SOCIAL SECURITY OVERSIGHT: EARLY RETIREMENT

HEARING

BEFORE THE

SPECIAL COMMITTEE ON AGING UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

PART 2—WASHINGTON, D.C.

JUNE 18, 1981

Printed for the use of the Special Committee on Aging

U.S. GOVERNMENT PRINTING OFFICE

83-457 O WASHINGTON: 1981

SPECIAL COMMITTEE ON AGING

JOHN HEINZ, Pennsylvania, *Chairman*

PETE V. DOMENICI, New Mexico	LAWTON CHILES, Florida
CHARLES H. PERCY, Illinois	JOHN GLENN, Ohio
NANCY LANDON KASSEBAUM, Kansas	JOHN MELCHER, Montana
WILLIAM S. COHEN, Maine	DAVID PRYOR, Arkansas
LARRY PRESSLER, South Dakota	BILL BRADLEY, New Jersey
CHARLES E. GRASSLEY, Iowa	QUENTIN N. BURDICK, North Dakota
DAVID DURENBERGER, Minnesota	CHRISTOPHER J. DODD, Connecticut

JOHN C. ROTHER, *Staff Director and Chief Counsel*
E. BENTLEY LIPSCOMB, *Minority Staff Director*
ROBIN L. KROPF, *Chief Clerk*

CONTENTS

SOCIAL SECURITY OVERSIGHT: EARLY RETIREMENT

THURSDAY, JUNE 18, 1981

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, D.C.

The committee met, pursuant to recess, at 2:40 p.m., in room 1318, Dirksen Senate Office Building, Hon. John Heinz, chairman, presiding.

Present: Senators Heinz, Cohen, Pressler, Grassley, and Pryor.

Also present: John C. Rother, staff director and chief counsel; E. Bentley Lipscomb, minority staff director; Larry Atkins and Michael Batten, professional staff members; Kathleen M. Deignan, minority professional staff member; Robin L. Kropf, chief clerk; Nancy Mickey and Letitia Hoadley, clerical assistants; and Eugene R. Cummings, printing assistant.

OPENING STATEMENT BY SENATOR JOHN HEINZ, CHAIRMAN

Senator HEINZ. The committee will come to order.

Today, the Special Committee on Aging holds the second of several hearings on the complex issues involved in restoring fiscal stability and public confidence in the social security system.

The purpose of today's hearing is to explore the increasing trend toward early retirement and its impact on social security.

Closing the age 62 early-retirement option is seen by many as a way of saving money in the social security system. Even with reduced benefits for early retirement, the number of people choosing this option has increased dramatically.

In 1956, only 12 percent of all workers under 65 chose to retire early. In 1978, this figure had risen to 68 percent. Because Americans are living longer and healthier lives, this trend toward early retirement is significantly increasing the cost of the early retirement option.

The administration has recently proposed reducing benefits for early retirees at age 62 from the present 80 to 55 percent of the full benefit beginning next year. While this proposal may have served to highlight the need to look carefully at this trend and its impact on the system, it also has caused a tidal wave of very adverse reaction and a further erosion of public confidence in the social security system. Criticism of the administration's proposal was especially harsh from people who are on the verge of retirement. Among the public in general, the proposed changes have alarmed working and retired people alike who view them as changing retirement benefit rules in the middle of the game. In my judgment, we will not change those rules.

On May 20, I cosponsored, along with some of my colleagues from this committee, I might add, the resolution opposing any precipitous or unfair reduction in social security benefits, and singled out for opposition any sudden cut in early retirement benefits. The resolution passed by a vote of 96 to 0.

The early retirement option is important for many older workers. Some two-thirds of those eligible take it. At the same time, studies show that half of the people who are retired say they would prefer to work in some manner.

A major purpose of our hearing today is to explore why, if so many older people express this preference, they are not working. Older workers who want to continue to work beyond the early retirement age of 62 and the so-called normal retirement age of 65 should have the opportunity to do so. The choice to continue working is as valid and important as the choice or need to retire early.

Employment and retirement are not mutually exclusive concepts. I believe it is important to remember the diversity of our older population and create a climate in which each individual has the opportunity to exercise his or her choice concerning these issues.

We must examine carefully retirement trends and the incentives and disincentives in public policy which are relevant to those trends. We need to take a closer look at private pensions and personnel policies in order to identify discriminatory obstacles which force older workers into early retirement. And we need to examine positive incentives and new approaches proposed by employers, labor unions, and others concerned with older workers in order to promote retention policies and new employment opportunities for older workers.

While all these complex issues cannot be addressed here today, I do plan a further examination in subsequent hearings this year on employment and the older worker, and I expect, nonetheless, this hearing to throw valuable light on the trend toward early retirement.

This afternoon, the committee will hear from a panel of distinguished witnesses representing the academic, industrial, and labor communities, concerning these important issues.

Senator Lawton Chiles, the ranking minority member of our committee, and Senator Quentin Burdick are unable to attend today's hearing because of prior commitments. They have submitted statements for the record and without objection they will be inserted into the record at this point.

[The statements of Senators Chiles and Burdick follow:]

Statement of Senator Lawton Chiles

This hearing is a particularly important one as we look at the state of the social security trust funds and legislative options for change.

We have heard much of the continuing trend toward early retirement and the problems this poses for the financial solvency of the social security system.

I'll have to give credit to the administration for jumping into this fray with both feet, though I'm not sure they looked before they leaped. Their proposals for immediate and drastic reductions in early retirement benefits would certainly have reversed this trend.

I think we have had a judgment from the people on the administration's early retirement proposal—to reduce current benefits by almost one-third for all those who were planning to retire at age 62 next year. Such a drastic cut, so soon, would be unfair to all our Nation's workers.

But I also fear the administration never considered what impact such a quick and major change in early retirement policy would have on employers and on our Nation's struggling system of private pensions.

We do want to make it possible to reverse the trend toward early retirement. We all must rethink our attitudes toward retirement. Both the worker and his employer should be encouraged to see the value of delayed retirement.

But we need to allow time for these changes to evolve. I am very concerned that if we change the system, like the administration proposed, there be something there when people reach age 62 or 65.

If the retirement age is to be increased, we must also increase the availability and value of jobs for those over 65. Congress can do part of this by removing, over time, some of the incentives in the social security laws which encourage early retirement. A lot will have to be done by others.

The Social Security Reform Act of 1981, which I introduced in February, would make three changes in the law to help accomplish these goals:

(1) My bill would make retirement solely on the basis of age illegal at any age. Presently, it is legal in the private sector to force workers to retire solely because they have reached age 70.

(2) Beginning in 1986, my bill would completely remove the earnings limitation for those over 65. I would like to remove it earlier, but I believe that social security's short-term funding problems make it unwise to act before 1986.

(3) Effective January 1, 1982, I propose an "older worker tax incentive" by removing the social security payroll tax for employers and employees based on wages earned by workers over 65. For the employer, this is a direct economic incentive to hire and retain older workers. For older workers the incentive is more take-home pay. Under the terms of my bill, general revenues would replace any lost income to the social security trust funds. This is not a fiscal shell game. Income taxes generated by those working beyond age 65 would more than pay for the cost of these changes.

I believe these provisions would help to pave the way for change, but as a Nation, we have a long way to go.

This committee held hearings last year on "Work After 65: Options For The 80's." We found a number of seeming contradictions.

Despite a change in law raising the mandatory retirement age in the private sector from 65 to 70, large numbers of older workers are still deciding, even encouraged, and in some cases being coerced, to retire early.

There is also a great deal of evidence that many older citizens want to continue working. National opinion polls in 1974 and 1978 have shown us this.

Little is being done to stimulate work opportunities for older persons, even though a number of major corporations have shown the way with very innovative and flexible programs. I would like to mention specifically IBM, the Xerox Corp., the Polaroid Corp., the Bankers Life & Casualty Co. of Chicago, and the Atlantic Richfield Co.

I am pleased that we will be adding to this evidence today, hearing from the Grumman Aerospace Corp. I had the opportunity to take earlier testimony on Grumman's older worker policies from a representative of the Grumman manufacturing facility in Stuart, Fla. In Florida, Grumman pursues a policy of actively retaining older employees for a longer period of time and aggressively seeking to rehire retired employees, especially when they are looking for special skills.

The experience of these companies has been particularly enlightening. They have pretty well allowed us to lay to rest many myths about older workers: They are not accident-prone. They generally have better attendance records then younger workers. They do just as well or better than younger workers when new learning is required for a job.

As I've said before, I believe expanding job opportunities for older workers is cost-effective for our country—and it is a way to insure dignity for older workers. It is time to encourage more options so current trends will begin to change.

Statement of Senator Quentin N. Burdick

Mr. Chairman, it is certainly appropriate that we focus today on the question of early retirement as it relates to possible changes in the social security system, because no aspect of the administration reform package stirred more criticism than its proposal for sudden and severe cutbacks in early retirement benefits. The outcry in Congress and the country was immediate, and rightly so. The proposal was fundamentally unfair to those who are now approaching early retirement and who have carefully planned retirement budgets based on existing benefits. I was pleased that the Senate voted 96 to 0 on May 20 to reject any such precipitous and drastic reduction in benefits.

I know that this hearing is designed to explore the full range of early retirement issues and that the administration has indicated its willingness to compromise on this issue. I do not wish to beat a dead horse, but the comments of Robert J. Myers, Deputy Commissioner of the Social Security Administration, at Tuesday's hearing before this committee, reflected the same insensitivity to the problems of older Americans that gave rise to the administration's ill-conceived proposal on early retirement. It appears that this dead horse is still kicking.

In response to questions from Senator Bradley, Mr. Myers expressed doubts about surveys that show that 70 percent of those who take early retirement cite poor health as the principal reason. He had no evidence to support his view that most of those who claim poor health are not in fact unhealthy; he just doesn't believe them. Mr. Myers went on to make the astonishing statement that even those who are actually in poor health would benefit from continuing to work and not taking early retirement. This statement is as unfathomable as it is offensive.

We do need to make some hard decisions about what changes in the social security system are necessary to preserve its financial solvency. We may well have to find ways of providing incentives for healthy, older Americans to stay on the job past age 62. But this process is not furthered by the kind of careless and unfeeling statements made by Mr. Myers on Tuesday.

I hope that the administration will demonstrate more understanding and sensitivity toward those who are old, or poor, or disabled, or infirm, than that displayed by Mr. Myers. I trust these hearings will proceed with that lesson in mind.

Senator HEINZ. Before I call on our first panelists, I would like to yield to Senator Cohen from Maine for any comments he would wish to make.

STATEMENT BY SENATOR WILLIAM S. COHEN

Senator COHEN. I do have a prepared statement, but I ask unanimous consent that that be made a part of the record.

Senator HEINZ. Without objection, that statement will be made a part of the record.[1]

Senator COHEN. First, I want to commend you for the continuation of these hearings and perhaps point out for the benefit of the panelists, that Senator Heinz, as a former member of the House Committee on Aging, over the years has expressed a great deal of interest in the older citizens and older work force. He was, along with Representative Claude Pepper, one of the leading voices in trying to eliminate what we thought was a fundamentally discriminatory practice, that of age discrimination aimed at our citizens over the age of 65.

My own judgment is that the issue of mandatory retirement almost amounted, perhaps, to a constitutional level that we have invented in our system, a belief and a protection that if people are similarly situated but treated differently, there is a denial of equal protection. I believe that the converse is also true, that is, that people who are not similarly situated, who are different, who have different abilities, capabilities, and desires, are suddenly treated the same—that is, they are all treated alike at the age of 65, and they are forced to retire. That too is a denial of equal protection of the law.

Under the Constitution, we want to preserve the uniqueness of the individual and have each person treated as the individual within the Constitution.

[1] See next page.

But, Mr. Chairman, the purpose of this hearing, I think, is to explore some potential remedies we might propose in trying to come to grips with running our social security system.

The size of our work force is declining. We are growing older as a society with half of the population, for the first time ever, over the age of 30. We are living longer and we are retiring earlier and we also have a situation of what is referred to as COLA, the cost-of-living adjustment. That is also involved in our social security system.

I think if you look at it from the perspective of the working person today and the potential for setting the jaws of the young against the older generation—their parents—it is rather clear that what we have is an inverted triangle resting on the backs of the younger people in the work force. There is a tremendous expansion of the number of people retiring with the narrowing base of those who have to support that system. If we continue to have older people who are living longer but retiring earlier—and if you factor into that a system that automatically adjusts for higher and higher inflationary rates tied to the Consumer Price Index, then you can see that the system is expanding at the top with a very narrow work base at the bottom. That system cannot continue much longer in the future without some fundamental reforms.

With that, I commend you again, Mr. Chairman, and look forward to hearing from the witnesses, who have some expertise in their fields to give us some guidance as to what we might do to encourage people to work longer, and amend some of the laws providing incentives for early retirement.

But certainly we will also have some constructive proposals to save the social security system.

Senator HEINZ. Senator Cohen, thank you.

Let me say, although it is unnecessary, that I commend you for your interest in these hearings and in the problems of our senior citizens generally. You have an absolutely impeccable record of attendance at our hearings. You have contributed much, and you are indeed an extremely valuable member, and I compliment you for that.

Senator COHEN. Please do not hesitate to offer those words at any time in the future.

Senator HEINZ. They are right here on the note paper that you gave me.

[The prepared statement of Senator Cohen follows:]

PREPARED STATEMENT OF SENATOR WILLIAM S. COHEN

Mr. Chairman, It is an indisputable fact that the population of the United States is getting older. In fewer than 20 years, the number of people 65 and older will exceed 31 million. Already, over half the population, for the first time, is over 30 years of age.

This "graying of America" will have a profound effect on the work force. What we have come to expect for the last few decades for older people after age 65 will, inevitably change. Older workers who traditionally worked until they reached 65 and were expected to retire on social security benefits, a company pension, and, perhaps, investments are no longer part of this longstanding pattern. Changes in demography, family situations, improved health and longevity patterns, changes in the economy, and other powerful forces have either forced older people to work longer, or encouraged them to seek work opportunities past the normal retirement age.

Today's older workers differ from those of previous decades: They are healthier, they began working later than their predecessors, and—although the average level of formal education of older workers several decades ago was far below that of younger employees—the gap has been closing and will close even further in the 1980's.

With the marked decline in death rates, the potential length of productive working life has increased greatly. Yet people have been ending their working careers earlier and earlier, some voluntarily, some under duress. Many now wish they hadn't, and many of those still at work say they would like to, or will have to, continue working beyond age 65.

I hope that today we can analyze the reasons why more and more older people have left the work force in recent decades. Public policy decisions will depend on finding out why they chose to leave. Different consequences follow, for example, if early retirement provisions or social security changes have induced people to shorten their careers than if other forces such as changed health or life expectancy have been involved.

Because of the many factors which have encouraged older people to stop working, the Bureau of Labor Statistics has projected a continued decline in the percentage of older people who stay on the job. However, a number of forces are emerging that are slowing or reversing this decline and which could encourage older people to extend their work lives. According to the Work in America Institute policy study, "The Future of Older Workers in America" conducted by a number of public policy experts:

The rapidly rising cost of social security may lead to raising the retirement age, taxing benefits, or reducing the protection against inflation.

Raising from 65 to 70 the age at which a firm may force an employee to retire has inevitably led more people to remain at work.

Many employers have felt the need to retain older workers to take advantage of their experience.

Inflation so erodes pensions that many people continue working as an economic necessity.

Continued good health has convinced many older people that they do not want to retire.

The higher education level of older workers means that more of them have interesting work; therefore they have a stronger desire to stay on the job.

Greater use of flexible hours and part-time work makes jobs more attractive to older people.

Other factors continue to discourage the extension of working life by older people, which I hope we will look at closely today: Work sharing, "30-and-out" pensions allowing employees to retire after working 30 years, and the pressures to keep a younger work force.

All of the witnesses here today are experts on these topics, and I look forward to hearing of their experiences and perspectives as we continue to examine the issue of income security for older Americans.

Senator HEINZ. I would like to call on our first witness, Robert Clark of North Carolina State University at Raleigh.

STATEMENT OF ROBERT L. CLARK, RALEIGH, N.C., ASSOCIATE PROFESSOR, DEPARTMENT OF ECONOMICS, NORTH CAROLINA STATE UNIVERSITY AT RALEIGH

Mr. CLARK. Thank you.

I have been asked to do several things in my testimony. The first is to give you a little background in terms of the trend toward early retirement, with labor force statistics and perhaps give you a framework for review, and then to look at some of the incentives that the Senators have been discussing and, finally, examine some of the proposed reforms.

First, if one reviews the history of the United States, we do observe a long-term decline in the labor force participation of men over 65. It is not a recent phenomenon but has been continuing since the late 19th century. But what is more recent is the decline in the labor force participation rate of younger men. Women do not seem yet to have been affected by the tendency to move out of the labor force. In fact, women between 24 and 64 have been entering the labor force in greater numbers, so these labor force participation rates have been rising, although there was a cessation of that rising during the 1970's.

Just briefly, let us review the labor force participation rate of men 65 and over. This rate declined from 50 percent in the mid-1940's, to 20 percent in 1970. So there has been a 30 percent point drop for men over 65. For men 55 to 64, the participation rate remained in the high eighties, until the beginning of the 1970's; and from 1970 to 1979, the participation rate dropped from 83 to 73 percent.

Also there has been a noticeable and again more recent decline of the participation rate of men age 45 to 54, declining from the midnineties to about 91 percent in 1979.

The question then arises: Can we explain these trends? Incentives, economic framework, and individual behavior I think provide much of our answers.

Senator Heinz had suggested earlier that people tell us that they want to continue working and yet they leave the labor force. That may be a paradox that we need to analyze.

The question is: What do people mean when they answer survey questions like that. I think we have to be careful concerning the interpretation of survey data that asks people do they want to continue work, in part, because it is my guess that what they are responding to is, yes, I would like to continue to work if I can stay on my same job at my old wage rate and still draw my pension benefits.

So it may be a combination of those effects that leads one to answer that question. So be careful when you review interview data along those lines.

What I think is important in why people have been leaving the labor force are the incentives that they have, both public and privately promulgated.

First, if we look at the gain people have from work, they clearly receive cash wages. They receive a variety of fringe benefits—life insurance, health insurance, and the like. If we look at private pensions and try to determine exactly what does a person gain from continued work in private pension benefits, one can clearly show that under certain circumstances, in fact in most plans, there comes a point after which one becomes eligible for benefits that continued work does not increase the value of their pension in a present value sense. If you take the flow of benefits starting at one age, let us say 63, and see what is the present value of that stream of benefits over the rest of one's life and compare it to the present value of the stream of benefits starting at age 64, you can calculate what the gain in one's pension compensation would be. Clearly under most defined benefit plans you observe that that gain declines with age, declining for a variety of reasons. One of the reasons is that firms have the option of not providing any additional benefits after the normal retirement age. Say 65 is the normal age. Then firms do not have to continue service or salary after that.

Another reason is that firms have special early retirement options that enable people to take early retirement and they are not penalized, that their benefits are lowered in any actuarial fashion for taking early retirement. Put that another way, if the person continues to work, their benefits do not rise in a manner that would be justified by an actuarial calculation.

The pension benefits clearly can influence people's retirement decisions. We were just mentioning cost-of-living adjustment. It is clearly possible for pension benefits to be adjusted after retirement and in fact there is a select group of Federal workers that receive these cost-of-living adjustments while most people in the private sector of the economy do not. Whether or not one's benefits after retirement are adjusted clearly will influence the decision on whether one continues to work. If we are in a world in which, through public pressure, wage increases are held down such that one can retire and get a raise in their pension benefits but their cash wage remains constant if they continue to work. Clearly social security has many of the same effects.

One of the major reasons I would argue that the trend toward early retirement has continued over this period of time has been the growth in development of the social security system. That is, large liberalization in the benefits over time which I would argue were basically unexpected by many people. So you can imagine people on the verge of retirement now getting increases in their benefits, seeing that as an increase in their wealth, and choosing to retire earlier than they would have.

