

Trends in retirement eligibility and pension benefits, 1974–83

Although annuity increases benefited retirees at all ages studied, the rate of increase was greater for those retiring at ages 55 and 62, than at 65

DONALD BELL AND WILLIAM MARCLAY

Reduced age requirements for retirement and improved pension payments emerged as major changes between 1974 and 1983 in a sample of pension plans analyzed by the Bureau of Labor Statistics. A group of 187 pension plans either fully or partially paid for by employers was studied. The plans covered approximately 6.7 million workers in 1982, and were mainly those of large employers.¹ Eighty-seven percent of the pension plans studied covered 5,000 workers or more in 1982, with 33 percent covering at least 25,000 workers.

The plans were all those common to two BLS sample surveys: (1) a 1974 survey of pension plans whose provisions were filed with the U.S. Department of Labor under the terms of the Welfare and Pension Plan Disclosure Act of 1958, as amended; and (2) the 1983 Employee Benefits Survey of medium and large firms.² Although the plans in this analysis are not a representative sample of all pension plans, they do cover a large number of union and nonunion workers and illustrate the changing provisions for retirement during the 1974–83 period.

Age and service requirements

Pension plans typically require employees to have attained a certain age, a certain number of years of service, or both, to qualify for retirement benefits. Or, they may specify that the sum of the employee's age and years of

service equal a certain number, such as 85. Pension plans often specify more than one requirement; that is, they have "alternative requirements." In such cases, this analysis uses the requirement allowing retirement at the earliest age.

Normal retirement. Over the period studied, many of the plans lowered their age requirements to permit normal retirement prior to age 65. In 1974, 103 of the 187 plans provided for such benefits and by 1983, the number rose to 149. (See table 1.) Increased length-of-service requirements, however, typically accompanied the lowered retirement age. In 1974, 59 plans had no service requirement, whereas 30 plans required 30 years of service. By 1983, the pattern was reversed: 40 plans had no service requirement, while 50 required 30 years of service.

Where an age 65 requirement was eliminated from a plan, the new age was usually 62 or less. The following tabulation summarizes the changes in age and service requirements, using age 62 as a point of reference:

<i>Age requirement for normal retirement</i>	<i>Number of plans</i>	
	<i>1974</i>	<i>1983</i>
All plans	187	187
No minimum age, age 62, or earlier	102	148
Over age 62	85	39
Plans with age and/or service requirement	176	162
No minimum age, age 62, or earlier	91	123
Over age 62	85	39
Plans with sum of age and service requirement	11	25
No minimum age, age 62, or earlier	11	25
Over age 62	0	0

Donald Bell is an economist in the Division of Occupational Pay and Employee Benefit Levels, Bureau of Labor Statistics. William Marclay was an economist in the division.

Glossary of pension terms

Analysis of pension plan provisions is complicated by technical terms which permeate the pension literature. Some of the technical terms used in this article are defined below.

Dollar-amount formula: A formula for calculating benefits that yields pensions by crediting specific dollar amounts per year of service, sometimes limited to a specified maximum number of years. For example, a formula which provides \$20 a month per year of service for 30 years would yield \$600 per month.

Early retirement: Retirement before the normal retirement age. Early retirement pensions depend on earnings and service, but are reduced for each year prior to the normal retirement age.

Integrated pension plan: A private pension plan that is explicitly coordinated with Social Security.

Normal retirement: Retirement at the earliest age specified in a pension plan which entitles retirees to all accrued benefits by virtue of earnings and service, without reduction because of age.

Offset plan: An integrated pension plan that reduces private pension payments by a portion of the retiree's Social Security benefit.

Old-Age, Survivors, and Disability Insurance (OASDI): The old-age insurance program established by the Social Security Act, referred to as "Social Security" in text.

"Open-windows" for early retirement: Temporary offers for employees to retire early if they have met certain years-of-service, and age qualifications. These may be the same as or more liberal than early retirement. The incentives include pension benefits more liberal than those provided under a plan's

early retirement provisions, a lump sum bonus, or both a bonus payment and special ad hoc pension increases to the early retirement amount.

Percent of contribution formula: A formula for calculating benefits that yields pensions equal to a specified percent of the employee or employer career contributions or a specified percent of yearly contributions times years of service.

Replacement rate: Retirement annuity or total retirement benefits (pension and Social Security) as a percent of earnings in the final year of work.

