, p. 50.

2/Retirement in American Society, p. 160.

3/Karen Schwab, "Early Labor-Force Withdrawal of Men: Participants and Nonparticipants Aged 58-63," Almost 65, April 1976, p. 47.

status and educational level, the more difficult the retirement adjustment. The less the preplanning for retirement, the poorer the post-retirement adjustment. The following represent some of the research reported on in the literature.

--A. J. Jaffe wrote, as a result of his study of American men during the 1960s:

> "Labor force participation increases with years of schooling * * * Since men with more schooling have higher incomes during their working careers, we can assume that they have also acquired more wealth. Such wealth, together with their pensions, presumably puts them in a better financial position to retire if they desire to do so than those having little schooling." However, Jaffe concluded from his study, "Men who are in a better financial position to retire seem to be less likely to retire after age 65 * * * The men who are in the best financial position * * * are the better educated. These men hold very different jobs from those held by men with lesser education * * * (and) tend to be in better health than those with less schooling * * * More of the men with the most schooling are probably self-employed as compared with men with little schooling, although precise data on this seem to be lacking." 1/

--According to the survey by Streib and Schneider:

> " * * * both men and women of higher income levels, higher educational attainments, and higher levels of occupational structure tend to work longer than their counterparts with lower socioeconomic status." 2/

--Bureau of Labor Statistics data on labor force participation in 1973 showed that blue-collar workers made up the largest proportion of working men between the ages of 55-64. The largest proportion of workers 65 and over were in white-collar occupations, as shown below:

1/"Men Prefer Not to Retire," Journal of Industrial Gerontology, spring 1970, pp. 8 and 10.

2/Retirement in American Society, p. 159.

Occupational Distribution
of Men in the Labor Force By Age, 1973

Occupational Groups	55-64	65-69	70 & Over
Number in labor force (in thousands)	6,833	1,059	792
White-collar workers	39.8%	41.6%	41.9%
Blue-collar workers	43.7	29.2	24.0
Service workers	8.8	13.1	12.8
Farm workers	7.7	16.0	21.3

Source: Bureau of Census, Current Population Reports, P-23, No. 57, Table 29.

--As previously stated, one of the primary conclusions of the University of Oregon study included:

> "Educational attainment is related to making plans for retirement * * * Salaried employees are more likely to make plans for retirement than hourly employees * * * There is a significant relationship between making plans for retirement and retirement adjustment scores."1/

--Following up on the University of Oregon study, Elizabeth Heidbreder added:

> "The level of education was related to retirement adjustment, but to a greater degree for the blue-collar workers * * * Blue-collar workers who were well satisfied with retirement had a higher level of education than their dissatisfied counterparts * * * The well-adjusted white-collar group had the highest average retirement income; the largest proportion of men who were working; the largest proportion with health which was good or excellent; and the largest proportion who had made retirement plans before deciding to retire." 2/

1/Early Retirement: A Survey of Company Policies and Retirees Experiences, pp. 49-50.

2/"Factors in Retirement Adjustment: White-Collar/Blue-Collar Experience," Journal of Industrial Gerontology, winter 1972, pp. 74 and 79.

--A compendium on retirement stated:

> "High socio-economic status--a combination of more years of schooling, higher earnings, and upper white-collar occupations--results in lower retirement rates." 1/

Robert Atchley stated that retirement has been found to result in loss of involvement. Differences in adjustment to retirement were found according to occupational status. Data drawn from the Scripps Foundation Studies in Retirement implies, he states, that:

> "It is not so much the work ethic that interferes with adjustment to leisure, but rather the kinds of skills learned on the job."

Upper white-collar jobs were found to be oriented around symbols; middle-status jobs were oriented around people; and semiskilled jobs were oriented around things. The "style" of the pre-retirement work activities, according to Atchley, tend to remain dominant in retirement. People whose learned job skills were not transferable to leisure pursuits may have a harder time adjusting to retirement. 2/

1/Compendium, Journal of Industrial Gerontology, summer 1972, p. 15.

2/"Retirement and Leisure Participation: Continuity or Crisis?" Journal of Industrial Gerontology, winter 1972, pp. 100-101.

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