So the trend in the social security system has had an effect. Having said that, one can examine the current structure of the social security system. Clearly as one becomes eligible for social security I would argue that the access to benefits, that is, current eligibility, has an effect on one's decision to retire or not to retire. So access to benefits is an important determination of retirement. But then if one imagines continuing to work and examining the effect on one's benefits, there are really three effects.

First, the earnings test. If one begins to draw social security benefits and continues to work, their social security benefit is reduced after an earnings allotment—a minimum amount of earnings, $1 per every $2, in effect a 50-percent tax on earnings. Clearly that has an effect to entice people to work less.

The second effect is that by continuing to work you can raise your earnings history on which social security benefit is calculated. This effect acts as an addition to your future benefits and, therefore, that would have an effect of keeping the person in the labor force.

And, finally, there is the actuarial adjustment for staying in the labor force between 62 and 65 and the bonus for deferred retirement after 65 that would also affect an individual's decision. Clearly what one has are penalties and subsidies for continued work. By working longer you are penalized by the earnings test but you are receiving some augmentation of the future social security benefits from the two other effects, the recalculation based on continued earnings and the actuarial adjustment. All of these effects will likely have an influence on the person's decision to remain in the labor force.

There are many other effects, policies, programs, and personal characteristics that influence people to leave the work force, clearly health, a person's wage rate, presence of wife or husband, health of wife or husband, and presence of dependents in the family. All of those have an influence. Becoming unemployed tends to entice older workers to leave the labor force and the continuing existence of inflation also has an effect on people leaving the work force.

I discuss this in more detail in my prepared statement and some background papers have been made available to the staff.

In looking to current proposals to reform or modify the social security system, one should examine first what is the current problem, what is happening and what are the options that face the Congress.

First, the long-term financial structure of the system is primarily in deficit because of a changing demographic structure that the chairman mentioned. Given that we have this changing demographic structure, what are the options that they face. Clearly I think they can boil down to only two options, one, either there will be higher taxes that people will pay in the future or, two, there will be lower benefits. Clearly there are a number of benefits under each of those that one can propose to affect the overall financial structure of the program. Personally I have argued in the past that the most appropriate way I think of alleviating the situation is through lowering benefits in a particular manner and that is raising the age of eligibility for the current age of full benefits from 65 to 68. One could raise early retirement options from 62 to 65 or you could penalize even greater the 62 to 65 range that has been proposed. When these options are proposed, one should keep in mind that if one raises the age of eligibility from 65 to 68, that there will likely be an effect on the disability program.

If you change the age of disability to 68, the cost of the disability program will rise as people remain in disability status for extra years, even if you are reducing the cost of the OASI program. In conjunction with raising the age of eligibility, I would eliminate the earnings test for those over 68, for people that defer benefits over age 68. For those deferring benefits over 68, I would raise the deferred retirement credit from its current—next year's 3 percent up to a more actuarially fair basis.

Finally, it seems only fair that Federal workers be brought under the social security system. Any program that has a large amount of income transfers should be supported by all the population. There is no conceivable reason why Federal workers should continue to be eliminated from the social security system while other workers are incorporated in. Many private workers also have private pensions. Clearly that is not a legitimate reason for keeping Federal workers out. These programs would substantially affect the long-range health of the system, would have the additional effect of keeping them in the labor force longer as well as lowering their lifetime stream of benefits. These programs also eliminate the need for new taxes in the future. One would suspect that there would be many modifications of private pensions to meet changes in the social security system that would also have the effect on people's security system.

Senator HEINZ. Before I leave you, you were moving so fast on all these things that you advocated and you did very well. You came in on the money. I am not sure I got all of them though. One of the things you said is going from 65 to 68.

Mr. CLARK. Yes.

Senator HEINZ. Increasing the benefits for those who were past 65 from 3 percent to——

Mr. CLARK. Those who were past 68.

Senator HEINZ. Now 65, you shift it to 68. But you did not specify a number.

Mr. CLARK. Ms. Rappaport is our actuary and she can give us a number. But I would say this, probably somewhere in the neighborhood of 8 or 9 percent.

Senator HEINZ. You said, keep the Federal workers in—and what other points did you make?

Mr. CLARK. Eliminate the earnings test for those over 68.

Senator HEINZ. Those are the four.

Senator COHEN. Let me just ask on that point about Federal workers. Is that a matter of equity or is it actuarially desirable?

Mr. CLARK. It is a matter of equity across individuals. I think there have been a number of studies that have reported on this. I think virtually all the commissions I have seen have supported that. It would have a minor effect on the actuarial soundness of the system.

Senator COHEN. I will pursue that later.

You are talking about equity but not about actually solving or salvaging social security.

Mr. CLARK. It has a minor effect on reducing the overall long-term deficit. But it is a positive effect.

Senator HEINZ. Thank you very much, Professor Clark.

The plan was to do a panel but, Senator Pryor, if you have one question, by all means.

Senator PRYOR. One question.

You say you would abolish the earnings test for those over 68 but retain it for those retiring before age 68.

Why wouldn't you abolish the earnings test for those retiring at an earlier age than 68? Why would you not abolish the earnings test altogether?

Mr. CLARK. If you were going to maintain the relationship between the accumulation of future benefits—by deferring benefits, one's subsequent benefit from—let's take between 62 and 65, or what I was suggesting, 65 and 68—one has a choice. If you eliminated the earnings test, then people would start drawing a benefit at, let's say, 65, and continue that over the rest of their lives. If you eliminate the earnings test, then you would want to eliminate any actuarial gain from continued work and not receiving social security benefits.

Senator PRYOR. I have always considered the earnings test to have a dehumanizing effect. I feel very strongly that there should be no earnings test once a person begins to draw social security.

Mr. CLARK. That is what I am saying. Once you reach the age of full benefits, then there would be no further earnings test. So if you say 68 is the age for normal full social security benefits, then there would be no earnings test after that point.

[The prepared statement of Mr. Clark follows:]

Prepared Statement of Robert L. Clark

EARLY RETIREMENT INCENTIVES[1]

Introduction

The decline in the labor force participation (LFP) rates of older men in the past three decades has been one of the most prominent factors in the changing composition of the U.S. labor force. The LFP rate of men aged 65 and over has declined substantially since the late 1800's. Table 1 shows that the participation rate for these older men dropped from 45.8 percent in 1950 to 20 percent in 1979. By contrast, the LFP of women aged 65 and over has declined only slightly. The decline in the work effort of younger males is a more recent phenomenon. The LFP rate for men aged 55 to 64 fluctuated around 94 percent between 1890 and 1930 before declining during the depression years to 88.7 percent in 1940 and remaining at this level through the 1950's. Since 1960 the LFP of men aged 55 to 64 has declined significantly and the rate of decline has accelerated in the 1970's. Table 2 shows that this LFP rate dropped from 83 percent in 1970 to 73 percent in 1979. The LFP rate of men aged 45 to 54 has historically ranged between 95 to 98 percent. Until 1967, the LFP rate of this group was over 95 percent in each of the Bureau of Labor Statistics annual surveys (see table 3). By 1979, however, the participation rate had dropped to 91.1 percent. The trends for women in these age groups show substantial increases in the market work effort of older women, although the rise seems to have slowed during the 1970's.

TABLE 1.—CIVILIAN POPULATION AND LABOR FORCE, BY SEX, FOR INDIVIDUALS 65 YEARS AND OVER

Year	Total			Males			Females		
	Population [1] (thousands)	Labor force (thousands)	LFP (percent)	Population [1] (thousands)	Labor force (thousands)	LFP (percent)	Population [1] (thousands)	Labor force (thousands)	LFP (percent)
1950	11,378	3,038	26.7	5,358	2,454	45.8	6,021	584	9.7
1955	13,718	3,306	24.1	6,379	2,526	39.6	7,358.	780	10.6
1960	15,356	3,194	20.8	6,909	2,287	33.1	8,398	907	10.8
1965	17,461	3,108	17.8	7,638	2,131	27.9	9,760	976	10.0
1970	18,947	3,221	17.0	8,075	2,164	26.8	10,887	1,056	9.7
1971	19,294	3,145	16.3	8,192	2,089	25.5	11,126	1,057	9.5
1972	19,917	3,107	15.6	8,287	2,022	24.4	11,667	1,085	9.3
1973	20,295	2,963	14.6	8,368	1,908	22.8	11,843	1,054	8.9
1974	20,709	2,920	14.1	8,594	1,925	22.4	12,146	996	8.2
1975	21,297	2,939	13.8	8,783	1,906	21.7	12,446	1,033	8.3
1976	21,772	2,874	13.2	8,946	1,816	20.3	12,902	1,058	8.2
1977	22,214	2,910	13.1	9,179	1,845	20.1	13,148	1,065	8.1
1978	22,701	3,042	13.4	9,380	1,923	20.5	13,333	1,120	8.4
1979	23,343	3,073	13.2	9,617	1,928	20.0	13,726	1,145	8.3

[1] Population figures are derived from data on the size of the labor force and the labor force participation rate for each year.

Source: U.S. Department of Labor, "Employment and Training Report of the President" (1979), pp. 237–41, and unpublished data from the Department of Labor.

[1] This paper is based, in part, on "Reversing the Trend Toward Early Retirement," Washington: American Enterprise Institute, 1981 and "Employment of Older Persons" prepared for the Technical Committee on Employment, White House Conference on Aging.

TABLE 2.—CIVILIAN POPULATION AND LABOR FORCE, BY SEX, FOR INDIVIDUALS 55 TO 64 YEARS OF AGE

Year	Total			Males			Females		
	Population [1] (thousands)	Labor force (thousands)	LFP (percent)	Population [1] (thousands)	Labor force (thousands)	LFP (percent)	Population [1] (thousands)	Labor force (thousands)	LFP (percent)
1950	13,462	7,633	56.7	6,667	5,794	86.9	6,811	1,839	27.0
1955	14,308	8,513	59.5	6,965	6,122	87.9	7,357	2,391	32.5
1960	15,412	9,386	60.9	7,373	6,400	86.8	8,027	2,986	37.2
1965	16,721	10,350	61.9	7,994	6,763	84.6	8,727	3,587	41.1
1970	18,248	11,277	61.8	8,583	7,124	83.0	9,658	4,153	43.0
1971	18,505	11,362	61.4	8,693	7,146	82.2	9,825	4,215	42.9
1972	18,903	11,361	60.1	8,867	7,138	80.5	10,033	4,224	42.1
1973	19,115	11,182	58.5	8,944	7,003	78.3	10,168	4,179	41.1
1974	19,288	11,187	58.0	9,083	7,030	77.4	10,214	4,157	40.7
1975	19,557	11,226	57.4	9,211	6,982	75.8	10,351	4,244	41.0
1976	19,857	11,279	56.8	9,357	6,971	74.5	10,482	4,308	41.1
1977	20,161	11,411	56.6	9,518	7,043	74.0	10,651	4,367	41.0
1978	20,415	11,555	56.6	9,642	7,087	73.5	10,792	4,468	41.4
1979	20,713	11,719	56.6	9,782	7,140	73.0	10,931	4,579	41.9

[1] Population figures are derived from data on the size of the labor force and the labor force participation rate for each year.

Source: U.S. Department of Labor, "Employment and Training Report of the President" (1979), pp. 237–41, and unpublished data from the Department of Labor.

TABLE 3.—CIVILIAN POPULATION AND LABOR FORCE, BY SEX, FOR INDIVIDUALS 45 TO 54 YEARS OF AGE

Year	Total			Males			Females		
	Population [1] (thousands)	Labor force (thousands)	LFP (percent)	Population [1] (thousands)	Labor force (thousands)	LFP (percent)	Population [1] (thousands)	Labor force (thousands)	LFP (percent)
1950	17,235	11,444	66.4	8,473	8,117	95.8	8,778	3,327	37.9
1955	18,641	12,993	69.7	9,160	8,839	96.5	9,484	4,154	43.8
1960	20,599	14,852	72.1	10,004	9,574	95.7	10,598	5,278	49.8
1965	21,732	15,756	72.5	10,507	10,045	95.6	11,222	5,712	50.9
1970	23,060	16,949	73.5	11,058	10,417	94.2	12,006	6,531	54.4
1971	23,228	17,026	73.3	11,136	10,457	93.9	12,098	6,569	54.3
1972	23,343	16,970	72.7	11,182	10,422	93.2	12,148	6,548	53.9
1973	23,432	16,988	72.5	11,216	10,431	93.0	12,209	6,556	53.7
1974	23,572	17,137	72.7	11,335	10,451	92.2	12,245	6,686	54.6
1975	23,543	17,092	72.6	11,320	10,426	92.1	12,207	6,665	54.6
1976	23,404	16,991	72.6	11,269	10,322	91.6	12,125	6,669	55.0
1977	23,199	16,889	72.8	11,175	10,192	91.2	12,002	6,697	55.8
1978	22,966	16,903	73.6	11,086	10,122	91.3	11,876	6,781	57.1
1979	22,781	16,913	74.2	11,028	10,052	91.1	11,753	6,861	58.4

[1] Population figures are derived from data on the size of the labor force and the labor participation rate for each year.

Source: U.S. Department of Labor, "Employment and Training Report of the President" (1979), pp. 237–41, and unpublished data from the Department of Labor.

This decline in the incidence of work among older persons has reduced the number of persons in the labor force and increased the number of people receiving Government transfers. Table 4 shows that the reduction in LFP of persons aged 45 to 64 has resulted in almost 1 million fewer people being in the labor force in 1979 than would have been in the labor force if the 1970 LFP rates had prevailed in 1979. A further indication of the tendency to leave the labor force is that over half of eligible workers aged 62 to 64 start receiving their social security benefits prior to the age of 65.

TABLE 4.—POTENTIAL AND ACTUAL LABOR FORCE, PERSONS AGED 45 TO 64, 1979

[In thousands]

Demographic group	Labor force, 1970	Labor force, 1979	Labor force, 1979 with LFP rates of 1970	Change in Labor force (col. 2 – col. 3)
Men	17,541	17,192	18,507	−1315
Women	10,684	11,440	11,094	346
Total	28,225	28,632	29,601	−969

Source: Robert L. Clark and David T. Barker, "Reversing the Trend Toward Early Retirement," Washington, American Enterprise Institute, 1981.

Retirement Decisions

Labor supply decisions of older persons are influenced by the availability of retirement income, market wage rates, pension and social security characteristics, personal factors, and labor market opportunities. These factors determine the net value of continued work relative to the individual's desire for retirement. In the remainder of my testimony, I will outline for the committee the direct effects of these factors on the retirement decision.

Social security

Labor force participation may be affected by the social security program through current eligibility for benefits, the amount of benefits, and how the system alters the gain from continued employment through the earnings test and the recomputation of future benefits.

Access to retirement benefits increases the likelihood that older persons will withdraw from the labor force. Current eligibility allows a person the option of retiring and starting pension benefits. Prior to the age of eligibility, the value of future benefits is considered by the individual, however, he may have a difficult time borrowing against future pension benefits. Thus, retirement prior to eligibility might create a cash-flow problem. My own research indicates that current eligibility for social security benefits significantly lowers the probability of being in the labor force by as much as 18 percent. This result indicates that policy changes raising the age of eligibility will increase the LFP rate of the newly excluded group even if the discounted value of benefits is held constant.

Increases in social security benefits or in the replacement rate will increase the probability that older workers will retire. This finding is stronger for persons over age 65 than for early retirees. Unanticipated liberalization in the benefit structure has probably been one of the principal reasons for the decline in LFP of older persons. Thus, current proposals to lower the replacement ratio can be expected to prolong worklife.

A third effect of social security is that it alters the net wage for continued employment. If a worker is receiving benefits, the earnings test reduces benefits by $1 for every $2 of earnings in excess of the exempt amount, $5,500, in 1981. With the earnings test, many older workers will face an effective Federal tax rate, including income and payroll taxes and the earnings test, of over 70 percent. A marginal tax rate of this level can be expected to reduce the labor supply of older workers.

Offsetting these tax rates is the potential increase in future social security benefits due to continued earnings. Continued employment may alter the earnings history used to calculate benefits thereby raising future benefits. In addition, for each month benefits are reduced due to the earnings test workers receive a 5/9 of 1 percent increase in benefits at age 65. Delayed benefits after age 65 have a smaller effect. The increase in future benefits from working acts as an inducement to continue on the job. Recent evidence indicates that the recalculation of benefits and the actuarial increases may be sufficient to offset the earnings test prior to age 65 for some people; however, the size of these effects depend on life expectancy, the appropriate discount rate, and the presence of dependents. Thus, proposals seeking to increase the penalties for early retirement, raise the bonus for deferred retirement, or eliminate the earnings test will encourage continued labor force participation.

Employer pensions

Pension benefits and other pension characteristics may alter individual retirement decisions. The availability and size of pension benefits have consistently been found to be significant factors influencing labor supply of older persons. Several research studies find evidence for a threshold effect of pension income that implies that retirement probabilities rise significantly after a threshold level of income is obtained. All research findings support the hypothesis that pension eligibility and higher levels of benefits lead to earlier retirement.

The parameters of the pension plan alter the net compensation from continued employment. These characteristics include early retirement options, determinants of the benefit formula, and nonaccrual of benefit credits after the normal retirement age. Firms can alter these characteristics in order to reduce the gain in the expected discounted value of pension benefits and therefore, encourage early retirement.

The gain in the discounted value of lifetime pension benefits falls after a person is eligible for full benefits in most defined benefit plans, even if workers continue to accrue benefit credits by working past the normal retirement age. The result is due to the increasing value of benefits given up by working relative to the gain in future benefits. Table 5 shows this result for an earnings formula defined benefit plan for a male worker who has 15 years of credited service and is eligible for full benefits at age 60. Column 4 shows that pension wealth actually falls with continued work after age 64. For example, in this model the worker receives a benefit of $1,744 per year if he retires at age 64. If he works at age 64 his benefit rises to $1,886 the next year; however, the value of the benefit given up ($1,744) exceeds the discounted value of the gain in annual benefits over the remainder of the person's life ($!,623).

TABLE 5.—INCREASE IN THE PRESENT VALUE OF PENSION BENEFITS FROM AN EXTRA YEAR OF WORK [1]

(1)	(2)	(3)	(4)
Age	Present value of increased annual benefit	Present value of benefit not taken	Change in pension wealth (col. 2 less col. 3)
60	1,548	1,231	317
61	1,571	1,350	221
62	1,591	1,475	116
63	1,608	1,607	1
64	1,623	1,744	−121
65	1,634	1,886	−252
66	1,643	2,035	−392
67	1,650	2,190	−540
68	1,654	2,351	−697
69	1,655	2,519	−864

[1] Benefit is derived from a 5-year averaging period where real wages are growing at 3 percent per year and there is no inflation. Worker was initially hired at an annual salary of $6,000.

Source: Robert Clark and Ann McDermed, "Inflation, Pension Benefits, and Retirement," unpublished paper, North Carolina State University, 1980, p. 11.

It is easily illustrated that nonactuarially reduced early retirement benefits will further encourage employees to retire at early ages. This is also true of special early retirement bonuses and the refusal to consider service past the normal retirement age. Firms can clearly change the incentives for older persons to remain with the firm by altering their pension plans. Firms that are now precluded from forcing workers to retire with mandatory retirement policies may attempt to entice them to leave by modifying their pension plans. In addition, social security legislation altering the age eligibility for benefits will cause firms to reevaluate their pension systems for costs and adequacy.

Mandatory retirement

Some firms have adopted personnel policies that require workers to terminate their employment with the company at a specific age. In the private sector, age 65 was the most frequently used age prior to the 1978 Amendments to the Age Discrimination in Employment Act. These amendments preclude the adoption of forced retirement prior to age 70 in most jobs.

Several studies have attempted to estimate the effect of these amendments using data from around 1970. These studies have typically found that mandatory retirement was not a major constraint on the labor force participation of older persons. This is attributable to several factors. First, only about 40 percent of the private labor force was covered by compulsory retirement provisions. Second, many people retired prior to the age of mandatory retirement.