Special early retirement: These are usually normal benefits, or reduced benefits plus supplements paid up to age 62, for employees retired by the employer because of layoffs, plant shutdowns, disabilities which did not qualify for disability retirement, or in situations of mutual consent of the employer and employee.

Supplemental benefits: Benefits added to the early retirement amount which expire at age 62 or 65. They range from specified flat amounts to amounts varying by age at the time benefits are paid and by years of service. Supplements may also be available at normal retirement, but these are usually added on only for retirements prior to receipt of Social Security benefits at age 62 or 65.

Taxable wage base: The maximum wage or salary subject to Social Security payroll taxes. The wage base was \$32,400 in 1982, the last year of earnings covered by this study.

Terminal (final) earnings formula: A formula for calculating benefits that yields pensions based on average earnings in the final years of credited service—often the last 3 or 5 years.

In 1983, most of the 148 plans allowing normal retirement at age 62 or earlier fell broadly into two groups; those permitting retirement at 55 with no more than 30 years' service (55 plans) or those requiring age 60 or 62 (83 plans). The largest growth between 1974 and 1983 occurred in the first group—rising from 29 to 55 plans, or from 16 to 29 percent of the plans studied.³

Alternative requirements. In many instances, plans reduced the normal retirement age to what previously had been an early retirement age. But, as noted above, more years of service were required at these younger ages. At the same time, the plans retained the prior requirements—such as age 65 and no stipulated years of service—as alternatives. This protected older employees with short service.

A total of 131 plans had alternative age and service requirements in 1983, a 54-percent increase from 1974. Usually, age 65 was the alternative retirement age in plans with normal benefits at age 62; retirement by age 62 or 65 was often an alternative in plans with normal benefits prior to age 62. Most plans did not specify any length-of-service requirements for retirement at age 65, but retirement at age 62 typically required 10 to 15 years' service.

Early retirement. Nearly all the plans in 1974 and 1983 permitted retirement before the normal retirement age, but with a reduction in benefits. However, as table 2 indicates,

many plans revised the age and service requirements for early retirement during this period.

The overall effect was to lower age and service qualifications. Twelve fewer plans in 1983 required employees to be at least age 60 before being eligible for early retirement, and none required age 62. In 1983, 158 plans allowed retirement at age 55, up from 143 in 1974. Among plans permitting early retirement at age 55, the average years-of-service requirement dropped from about 10 years and 3 months to about 7 years and 2 months in 1983. These developments are shown in the following summary of age and service requirements for early retirement:

Age	Years of service	1974	1983
Total	—	182	185
None	30	8	8
55	0	20	22
55	5	8	10
55	10	52	69
55	15	23	24
60	10	10	10
60	15	15	5
Age + service = 85	—	9	10
Other age and service requirements ...	—	37	27

Retirement benefits

To permit evaluation of changes in pension benefit formulas, we calculated normal and early retirement benefits

for hypothetical employees retiring at age 65 on January 1, 1975, and January 1, 1983, after 20 or 30 years of service.⁴ Benefits were computed using three earnings assumptions for the employees' final year of work. For the 1983 retirees, \$20,000, \$30,000, and \$40,000 were selected to represent workers at lower, middle, and upper earnings levels in 1982, the last year before retirement. For the 1975 retirees, earnings of \$11,000, \$16,500, and \$22,000 were derived by adjusting the 1982 figures downward to reflect the 81-percent average earnings growth from 1974 to 1982 as calculated by the Social Security Administration.⁵

Table 3 summarizes our computations for three employee groups: 1) professional and administrative employees; 2) technical and clerical employees; and 3) production employees. To develop data by employee group, we averaged calculated benefits for individual pension plans across all plans covering employees in that group. (Averages were not weighted by the number of plan participants.⁶) Also included in the table are replacement rates, which express the pension benefit as a percentage of preretirement earnings. Replacement rates yield insights into the adequacy of pensions in maintaining the worker's preretirement standard of living. In this analysis, the calculated pension payments were divided by the corresponding final-year earnings levels chosen for each year.⁷

Normal retirement benefits. Private pension benefits replaced, on average, a higher portion of preretirement income in 1983 than in 1975. For blue-collar (production) workers retiring at age 65, replacement rates typically increased by 5 or 6 percent over the time span reviewed. For

example, the replacement rate for production workers with 30 years of service was 25.5 percent for the middle earnings level in 1975, compared with 27.0 percent in 1983. For white-collar workers (professional-administrative and technical-clerical), replacement rates were relatively unchanged at the lowest earnings level, but increased 2 to 3 percent at the higher levels. Replacement rates for technical and clerical workers with 30 years of service, for example, rose from 29.3 percent for the middle earnings level in 1975 to 30.1 percent in 1983—an increase of 3 percent. (See table 3.)