An additional problem in investigating the independent effect of mandatory retirement is that these requirements are usually found in firms that also provide pensions. Data from the 1971 wave of the retirement history study showed that firms without pensions rarely had compulsory retirement provisions, while only 38 percent of the employers with pension systems did not have mandatory retirement clauses. Multiple regression studies that attempt to hold pension factors constant find that mandatory retirement provisions in effect in the 1960's probably reduced the labor force participation rate at age 65 by approximately 5 percentage points. Thus, the evidence suggests that the total elimination of compulsory retirement would increase the number of older persons in the labor force by only a small amount.

Health and life expectancy

Health impairments may reduce an individual's market productivity and, therefore, lower the wage that he is offered. In addition, adverse health status can be expected to increase a person's desire for time away from work. The probable result is that fewer persons with health limitations will be in the labor force. Virtually all research studies conclude that health is a major determinant of individual retirement decisions. Current health and mortality trends should tend to encourage continued work effort by older persons.

Health-related retirement decisions are made in light of access to disability benefits. Several studies indicate that the development of the disability insurance program has significantly reduced the labor force participation rate of persons prior to age 65. Increases in the disability benefit and expansion in coverage will tend to decrease market work. Therefore, a tightening of these standards will encourage continued work.

Unemployment

Unemployed workers will leave the labor force if their employment prospects do not justify continued search in the labor market. Since the gains from search are greater the longer the expected duration of employment, older workers are more likely to become discouraged and leave the labor market. The response of older workers to changes in unemployment does not appear to be symmetrical. The decision to retire from one's job is often irreversible and, relatively few older workers who lose their jobs and drop out of the labor force during a prolonged recession are likely to reenter the labor market several years later. Older workers who are laid off may remain unemployed awaiting the age of eligibility for pension benefits. After achieving this age, they accept benefits and retire rather than continuing to search.

Inflation

Inflation may affect older persons by raising the prices they pay and by altering their real income. If nominal wealth rises by less than the rate of inflation, individuals will be encouraged to remain in or return to the labor force. It is unclear whether inflation has a greater impact on the elderly than the rest of the population. The indexation of social security benefits has insulated real value of these benefits from inflation. Other pension benefits, especially in the private sector, are generally not automatically raised with price increases. Thus, inflation will lower the lifetime wealth value of benefits and encourage continued employment.

It is possible for inflation to encourage people to retire if pension benefits are indexed to changes in the Consumer Price Index but wages are rising by a lesser amount. These effects may currently be operative for Federal workers whose pension system is fully indexed while salary increases have been less than the rate of inflation. Altering the indexing formula for social security and the Federal pensions could reduce expenditures by a significant amount; however, it seems appropriate that the promise of future pension benefits should be in real terms.

Social Security Reform

Current demographic trends require that either the tax rate used to finance the OASI program must be raised substantially or benefits must be reduced. Benefits may be reduced by lowering the average replacement ratio, eliminating benefits for some groups, or raising the age of eligibility. In examining these options, Congress should consider the expected cost savings from each proposal while keeping in mind the objectives of the social security system. The committee should also recognize that changes in this program will directly affect the work decisions of millions of older Americans and these subsequent effects will influence the cost estimates of various proposals.

Any modification that reduces the discounted value of social security benefits will tend to delay retirement, increase payroll revenues, and decrease total expenditures. The most visible method of achieving this result is to raise the age of eligibility for full benefits from 65 to 68. This increase should be done gradually and people should be given the opportunity to plan for this change. However, enabling legislation should be considered in the near term. For example, if age 68 is the desired target, the increase in the age of eligibility from 65 to 68 could be done over a 12-year period, increasing the age of eligibility by 3 months each year. If such a program were to take effect in 1995, the retirement age would be 68 in 2007, just at the time large future tax increases would otherwise be required. It would be advantageous to enact such a provision into law as soon as possible so as to enable individuals to adjust to this rather significant modification in the social security program.

Increases in the age of eligibility for benefits are consistent with the improving health of older Americans and their increasing life expectancy. This modification could be made part of an overall reshaping of the national retirement policy. Policy changes would raise the age of eligibility for other age based programs and tend to establish an older age as the normal age of retirement.

The appeal of raising the age of eligibility is that it will simultaneously reduce benefit payments and increase tax revenues by encouraging continued employment. Within this framework, I would abolish the earnings test for those over 68 but retain it for early retirees with eligibility for reduced early benefits being raised to 65. In this context, delayed retirement after age 68 should result in an increase in benefits that is more actuarially fair. These actions would significantly lower the long-run deficit of the OASI program.

Federal workers should be integrated into the social security system. There is no reason why all private employees (many of whom are also covered by a pension) should be covered by a program that has a major income transfer component while Federal workers are excluded. Virtually all study commissions have urged this policy initiative which would help the overall financial structure of the OASI program. The direct incorporation of Federal workers into the social security program would also eliminate the need for some of the recent proposal designed to penalize persons who are eligible for both social security and a Government pension.

Senator HEINZ. Ms. Rappaport.

STATEMENT OF ANNA M. RAPPAPORT, F.S.A., VICE PRESIDENT, WILLIAM M. MERCER, INC., CHICAGO, ILL.

Ms. RAPPAPORT. I will raise some issues relative to the definitions of the problems we are talking about, and relative to life-cycle patterns. We must begin by being sure we are asking the right questions.

You mentioned in your opening remarks certain trends, the baby boom and the problems caused by the baby boom. Dr. Clark mentioned the trend to earlier retirement.

Retirement itself is a relatively new social phenomenon. If we go back to 1900, about two-thirds of the men over age 65 were in the labor force. In that connection, a key concept has been forgotten in our discussions about retirement systems. The existence of social security and retirement systems makes retirement possible. Retirement is not something that always existed and it is not a pattern of nature.

Rather, we have created systems that provide for paying people for not working at certain times in their lives in order to make it possible for them to leave the labor force and in doing so, we have encouraged this behavior.

Today, because we have had the behavior for about 45 years, we tend to assume that is the only behavior pattern that is possible. We need to think about what behavior patterns are possible, particularly in light of the demographics.

We also have some definitional problems. I would like to give you some examples to illustrate those problems because I think that understanding the definitional issues is important.

My first illustration: A retiree is aged 50 with a military pension of $3,000 a year, and is employed at a local bank earning $25,000 a year. Is he retired? Answer using the viewpoints of an enumerator for the Census Bureau, of a market researcher, or of social scientist trying to determine if people are satisfied with their retirement plans.

The second example, and I ask you to think about it from the same three viewpoints, is also drawing a military pension of $3,000 a year and stays at home to care for the household and four minor children. The spouse of this person is employed and earning $25,000 a year. Is that person retired? Now take this example and switch the sex of the person and spouse.

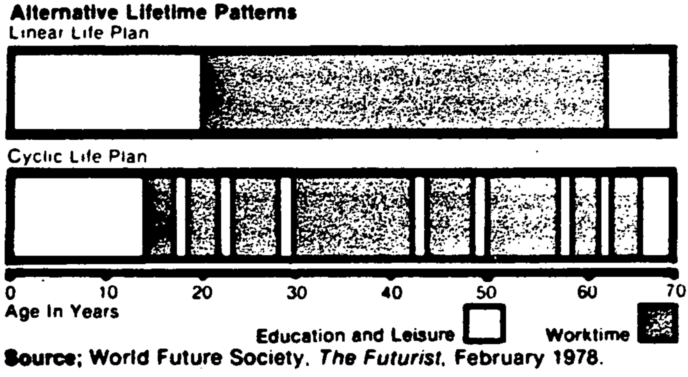
The third example is a person aged 60, receiving a pension of $15,000 per year from work on the local police force and now employed at a bank earning $8,000 a year.

We must stop thinking about retirement as if retirement and work are two totally separate conditions. I am certainly a person who has studied and used the statistics about retirement, but I am very suspicious of these statistics because I do not think we know what retirement means and what it is we are measuring. We need to start focusing on patterns of work and retirement together.

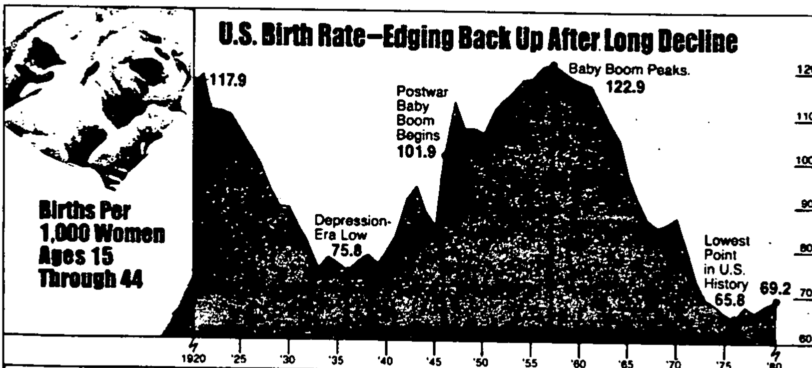
If you would refer to the graphs I have submitted, you will see one called alternative lifetime patterns. The line on the top of the first graph focuses on what I call a linear life plan; and you will see that it has three sections. The three sections are—early stage; that is, an education and leisure stage; a middle stage, which is work time, and a final stage that is a leisure time, or retirement. That is the life-cycle pattern that we are assuming in our retirement systems today.

The line at the top of the second graph is a cyclical life pattern, and you will notice that interspersed between the work periods are more periods of education and leisure. But the work periods start earlier and end later. I believe that many individuals in fact are trying to move to a cyclical life plan for themselves and that this will better fit the needs of people.

Alternative Lifetime Patterns



Source: World Future Society. *The Futurist*, February 1978.



The nonwhite birth rate runs consistently ahead of that for whites—in 1980, 93 for nonwhites, 65 for whites.

In that regard, if we think about the cyclical life plan as the desirable pattern because it gives people more choices in their lives, the question becomes: How do we provide for people's incomes over the life cycle?

A primary form of income in our society is work. What we then need to do is find ways for our income maintenance systems; public systems, employer-sponsored systems, and individual savings to help people maintain themselves during those periods of nonwork.

When we think about life patterns, we must deal with issues relating to disability. If retirement is later, that alone will make disability a bigger issue. A cyclical life pattern implies more individual choice and more spreading of work and leisure. In many situations, people can get radically different benefits if they are disabled than if they are "retired." Yet disability is partly subjective so that, given the same physical condition, you would find different actions by different individuals. Some of them would be disabled and some of them would continue to work.

The relationship between disability and retirement plans is going to be an increasing problem in the future.

I would like to point to a number of reasons why I think the cyclical life pattern will suit society well and make sense.

First, women are increasingly involved in a variety of activities. It is well documented that there are more women in the labor force. Women are likely to have a life-cycle pattern which includes some periods of homemaking. They may combine working and homemaking in their life-cycle patterns. A strictly traditional linear pattern does not fit many of them.

The second problem is that, in today's technological society, the idea that one can learn enough and be fully educated by age 25 in order to do a job reasonably well until retirement age, is ridiculous. It may work in some particular portion of our society, and the concept of educational half life was mentioned earlier. In many areas, as each year goes by—education becomes more obsolete. We need to find meaningful ways for people to renew education through life and for them to be retrained and do other things as they go through life. So the concept of single career should be replaced by choice so that an individual can have a single career or multiple careers. Financing for education in midcareer is an issue that needs to be addressed if people are to be able to make career changes.

I also believe that leisure time can be better enjoyed if spread through life. Options for part-time and flexible work schedules will fit well with a cyclical life pattern and they will fit particularly well for certain groups of workers: Those involved in a more intense educational activity at a particular time in their life, those involved in child rearing or heavier household duties, and also older workers.

Cyclical life patterns raise issues with respect to income during periods of nonwork. This issue has not been explored. Some of the things that might be theoretically possible would be employer payment of salaries for specified sabbaticals as occurs in universities, support by other family members which may increasingly be possible as the number of two-income families rises. Personal savings can be used for support during periods of nonwork. A portion of employer provided benefit plan accumulations could theoretically be used. You could extend thrift and savings plans in that direction. It would also be conceptually possible to develop a pension-type system whereby a number of specified months of paid leave are available. This is rather like the sabbatical concept.

In many ways, these are rather radical ideas. But in the long term, these ideas should fit better with people's needs than simply taking a social pattern that was developed 40 years ago and continuing to design systems around it regardless of the demographics and regardless of the way people lives have changed.

I will now review what I see as some of the major long-term issues.

The first one is: What life-cycle choices will public policy support? People's lives show they are making more choices. Which of these choices are we going to recognize and support by public policy? How are we going to treat disability versus retirement at older ages? We need to focus on the relationship between work and retirement and do things that will accommodate different work options. We need to be concerned about what a retirement system is about.

Questions were raised about the earnings test. From my perspective, the earnings test should be maintained or strengthened, because I do not think a retirement system should be designed to pay benefits to people that are working. I think a retirement system is designed to pay benefits to people who are not working. Since there is no sharp line between work and nonwork, income limits provide a reasonable criteria.

Gradual retirement seems to me to make much more sense. That is, to be able to taper off rather than a full sudden retirement. Being forced to say, "Today, I am working full time; tomorrow, I am not working at all."

Lifelong education seems vital to both employers and workers if we are to have work options on a meaningful basis. Performance evaluations are critical. We need to make our social security system support these choices.

I support raising the retirement age for full benefits—I think 68 may not be high enough. I commented on the earnings test. I do believe an actuarial increase is the appropriate basis of increase for social security deferred benefits. The concept of actuarial increase is inconsistent with the general basis of social security. It is not a relevant concept since the social security benefit formula is based on the law, and there is relatively little relationship between an individual's contributions and his or her benefits. Rather, it is a social program designed around social adequacy needs. The actuarial increase concept is very much of an individual equity concept, and it is therefore inconsistent with the basis for social security benefits.

Thank you.

Senator HEINZ. Thank you.

Mr. Knowles.

STATEMENT OF DANIEL KNOWLES, VICE PRESIDENT OF PERSONNEL AND ADMINISTRATION, GRUMMAN AEROSPACE, INC., BETHPAGE, N.Y.

Mr. KNOWLES. Thank you.

This is the fourth time in the last 5 years that I have been here to testify.

Senator HEINZ. How does it feel to be a professional witness?

Mr. KNOWLES. I keep hoping that something is going to happen, Senator.

Senator HEINZ. So do we.

Mr. KNOWLES. So far, I have been disappointed in the Congress, in the Department of Labor, and industry, in their failure to help. But I will save those gratuitious remarks for later.

I am glad to hear Senator Pryor is a humanist. I think we might have something in common here.

To start off, a basic tenet of the human relations field as exemplified in a practical implemented methodology in business and industry is "don't take something away from your employees once you have given it to them and if you must, make sure you trade it off for something of comparable value." Certain things, like the coffee break, once granted, can't be expected to be taken away without an insurrection within the organization.

In addition, we, as a Nation of employers and employees, are heading toward a more behavioral approach to living, both on the job and away from the job. More and more, industry and business are providing employees with more and more choice in determining their own destinies.

Such things as flex working hours, flex benefits, level income, or social security adjustment options within pension plans, career information profile systems and job counseling, second careers are just a few of the present or impending approaches to dealing with people in the work environment. Therefore, with these two principles or objectives—don't take something away once you have given it, and give them as many choices to determine their own destinies, then maybe some of my remarks will make sense.

What I am saying is, do not make changes within the social security system that reduce benefits or eliminate or limit options to people. Retirement in the United States is really going in two directions at the same time—earlier and earlier and later and later. Essentially, we are seeing a behavioral phenomena of people electing or selecting what they consider is best for their particular lifestyle. Let's not interfere with that process.

Within that context, the following are specifics that relate to the above:

Maintain the 80-percent benefit level of social security for early retirement benefits at age 62.

Maintain 65 as normal retirement age with 100-percent benefit.

Incentivize people to work past normal retirement age of 65 by increasing benefits at a more realistic actuarial rate of 6- to 7-percent instead of a 3-percent rate, to a possible maximum of 200 percent of benefit at age 80.

Incentivize people to work past 65 by removing salary or wage limitations after age 65, but tax social security benefits if a person earns wages, and don't tax if the person is not working for wages.

Incentivize employers by providing an escalating tax credit for each year an employee works beyond age 65. By the time the person is 80, you are really offering industry a benefit to encourage that individual to stay in the work force.

Perhaps another thing is to eliminate death benefit and disability benefit provisions of social security and transfer them to State disability plans, making such plans common to all States. This will increase cost to such plans but by maintaining same rate of contributions from employer and employee, it will help fund social security somewhat better.

Another thing you might consider doing is revise the Consumer Price Index, CPI, formula to more realistically reflect cost-of-living conditions of retired persons receiving social security.

Senator COHEN. Is that a reduction in benefits?

Mr. KNOWLES. No, but it will be a slowing of the rate of increase.

Senator COHEN. Something less than what they would otherwise expect?

Mr. KNOWLES. What I would be recommending is that it be realistic and that the COLA provisions within social security actually reflect the conditions that exist for retired people and not an unrealistic formula.

I would also recommend that you mandate a minimum pension system, MUPS, type plan; provide for portability but not immediate vesting and provide favorable tax treatment to employers providing pensions for employees; extend IRA, independent retirement account, opportunities to all wage earners whether employers provide a pension plan or not; retirement income in the future must be based on private pensions, social security and personal savings, not just on pension and social security. By extending IRA provisions to all wage earners, Congress will incentivize people to provide for a better retirement based partially on their own savings.

I conducted 1,300 in-depth interviews; 70 percent of the people said they could not make it on the pension plan and social security, and we have one of the best pension plans in our industry. I think we have to do more in terms of convincing people that they have a responsibility in preparing themselves for their own retirement.

Some additional supplementing thoughts pertaining to the Age Discrimination Employment Act, ADEA, follow:

Clean up ADEA by removing the age discrimination provision in the act itself. How can industry and business be expected to take the act seriously when the act itself provides for key employee involuntary retirement at age 65?

Put some teeth into ADEA and provide parity between older workers and minorities, women, handicapped, and veterans.

Strengthen the act by requiring the Department of Labor to do its job, some of the things that are vastly and desperately needed to help middle-aged and older workers while they are working, much less in retirement, and specifically, I think the Department of Labor ought to put out a how-to-do-it booklet that ought to be put out to every business, exploding some of the old wives' tales, such as, you can't teach an old dog new tricks, and perhaps provide better demographic statistical information so that companies would be able to do an analysis to determine whether, in fact, they are discriminating against the middle-aged and older worker.

If you went and asked a company whether they are discriminating against older people, they would rise up with righteous indignation; and if you asked them to prove that they weren't discriminating, 1 in 10 might be able to do so. The rest of them would not have the foggiest notion of how to show that they were not discriminating.

Finally, I think we need an awareness program to convince industry and business that it is good business to do business with the middle-aged and older worker, and if business and industry do not rise up and voluntarily do something, then maybe the Congress will end up making another mandatory affirmative action program to cover the middle-aged and older worker.

Senator HEINZ. Mr. Knowles, thank you. You do seem very practiced.

Mr. Young.

STATEMENT OF HOWARD YOUNG, DETROIT, MICH., DIRECTOR, SOCIAL SECURITY DEPARTMENT, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA—UAW

Mr. YOUNG. Thank you very much.

I appreciate the opportunity to be here on behalf of the UAW. I endorse the chairman's comments that the administration's program and proposals on social security were unnecessarily alarmist. I think that your indication that the debate ought to be put in the proper perspective is the right tone, and I would like to do that, especially with respect to the area of workers' goals, the alternatives as they affect employment and unemployment, the long-term overall population situation, and also the strength of the economy.

It is very clear to us, Mr. Chairman, that UAW members want to retire early. That means before age 65. Furthermore, they believe that early retirement would be good for them. As I will indicate, they believe it will improve their health. I suggest that UAW members are more representative of most Americans than are those people who write about deferring retirement age, or even most of us in this room who tend to have fairly easy jobs, at least in physical terms, and tend to be able to control the amount of time they spend at work, as well as their workflow.

Most people in this country work pretty hard physically for a long period of time and they want to retire. I disagree with my fellow actuary, Anna Rappaport. I do not think that pension plans lead to people wanting to retire. My understanding is that people wanted to retire and pension plans were developed to meet that need.