The growth of income replacement rates was much more pronounced when Social Security benefits were added. Total replacement rates (private pension plus Social Security) typically increased by 12 to 14 percent for blue-collar workers and 10 to 14 percent for white-collar workers. For example, the total replacement rate for production workers with 30 years of service was 48.5 percent for the middle earnings level in 1975, compared with 55.2 percent in 1983. During these years, the Social Security taxable wage base was increased from \$13,200 to \$32,000. In addition, Social Security benefits were periodically improved and the method used to determine average earnings (which affects benefit calculations) was modified.

Table 3 also shows that pension replacement rates tended to decline for blue-collar workers as earnings increased—just opposite the pattern for white-collar workers. This reflects differences in the pension benefit formulas between the two groups. Most blue-collar workers were covered by dollar-amount benefit formulas, which yield pensions independent of earnings levels. These plans base the monthly

Table 1. Minimum age and associated service requirements for normal retirement under 187 private pension plans, 1974 and 1983

Minimum service requirements	All plans				Number without age requirements		Plans with age requirements of —							
	Number ¹		Percent				55		60		62		65	
	1974	1983	1974	1983	1974	1983	1974	1983	1974	1983	1974	1983	1974	1983
Total	187	187	100	100	22	38	10	22	21	31	46	52	84	38
No service requirement	59	40	31.6	21.4	—	—	—	—	5	4	10	7	44	28
With service requirements—														
1–4 years	4	3	2.1	1.6	—	—	—	—	3	2	—	—	1	1
5 years	13	7	7.0	3.7	—	—	—	—	1	6	5	7	7	1
10 years	39	36	20.9	19.3	—	—	—	—	6	12	21	26	26	8
11–14 years	1	3	0.5	1.6	—	—	—	—	—	1	3	—	—	—
15 years	12	8	6.4	4.3	—	—	—	—	1	4	5	4	6	—
20 years	9	8	4.8	4.3	—	—	3	1	3	—	2	4	—	—
25 years	4	3	2.1	1.6	—	—	—	—	2	1	2	2	—	—
30 years	30	50	16.0	26.7	17	27	2	11	3	7	6	5	—	—
More than 30 years	5	4	2.7	2.1	1	1	2	—	2	2	—	—	—	—
Sum of age plus service equals ² —														
75	3	3	1.6	1.6	—	—	1	1	—	1	2	1	—	—
76	—	1	—	0.5	—	—	—	1	—	—	—	—	—	—
80	—	3	—	1.6	—	1	—	2	—	—	—	—	—	—
85	5	13	2.7	7.0	2	5	2	6	1	2	—	—	—	—
90 or more	3	5	1.6	2.7	2	4	—	—	1	1	—	—	—	—

¹ The sum of plans does not equal totals because the groups for certain ages were too small to be included. In 1974, two plans had an age requirement of less than 55, one required age 56–59, and one required age 63–64. In 1983, three plans required age 56–59, two required age 61, and one required age 63–64.

² One plan in both 1974 and 1983 with a sum of age plus service requirement also specified a minimum length of service.

NOTE: Because of rounding, sums of individual percentages may not equal totals. A dash indicates no plans in this category.

Table 2. Minimum age and associated service requirements for early retirement under 187 private pension plans, 1974 and 1983