I also think that this distinction or apparent paradox between people who say they want to work and people who say they want to retire simply means they do not want to continue working at the same hard job. Certainly, they would like to do some things after they get out of the work force. They might look for part-time work, or another type of job. They do not want to be in the factory, on an assembly line.

The UAW has a long bargaining history with respect to pension and early retirement, and while there is not anywhere near the amount of time here necessary to do it, I want to emphasize that we have not confined ourselves exclusively to retirement or early retirement as the way to meet a lot of the life-cycle issues that Anna Rappaport mentioned.

We have talked about them and in many cases have achieved extended vacations, additional time off, sabbaticals, and phased retirement. I agree with all of these, I think they make sense. I have personally worked on or designed many of them.

When one comes back to the issue of retirement, that is a goal in and of itself, and, I think, as Mr. Knowles said, many people want many different things. A lot of people want to retire even earlier than they are now able to.

Let me say, briefly, we have been negotiating pension plans since the early 1950's. We have always had an early retirement option in the plan. In the early years, the early retirement option had an actuarial reduction. The results of that, plus the fact that the benefits were fairly low, meant that there was no significant utilization.

In 1964, we developed the first really significant breakthrough in early retirement benefits. It became possible for people to retire at age 60 on a substantial benefit. We improved that periodically in each bargaining and in particular in 1970 and 1973. In 1979, we moved toward a point where people with 30 or more years of service could retire regardless of age. We have been interested in finding out and in understanding the implications of all of this as we went along. As a result of that, one of the things we did was to sponsor research. As early as 1964, we stimulated the Institute for Social Research of the University of Michigan to do a study on early retirement, and that study was cited as late as this year as the standard in the field. I have brought a limited number of copies of this study along, which I will leave. We can provide more if you like.

Subsequent to the 1973 negotiations, the Michigan Health and Social Security Research Institute with a grant from the Social Security Administration, did a similar study of people who retired under the "30 and out" early retirement program. I have enough copies of this study for the entire committee, which I will also leave.

I might mention that that Michigan Health and Social Security Research Institute is sponsored by, but incorporated separately from the UAW. It has its own board of directors, and it engages in what I think is reputable research.

We, basically, wanted to know why younger and older workers might want to retire, younger and older people being over or under age 55. I would like to mention a few of the results. But since I will be leaving the study, I will not attempt to be exhaustive.

The auto companies have a contract year which runs from October to September. The first time that full retirement with 30 years of service, regardless of age, was available was October 1974. It had been negotiated in 1973, so people had a year's notice to adapt to that situation. In the 1974–75 year, 52.8 percent of the people eligible for that retirement took it. I think that is a ringing endorsement of the fact that the people wanted the benefit. That rate naturally dropped off, in subsequent years, in part because you had the initial flush out of people who had taken it. We also observed a very clear pattern, which I will not bother to itemize but can easily be documented. What happens under our program is there is a large number of retirements and then as we approach the next bargaining, retirements slow up because people wait to see what will happen, particularly since, in general, we have not been able to negotiate exactly identical increases for people already retired as for those that will retire in the future.

In addition to that, one real weakness of the design of the program that we negotiated in 1973, which was unchanged for 6 years, was that the benefit level for those who went on early retirement was frozen once they had retired, and, therefore, as inflation took off, particularly post-1974–75, as a result of the oil situation, benefits became relatively less attractive financially, which means that people simply felt they could not afford to retire in addition to which they recognized they did not have protection against inflation.

So that while only 20 percent of the retirees expected to encounter financial problems, in fact, after the fact, over 80 percent of them reported that they had financial problems. That was found in our study and I believe every other study to be a major predictor of satisfaction with retirement. When people tell you they are not happy with retirement, what they generally mean is, I do not have enough money to take care of my needs.

Two-thirds of retirees cited health factors as a major factor contributing to the decision to retire early. That does not mean they were disabled, but it does mean that they felt that their health was a reason to retire. Many received pressure from their doctors and they believed that retirement would help improve their health.

On the other hand, when they were asked, after the fact, whether retirement did improve their health, only 20 percent said it did not; 36 percent said there was no significant improvement, which means that 46 percent had some improvement in health.

Finally, in that area, a full two-thirds of the people who were interviewed, after they had retired, reported that they would do it all over again if they were presented with the opportunity again, and only one-third of that group; that is, one-third of the two-thirds, said that they would do it over again because they felt they could not continue to work because of poor health. A substantial number of the people would have repeated it and a substantial number would have repeated it out of choice.

Now, let me turn to the question of putting this in a broader context.

What about employment and unemployment?

I believe, Mr. Chairman, that we have to be realistic. Certainly for the past several years—I think for the next several years—and frankly, I believe that for a long time to come, the problem in this country will not be too large a work force, it will be too small a work force. We will suffer from the lack of full employment. We will have a worker surplus. That has been the problem that we have faced for many years and, unfortunately, I believe we will continue to see that. I do not see us coming back down to the 3 and 4 percent unemployment levels that many of us defined as full employment, even if we believe that it should be less than that. In the auto industry, let me cite the example of the biggest, and also really the most successful of the companies, GM, which has not had the relatively large number of layoffs.

During 1980, on the average, every month there were roughly 120,000 UAW members laid off. During that period, almost 10,000 workers, at GM, took early retirement. In other words, if we had not had an early retirement program another 10,000 people would have been laid off.

Now, in my mind, that represents a significant distinction between planned and unplanned leisure. Somebody is going to be out of the work force. They will either be not working or unemployed. I think it is better in a situation like that for people to be able to plan to leave the work force and voluntarily go out on early retirement than for younger people to be told, we do not have a spot for you in the work force. That is the alternative.

I will not take your time to detail the human and social costs of unemployment. That has been done in too many committees.

Let me, instead, jump to the question of the social security system.

You have adequately dealt with the point that the rules should not be changed without notice. I think that there is some tendency to lose sight of the fact that the rule which the administration proposed on early retirement is completely unfair. If it were proposed by a commercial company, I suspect they would be subject to truth in advertisement charges or something else.

To put it in its most simple terms, to say to people, you have a choice between taking 50 percent of your benefit for life, starting at age 62, or 100 percent starting at age 65, is simply a ripoff.

Let's say that your choice was to get half of your benefit for life starting age 62, or a full benefit at 65. That means by the time you reach 68, you would have fully paid back all of the advances you got before age 65, but you would continue to get half of the benefit for the rest of your life. You would be better off to go to a bank, borrow half of your benefit for 3 years, pay it back over the next 3 years, and collect full social security benefits while on retirement. So it is not simply a question of phasing in the program. It is a question that the formula is unacceptable.

I would like to comment on the relatively small cost of retirement, but I will go into that during the question and answer period.

Senator HEINZ. Thank you very much.

You know, I cannot resist asking Mr. Young and Mr. Knowles, both of whom essentially came to somewhat different points of view with respect to the desires of people for early retirement, how you reconcile that?

If I understand Mr. Knowles, and maybe I am reading more into it than what he says, if business would change its attitudes and if we identified what is and is not discrimination, and if we just generally treated, as we would be well advised to do, the wisdom of the aged, with a bit more respect and with a bit more utility, that we would have a significantly larger number of people who would want to work longer, particularly if hours and working conditions could be adjusted to suit them a bit more. I assume Grumman does that; is that right?

Mr. KNOWLES. We do a lot of different things. We maintain programs for secretaries who are out raising families and they come back on a temporary, part-time basis. We maintain a work skill inventory bank for our retirees and we bring them back either on temporary or a part-time basis. We do have a very active retirees club that plays a major role within the company.

We do a lot of things to provide an environment that is reasonably conducive to a middle-aged or older worker. I do not see any disagreement——

Senator HEINZ. The implications in what you said to me were that you were successful in encouraging people to work longer. Mr. Young is saying that most people have had a fairly physically demanding work experience and they can hardly wait to retire at age 62.

Now, if I have—I know I have simplified what you both said, but if my characterization is generally accurate, there is a conflict between the two of you.

Mr. KNOWLES. I did not detect a conflict.

Mr. YOUNG. There is somewhat less conflict than you suggest because I found myself agreeing with not all but a lot of what I heard Mr. Knowles say. We are talking about different parts of the work force. I think when Mr. Knowles is talking about people staying longer, particularly when you mean longer beyond age 60 and 62, he is referring to middle-aged people, and I already consider myself there. When you talk about people staying longer, you are talking about people who have relatively easy jobs, people who work in air-conditioned environments, people who can, in fact, often control when they do their work so that if work piles up on their desk today, they can take care of it tomorrow. That is very different than a worker in the factory, whether he is on an assembly line or otherwise, who does not have those opportunities and for whom the companies find it very difficult to create that kind of situation.

Now, we have worked at that very hard. I would not try to give you the details here, but we have developed a program called paid personal holidays, in which people are scheduled off—there is an individual schedule for every person, or really for groups of people, throughout the plant so that they have days off periodically, but that is done without closing the plant. That ended up giving people more leisure time. It ended up enlarging the work force. However, the companies, when we proposed it, said it would be extremely difficult to implement. In fact they found it not so difficult to implement, but it did take a great deal of work and it probably could not have been done without modern-day computers in order to balance the work force.

So that is very different from saying in a different environment that some individuals will come in later in the morning or not come in on Tuesdays.

Senator HEINZ. Let me ask Mr. Knowles if he would agree that it is a function of the type of work.

Mr. KNOWLES. I think what Mr. Young said has a great deal of validity to it. Up until recently, the average age of retirement was 62 years and 5 months with 22½ years of service with the company. That is moving. Where a few years ago, I had a handful of people who would choose to work past age 65, I now have gone since 1977 from a handful to 250. I think that is a problem of inflation and fear that is causing people to stay on, not because of the Age Discrimination Employment Act.

Senator HEINZ. One of the facts that we have to work with that Mr. Clark gave us is an intriguing fact which is that between 1970 and 1979, the participation in the labor force for those between 55 and 64 dropped from 83 to 73 percent, and I suppose if you looked at age 60 to 64 it would be an even more dramatic decline, because what I expect you are seeing is in those early 60 years. But none of the panel has been able, at least to my mind, to satisfactorily find out what it is that causes that shift that appears to me to be so dramatic.

One thing that we did was to make social security a good deal more secure by indexing benefits. Indexation has been around so long we all take it for granted. By indexing benefits, we told people that they would not have to depend on the Congress every so often to do something about their benefits. This is a better system now, we said.

Another thing that came in was the 1974 pension reform law, ERISA, which may or may not have had an impact here.

I know I am overstepping my time. It is 5 mintes on Senators and 10 minutes on witnesses.

Let me ask either Mr. Clark or Ms. Rappaport whether they have a hypothesis that fits—or anyone else for that matter—that fits here.

Ms. RAPPAPORT. In addition to the social security benefit expansion, there has been a tremendous expansion and liberalization of the early retirement benefits available in private pension plans. Larger companies tend to want to follow industry practices. When our clients see liberal early retirement benefits in their industries, there is pressure to offer similar benefits. That is certainly a factor.

One thing we need to study further is what people do after they retire. Some may be retired and doing something in the underground economy so that even though they are not in the recognized work force, they may in fact be working.

Senator HEINZ. Anybody disagree with that?

Mr. CLARK. I do not disagree, but you also, in 1972, passed substantial increases in the social security system and indexed social security benefits to inflation automatically. Substantial increases in the 1972 amendments that came in in 1973, 1974, probably stimulated a trend toward early retirement options.

The benefit in many pension plans was raised. A general increase in the number of people covered by plans and liberalization of pension benefits would also account for that drop in early retirement.

Ms. RAPPAPORT. One other factor. I think plans are starting to mature. Many private pension plans started after World War II, so there are probably a lot more people that have private plan benefits.

Senator HEINZ. Senator Cohen.

Senator COHEN. Mr. Knowles, you said it is your belief that you should not take something away that is once given unless you have some comparable benefit.

How do you feel about the Reagan economic package in general? Do you support President Reagan's attempts—I am serious now—in terms of reducing food stamp benefits, cutting back on social programs in order to achieve a reduction of $30 or $40 billion in order to get a balanced budget by 1984; would you apply your own philosophy to the present economic circumstances we find ourselves in?

Mr. KNOWLES. That is an awfully good question and I have not given a lot of thought to that.

But speaking for myself, I guess it would hold pretty strongly that other than perhaps making sure that the people who are receiving benefits legitimately are entitled to those benefits, yes, I would be very careful about increasing them. But as a general rule, I would not take them away once they are given out.

Senator COHEN. The problem is on a different level that you have talked about, a long-range solution and not a short-range solution.

Now, the administration takes the position that the long-term and the short-term problems are inseparable. Other economists indicate we have a long-term problem and a short-term problem and we have to deal with them separately.

I think what you have talked about today I could support. But what do we do about the short-term problem today, for example? I think Professor Clark indicated you can either reduce benefits or increase taxes.

I was going to get to you, Mr. Young, on that, and I was going to ask you whether you would want to propose to your workers whether they would want a massive increase in social security taxes in order to sustain the fund for a short-term period.

I come back to you, Mr. Knowles.

You made, I think, some very promising recommendations but they are long term. What do we do in the meantime, right now, about the kind of deficit in the social security trust fund in the immediate future?

Mr. KNOWLES. I grant you that my prime concern has been one from a personnel look rather than an economic or financial look at the thing, and I recognize that you cannot have pie in the sky and you have to have the money to pay for these things. That is one of the reasons why I suggested taking some of the provisions out of social security and using social security as a retirement plan, not a disability plan, and not a death plan, and move those features out of the social security. Put them back in another plan such as State disability. I do not have the studies so I do not know how much you save——

Senator COHEN. That gets to another account but that does not deal with the bottom line of the ledger. I agree with what you are saying except it does not solve our immediate problem.

Before I turn to Mr. Young, I would ask Ms. Rappaport something. As I understand your talk of alternative life cycles, it seems to me it is a variation or expansion of the concept of flextime; namely, you are expanding the notion of altering employment patterns on an existing job to accommodate different needs within a family, but you would also extend it to different jobs.

For example, I myself have, during my relatively brief life, occupied a position of being a lawyer, a teacher, now a politician. I hope to one day have a different occupation. There are quite a few of my constituents that hope I come to that decision soon.

I hope to one day have a job that gives me a greater sense of fulfillment. That is fine for me and I look forward to that.

I think if we expanded that to the whole range of our employees in this country, that that would be desirable. But it occurred to me as I was thinking about a book that came out recently, entitled "The Z Factor," written by a Japanese economist, that we are frequently being compared to the Japanese—to their workers, their unemployment levels—as well as the Germans who have a quite different integrated system where they do not switch jobs very often. As a matter of fact, they have a long-term commitment to one company because they have almost a vested interest in that particular company.

So I am wondering how we can separate out this proposal to have different jobs and reconcile that with increasing productivity in a larger sense in this country so that we can remain competitive with foreign countries that are challenging our economic prosperity? Can we examine these problems and just keep with life-cycle alternatives without taking into account whether or not we are upsetting a more long-term objective of being competitive?

Ms. RAPPAPORT. One of the problems I see is that so many things are related. You mentioned the productivity issue and whether increasing productivity is compatible with an alternative life cycle. Increased productivity would be compatible, particularly since our concentration of education at the early phase of life may be a contributor to productivity problems. That is an issue that deserves some study.

I am sympathetic to the notion that the person working in the conditions that Howard Young mentioned really wants out, desperately wants out. The alternative life cycle raises the question, if a person wants out, maybe one of the things which should be done is to encourage them to want out into another job.

Mr. CLARK. I wanted to add a comment on that.

The discussion of life cycle and phasing years of not working with years of working throughout a life cycle has been around for a long time and one wonders why don't we see people doing it, and I think Senator Cohen was correct on the productivity argument. You expect people to be in those jobs that provide them the highest remuneration; that is, where they are most productive. One of the reasons they do not leave the auto industry is because they are making more money in the auto industry than they are going to make doing something else. To take a year off at age 35 or 40 from that high-paying job where they had become very proficient because of a long-term investment in their skills is going to cost them a substantial amount in salary. What they are implicitly doing is saying, no, I do not want to take this year off to go back to school to retool for another career because the cost of that retooling, the cost of the career switch is in effect in excess of what I am making now, so they reject that.

Senator HEINZ. Senator Pressler.

Senator PRESSLER. Mr. Chairman, first of all, I do have a brief opening statement that I did not present. I ask that it be printed in the record.

Senator HEINZ. Without objection, so ordered.

[The prepared statement of Senator Pressler follows:]

PREPARED STATEMENT OF SENATOR LARRY PRESSLER

Mr. Chairman, I wish to thank the committee for scheduling this hearing on the implications of early retirement. The inescapable financial crisis of the social security system makes it imperative that the Senate carefully review this retirement program upon which a growing number of Americans depend.

I see the Committee on Aging as being charged with the specific responsibility of reviewing how changes, including the proposal to reduce early retirement benefits, would affect our elderly population. Financial security in one's retirement years is crucial. Although the long-term solvency of social security and the economic well-being of the country are important, we must not forget the needs of our elderly population who would be greatly affected.

Since coming to Congress, I have received a great many complaints about the earnings limitation on social security. To impose such a test stifles productivity and is unfair to the working, middle-class elderly. In considering the need to encourage longer employment, we must be reminded that we are currently discouraging longer employment by actually taxing 50 percent on earnings over the imposed ceiling.

I believe older Americans are dedicated, resourceful workers who should be encouraged to remain a part of the productive work force as long as they desire. However, the option for early retirement should be available without a severe benefit reduction. We must be extremely cautious in implementing initiatives in order to minimize disruption in retirement plans for those now close to retirement.

Senator PRESSLER. I want to commend the witnesses. I think your remarks have been very educational. I think we need to carefully examine the social security system. However, I think, despite all our criticisms of it, it has been a magnificent system in that it works, checks are delivered to the recipients. But we have to be very careful to preserve that success story; and that is what we are trying to do here in part.

Let me ask you a few questions.

First of all, briefly, what is each of your positions on the income tax on social security benefits?

Mr. YOUNG. Organized labor has opposed the income tax on social security benefits, largely because they have argued that the benefits are not that enormous to begin with and that simply turning around and taxing those benefits will compound the problem.

Senator PRESSLER. However, there are people who have unearned income who can earn $1 million a year and collect full social security. Should this person be taxed?

Mr. YOUNG. I think, Senator, that that issue, the income tax on social security, suffers from the jurisdictional divisions in the Congress in the sense that it tends to be considered independent of a lot of other things. I think that if there were assurances that everything were considered and everything came out on balance, sort of as Mr. Knowles says, you do not take something away without doing something else, I think it may be analyzed differently.

I think the problem is the experience in terms of what was done. Consider, for example, the taxing of unemployment insurance. The argument there was, well, it will only hit those that get a large amount of unemployment insurance. But, at the same time, nothing was done to improve the unemployment insurance system, and there are plans to cut back on it now. If it was an overall rational package, people might approach it differently. Certainly at the moment, there is very strong opposition in organized labor and much more generally throughout the country to a tax on social security benefits.

Mr. KNOWLES. I split the difference. If a person were living on social security and not earning wages, then they should not be taxed. If they were working for wages and collecting social security, then I would tax the social security.

Ms. RAPPAPORT. I think you have to decide what the purposes of the social security system are. You can reach different conclusions, depending on your purposes.

Mr. CLARK. If one is going to continue to promote the system as a life-cycle system where you save and you are taxed during one period and then see benefits in the next, you would certainly want to consider the aspect of people who have already been taxed on that income once in terms of their employee contributions. I think you are correct in saying that a vast number of people, especially those low-income people, would not pay any tax on the benefits anyway, and to that extent it would be a progressive tax.

Senator HEINZ. Senator Pryor.

Senator PRYOR. Before I begin questioning the witnesses, I would like to submit my prepared statement for the record.

Senator HEINZ. Without objection, so ordered.

[The prepared statement of Senator Pryor follows:]

PREPARED STATEMENT OF SENATOR DAVID PRYOR

I am pleased to be here today as the Special Committee on Aging continues its series of hearings on social security and related issues. These hearings are particularly timely, and I am certain that they will contribute significantly to the wealth of knowledge the Congress is gathering as it prepares to make needed changes in the social security system.

The continuing trend toward early retirement has become a major issue affecting the social security and private pension systems. It has been brought about by a combination of factors including age discrimination, economic and demographic conditions, as well as provisions of the Social Security Act and private pension policy. Clearly, this phenomenon will require careful examination as the Congress acts to bolster and strengthen the financial aspects of the social security system.

In recent years there has been some action taken to correct factors present within the system which encourage early retirement. Extension of the age for mandatory retirement through the Age Discrimination in Employment Act has played a major role in allowing senior citizens to remain in the work force. Other Federal initiatives include the establishment of employment and training opportunities through the Older Americans Act. However, it is obvious that despite these efforts there is still much which could be done legislatively to encourage continued work-force participation of the elderly.

Probably among the most innovative actions taken to stimulate continued work-force participation of older workers is happening in the private sector. Last year, under the able chairmanship of Senator Chiles, the Special Committee on Aging held a series of hearings on, "Work After 65: Options for the 80's." These hearings highlighted the need for innovative approaches for providing incentives to older workers. Among the approaches advocated were part-time employment, phased retirement, second career training, job redesign, and older-worker-oriented job-finder organizations. It is encouraging to note that these efforts are taking place in the private sector. I am hopeful that through coordination of Federal and private efforts we will succeed in going even further toward developing a national policy for older workers. It is my belief that our efforts toward this goal will have a substantial effect upon future work-force participation of the elderly, and in turn on our retirement income systems.

While it is important that we try to slow the trend toward early retirement in an effort to maintain the soundness of the social security system, we must remain mindful of those who are truly no longer able to continue working. I have grave doubts about efforts to drastically reduce early retirement benefits. My concern is for those individuals who have spent long years in the labor force and who have made lifetime plans based on the current law, and who now face the frightening prospect of having to either continue working or face a dramatic reduction in retirement income.

Mr. Chairman, I want to commend you for scheduling these hearings and am hopeful that we will be exploring some of these important issues through the testimony of our distinguished witnesses.

Senator PRYOR. Mr. Knowles, I appreciate your testimony today and the interest your company has shown in retirement and retirement problems. You must have a tremendous number of assembly lines, and I would like to know what Grumman is doing to utilize older workers and their experience.

Mr. KNOWLES. The national work force figures for people over 45 years of age, I believe, is about 32 percent—and our figures are around 57 percent. Now we are considerably higher, not only in terms of the total work force but breaking it out, everything from officials and managers to craftspeople, semiskilled people, and so on. As the chairman of the board of our company has stated on many occasions, it was not a bunch of kids that built the lunar module that went up to the moon. It was a bunch of middle-aged people. That is not meant to knock young people but rather as a positive statement about middle aged and older people.

He personally takes offense when anybody leaves the company for any reason, including death. So, I am fortunate in having a chairman of the board who is very positive in the area of middle-aged and older workers and it makes the job a lot easier when you have that kind of attitude on top of the company.

We have an average length of service in the company of 15 years and an average age of 46. I feel very comfortable seeing the demographics of the company made up of young people, middle aged, and older people. I think it works well.

Senator PRYOR. We had some absolutely splendid testimony last year before the committee from such corporations as Xerox, Bankers Life, and other major corporate entities that testified, I thought, most eloquently and articulately relative to the utilization of mature or older workers and keeping them in the work force longer. I think their experience has been most positive and I recommend to you that testimony and to the president of Grumman to review because it is very, very revealing and most positive as to what some of these private corporations are doing.

Now, this next question I would like to ask of Mr. Young of the UAW.

I listened intently when you said UAW workers want to retire early. We know that the types of jobs that many employees in auto plants have are physically more difficult to stay with than, let's say, a desk job in an air-conditioned office.

Has the UAW ever done any exploration into the possible creation of new types of jobs for older workers or into training older workers for new jobs?

Mr. YOUNG. What we have done largely, Senator, is through the workings, for example, of the seniority system. When a job that is somewhat easier opens up, a more senior worker will have an opportunity to bid for that job. The first time I checked, I was really surprised to find that there were a number of workers in their late fifties or early sixties who voluntarily moved to lower paying jobs because they were less demanding upon them.

I carried around in my head the conventional wisdom as people got older, their pay went up. But in fact there are people voluntarily downgrading themselves. We have urged the companies to work with us in retraining. We have expanded things like the age limits at which one could enter an apprenticeship program and, therefore, have less barriers to becoming skilled. We have negotiated a tuition refund program which would assist people in order to go back to school, and things of that nature.

The problem largely is that all of this usually, happens within the environment of a single plant. There simply is not all that much variation when you come down to it in the total number of jobs, say, in an auto assembly plant.

Senator PRYOR. Thank you.

My time is up but I would be remiss, Mr. Chairman, if I did not compliment the UAW for decades of service to the retired individual, not only to the retired UAW workers but also to retirees everywhere. It is my understanding that community centers and community organizations that the UAW uses are open to all citizens. I have had the privilege of speaking in Detroit and some other places to UAW retirees and you folks have been at the cutting edge for a long time and I would like to personally compliment you for it.

Mr. YOUNG. Thank you.

Senator HEINZ. Senator Grassley.

Senator GRASSLEY. I am sorry I was not here to hear all your testimony. I appreciate your helping us solve the problems that are before us, and that must be solved before 1982, when the trust fund will not have any money left in it.

You know, we have many different alternatives that we have to work on and one of these is to deal with the subject of early retirement and, hopefully, something can be found that will not be an immediate adjustment in anybody's lifestyle as a result of any changes that we might have to make.

In fact, hopefully we can find a solution to the problem without even dealing with that aspect of the legislation.

Senator Pryor asked the question of Dan Knowles that I wanted to ask, but I guess I will take the opportunity to compliment you and your corporation for giving employment opportunities to older Americans and for having an experience with them that obviously has been beneficial both to the corporation and to the individual. Hopefully the pattern you are setting—as Americans continue to live and work for a longer period of time—will be followed by other industries as well.

So I can't—do not need to ask that question.

But I also had a question of Anna because she has spoken of the concept of life cycles and I guess I would like to have some view when you would advise that the concept be taught and its patterns put into motion.

I guess I would primarily be concerned whether that is in your judgment just something that lasts half a lifetime or whether it would be throughout the lifetime; that the concept would be instilled?

Ms. RAPPAPORT. I think that a lot of people's lives follow alternative life cycle patterns today. It seems to me that the time is now for us to find ways to do a better job of midcareer education. It is not a matter of teaching people to have different life patterns, but rather doing things that would create options for people to make the choices.

I place great emphasis today on midcareer education as being the thing that in the long term will make later retirement really feasible. It is education that will keep people's skills meaningful in the work force.

Senator GRASSLEY. That is all I have, Mr. Chairman.

Senator HEINZ. Thank you, Senator Grassley.

Mr. Young, let me ask you this, as Senator Pryor mentioned, labor unions have worked very long and very hard to develop early retirement options for their members and the UAW has done an outstanding job in that regard. It is quite important in heavy industry such as yours, where the physical demands are very demanding.

Given high inflation rates and energy costs, are pension benefits adequate for workers who take early retirement?

Mr. YOUNG. Usually not after they leave the work force. That is, they may be adequate at the time they leave, but with the exception of social security and some very limited other plans, very few plans include increases after retirement which equal inflation. We have, in our programs, specified increases after retirement but those are not equal to the inflation rate so that people do lose ground year by year.

Senator HEINZ. As they lose ground, do they look for additional employment, even if it is on a part-time basis?

Mr. YOUNG. Well, I do not know how to characterize that in general. I think that a lot of people do. In spite of all our good words, there are clear age barriers to hiring people in their sixties, particularly if they do not have unusual skills to sell. While, I think, a lot of them look for and find employment, it is in the intermittent period that one does not always find employment.

Senator HEINZ. A logical place for them to find even part-time employment, assuming a much healthier auto industry than what we have now, would be in your case with the auto companies with whom they have been employed.

Are there examples of unions which encourage retention of older workers, say, in part-time jobs to help them make ends meet?

Mr. YOUNG. I am just not familiar with any.

Companies tend to feel that the part-time line worker is not that hard to replace with a younger worker. I think that you find a need for part-time workers with specific skills for which there are shortages, electricians, and people like that. These people are usually able to find part-time employment. But, in terms of assembly line workers, there is less interest on the company's part in providing part-time employment.

I would also like to make it very clear that, at the same time that we have promoted the opportunity for early retirement, we have opposed any mandatory requirement, particularly at any unreasonably young age. I think there has been a tendency to say, we moved the mandatory retirement age up, so let's move up the early retirement age. Moving the mandatory retirement enlarges people's opportunities. If we move early retirement age up, that would restrict them.

Senator HEINZ. I am wondering if collective bargaining contracts make it difficult—as they are structured next to impossible to offer a worker who is in the conventional sense of the word, retiring—to have that worker be offered some type of part-time employment in a job setting with which he may be familiar. Further, if that is the case, whether there are insurmountable barriers to making changes to accommodate what we have agreed upon turns out to be the need for additional income close to retirement.

Mr. YOUNG. I think, in general, there tends to be opposition to part-time work by many unions because it is frequently seen as a way in which companies avoid hiring permanent workers who gain seniority.

However, I come back to the fact that you must remember that over the past 6 or 7 years all of this has been negotiated in the context of a substantial number of younger workers who are out of work. They may or may not be part of the union, nevertheless, they frequently have young families to support, so that there has been more priority given to how does one provide them with jobs, than how does one bring the older worker back into the labor force.

Senator HEINZ. There is no question there are not enough jobs to go around. There are some suggestions that as we get toward the end of this decade, we will have—definitely, relative to what we have now, some would say, a shortage of workers and it is looking down that road 10 years that perhaps this issue could become a problem, if it is a problem.

Mr. YOUNG. Could I just say one word on that? Because I think there is another side to that story. I do not think that will happen.

I think while none of us can see the future very well, I think that with the increasing participation of women in the work force, with the kind of takeoff that we are going to have in this country technologically, we will not have stagflation forever.

Senator HEINZ. President Reagan will be happy to hear that the UAW——

Mr. YOUNG. I did not ascribe a cause to it. I simply said we would solve our problem at some point. But I really think that this idea that we will be short of workers is an unduly pessimistic assessment of the capabilities to solve our economic problems.

Senator HEINZ. Do any of the rest of you have comments on this question of whether there is any potential problem for us with the collective bargaining agreement and preventing workers from getting into part-time employment if they need to?

Mr. KNOWLES. Coming from a company that is nonunion, we have no problem at all with collective bargaining, which gives us considerably more flexibility in terms of how we design our work force. I surveyed some 3,000 retirees, and 1,500 of them indicated they would like to come back to work in some manner or other, some people as old as 80 and older. If nothing else, it was a very flattering experience for them. They appreciated the fact that they were wanted. It was a great morale booster.

Ms. RAPPAPORT. I would think there would be, but I am not familiar with the specifics. I know of some programs in nonunion situations where retirees are coming back as part-time people in part-time pools.

Mr. CLARK. There are certain economic incentives and public policies that influence the desire of companies to have part-time workers. We have payroll taxes that will apply on earnings up to a certain ceiling. Employers have certain startup costs and things of that nature that need to be addressed before part-time work is going to be a major component of any large company.

From the standpoint of employees, you have two things about conscience to consider. If a person has not yet retired but is trying to phase down, reduce their hours, the question is, what does the reduction in work and therefore correspondingly reduction in benefits have on future pension benefits?

Many companies with a definite benefit plans—where benefits are derived from the last 3 or 5 years of earnings, people are not interested in reducing their earnings by part-time work because of the effect on future benefits. So some adjustment or way of reconciling that would have to occur and, second, for people reentering the labor force, the question would be—will their current benefits be affected by their reentry into the work force.

Senator HEINZ. Those are all absolutely valid and good points. Senator Cohen.

Senator COHEN. Mr. Chairman; Professor Clark, did you find—did your study find any trends in a higher rate of early retirement in Federal employees compared to those of the private sector?

Mr. CLARK. I have no numbers on Federal retirees in terms of numbers of people.

Senator COHEN. You indicated that those are incentives to employees, and you specifically cited Federal employees. I was wondering if you found any correlation between the kinds of benefits that are extended, whether that encourages early retirement or not, compared with the private sector.

Mr. CLARK. One can examine the Federal retirement system and compare that to a private plan. What you would find with Federal workers, is that their wages, their salaries, have not been rising with the rate of inflation. Yet, if they retire, once they are retired, their pension benefits compare with inflation.

Where you have persons considering whether or not to retire, he will take that into account. It is conceivable by judicially choosing their date of retirement, they can in effect get a cost-of-living increase by retiring at a certain time. The cost-of-living adjustment for civil service pensions are far more generous than most private pension plans.

Senator COHEN. In view of the fact that you encourage a system of equity; namely, having one retirement system for all of our employees without distinction between Federal and private, would you recommend we have two cost-of-living adjustments for all social security retirees or reduce the Federal employees to one?

Mr. CLARK. I think that if Federal employees are included in social security, that there would be a separate employer pension for them as well. I would not envision the case where Congress would bring Federal workers into the social security system and that would be all they would have. Those of us in the private labor force also have private pensions in addition to social security, and I assume they would do that. But I think the indexing system once a year is more appropriate.

Senator COHEN. Mr. Knowles, I want to congratulate you. You are one of the few representatives of industry that have come before the Aging Committee calling for tougher standards and enforcement of age discrimination—the Antiage Discrimination Act that we passed a couple of years ago. Most of the business community came to the House Select Committee on Aging at that time opposed to the raising of the mandatory retirement age.

You are one of the few people that have come in and said we ought to have parity for older people that are doing the job they were hired for, and I want to commend you for that.

Mr. Young, we never did get to this issue, but we have a problem as far as—your original statement that we are much too alarmist as far as the social security system.

We had a hearing 2 days ago in which economists came to testify and said that back in 1977 we were not nearly alarmist enough. You may recall we passed the biggest peacetime tax in the history of this country when we imposed higher social security taxes.

I can remember the headlines, "Highest Peacetime Taxes in the History of the United States."

The economists who testified several days ago indicated that we were much more optimistic about the future of the economic system at that time than perhaps circumstances warranted. Certainly recent history has proven that we were overly optimistic. Now we come to a situation where you and others may say that we are too pessimistic about the future of the economy.

What happens if you are wrong about that? Where are we in 3 or 4 years if we do not assume a pessimistic potential, at least for this economy that does not turn around. What if technology does not come on line quickly enough to prevent the kinds of continuation of stagflation that we are currently experiencing?

What do we tell our social security recipients at that point when there is no money in the fund?

Mr. YOUNG. Well, I think that if, in fact, 2 or 3 years from now the experience had been so bad that the funds all ran out of money beyond some reasonable point, then one would have to sacrifice.

But I think that the important point is that the generally accepted projections are nowhere near as pessimistic as the figures that have been cited. The administration witnesses and spokespeople all carefully say, although it frequently gets lost in the translation, here is what might happen under the worst possible case. They all carefully say that by October 1982, the old-age and survivor fund will run out of money, but they do not mention that the disability and health fund will have substantial amounts of money. I think one has to act on the basis of reasonable assumptions. Certainly they can prove to be wrong and we would have to face those consequences.

The best figures that I have seen, when one looks at the short term, is if you look at the three trust funds as an overall entity, and then you look at the total tax rate available. While there are shortages, clearly, in the old-age and survivor fund, the overall shortage between now and 1985 would not exceed $10 billion. Now, that is a lot of money and I would not like to cough up $10 billion; but in the national economy over 5 years that is not a lot of money. Furthermore, we have a real U-shaped graph. When you talk about the projections, about the money in the trust fund—1985 is about the low point. It then turns around. It starts to climb extremely rapidly, and as I recall, under the intermediate projection—not an optimistic projection—it climbs to the point where you have in the trust fund three times the annual payout. That is automatically adjusted for inflation and everything else. That would be an enormous trust fund of roughly $450 billion. What we clearly face, I think, if one assumes some reasonable assumptions, is a short-term cash-flow problem, particularly in the old-age and survivor fund, but that problem could be dealt with by short-term measures. Taking the longer term and in particular this question of delaying the retirement age, again the projections are, according to the Reagan administration, that making the change they produced in the retirement age would have the effect of saving only eighty-five one-hundredths of 1 percent of payroll.

The Pickle bill used figures of 1.35 percent. The National Commission on Social Security used 1.07 percent with a maximum impact of roughly 2 percent of payroll.

Nobody likes taxes, but all the surveys I have seen indicate that people would rather pay a little more taxes than have substantial cuts in benefits. I think what they want is assurance that nobody will tinker with the program; that nobody will come in and make proposals and say, next year we will cut it back. But, I honestly believe that if people were asked, would you be willing to give up, over a long period of time, say 2 percent of pay, or would you rather be forced to wait 3 years to retire, I think they would end up giving up 2 percent of pay. Employees would contribute 1 percent, and employers would contribute 1 percent.

Senator COHEN. Let me ask you directly, in addition to combining the three funds, or borrowing between the three funds that we currently have, would you recommend any action beyond that?

Mr. YOUNG. Yes.

I think there are a number of things that can be done.

One thing, although it is a little like Mr. Knowles said about shifting the problem to someone else, the States and localities are very slow in remitting money to the social security fund. They pay it much more slowly than private employers do. I understand if they were put on the same basis as private employers, there would be a one-time impact of better than $1 billion.

I would argue for a shifting, half of the health insurance cost, to general revenue financing, and putting that into social security. But in the absence of that, I think it would be perfectly appropriate to lend the trust fund a limited amount of money, no more than $8 or $10 billion for a limited period of time in order to get it through what is clearly a short-term cash-flow problem.

Senator COHEN. Every economist who has testified so far has indicated that in addition to the possibility of providing the funds and solving your immediate cash-flow problem, that perhaps the CPI is not the right index to use in the long term. How would your workers react to that, putting it to the wage scale as opposed to the CPI?

Mr. YOUNG. I think if one, in fact, constructed a CPI that was appropriate to retired people, you might find it goes up faster than the CPI, but let the cards fall where they might. The reaction to this question of changing the CPI is a little like Senator Pressler's question about taxing social security. I think there is a gut reaction that says, let's stay with the CPI. My own feeling—and this is strictly my personal feeling—is that if somebody made what I consider a fair proposal which is, say, let's all get in the same boat, and we will go to wage indexing now because things are bad, but when things get better, we will still have wage indexing. But the proposal is, give the people the worst of all possible worlds. Then you cannot expect them not to oppose it.

Senator COHEN. Thank you, Mr. Chairman.

Senator HEINZ. Just following up on that, I gather what you are—if I can put the proposition that you just made without claiming you endorsed it or any of us endorsed it—that if you said for the next 5 years, social security will be indexed at the CPI or the wage, whichever is lower, but that after that, it will be indexed as wages or of CPI, whichever is higher, that that would be a reasonable proposition?

Is that what you meant?

Mr. YOUNG. That is a possibility. But what I had in mind is simply saying social security will be indexed to wages, period, whether they are higher or lower than the CPI. I personally believe that retirees would be better off in the long run under such a system; because I believe we will get back to a situation where we have real wage gains in this country.

But what is being said to retirees is, take the lower of the two forever. I think, if as several people have said, this is a social program and we all ought to be in the same boat; if workers are losing ground to the cost of living, you can argue retirees should, too. But if they gain ground, retirees should gain, too.

Senator HEINZ. You mentioned the fact of transferring half the fund to general revenues.

Should we eliminate half of the payroll tax that applies to health insurance?

Mr. YOUNG. No.

What ought to happen is that half of the payroll tax ought to go into the other trust funds. In other words, we would maintain the payroll tax at the current level but in effect free up half of the health insurance portion of it to go into the other benefits.