Minimum service requirements	All plans				Number without age requirements		Number with age requirements									
	Number of plans		Percent				Less than 55		55		56-59		60		62	
	1974	1983	1974	1983	1974	1983	1974	1983	1974	1983	1974	1983	1974	1983	1974	1983
Total	187	187	100	100	14	15	10	10	119	133	11	11	27	16	1	—
Plan with early retirement	182	185	97.3	98.9												
No service requirements	20	22	10.7	11.8	—	—	—	—	20	22	—	—	—	—	—	—
With service requirements:																
1-4 years	1	—	0.5	—	—	—	1	—	—	—	—	—	—	—	—	—
5 years	11	12	5.9	6.4	—	—	—	1	8	10	1	—	2	1	—	—
6-9 years	1	—	0.5	—	—	—	—	—	1	—	—	—	—	—	—	—
10 years	66	83	35.3	44.4	—	—	3	3	52	69	1	1	10	10	1	—
11-14 years	1	1	0.5	0.5	—	—	—	—	1	1	—	—	—	—	—	—
15 years	40	31	21.4	16.6	—	—	1	2	23	24	—	—	15	5	1	—
20 years	13	5	7.0	2.7	1	—	3	1	9	4	—	—	—	—	—	—
25 years	—	2	—	1.1	—	1	—	1	—	—	—	—	—	—	—	—
30 years	8	9	4.3	4.8	8	8	—	—	—	—	—	1	—	—	—	—
Sum of age plus service equals ¹ —																
70 or less	4	4	2.1	2.1	2	1	—	1	2	2	—	—	—	—	—	—
75	4	4	2.1	2.1	2	3	2	1	—	—	—	—	—	—	—	—
76-79	—	1	—	0.5	—	1	—	—	—	—	—	—	—	—	—	—
80	3	1	1.6	0.5	1	1	—	—	2	—	—	—	—	—	—	—
85	9	10	4.8	5.3	—	—	—	—	1	—	9	9	—	—	—	—
90 or more	1	—	0.5	—	—	—	—	—	1	—	—	—	—	—	—	—
Plans without early retirement	5	22	2.7	1.1	—	—	—	—	—	—	—	—	—	—	—	—

¹ Three plans in 1974 and eleven plans in 1983 included a minimum years-of-service requirement.

² One plan provided normal retirement benefits at age 60, the other at age 62.

NOTE: Because of rounding, sums of individual percentages may not equal totals. A dash indicates no plans in this category.

pension benefit on a specified dollar amount (for example, \$20) for each year of service. Most white-collar workers, however, were in plans with terminal earnings benefit formulas, which increase pensions as earnings rise. These plans base the pension benefit on the worker's earnings in the last or highest few (usually 3 or 5) years of service.

Benefit reductions for early retirement

Early retirees receive less benefits than their counterparts retiring at the normal retirement age because, on average, they are expected to receive plan payments over a longer time, and their pension funds have accumulated for fewer years. Early retirement benefits are determined by first calculating the normal retirement benefit payable, given the employee's earnings and service, and then applying a "reduction factor" to this annuity. Reductions are either "actuarial" or "arithmetic." Actuarial reductions adjust fully for the longer payment period by considering the employee's age and life expectancy at retirement. Arithmetic reduction factors (which include uniform percentage reductions for each year prior to normal retirement age, reductions varying by age bracket, reductions varying by service, or some combination of these) are not actuarial—although in some instances their effects may approximate the results of using actuarial tables.

Considerable change occurred between 1974 and 1983 in the approach used to calculate reductions for early retirement. As table 4 indicates, most of the 1983 plans specified uniform percentage reduction factors for each year below a

specified age; in 1974, the most common approach called for reductions varying by age.

Nevertheless, the changes that occurred had little effect on the rate of reduction. For employees taking early retirement at age 55 after 30 years of service, the average reduction in 1983 was 4.4 percent for each year between normal retirement age and age 55, about the same as in 1974 (4.3 percent).

The total percentage reduction (as distinguished from the reduction per year below normal retirement age) did decline, however, because of a drop in the normal retirement age from age 63.5 on average in 1974 to 62.6 in 1983. In the plans studied, pensions for early retirement in 1974 at age 55 after 30 years of service were, on average, 36.6 percent less than normal retirement pensions for the same length of service. The comparable reduction in 1983 was 33.5 percent.

One must consider, therefore, the joint effect of reduced age requirements for normal retirement and changes in early retirement reduction factors. The following sections examine changes in benefits to employees retiring at specified ages—62 and 55. The changes, of course, also reflect alterations in formulas for calculating benefits.

Benefits for retirement at specified ages

Age 62. Pensions are usually lower for workers retiring at age 62 rather than age 65 because, for some plans, age 62 is an early retirement age, thereby triggering reduction factors. Total retirement benefits (pensions plus Social Secu-

Table 3. Average retirement benefits for hypothetical employees retiring under 187 private pension plans at age 65 on January 1, 1975, and January 1, 1983, with 20 and 30 years of service by specified final year's earnings