Senator HEINZ. I think Mr. Knowles suggested that disability should be funded from general revenues and, of course, there is a certain irony in those suggestions. The two funds of the three—the OAS, the DI, and the HI being the three funds—that are OK right now are the disability fund and the health insurance fund.

When people talk about, first of all, combining the funds, that is what they are talking about. It strikes me a little ironic when people say we have one of these funds that is solvent, the cost of which should go into general funds; I wonder exactly what is being accomplished here.

It seems to me those are fully funded programs. They are funded half by employee, half by employer. They are insurance, intergenerational transfers.

Is it wrong to do it that way?

Mr. YOUNG. The health insurance fund will not stay in good shape, mainly because of what happens to health insurance costs in this country. We have—as you know, argued for a long time that there has to be a different way to deal with that. We make no secret of the fact that we have argued for a long time and continue to seek as a goal that a significant portion of social security costs should be financed from general revenue.

I do not quarrel with the conclusion that when one looks ahead there will be, as Professor Clark said—a choice between higher funds or lower benefits. The system will require more money. The conclusion I quarrel with is that we cannot afford that. I believe the economy will be able to afford it. I believe that the workers will not be unduly burdened with a high dependency ratio, and I believe the order of magnitude of that money is not so great that it cannot be handled.

But I do believe that a reasonable part of it should come from general-revenue financing rather than payroll tax financing because of the inherent problem with payroll tax financing.

Senator HEINZ. The Europeans, of course, finance most of their social programs out of a very different method than we have. They do not do it by taxing payroll, or by taxing income, or by taxing investment or savings. They do it by taxing consumption. That is what the value-added tax is. It is a hidden national sales tax, and they are able to support much higher levels of taxation for an equivalent amount of growth than we do because they, presumably, get a little more savings and investment than we do and they discourage consumption accordingly. They tilt their societies in favor of savings and investment through that tax system even though the tax burden per person, taking all taxes into account, is higher than ours.

One last question, because it is getting late, and I think you have been an excellent panel of witnesses and very thought-provoking and very helpful in getting a number of facts and ideas on the record.

One of my colleagues complimented you, Mr. Knowles, on the stance you took on the Age Discrimination In Employment Act enforcement question, and I join in doing so.

Let me ask you, in your testimony, you cited a number of things you thought business ought to do to make its workers more aware, to make itself more aware of what is and what is not discrimination, of what people might prepare better for.

Does Grumman engage in those activities that you suggested for others?

Mr. KNOWLES. Let me see how I can answer that.

Senator HEINZ. How about yes or no?

Mr. KNOWLES. I do not have to run very specific programs in order to accomplish the goals that should be accomplished. They have happened because that is the nature of the policies in the company, longstanding, long before the Age Discrimination Employment Act ever started.

Now, I do not want to sound like a paragon of virtue, that I have set up all sorts of good programs. They have not been necessary.

One of the measures I go by is doing a company utilization analysis annually, taking the annualization and checking it against the national work force figures. But it occurs to me that in association with personnel people and my own industry and other industries, that there is a tremendous amount of discrimination taking place of an insidious nature that is unconscious; people do not even know they are discriminating.

Senator HEINZ. The reason I asked the question is, I was curious as to whether there were any materials that Grumman had developed along the lines of the how-to-do-it booklet that you indicated, the awareness program that you suggested might be, first of all, useful to the committee.

We have them?

Mr. KNOWLES. You have four copies from the four other times I have testified, and I even got a letter written to Secretary of Labor Marshall. Still waiting for the response.

Senator HEINZ. In any event, I think the suggestions you make are very good and I hope we can work with you and other employers who are as enlightened as you are to build a considerably greater awareness among U.S. employers as to the potential of the about-to-retire as well as the retired workers.

Do any of the witnesses have any closing comments or parting shots, as the case may be?

Ms. RAPPAPORT. I would like to add a comment about educating employers.

We have given more than 20 presentations, seminars, on social and demographic issues relative to aging. I started such presentations about 3 years ago. I see a small change taking place in that when I started, people were very surprised at what I had to say. Today, the ideas seem more familiar. While employers have not yet done much, the information in the public press has changed enormously. The amount of information in the public press on such issues has changed dramatically over the last 6 or 7 years. Just look at Newsweek, June 1, 1981. So I believe that employers will get interested.

Senator HEINZ. We will be having a hearing specifically on this issue of work and retirement and including attitudes thereon in the very near future.

The purpose of this hearing was to try to get at some of the factors that have been impacting on people's decisions, motivations, and disincentives to retire and retire early. You obviously cannot consider all of these things in a vacuum.

Ms. RAPPAPORT. It is extremely important that the long-term and short-term social security issues be dealt with separately. I see the long-term solution as being a combination of needing more money and being able to pay less benefits. But it must be done very gradually. You cannot implement short-term big reductions in benefits. I believe the short-term problems must be solved on the money-raising side.

Senator HEINZ. On Monday of this week, before we started these hearings, I put a statement in the record where I tried to lay out the differences in the problems, the fact that because there are different problems, they necessitate different solutions that we should bear in mind.

Mr. CLARK. I would like to echo that; that the long-term problem is very real. It will not go away because it is primarily demographic, and productive gains will not save us, and reducing the rate of inflation will not eliminate that problem.

Depending on what assumptions one makes about fertility and mortality, we could require social security rates 10, 11, 12, 13 percent on each side, both on the employer and employee separately. So you are not talking about 1 or 2 percent increases, but 5 or 6 percentage points. You are talking about a person paying 13 percent of salary to support a social security system.

The way in which the current political debate has developed is, every time a long-term solution for social security is put forward, it seems to me it is taken as if it is going to be done immediately. If you are going to solve this long-term problem, proposals will have to be introduced so people are given an opportunity to plan.

Having said that, Congress needs to act today if they are going to start future reforms gradually that may take 20 years to accomplish. I would argue that you should consider legislation this year to start a gradual raising of the age of eligibility for full benefits in the 1990's and then let that continue for 10 or 20 years so you do not achieve the full impact until about 2010, giving people the opportunity to plan; not taking something away from people tomorrow or next year, but giving them the opportunity to plan their life cycle around that. That is a very realistic approach to reducing benefits and it is quite clear unless there are catastrophic events or dramatic increases in fertility that these cost increases of social security are going to occur.

Either you will pay substantially higher taxes or you will do something to lower benefits in a life cycle sense.

Senator HEINZ. Not everybody agrees, at least as yet, that we should address both problems at the same time, albeit with different solutions, tailored to each of the problems. Part of the role of this committee—and I think it is a vital one—is to develop a consensus that there are in fact two separate issues; they are separate and distinct. They require different kinds of solutions and the time is now to deal with both in an intelligent fashion.

I do not believe that that consensus exists in the Senate. I do not think it exists in the House. We will all have to work very hard to try and build an objective record that people will trust and be convinced by that that will motivate a majority of my colleagues and hopefully a very broad bipartisan consensus to act. It is going to be very tempting for the House and Senate just to address the short-term problem. It is here and now. The sooner we address it the less painful any addressing of it will be later.

The year 2025 or 2030 is a long way away. Wait until next year or the year after. Many people will say this to themselves, and it is hard to fault them unless—except if you do not address them, you will probably lose 1 or 2 years or 5 or 6, because the impetus in addressing the short-term problem gives you the motivation and the opportunity to seek incentives for people to work longer, structure some more creative solutions than we have necessarily received so far, and I do not mean that critically.

We will have another hearing where we will look for much more creative solutions to this problem than we have asked you to propose.

Everybody is talking about increasing taxes and reducing benefits. There are other things that we can devise. They may not be successful. You could offer people the option of taking a little less in social security for the privilege of putting more into individual retirement cuts. This is the so-called social security option account which was proposed to the Finance Committee a week ago. That is presumably the type of ingenious American inventive iceberg.

As time goes by I suspect we will have other ideas.

I have one question, Ms. Rappaport, or Mr. Clark, which is this: The experts say that the funded liability between now and the next 75 years on social security—excuse me.

The amount of money we need to cover ourselves for the next 75 years is equivalent to 1.7 percentage points of payroll, of taxable payroll. You used a number that was much larger than 1.7 percent. You said taxes could be up around 11 percent on both employer and employee, which represents a 4- or 5-point increase.

How do I reconcile this?

Mr. CLARK. I think what you are being told by that 1.7 percent is that in fact you would have to raise taxes by 1.7 percent today and keep them above the legislative increase by that amount for the entire 75 years to offset that.

Senator HEINZ. That is what that means?

Mr. CLARK. I am saying, if you keep the system on a pay-as-you-go basis those same projections show that the expenditures as a percent of payroll would be required to be 25 or 26 percent in the first quarter of the next century.

Senator HEINZ. That clarifies the discrepancy.

Ms. RAPPAPORT. I have a book by A. Haeworth Robertson, "The Coming Revolution In Social Security." Mr. Robertson is with Mercer today as a vice president, and is a former chief actuary of social security.

In his book he presents some projections of the long-term costs of the system, under "pessimistic, intermediate, and optimistic assumptions." The long-term costs as a percentage of payroll are 17 percent under optimistic assumptions, 24 percent with intermediate assumptions, and 44 percent with pessimistic assumptions.

The assumptions are listed in the book, and I commend to the Senators to look at these assumptions, because it will give you a feel for the effect of changes in the economy on the system and explain why there is so much uncertainty in the numbers. Also, if we assume pessimistic assumptions that really do not look that unreasonable, the costs could get very big indeed when you go out in the next century.

I would recommend the book as providing good insights into the uncertainties.

Mr. YOUNG. I do not want to prolong this, but the only thing I would like to urge that goes beyond what you have said is that you look at the issue in a broad context. If, for example, the economy or the country, because those assumptions include demographics and other things, were to experience anything like the pessimistic assumptions that produce 44-percent social security costs, we will have tremendous other problems in the economy besides which the social security problem would pale.

So I think it cannot be abstracted. When one says that if, for example, the birth rate turned around, we would not have the demographic problem, and the burden of social security. That may be true, but I suspect you would be here worrying about the problems of overpopulation. We should look at the realistic alternatives and realistic effects on the total economy and not act as if this were the only situation that would have to be dealt with.

Senator HEINZ. That is a point well taken.

Thank you all very much.

The hearing is adjourned.

[Whereupon, at 4:53 p.m., the committee adjourned.]

A P P E N D I X

BRIEFING MATERIAL FOR HEARING

MEMORANDUM

TO: Members of the Special Committee on Aging

FROM: Committee Staff

RE: Early Retirement

DATE: June 16, 1981

SCOPE OF HEARING

The hearing will focus on three major topics relating to early retirement and Social Security.

First, it will examine early retirement patterns of older workers in order to draw out implications changes and funding in the Social Security system.

Second, it will examine disincentives in current retirement and pension systems, as well as the social security system, which tend to promote early retirement. It will also examine advantages of early retirement for both employers and older workers.

Third, the hearing will explore some solutions to the above problems and attempt to identify incentives that will encourage employers to promote retention policies and older workers to defer early retirement.

83-457 O - 81 - pt. 2 - 4

The desired outcome of the hearing will be a series of early retirement options which can be considered by Congress over the coming months as Social Security legislation is developed. These will take into account:

- The traditional policies and practices which encourage early retirement and how these might be changed.
- The value of older workers and their continued voluntary activity in the labor force.
- Cost and savings factors that can result from more flexible retirement policies which allow both early retirement options for workers who need it and retention incentives in the social security and pension system for older, able workers who may wish to defer retirement.

MAJOR ISSUES

The trend toward early retirement among older male workers is now a well established fact. Participation rates for men over age 60 have been in steady decline since 1955.

Civilian Population and Labor Force Fifty-five to Sixty-four Years of Age
(in thousands)

Year	Total			Males			Females		
	Population*	Labor force	Percent	Population*	Labor force	Percent	Population*	Labor force	Percent
1950	13,462	7,633	56.7	6,667	5,794	86.9	6,811	1,839	27.0
1955	14,308	8,513	59.5	6,965	6,122	87.9	7,357	2,391	32.5
1960	15,412	9,386	60.9	7,373	6,400	86.8	8,027	2,986	37.2
1965	16,721	10,350	61.9	7,994	6,763	84.6	8,727	3,587	41.1
1970	18,248	11,277	61.8	8,583	7,124	83.0	9,658	4,153	43.0
1971	18,505	11,362	61.4	8,693	7,146	82.2	9,825	4,215	42.9
1972	18,903	11,361	60.1	8,867	7,138	80.5	10,033	4,224	42.1
1973	19,115	11,182	58.5	8,944	7,003	78.3	10,168	4,179	41.1
1974	19,288	11,187	58.0	9,083	7,030	77.4	10,214	4,157	40.7
1975	19,557	11,226	57.4	9,211	6,982	75.8	10,351	4,244	41.0
1976	19,857	11,279	56.8	9,357	6,971	74.5	10,482	4,308	41.1
1977	20,161	11,411	56.6	9,518	7,043	74.0	10,651	4,367	41.0
1978	20,415	11,555	56.6	9,642	7,087	73.5	10,792	4,468	41.4
1979	20,713	11,719	56.6	9,782	7,140	73.0	10,931	4,579	41.9

* Population figures are derived from data on the size of the labor force and the labor force participation rate for each year.
Sources: U.S. Department of Labor, *Employment and Training Report of the President* (1979), pp. 237-41; and unpublished data from the Department of Labor.

Civilian Population and Labor Force Sixty-five Years and Over
(in thousands)

Year	Total			Males			Females		
	Population*	Labor force	Percent	Population*	Labor force	Percent	Population*	Labor force	Percent
1950	11,378	3,038	26.7	5,358	2,454	45.8	6,021	584	9.7
1955	13,718	3,306	24.1	6,379	2,526	39.6	7,358	780	10.6
1960	15,356	3,194	20.8	6,909	2,287	33.1	8,398	907	10.8
1965	17,461	3,108	17.8	7,638	2,131	27.9	9,760	976	10.0
1970	18,947	3,221	17.0	8,075	2,164	26.8	10,887	1,056	9.7
1971	19,294	3,145	16.3	8,192	2,089	25.5	11,126	1,057	9.5
1972	19,917	3,107	15.6	8,287	2,022	24.4	11,667	1,085	9.3
1973	20,295	2,963	14.6	8,368	1,908	22.8	11,843	1,054	8.9
1974	20,709	2,920	14.1	8,594	1,925	22.4	12,146	996	8.2
1975	21,297	2,939	13.8	8,783	1,906	21.7	12,446	1,033	8.3
1976	21,772	2,874	13.2	8,946	1,816	20.3	12,902	1,058	8.2
1977	22,214	2,910	13.1	9,179	1,845	20.1	13,148	1,065	8.1
1978	22,701	3,042	13.4	9,380	1,923	20.5	13,333	1,120	8.4
1979	23,343	3,073	13.2	9,617	1,928	20.0	13,726	1,145	8.3

* Population figures are derived from data on the size of the labor force and the labor force participation rate for each year.
Sources: U.S. Department of Labor, *Employment and Training Report of the President* (1979), pp. 237-41; and unpublished data from the Department of Labor.

Labor force growth and projections over the next ten years suggest that this trend will continue.

Projected Growth of the Civilian Labor Force

Demographic Groups	Actual Labor Force (millions) 1970	Actual Labor Force (millions) 1977	Projected Labor Force (millions) 1985	Projected Labor Force (millions) 1990
Total, age 16 and over	82.7	97.4	113.0	119.4
Men				
16 and over	51.2	54.4	63.0	65.1
16–24	9.7	12.9	12.5	11.2
25–54	32.2	35.7	41.8	45.8
55–64	7.1	7.0	7.0	6.4
65 and over	2.2	1.8	1.8	1.7
Women				
16 and over	31.5	40.0	49.9	54.3
16–24	8.1	10.8	11.9	11.2
25–54	18.2	23.7	32.4	37.7
55–64	4.2	4.4	4.5	4.3
65 and over	1.1	1.1	1.0	1.0

Source: Paul Flaim and Howard Fullerton, "Labor Force Projections to 1990: Three Possible Paths," *Monthly Labor Review*, vol. 101, no. 12 (December 1978), p. 29.

Civilian Labor Force Participation Rates, Intermediate Growth Assumptions

Demographic Groups	Actual Rates (percent) 1970	Actual Rates (percent) 1977	Projected Rates (percent) 1985	Projected Rates (percent) 1990
Total, age 16 and over	60.4	62.3	65.3(67.0–63.0)	66.2(69.7–63.0)
Men				
16 and over	79.7	77.7	77.0(79.4–74.7)	76.4(80.0–73.3)
16–24	69.4	74.1	76.4(78.9–74.4)	76.1(81.0–73.3)
25–54	95.8	94.2	93.5(95.1–92.2)	93.1(95.6–91.1)
55–64	83.0	74.0	68.1(73.5–64.1)	65.0(73.3–59.0)
65 and over	26.8	20.1	16.7(19.7–11.9)	15.0(18.1–9.4)
Women				
16 and over	43.3	48.4	54.8(57.1–52.4)	57.1(60.4–53.8)
16–24	51.3	59.6	69.8(73.2–66.2)	72.8(78.2–67.3)
25–54	50.1	58.4	68.5(70.9–65.9)	72.4(76.1–69.0)
55–64	43.0	41.0	40.2(41.5–38.1)	39.8(41.8–36.6)
65 and over	9.7	8.1	6.8(7.8–5.9)	6.2(7.2–4.8)

Note: Figures in parentheses indicate high and low assumptions.
Source: Paul Flaim and Howard Fullerton, "Labor Force Projections to 1990: Three Possible Paths," *Monthly Labor Review*, vol. 101, no. 12 (December 1978), p. 28.

It should be noted at the outset that the early retirement problem relates mainly to men. This is not to say that employment and retirement issues relating to older women are not important. The problem with older women, who are entering the labor force in greater numbers is to obtain a job with adequate pension benefits. The early retirement problem will face women some years from now.

At the same time that labor force participation rates for men are declining, the rate of retiring workers taking a reduced social security benefit is increasing.

Percent of Workers with social security benefits reduced for early retirement

Year	Male	Female	Total
1965	53	69	59
1970	53	70	60
1975	61	89	68
1978	68	73	70

Source: Congressional Research Service
See Attachments for more data on early retirement rates.

These trends, combined with decreasing fertility and mortality rates raise a number of serious issues pertaining to the social security and pension systems that provide the bulk of retirement income for older Americans. Without some changes, the costs for social security will become intolerable.

To reverse the early retirement trend, the Administration proposed to reduce the early retirement benefit for workers who choose to retire at age 62. Uner present law a worker leaving the labor force at that age receives 80% of the maximum benefit he would have received if he retired at age 65. The Administration's proposal would reduce the early retirement benefit to 50% of the maximum. The early retirement benefit for workers spouse would be reduced from the current 40% of the maximum to 27.5% of that amount. The current monthly average benefit of $372.80 would be reduced to $246.80 under that proposal which would go into effect in 1982. The Administration estimates a $17.6 billion savings from that measure by 1986--the single largest savings element in its social security package.

The strong opposition to this proposal by the public and Congress is now a matter of the record. But Congress is not unaware of the early retirement cost problems associated with Social Security. Rep. Pickle's Bill (HR3207) proposes to gradually raise the normal retirement age from 65 to 68 beginning in 1990. The age 62 early retirement eligibility age would remain--but the benefit would be set as 64% of the maximum. This is no little reduction in itself.

Both the President's Commission on Pension Policy and the National Commission on Social Security recommended gradual raising of both the early and normal retirement eligibility ages from 62 and 65 to 65 and 68, respectively.

OASI retirement benefit costs are rapidly increasing. In 1979 $90.5 billion was spent on retirement benefits. The 1980 estimates are $105 billion. The average monthly cost for early retirement benefits (recipients aged 62-64 was slightly over $1.9 billion in 1977.

There is a problem with early retirement in social security and Congress has to deal with it. Some of the key issues are follows:

- Should able, older workers leave the labor force at age 62 (and earlier under many private pension plans) when they are capable of extended and productive work?

- Would any attempt to changethe long-standing early retirement option in social security be regarded as an infringement of the earned rights of older workers who elect early retirement?

- Changes in the early retirement arrangements would adversely affect older workers with marginal health or workers in heavy industry who may need to or want to retire.

- What would be the magnitude of savings to the system if significant numbers of older workers defered the early retirement option?

- What are the work disincentives in both the social security and private pension systems (often closely linked) that tend to lead older workers to early retirement? Should these be changed? If so, how and when?

- What incentives can be built into the social security and related pension systems to encourage employers to retain older workers and older workers to defer early retirement?

- What personnel policies need to be changed to permit capable older workers to make retention and continued employment decisions well in advance of early and normal retirement dates?

BACKGROUND

The steady decline in labor force participation among men and correstponding increase in early retirement rates can be explained, in part, by a combination of factors. Economic and demographic conditions, existing social security law and pension policy, collective bargaining strategies and age discrimination will influence early retirement rates at any given time.

1 -- Economic and Demographic Factors

Economic factors affect employment opportunities and retirement trends in several ways. When the economy is sound with both low unemployment and inflation rates, as it was in the 1950's and early 60's, both employers and older workers tended to take advantage of early retirement options within expanding pension plans. Employers can, and did, offer inducements for early retirement. This was especially so afer 1961 when men became eligible for reduced early retirement benefits at age 62. The reasons, however, were often mixed.

On the one hand, both workers and employers regarded the early retirement (ER) mutually beneficial. It was there, why not take it? Economic conditions were such that the amount of the benefit appeared fully adequate to meet the worker's retirement needs. The pension trusts were sound so the early retirement choice had little apparent effect on the plan. On the other hand, employers could use the ER option as a way of controlling personnel costs. Older, less able workers could be eased out via the early retirement program. Older, higher wage or salaried workers could be replaced by younger more physically able and less expensive workers who were available in the labor force in ever increasing numbers as the baby-boom cohorts moved into the youth and young adult worker ages in the mid-sixties and 70's.

When down-turns occur in the economy, ER becomes a sort of safety valve for employers and younger workers. Cut backs in production and services often require a reduction in the personnel force. This can be accomplished most easily by attrition through early retirement. The older workers are often pressured out of their jobs and into early retirement regardless of seniority or length of service to protect the jobs of younger workers who don't have a pension or social security income to fall back on.

These types of pension policies and economic factors are very powerful and often influence the early retirement patterns of older workers.

2 -- Collective Bargaining Strategies

Some of the greatest pressures to develop early retirement options came about through collective bargaining. Workers in the steel, rubber, automotive and manufacturing industries often encounter health problems as they age due, in part, to the heavy physical demands of their jobs. Given the solid status of the Post WW II economy and growing, strong pension plans, labor unions focused collective bargaining strategies on increasing pension benefits--especially early retirement options--along with increased wage demands. The UAW's thirty-and-out plan, which allows a worker to retire with full benefits regardless of age after 30 years of service is illustrative of this trend. The ER option appeals to workers who for reasons of health or desire for leisure can leave the job early. The option appeals to union management which, through ER, can move adult worker-members up in seniority and bring younger workers into the labor force--and into the union.

3 -- Recent Early Retirement Incentives

In studies on selected pension plans, conducted by Bankers Trust in 1975 and 1980 (see Attachments) two types of powerful earl retirement incentives can be noticed. The first is constituted by a sort of bonus, or lump sum award, that is made available to certain workers who elect the ER choice. A variation of this theme is to offer the worker a portion of his salary over a two year period if he elects the ER choice. In all cases, the retirement benefit would be actuarilly reduced.

A second, and more recent trend is to offer a full, non-reduced benefit for workers who retires early. Such an option goes a long way to remove the desire and the need on the part of the older worker to remain on the job. The strategy is affordable to plans that are reasonably sound and which are integrated with social security. The plan is relieved of much of its responsibility to pay out when the beneficiary becomes eligible for social security benefits at age 62--even though that benefit is reduced.

4 -- Age Discrimination

Many features of early retirement provisions and pension policy are discriminatory. For example, the pressure put on older workers to take an ER option, for whatever reason, is most likely a violation of the Age Discrimination in Employment Act and the Employee Retirement Income Security Act which prohibit the use of pensions and retirement policy as a means to displace a worker because of his age.

More than one-half of age discrimination charges filed with the Equal Employment Opportunity Commission involve termination or involuntary retirement. Management may feel easier in forcing an older worker to retire on the grounds that he has a pension. This is a subtle form of discrimination and one that is not all that uncommon (cf Retirement: Reward or Rejection--Attachment).

EARLY RETIREMENT OPTIONS

Depending on one's viewpoint, there are incentives and dis-incentives to both parties in the ER option. Many of these have been already touched on. This section will sum them up and add some others.

1 -- Early Retirement and Older Workers -- Incentives

- Older workers can choose to leave their jobs early if they need or want to. This is espicially important for workers in heavy industry. The trade-off for the choice is, of course, a reduced pension.

- The ER choice is appealing if the early retiree has a spouse who is working or who receives a pension. The combination of incomes offers relatively firm economic security.

- The early retiree can take another job and often gain both income from the job and, ultimately, social security and/or other pension benefits.

- The appeal of a lump-sum bonus or extended salary arrangement over the early retirement years may be short term, but it offers the early retire immediate cash benefits.

-- Disincentives

- Once the older worker makes the ER choice, he may be strapping himself in to a relatively fixed income which can be easily eroded by inflation and high costs of living.

- Once an older worker takes the early social security benefit he is subject to the earnings limitation which takes $1 from his benefit for every $2 earned once he exceeds $4,080.

- Older workers often face difficulties in finding new jobs once they retire. Age discrimination in employment often accounts for this.

- Any bonus, or short-term cash incentive for taking early retirement is temporary. After it is gone, the retiree may regret his choice to leave the job early.

- ERISA presents obstacles for reemployment of older workers in that it allows employers with multi-employer pension plans not to enroll the older worker if that individual worked in a similar occupation in the surrounding geographical area.

2 -- Early Retirement and Employers -- Incentives

- The ER option gives management a mechanism to encourage less able or less productive older workers to leave the job without having to terminate them.
- When management develops new technologies, production and service procedures or new facilities it can use ER as a means to get rid of older workers and reduce the costs of retraining that might be involved in the change-over.
- ER can be used by management as a way to reduce personnel costs in the event of a reduction-in-force is called for.
- ER plus special incentives allows management to reward older employees for long term service and help them plan for their future. This makes for good employee relations.

--Disincentives

- ER mechanisms can be a ruse for discrimination against older workers. Employers run the risk of encountering age discrimination suits if they misuse early retirement policy.
- The ER option can be taken by highly productive and valued employees with relatively little notice. This presents skill loss and replacement problems.
- The costs of the ER option lie in the future. By promoting early retirement employers can be strapping their plans with heavy future obligations as payout to greater numbers of early retirees mount.
- By promoting ER, employers are blind to future labor force realities which will require greater utilization--and not early retirement--of older workers.

INCENTIVES FOR RETAINING OLDER WORKERS UP TO AND BEYOND NORMAL RETIREMENT

A -- Savings to the Social Security System

One major reason to encourage continued employment for older workers is to conserve limited social security resources.

- In 1977 a total of 1,879,371 early retirement benefits were granted to individuals between the ages of 62 and 64. 462, 333 men in that age group received an average monthly benefit of $260.60. If we assume that 50,000 of them were capable older workers who, with some incentive, might have deferred the option for one year then the savings to the system would be in the order of $1.2 billion. Add to this the balue of their work and that they will be paying income and payroll tax and the savings grow--to social security and the economy.

B -- Some Steps to Encourage Deferred Retirement

- Allow FICA credits to employers who retain workers beyond age 62 and beyond normal retirement at age 65. This has a practical appeal and while it uses a tax credit approach, it can eventually have the effect of changing emplotment and retirement policies for older workers in more positive ways--they are retained because they are good.

- Employers are allowed to write off pension contributions for covered employees against income tax liability. This may be a difficult approach, but allowing an increased write off for workers retained beyond age 62 could have the some practical appeal to employers as the above strategy.

- Develop employer education programs on the capability of older workers. This is a long-term approach which needs to be put into place. Frequently employers simply lack knowledge about how to utilize older workers effectively so they take the traditional path of getting rid of them through retirement. They need to know:
  --how to assess skills of older workers without resorting to formal and youth-oriented tests.
  --how to train and retrain older workers in ways that accomodate age and skills as an assets.
  --how to conduct performance appraisal which is is free of age bias.
  --how to develop alternative working arrangements to accomodate older workers in effective work roles.
  --how to conduct retirement preparation programs that include continued employment options.
  --etc.

- o Eliminate mandatory retirement and tighten the exceptions in the Age Discrimination in Employment Act which tend to inhibit hiring and retention of older workers. The age 70 limit is no great barrier since relatively few workers stay on to that age. It is the attitude which the restriction underscores--that age is a limit to ability--which needs to go. Removing the limit would help accomplish this.
  Exceptions in the law, especially the bona fide occupational qualification section that allows age exclusions for older workers as police, fireman, pilots and a variety of other jobs need to be tightened up. As it now stands, older workers are excluded from many jobs they could perform by conservative court decisions which have turned against older workers.

Older workers need incentives to stay on the job also. Some of these could be.

- o Increase the delayed retirement credit for workers who stay on beyond age 65. Experiment with some type of a credit for workers who stay on beyond age 62.
- o Liberalize the earnings limitation as a general means to encourage labor force activity for individuals over age 62.
- o Consider allowing continued pension credit accrual for older workers who stay on beyond age 65. Consider allowing special credits for those staying on beyond age 62--such as a targeted write-off described above.
- o Encourage workers to take retraining at age 50 or earlier in order to maintain and upgrade skills needed to remain in the labor force beyond the traditional early and normal retirement ages. Tuition aid programs and other training and development strategies need to be developed to help older workers in this regard.

SOCIAL SECURITY DATA

The following are unpublished reports from the Social Security Administration which illustrate the continuing trends on individuals taking early social security benefits.

Table 65.--Benefits awarded and in current-payment status for individuals: Number and average monthly amount, by type of beneficiary, race 1/, age, and sex, 1978

(Not necessarily payable at time of award; see definitions of awards, p.)

Age 2/ and sex	Awarded during year		In current-payment status at end of year							
	Total		Total		White		Black		Other	
	Number	Average monthly amount 3/	Number	Average monthly amount	Number	Average monthly amount	Number	Average monthly amount	Number	Average monthly amount
	Retired-workers									
Total	1,472,786	$278.80	18,357,755	$263.20	16,707,517	$267.50	1,433,673	$215.90	216,565	$241.20
62-64	811,567	239.40	1,870,885	229.30	1,712,552	232.30	129,389	193.90	28,944	210.40
62	517,296	219.40	495,503	219.10	456,739	221.60	29,887	186.30	8,877	200.80
63	188,450	261.20	654,032	229.40	598,959	232.40	44,674	194.20	10,399	209.20
64	105,821	300.20	721,350	236.20	656,854	239.70	54,828	197.70	9,668	220.40
65-69	646,529	328.70	5,722,574	273.90	5,169,914	278.50	478,747	227.10	73,913	255.10
65	563,458	333.50	1,177,458	271.50	1,064,839	275.80	95,903	225.60	16,716	263.60
Disability conversions	145,043	269.10	---	---	---	---	---	---	---	---
Newly entitled	418,415	335.80	---	---	---	---	---	---	---	---
66	53,898	308.30	1,202,772	274.90	1,085,039	279.50	101,610	227.80	16,123	256.60
67	14,994	279.20	1,149,232	275.50	1,041,997	279.90	93,021	229.20	14,214	253.60
68	8,390	264.90	1,117,941	273.50	1,007,201	278.30	96,708	226.90	14,032	249.70
69	5,789	264.80	1,075,171	273.90	970,838	278.80	91,505	225.90	12,828	249.80
70-74	11,585	252.20	4,628,796	275.10	4,198,257	280.10	375,393	224.00	55,146	250.10
70	4,068	255.90	1,039,782	275.00	945,466	279.50	81,701	226.50	12,615	251.70
71	2,795	248.60	986,172	274.30	891,236	279.30	83,245	224.50	11,691	249.30
72	2,234	268.00	924,324	277.70	839,857	282.60	73,527	224.80	10,940	252.70
73	1,517	240.10	875,858	274.90	792,205	280.10	73,290	222.30	10,363	248.30
74	971	229.30	802,660	273.80	729,493	278.70	63,630	221.00	9,537	247.60
75-79	[illegible]	[illegible]	[illegible]	265.40	2,809,388	270.30	241,637	212.10	34,188	[illegible]
75	733	221.60	744,293	270.30	677,833	[illegible]	57,969	216.50	8,491	246.00
76	561	219.50	666,360	267.70	625,205	272.70	55,337	214.70	7,818	241.80
77	372	228.20	592,962	265.10	542,560	269.70	43,820	211.20	6,582	235.70
78	357	214.40	575,150	261.10	520,281	266.20	48,426	209.20	6,443	235.60
79	225	215.30	484,448	260.50	443,509	265.20	36,085	206.10	4,854	235.70
80-84	611	206.10	1,856,112	253.80	1,707,887	258.10	132,677	201.50	15,548	224.60
80	174	209.80	459,707	258.30	421,819	262.60	33,396	206.20	4,492	233.90
81	176	210.30	404,509	256.90	371,694	261.30	29,347	203.60	3,468	229.60
82	102	198.80	374,356	254.70	344,232	259.10	27,077	201.90	3,047	227.80
83	78	193.70	330,115	249.70	303,980	254.00	23,626	197.50	2,509	219.50
84	81	210.10	287,425	246.10	266,162	250.10	19,231	194.90	2,032	212.50
85-89	166	198.10	884,549	234.80	823,055	238.40	55,288	184.70	6,206	204.90
90-94	45	209.70	263,362	209.60	244,586	212.60	16,583	167.50	2,193	194.20
95 and over	15	225.00	46,264	189.20	41,878	192.50	3,959	155.20	427	178.40
Men	852,351	323.10	9,928,099	291.60	9,022,005	296.30	756,792	241.70	149,302	258.70
62-64	422,620	287.40	915,739	274.10	837,883	278.20	63,496	226.40	14,360	[illegible]
62	243,644	268.20	228,812	267.30	211,302	270.60	13,799	221.00	3,711	[illegible]
63	112,077	299.80	322,661	273.80	295,492	277.90	22,071	226.00	5,098	[illegible]
64	66,899	336.50	364,266	278.70	331,089	283.30	27,626	229.40	5,551	268.70
65-69	422,874	360.00	3,215,324	305.90	2,901,385	311.00	263,368	255.80	50,571	[illegible]
65	375,420	364.30	659,030	310.40	595,921	315.30	52,736	258.50	10,373	293.00

Disability conversions..........	96,740	294.10	---	---	---	---	---	---	---	---
Newly entitled..................	278,680	388.70	---	---	---	---	---	---	---	---
66..............................	32,091	340.60	678,218	310.00	611,694	315.30	56,057	258.20	10,497	276.40
67..............................	8,144	306.00	647,600	307.10	586,484	312.00	51,266	258.10	9,850	269.70
68..............................	4,228	285.60	627,874	301.20	564,279	306.50	53,342	253.10	10,253	261.60
69..............................	2,991	281.60	602,572	299.80	543,007	304.90	49,967	251.00	9,598	262.90
70-74...........................	5,551	256.90	2,573,798	298.60	2,330,146	303.70	201,431	247.40	42,221	261.60
70..............................	1,979	263.00	580,312	299.40	526,332	304.20	44,418	250.10	9,562	263.30
71..............................	1,311	256.00	549,033	297.60	493,030	302.80	45,078	248.20	8,925	260.60
72..............................	1,083	268.00	515,870	301.70	468,252	306.80	39,143	248.80	8,475	264.20
73..............................	722	241.10	485,899	297.80	438,641	303.20	39,268	245.10	7,990	260.30
74..............................	456	231.00	442,684	296.10	401,891	301.10	33,526	243.90	7,269	258.90
75-79...........................	981	215.80	1,667,076	285.60	1,516,588	290.60	124,833	233.10	25,655	249.9[illegible]
75..............................	332	215.30	407,224	291.70	370,928	296.60	29,879	238.60	6,417	255.3[illegible]
76..............................	245	222.90	375,556	288.20	340,760	293.20	28,934	235.80	5,862	252.2[illegible]
77..............................	151	221.20	319,374	285.20	292,427	289.80	22,013	232.70	4,934	248.10
78..............................	152	208.70	307,911	279.90	277,381	285.20	25,652	229.10	4,878	245.30
79..............................	101	202.80	257,011	279.70	235,092	284.40	18,355	226.20	3,564	245.3[illegible]
80-84...........................	232	197.10	962,487	277.00	885,970	281.40	65,963	224.00	10,554	239.9[illegible]
80..............................	66	191.20	241,737	279.20	221,850	283.50	16,635	228.10	3,252	244.7[illegible]
81..............................	79	203.90	210,971	279.90	194,226	284.20	14,338	227.60	2,407	262.[illegible]
82..............................	31	210.70	193,765	278.80	177,826	283.60	13,883	223.40	2,056	241.1[illegible]
83..............................	25	187.50	168,858	273.80	155,507	278.30	11,767	219.90	1,584	233.[illegible]
84..............................	31	186.30	147,156	270.60	136,561	274.70	9,340	217.40	1,255	227.6[illegible]
85-89...........................	69	199.00	439,988	259.50	409,075	263.50	26,895	205.20	4,018	219.3[illegible]
90-94...........................	18	181.90	130,290	232.50	120,227	236.50	8,464	181.90	1,599	206.9[illegible]
95 and over.....................	6	285.40	23,397	209.00	20,731	214.40	2,342	164.30	324	188.9[illegible]
Women...........................	620,435	217.90	8,429,656	229.70	7,685,512	233.70	676,881	187.00	67,263	202.4[illegible]
62-64...........................	388,947	187.80	955,146	186.40	874,669	188.40	65,893	162.50	14,584	173.[illegible]
62..............................	273,652	176.00	266,691	177.80	245,437	179.40	16,088	156.60	5,166	155.[illegible]
63..............................	76,373	204.60	331,371	186.20	303,467	188.10	22,603	163.00	5,301	176.[illegible]
64..............................	38,922	237.80	357,084	192.90	325,765	195.30	27,202	165.60	4,117	182.[illegible]
65-69...........................	223,655	269.40	2,507,250	232.80	2,268,529	236.90	215,379	191.90	23,352	214.[illegible]
65..............................	188,038	272.10	518,428	222.10	468,918	225.60	43,167	185.30	6,343	218.7[illegible]
Disability conversions..........	58,540	218.90	---	---	---	---	---	---	---	---
Newly entitled..................	129,498	296.20	---	---	---	---	---	---	---	---
66..............................	21,807	260.90	524,524	229.50	473,345	233.40	45,553	190.50	5,626	218.7[illegible]
67..............................	6,850	247.30	501,632	234.80	455,513	238.70	41,755	193.70	4,364	217.1[illegible]
68..............................	4,162	244.00	490,067	238.00	442,922	242.50	43,366	194.80	3,779	212.1[illegible]
69..............................	2,798	246.80	472,599	240.90	427,831	245.50	41,538	195.80	3,230	211.[illegible]
70-74...........................	6,034	247.90	2,054,998	245.80	1,868,111	250.60	173,962	196.90	12,925	212.4[illegible]
70..............................	2,089	249.20	459,470	244.20	419,134	248.50	37,283	198.40	3,053	215.7[illegible]
71..............................	1,484	242.00	437,139	245.10	396,206	250.00	38,167	196.50	2,766	212.[illegible]
72..............................	1,151	268.00	408,454	247.40	371,605	252.20	34,384	197.50	2,465	213.[illegible]
73..............................	795	239.20	389,959	246.30	353,364	251.40	34,022	196.00	2,373	208.8[illegible]
74..............................	515	227.90	359,976	246.40	327,602	251.30	30,106	195.60	2,268	211.4[illegible]

See footnotes at end of table.