Year of retirement and final year's earnings	Private pension				Combined pension and Social Security			
	Annual benefit		Replacement rate ¹		Annual benefit		Replacement rate ¹	
	20 years' service	30 years' service	20 years' service	30 years' service	20 years' service	30 years' service	20 years' service	30 years' service
Professional and administrative workers								
1975								
\$11,000	\$2,172	\$3,115	19.7	28.3	\$5,899	\$6,842	53.6	62.2
16,500	3,261	4,828	19.8	29.3	7,055	8,622	42.8	52.2
22,000	4,702	6,700	21.4	30.5	8,496	10,494	38.6	47.7
1983								
\$20,000	\$3,950	\$5,748	19.8	28.7	\$11,966	\$13,764	59.8	68.8
30,000	6,118	9,015	20.4	30.7	14,578	17,475	48.6	58.2
40,000	8,740	12,762	21.8	31.9	17,224	21,246	43.1	53.1
Technical and clerical workers								
1975								
\$11,000	\$2,208	\$3,143	20.1	28.6	\$5,935	\$6,870	54.0	62.5
16,500	3,288	4,842	19.9	29.3	7,082	8,636	42.9	52.3
22,000	4,717	6,699	21.4	30.4	8,511	10,493	38.7	47.7
1983								
\$20,000	\$3,994	\$5,777	20.0	28.9	\$12,010	\$13,793	60.7	68.9
30,000	6,144	9,017	20.5	30.1	14,604	17,477	48.7	58.3
40,000	8,745	12,734	21.9	31.8	17,229	21,218	43.1	53.0
Production workers								
1975								
\$11,000	\$2,200	\$3,142	20.0	28.6	\$5,927	\$6,869	53.9	62.4
16,500	2,980	4,211	18.1	25.5	6,774	8,005	41.1	48.5
22,000	3,766	5,397	17.1	24.5	7,560	9,191	34.4	41.8
1983								
\$20,000	\$4,213	\$6,030	21.1	30.2	\$12,229	\$13,760	61.1	68.8
30,000	5,404	8,112	18.0	27.0	13,864	16,572	46.2	55.2
40,000	7,233	10,279	18.1	25.7	15,717	18,763	39.3	46.9

¹Retirement annuity or total retirement benefits (private and Social Security) as a percent of earnings in the final year of work.

Table 4. Early retirement reduction factors in 187 private pension plans, 1974 and 1983

Type of reduction factor	1974		1983	
	Plans	Percent	Plans	Percent
All plans	187	100	187	100
Plans allowing early retirement	182	97.3	185	98.9
Uniform percentage ¹	80	42.8	100	53.4
Less than 3.0	2	1.1	6	3.2
3.0	18	9.6	19	10.2
3.1-3.9	5	2.7	3	1.6
4.0	11	5.9	13	7.0
4.1-4.9	5	2.7	6	3.2
5.0	14	7.5	15	8.0
5.1-5.9	3	1.6	1	0.5
6.0	20	10.7	31	16.6
6.6-6.7	2	1.1	4	2.1
7.2	—	—	2	1.1
Percentage varies by age	99	52.9	83	44.4
Reduction differs for each year of early retirement ²	69	36.9	29	15.5
Reduction differs by age ³	30	16.0	54	28.9
Percentage varies by service	3	1.6	2	1.1
Plans with no early retirement provision	5	2.7	2	1.1

¹ In specific cases, uniform percentage reductions may approximate actuarial reductions, such as early retirement at age 55 with a 5.5- or 6-percent-per-year reduction between age 55 and the plan's normal retirement age of 62.

² Reduction schedule is related to actuarial assumptions of the life expectancy at age that pension payments begin.

³ Rate of reduction is held constant within age brackets, but differs among brackets, some-

times in approximation of an actuarial table. For example, benefits may be reduced by 6.7 percent for each year between age 60 and the plan's normal retirement age, and by 3.3 percent for each year retirement precedes 60. Also includes some plans which reduce benefits arithmetically for each year immediately below normal retirement age and actuarially below a specified age, usually 55.

NOTE: Because of rounding, sums of individual percentages may not equal totals. A dash indicates no plans in this category.

Table 5. Average retirement benefits for hypothetical employees retiring under 187 private pension plans at age 62 on January 1, 1975, and January 1, 1983, with 20 and 30 years of service, by specified final year's earnings

Year of retirement and final year's earnings	Private pension						Combined pension and Social Security			
	Annual benefit		Percent of age 65 benefits		Replacement rate ¹		Annual benefit		Replacement rate ¹	
	20 years' service	30 years' service	20 years' service	30 years' service	20 years' service	30 years' service	20 years' service	30 years' service	20 years' service	30 years' service
Professional and administrative workers										
1975										
\$11,000	\$1,908	\$2,941	87.8	94.4	17.3	25.8	\$4,890	\$5,923	44.4	53.8
16,500	3,117	4,520	95.5	93.6	18.9	27.4	6,154	7,557	37.3	45.8
22,000	4,119	6,274	87.6	93.6	18.7	28.5	7,156	9,311	32.5	42.3
1983										
\$20,000	\$3,794	\$5,676	96.0	98.8	19.0	28.4	\$9,722	\$11,604	48.6	58.0
30,000	5,928	8,800	96.9	97.6	19.8	29.3	12,204	15,076	40.7	50.2
40,000	8,376	12,434	95.8	97.4	20.9	31.1	14,676	18,734	36.7	46.8
Technical and clerical workers										
1975										
\$11,000	\$1,946	\$2,971	88.1	94.5	17.7	27.0	\$4,928	\$5,953	44.8	54.1
16,500	3,146	4,536	95.7	93.7	19.1	27.5	6,128	7,573	37.1	45.9
22,000	4,139	6,276	87.7	93.7	18.8	28.5	7,176	9,313	32.6	42.3
1983										
\$20,000	\$3,840	\$5,705	96.1	98.8	19.2	28.5	\$9,768	\$11,633	48.8	58.2
30,000	5,955	8,804	96.9	97.6	19.8	29.4	12,231	15,080	40.8	50.3
40,000	8,384	12,408	95.9	97.4	21.0	31.0	14,684	18,708	36.7	46.8
Production workers										
1975										
\$11,000	\$1,991	\$2,942	90.5	93.6	18.1	26.7	\$4,973	\$5,924	45.2	53.8
16,500	2,661	3,964	89.3	94.1	16.1	24.0	5,698	7,001	34.5	42.4
22,000	3,432	5,060	91.1	93.8	15.6	23.0	6,469	8,097	29.4	36.8
1983										
\$20,000	\$3,977	\$5,862	94.4	97.2	19.9	29.3	\$9,905	\$11,790	49.5	59.0
30,000	5,332	7,855	98.7	97.0	17.8	26.2	11,608	14,141	38.7	47.1
40,000	6,835	10,209	94.5	99.3	17.1	25.5	13,135	16,509	32.8	41.3

¹ Retirement annuity or total retirement benefits (private and social security) as a percent of earnings in the final year of work.

ity) are also lower because Social Security benefits at age 62 are only 80 percent of those payable at age 65.⁸ For these reasons, the benefit levels and replacement rates shown in table 5 are lower than those shown in table 3.

However, the pace of increase in age 62 private pension replacement rates was double that for workers retiring at age 65. Pension replacement rates grew by 9 to 11 percent for blue-collar workers and by 4 to 12 percent for white-collar workers retiring at age 62. For example, the replacement rate for production workers with 30 years of service was 24.0 percent for the middle earnings level in 1975, compared with 26.2 percent in 1983—an increase of 9 percent. This stems largely from the lowering of age requirements for normal retirement. Because many of the plans in the study lowered the normal retirement age from 65 to 62 or below, more workers could retire at age 62 with unreduced benefits in 1983 than in 1975.

As a result of the changes in provisions, the average reduction for retirement at age 62, compared with benefits

at age 65, was less in 1983 than in 1975. Pensions for age 62 retirees with 20 years of service were typically 88 to 96 percent of the pensions for age 65 in 1975, compared with 94 to 99 percent in 1983. (See table 5.) A similar pattern held for workers with 30 years of service.⁹

Age 55. For most plans, age 55 is an early retirement age. However, Social Security benefits are not payable to workers until they reach age 62. Thus, the benefit levels for age 55 retirees in table 6 are significantly lower than those shown for age 62 retirees in table 5.

Between 1975 and 1983, increases in pension replacement rates for workers retiring at age 55 varied considerably. For workers with 20 years of service, replacement rates increased by 3 to 6 percent for blue-collar workers and 2 to 7 percent for white-collar workers—both substantially below the rate of increase for age 62 retirees. For workers 55 years of age with 30 years of service, replacement rates increased by 11 to 14 percent for blue-collar workers and 11

Table 6. Average retirement benefits for hypothetical employees retiring under 187 private pension plans at age 55 on January 1, 1975, and January 1, 1983, with 20 and 30 years of service, by specified final year's earnings

Year of retirement and final year's earnings	Annual benefit		Percent of age 65 benefits		Replacement rate ¹	
	20 years' service	30 years' service	20 years' service	30 years' service	20 years' service	30 years' service
Professional and administrative workers						
1975						
\$11,000	\$1,324	\$2,158	61.0	69.3	12.0	19.6
16,500	2,099	3,302	64.4	68.4	12.7	20.0
22,000	2,928	4,521	62.3	67.5	13.3	20.6
1983						
\$20,000	\$2,537	\$4,588	64.2	79.8	12.7	22.9
30,000	3,899	6,721	63.7	74.6	13.0	22.4
40,000	5,661	9,556	64.8	74.9	14.2	23.9
Technical and clerical workers						
1975						
\$11,000	\$1,351	\$2,176	61.2	69.2	12.3	19.8
16,500	2,119	3,310	64.4	68.4	12.8	20.1
22,000	2,941	4,520	62.3	67.5	13.4	20.5
1983						
\$20,000	\$2,567	\$4,600	64.3	79.6	12.8	23.0
30,000	3,918	6,716	63.8	74.5	13.1	22.4
40,000	5,664	9,527	64.8	74.8	14.2	23.8
Production workers						
1975						
\$11,000	\$1,329	\$2,150	60.4	68.4	12.1	19.5
16,500	1,872	2,948	62.8	70.0	11.3	17.9
22,000	2,441	3,785	64.8	70.1	11.1	17.2
1983						
\$20,000	\$2,550	\$4,451	60.5	73.8	12.8	22.3
30,000	3,512	6,053	65.0	74.6	11.7	20.2
40,000	4,556	7,590	63.0	73.8	11.4	19.0

¹ Retirement annuity as a percent of earnings in the final year of work.

to 17 percent for white-collar workers. These divergent trends are primarily attributable to plans permitting unreduced pensions for workers with 30 years of service. In 1983, 55 plans permitted normal retirement benefits to employees age 55 or younger with 30 years' service, compared with 29 plans in 1974. Unreduced pensions were provided to employees age 55 or under with less than 30 years' service by only two plans in 1983 and three plans in 1974.

Again, a similar pattern emerges when comparing pension benefits payable at age 55 with those payable at age 65. (See table 6.) Over the period studied, improvements in benefits at age 55 resulted from (1) the increase in plans applying early retirement reduction factors from ages 60 or 62 to age 55 rather than from ages 62 or 65 to age 55 (for example, 25 plans had such changes for professional and administrative employees), and (2) the increase in plans providing normal benefits at age 55 and 30 years' service rather than at age 62 (12 plans for professional and administrative employees).

Supplemental pension benefits

Some retirees receive benefit payments in addition to

those provided by their pension plan's regular benefit formula. These supplemental pension benefits help to compensate early retirees for the lack of Social Security payments.¹⁰

Plans providing supplemental benefits for *early* retirement at employee option covered 11 percent of all plan participants in the BLS 1984 Employee Benefits Survey, and plans providing supplements for *normal* retirement prior to age 62 covered 10 percent of all participants in BLS' 1982 survey.¹¹ Such plans usually offered supplemental payments for employees retiring at age 55 or prior to receipt of reduced Social Security benefits at age 62. Supplemental benefits were frequently equal to or more than the Social Security amount, and either compensated for early retirement reductions, or for the absence of Social Security benefits. The effect was to provide approximately the same total benefit before and after receipt of Social Security benefits.¹²

Finally, some employers offer "open-windows" for early retirement, typically at age 50 to 55 with 10 years of service, either with supplements to age 62 or more liberal early retirement benefits. Such inducements are offered for temporary periods ("windows") of 2 to 6 months at a time. These opportunities are provided to cut payroll costs during

periods of recession, adverse business conditions, or corporate reorganizations. For example, a recent Conference Board survey reported that 36 percent of surveyed respondents offered such "open-windows" at least once from 1970 to 1983. Two of five companies offering such retirements had made more than one offer, with a concentration of the most recent offers in 1982 and 1983.¹³

While financial inducements to retire prior to age 62 do not always make up for the absence of Social Security benefits, a significant group of plans does offer compensating benefits. These include plans with full benefits at age 55 and 30 years' service, plans with normal or early retirement supplements to age 62, plans with temporary "open-windows," and plans with "special early retirement" clauses.¹⁴

A 1985 update

Of the 187 pension plans in this study, 123 reappeared in the 1985 Employee Benefits Survey sample. Changes in age/service requirements for early or normal retirement and in early retirement reduction factors were infrequent since 1983. However, changes in benefit formulas affected 36 plans. A total of 32 plans improved benefits—26 by increasing dollar amount formulas. Changes in benefit formulas affecting three plans could have a negative effect on pension payments, by lowering formula yields or deleting alternative formulas. Although most of the 26 plans with improved dollar-amount formulas raised the rate of benefit accrual by less than 10 percent, nine improved benefits by an average of 48 percent. □

FOOTNOTES

¹ 1982 was the last year in which participation data were available for most plans from the files of the Department of Labor's Pension and Welfare Benefits Administration.

² The latter study is part of a series of annual surveys conducted in private sector establishments employing at least 50, 100, or 250 workers, depending on the industry. Industrial coverage includes: mining; construction; manufacturing; transportation, communications, electric, gas, and sanitary services; wholesale trade; retail trade; finance, insurance, and real estate; and selected services. Findings for 1983 are reported in *Employee Benefits in Medium and Large Firms, 1983*, Bulletin 2213 (Bureau of Labor Statistics, 1984). For information on the background and conduct of the survey, see Robert Frumkin and William Wiatrowski, "Bureau of Labor Statistics takes a new look at employee benefits," *Monthly Labor Review*, August 1982, pp. 41-45.

³ This group includes plans specifying age or service requirements, or both, and those calling for a designated sum of age and service.

⁴ The 1974 survey studied plan provisions in effect as of September 1974. Because January 1, 1975, was closer to this reference date than January 1, 1974, it was chosen as the hypothetical retirement date. Similarly, January 1, 1983, was chosen as the retirement date closest to the plan provisions surveyed in March of 1983.

⁵ *Social Security Bulletin, Annual Statistical Supplement, 1983-1985* (U.S. Department of Health and Human Services, Social Security Administration), table I, p. 30.

⁶ Where a pension plan contained more than one formula, the formula used was that which provided the greatest benefit at a given earnings level and length-of-service combination.

⁷ See the appendix to the article by Donald G. Schmitt, "Today's pension plans: how much do they pay?" *Monthly Labor Review*, December 1985, pp. 19-25, for an explanation of the methodology and assumptions used in calculating pension benefits at age 65. The tabulations in the present article differ from Schmitt's mainly by inclusion of formulas based on contributions as well as other benefit formulas.

⁸ Social Security benefits are reduced by 6.7 percent for each year payments begin prior to age 65.

In an effort to modify the trend towards earlier retirement, the Social Security Act was amended in 1983 to move the normal retirement age to

age 66 and age 67, commencing in the year 2000. See the *Social Security Bulletin, Annual Statistical Supplement, 1983*, p. 12.

⁹ The other patterns noted previously for age 65 retirees were generally found for age 62 retirees: replacement rates declined as earnings increased for blue-collar workers but rose for white-collar workers; replacement rates increased even more sharply for workers with 30 years of service compared with those with 20 years; and replacement rates were higher for blue-collar than white-collar workers at the lowest earnings level, but the opposite was true at the two highest earnings levels.

¹⁰ According to a 1982 survey by Charles D. Spencer & Associates, monthly supplements were the "most frequently offered inducement" for early retirement. See *EBFR Research Reports*, January 1983, pp. 110.11.1-11.

¹¹ See *Employee Benefits in Medium and Large Firms, 1984*, Bulletin 2237 (Bureau of Labor Statistics, 1985), p. 12, for supplements for early retirement. Information on normal retirement supplements is based on unpublished tabulations from the 1982 Employee Benefits Survey.

¹² Such benefits are separate from level income options, which reduce pension benefits at age 62 to compensate for higher benefits during the initial years of retirement. Another 4 percent of plans in the BLS 1981 Employee Benefits Survey had formulas integrated with Social Security, but for early retirees the Social Security offsets were delayed to age 62 or 65. Such provisions had the effect of offering a supplemental benefit for the period of such postponement, and frequently compensated for the reductions required for early receipt of benefits. See Donald Bell and Diane Hill, "How Social Security payments affect private pensions," *Monthly Labor Review*, May 1984, p. 20.

¹³ Shirley H. Rhine, *Managing Older Workers: Company Policies and Attitudes*, Report No. 860 (New York, The Conference Board, 1984), pp. 10-11. See also Elizabeth L. Meier, *Early Retirement Incentive Programs: Trends and Implications*, Public Policy Document, 8604 (Washington, American Association of Retired Persons, December 1986).

¹⁴ For a discussion of trends toward earlier retirement and the implications for public policy, see Employee Benefit Research Institute, *Economic Incentives for Retirement in the Public and Private Sectors*, EBRI Issue Brief No. 57 (August 1986); and General Accounting Office, *Retirement Before Age 65: Trends, Costs, and National Issues*, Report GAO/HRD-86-86 (Washington, 1986).