Table 65.--Benefits awarded and in current-payment status for individuals: Number and average monthly amount, by type of beneficiary, race 1/, age, and sex, 1978--Continued

Age 2/ and sex	Awarded during year: Total: Number	Awarded during year: Total: Average monthly amount 3/	In current-payment status at end of year: Total: Number	Total: Average monthly amount	White: Number	White: Average monthly amount	Black: Number	Black: Average monthly amount	Other: Number	Other: Average monthly amount
	Retired workers--Continued									
75-79	1,287	$223.90	1,418,137	$241.70	1,292,800	$246.60	116,804	$189.70	8,533	$210.30
75	401	226.80	337,069	244.30	306,905	249.30	28,090	193.00	2,074	209.20
76	336	216.90	312,804	243.10	284,445	248.20	26,403	191.60	1,956	210.50
77	221	233.00	273,588	241.60	250,133	246.30	21,807	189.50	1,648	210.50
78	205	218.60	267,239	239.40	242,900	244.50	22,774	186.90	1,565	209.70
79	124	225.50	227,437	238.80	208,417	243.50	17,730	185.20	1,290	212.30
80-84	379	211.60	893,625	228.90	821,917	233.10	66,714	179.40	4,994	198.60
80	108	221.10	217,970	235.10	199,969	239.50	16,761	184.50	1,240	205.60
81	97	215.10	193,538	231.80	177,468	236.30	15,009	180.70	1,061	199.60
82	71	193.50	180,591	228.80	166,406	232.90	13,194	179.20	991	200.10
83	53	196.70	161,257	224.40	148,473	228.50	11,859	175.20	925	195.00
84	50	224.80	140,269	220.40	129,601	224.20	9,891	173.70	777	188.40
85-89	97	197.40	444,561	210.40	413,980	213.60	28,393	165.40	2,188	178.50
90-94	27	228.20	133,072	187.10	124,359	189.50	8,119	152.40	594	160.20
95 and over	9	184.80	22,867	168.80	21,147	171.00	1,617	142.00	103	145.20
	Disabled workers									
Total	464,415	324.30	2,879,774	288.30	2,406,340	295.20	430,289	257.10	43,145	262.40
Under 20	1,064	189.10	1,281	188.10	1,122	190.30	121	170.30	38	181.50
20-24	13,749	273.80	33,387	246.50	27,357	247.40	5,032	242.30	998	242.80
20	1,506	219.50	2,239	203.80	1,939	206.10	232	188.50	68	192.60
21	2,335	242.90	4,167	221.00	3,523	223.40	521	206.40	123	214.80
22	2,979	266.80	6,591	237.10	5,409	238.40	960	230.60	222	232.80
23	3,312	290.10	8,895	253.50	7,263	254.50	1,377	248.50	255	249.50
24	3,617	307.00	11,495	263.90	9,223	264.70	1,942	259.70	330	265.20
25-29	19,239	352.80	83,750	292.20	66,394	293.00	14,987	290.60	2,369	279.50
25	3,675	325.00	13,123	274.00	10,511	274.70	2,204	272.20	408	265.00
26	3,875	338.80	15,176	281.70	12,111	282.80	2,617	276.60	448	279.50
27	3,826	353.80	16,575	291.00	13,211	291.30	2,917	292.60	447	272.70
28	3,935	366.50	18,534	298.80	14,605	299.60	3,424	297.50	505	283.70
29	3,928	378.10	20,342	306.90	15,956	308.30	3,825	303.20	561	291.70
30-34	20,122	381.70	112,658	322.80	89,211	326.50	20,573	309.10	2,874	304.50
30	4,028	385.40	22,245	313.20	17,488	315.60	4,176	305.20	581	296.30
31	4,250	387.60	24,017	321.40	19,204	324.60	4,264	310.00	549	297.70
32	4,062	383.10	22,765	324.80	18,139	328.90	4,053	308.90	573	309.00
33	3,697	378.30	20,834	327.00	16,385	331.50	3,871	310.30	578	310.10
34	4,085	373.70	22,797	327.70	17,995	332.20	4,209	311.00	593	308.90
35-39	22,458	335.10	125,975	320.90	100,251	326.70	23,022	299.10	2,702	291.00
35	4,271	370.00	24,618	327.90	19,742	332.60	4,392	309.80	484	300.10
36	4,534	362.00	25,139	325.70	20,093	331.00	4,508	306.10	538	293.50
37	4,388	353.70	24,911	321.00	19,779	327.10	4,380	298.20	552	293.10
38	4,517	348.30	24,886	317.90	19,739	324.20	4,593	294.90	554	286.20
39	4,748	342.80	26,421	312.60	20,898	319.20	4,949	288.00	574	283.30
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	302.80	[illegible]	267.30	[illegible]	[illegible]

Table 55.--Benefit awards to retired workers: Number and average monthly amount, with and without reduction for early retirement, by status of award and sex, 1956-78

Year	Number (in thousands)						Average monthly amount						
	All awards	Currently payable regular 1/			Reduced currently payable awards as percent of:		All awards	Not currently payable 2/	Currently payable regular 1/				
		Total	Not reduced	Reduced	All awards	All currently payable regular awards			Total	Without reduction for early retirement	With reduction for early retirement		
											Before reduction	After reduction	Percent reduction
	Total												
1956	934	890	775	115	12	13	$67.25	3/	3/	3/	3/	3/	---
1960	982	841	634	207	21	25	81.75	3/	3/	3/	3/	3/	---
1961	1,362	1,166	629	537	39	46	77.50	3/	3/	3/	3/	3/	---
1962	1,347	1,120	427	693	51	62	78.75	3/	3/	3/	3/	3/	---
1963	1,146	964	351	613	54	64	80.25	$103.75	$76.50	$92.25	$78.50	$67.50	14
1964	1,042	877	291	586	56	67	81.25	106.25	77.25	97.00	79.00	67.50	14
1965	1,183	875	296	579	49	66	85.50	115.25	80.25	99.50	82.00	70.25	14
1966	1,648	890	259	631	38	71	93.75	118.00	80.00	92.50	86.50	74.75	14
1967	1,161	763	127	636	55	83	89.75	116.25	79.50	90.00	89.25	76.00	15
1968	1,240	807	131	675	54	84	103.75	134.00	89.50	103.50	103.00	86.75	16
1969	1,273	808	119	689	54	85	106.25	135.50	92.20	107.00	106.60	89.60	16
1970	1,338	859	114	745	56	87	123.85	158.00	108.20	126.50	125.00	105.30	16
1971	1,391	919	120	799	57	87	138.30	176.60	122.30	142.60	141.25	119.20	16
1972 4/	1,461	961	117	843	58	88	168.90	218.50	145.00	168.45	169.70	141.85	16
1973	1,493	1,047	135	912	61	87	169.80	220.00	153.80	167.30	178.70	151.50	15
1974 5/	1,413	1,012	109	903	64	89	191.90	252.00	175.00	199.10	203.50	172.10	15
1975 5/	1,506	1,081	117	964	64	89	213.00	278.20	195.70	226.50	226.40	191.90	15
1976 5/	1,464	1,082	110	972	66	90	233.40	308.50	215.60	250.30	245.60	211.70	14
1977 5/	1,594	1,178	114	1,064	67	90	254.80	342.10	235.60	273.50	269.50	231.50	14
1978 5/	1,473	1,116	142	974	68	87	278.50	375.60	259.70	285.10	297.50	256.00	16
	Men												
1956	564	530	530	---	---	---	$75.75	3/	3/	3/	3/	---	---
1960	630	515	515	---	---	---	92.00	3/	3/	3/	3/	---	---
1961 (Jan.-July)	377	302	302	---	---	---	90.75	3/	3/	3/	3/	---	---
1961 (Aug.-Dec.)	565	482	203	279	49	58	80.50	3/	3/	3/	3/	3/	---
1962	904	722	299	423	47	59	86.00	3/	3/	3/	3/	3/	---
1963	736	592	239	353	48	60	88.50	$106.25	$84.75	$99.75	$85.75	$74.75	13
1964	652	524	200	324	50	62	89.75	108.75	86.00	104.00	86.75	74.75	14
1965 (Jan.-Aug.)	431	347	132	214	50	62	91.00	109.25	87.25	105.25	88.00	76.50	13
1965 (Sept.-Dec.)	312	171	66	105	33	61	99.75	121.75	92.75	110.50	95.00	81.75	14
1966	1,060	491	146	345	33	70	103.00	119.75	89.00	102.25	95.50	83.50	13
1967	719	418	67	351	49	84	99.25	118.50	89.00	99.50	99.00	85.00	14
1968	766	440	73	367	58	83	114.25	136.50	99.25	111.25	114.25	97.00	15
1969	779	433	65	367	47	85	117.25	138.50	103.30	115.60	119.00	101.10	15

1970	814	461	63	398	49	86	136.80	162.20	121.60	136.40	140.00	119.20	15
1971	840	498	67	430	51	86	153.00	181.40	135.85	154.00	158.75	133.00	16
1972 4/	873	514	64	449	51	87	188.35	224.80	165.15	182.15	193.70	162.90	16
1973	875	551	66	485	56	88	189.90	226.65	174.30	189.60	202.20	172.30	15
1974 5/	835	542	58	484	58	89	215.40	258.90	199.40	219.50	229.70	195.90	14
1975 5/	902	593	61	531	59	90	239.70	287.40	223.80	248.40	258.10	221.00	14
1976 5/	867	590	58	533	62	90	265.50	320.80	249.40	276.70	279.60	246.40	12
1977 5/	940	642	59	583	62	91	291.70	358.50	274.00	305.90	308.70	270.80	14
1978 5/	852	600	72	527	62	88	323.10	401.00	305.70	325.00	345.40	303.00	14
	Women												
1956	370	360	245	115	31	32	$54.50	3/	3/	3/	3/	3/	---
1960	351	326	119	207	59	64	63.25	3/	3/	3/	3/	3/	---
1961	420	383	125	258	62	67	61.50	3/	3/	3/	3/	3/	---
1962	444	398	128	270	61	68	64.25	3/	3/	3/	3/	3/	---
1963	410	372	112	261	64	70	65.75	$94.75	$63.25	$75.75	$68.50	$57.75	16
1964	390	353	90	263	67	74	67.00	98.00	64.25	81.00	69.50	58.50	16
1965 (Jan.-Aug.)	254	228	59	169	66	74	68.75	99.25	66.25	84.00	70.75	60.00	15
1965 (Sept.-Dec.)	186	130	38	92	49	70	71.25	112.50	68.50	84.50	73.75	61.75	16
1966	598	399	113	286	49	72	77.00	111.25	68.75	80.50	75.25	64.00	15
1967	442	345	61	284	64	82	74.75	108.50	67.75	79.25	77.00	64.50	16
1968	474	367	59	308	65	84	87.25	125.50	78.00	94.25	89.25	74.75	16
1969	493	375	54	321	65	86	88.90	126.20	79.40	96.70	91.00	76.40	16
1970	524	398	50	348	66	87	103.70	147.00	92.60	113.90	106.00	89.50	16
1971	551	421	53	369	67	86	115.95	163.70	104.00	128.00	119.30	100.50	16
1972 4/	587	447	53	394	67	88	140.10	201.70	122.95	153.55	141.25	118.85	16
1973	618	496	70	426	70	86	141.40	203.10	130.40	146.30	150.20	127.80	15
1974 5/	578	471	50	420	73	89	157.90	230.90	146.80	175.60	172.80	143.40	17
1975 5/	603	488	56	432	72	89	173.10	251.60	161.30	202.20	188.00	156.00	17
1976 5/	596	492	52	439	74	89	186.80	272.70	175.10	221.30	204.30	169.60	17
1977 5/	654	536	55	481	74	90	201.60	295.00	189.60	238.90	215.80	183.90	15
1978 5/	620	516	70	447	72	87	217.00	315.20	206.30	243.60	234.00	200.50	17

1/ Excludes disability conversions and transitionally insured as well as not currently payable awards.

2/ Not currently payable awards are conditional and deferred awards suspended immediately following determination, chiefly because of earnings of the retired worker. Since September 1965, most not currently payable awards have been made primarily for the purpose of assuring eligibility for hospital insurance benefits.

3/ Data not available.

4/ The average amounts shown are based on monthly averages from September-December 1972 and reflect the benefit increases authorized by the 1972 Amendments to the Social Security Act.

5/ Average amounts for January through May entering into the computation of the annual averages at levels effective in June.

Retirement:
Reward or Rejection?

By J. Roger O'Meara

A Research Report from The Conference Board's Division of Management Research Harold Stieglitz, Vice President

Contents

Chapter 1

The Retirement Revolution– And How It Came To Pass....

WHEN THIS CENTURY began, people had to work much longer than they do today. In 1900, steel production employees, for example, were on the job 12 hours a day, 7 days a week, 52 weeks a year. Since then, the lengths of the workday, the workweek, and the workyear in the steel industry — and in all other types of business as well — have been shortened continuously.

The length of the *work life,* on the other hand, remained the same until fairly recently. Only a generation ago, in fact, the average employee was bound by economic considerations to stay on the job until death or disablement. But this is no longer the rule. A succession of interrelated developments has produced what amounts to a retirement revolution. Today, the employee who may stay on the job beyond an appointed age is the exception. Mandatory retirement, usually at the age of 65, has become a nearly unanimous practice throughout the business world.

This marked the first stage in the revolutionary process. Now a related development — one that will have a far more significant and extensive effect on the length of the work life of employees — is making surprising headway. It is the quickening trend toward retirement *before* age 65.

Key Factors: Pension and Social Security Benefits

Historically, the causes of the retirement revolution trace back to the establishment of private pension and federal Social Security benefits for employees. Although private pension benefits were pioneered in 1875, it was not until World War II (when wage and salary controls and the corporate excess profits tax made them an advantageous alternative to restricted pay raises) that these benefits were extended to a sizable segment of the working population.[1] The United States Supreme Court was also instrumental in further swelling the ranks of covered workers when, in 1949, it refused to review a lower court ruling that had declared private pension benefits a legitimate issue for collective bargaining.[2] Soon afterwards, about ten million union employees were accumulating private pension benefits.

Meanwhile, the Social Security Act of 1935 had provided another source of retirement income for the bulk of the nation's work force. The amount of such income was not enough, of itself, to induce many employees to retire from their jobs on reaching the eligible age of 65. However, the financial prospects of retirement at this age took on a new and more realistic dimension by midcentury, when a substantial percentage of the working population was covered by both Social Security and private pension benefits.

With the retirement income picture thus improved, the stage was set for introducing the practice of mandatory retirement at age 65. It was favored by company managements, because they realized that letting each individual employee choose his or her retirement age could lead to endless planning and staffing problems. They found, too, that union officials were willing to cooperate, because the forcing out of older union members (many of whom were well past 65) opened jobs for younger union members who were out of work. Age 65, as a

[1] Patrick J. Davey, *Financial Management of Company Pension Plans,* The Conference Board, Report No. 611, 1973, pp. 5-6.

[2] *NLRB v. Inland Steel,* 170 F. 2d 247, 7th Cir. (1948), cert. denied 336 U.S. 960, 69 S. Ct. 887 (1949).

result, quickly became the normal and required retirement age for a dominant majority of this country's union and nonunion employees.

The transition from requiring all employees to retire at age 65 to encouraging some employees to retire at an even earlier age began during the 1960's. Many companies decided they could ease out certain long-service employees — those whose usefulness had declined although they were not yet 65 years of age — by liberalizing the early retirement provisions of their pension plans.[3] Ever since, in increasing numbers, employees at every level of the work force have been electing on their own or have been "encouraged" by their employers to retire at age 62, 60, or even earlier. "Our findings," a Social Security administrator informed The Conference Board, "indicate that, in recent years through 1970, 50 to 55 percent of men who become entitled to (Social Security) benefits elected to receive reduced benefits because of retirement before the age of 65."

Nor has this trend to early retirement taken any downturn since 1970. About two-thirds (48) of the 75 executives whom The Conference Board questioned on the point answered that 50 percent or more (the top was 80 percent) of the employees retiring from their companies each year are early retirees. And even in the 27 companies where this is not the case, most (19) of the executives remarked that "early retirement is rising gradually."

Economic Constraints

There were several other developments that contributed in some measure to the growth of the retirement revolution. One has been the inconstant state of the economy during the second half of this century. Time and time again, companies were forced by adverse business conditions to seek out ways to reduce the number of employees on their active payrolls.

[3]Mitchell Meyer and Harland Fox, *Early Retirement Programs*, The Conference Board, Report No. 532, 1971, p. 19.

Recession

Business organizations suffered three recessions since 1960. The falloff in sales in each of these recessions — especially the most recent one — necessitated cutbacks in production and left companies with more employees than they could use. What many of they did to remedy the situation was to encourage employees between the ages of 62 and 65 to take early retirement when they were qualified for both company pension and Social Security benefits. This obviated the need for laying off younger employees with growing families.

Another consideration added appeal to this approach. The rapid advance of automation has so altered job duties that the skills and knowledge of employees at nearly every level of the work force have been rendered partially obsolete. Bringing such employees back to peak efficiency calls for some retraining, and this entails an investment on which there is small chance of realizing a profitable return if the retraining has to be extended to employees only one to three years away from the mandatory retirement age of 65.

It is true, of course, that the Age Discrimination in Employment Act may well apply to compulsory early retirement situations. But it would probably not be interpreted so as to preclude an employer from encouraging all eligible older employees to agree to early retirement by offering them extra financial incentives which make the prospect more attractive.

Plant Relocations and Closings

Similar considerations prompted employers to favor the early retirement approach when they had to close a plant or move to a distant geographical location. Young employees who are deprived of jobs through such actions are laid off and given severance pay. Employees old enough to meet the eligibility requirements of their employer's pension plan, on the other hand, are persuaded to accept early retirement.

Some economists point out that if the employees pressured into early retirement were counted, the current national unemployment rate would be higher than it is. There is evidence, though, of growing opposition to mandatory retirement at any appointed age (see box on page 4).

Government Actions

After enacting the Social Security Act of 1935, the Federal Government moved in several different directions to promote the retirement of employees.

Ending Sex Distinctions

The primary purpose of the Equal Pay Act of 1963 was to require employers to pay women as much as they paid men for the same work. But one of the effects of this act was to spur early retirements among employees of both sexes. Some companies that had provided pension benefits at age 62 for female employees, when only women could qualify for Social Security benefits at this age, made the pension benefits available to male employees on an equal basis after men had also become eligible for Social Security benefits at age 62.

Phasing Out Obsolete Jobs

On specific occasions, the government has advocated the offer of early retirement inducements to help stabilize employment in declining industries. In the railroad industry, for example, where the advance of automation has discontinued the need for certain jobs, the operating unions wanted to preserve these jobs. But the Rail Passenger Service Act of 1970, the federal law that set up publicly financed AMTRAK to strengthen the industry, called for reducing the work force by attrition. And one of the chief means through which such attrition is being sought is by encouraging the employees on the obsolete jobs, who are qualified to do so, to apply for early retirement benefits.

Increasing Social Security Benefits

Congress has increased the retirement benefits available under the Social Security Act of 1935 repeatedly. In January, 1940, when the first monthly benefit was paid to a retiree, it was for $22.54. By contrast, an unmarried male employee who retires this year at the age of 65, with maximum coverage under the Act, receives a monthly benefit of $387.30 (an amount more than 17 times greater than the 1940 payment).

Such an increase in retirement benefits was made possible, of course, by repeated hikes in the rate and in the base of the Social Security taxes imposed on eligible employees and their employers. In 1937, when tax collections started, the tax rate payable by both employees and employers was one percent, and this rate applied to only the first $3,000 of each eligible employee's annual earnings.

Now, the rate of the tax is up to 5.85 percent for both employer and employee, and is scheduled to climb to 7.45 percent by the year 2011 (assuming the same contribution rate for hospital insurance as is scheduled for 1986-1998). It should be noted, too, that since 1966, when Medicare benefits were provided for those reaching age 65, a percentage of each year's Social Security tax has been set aside for the cost of this medical protection. This amount was 0.35 percent of 1966's 4.2 percent tax, is 0.90 percent of this year's 5.85 percent tax, and will be 1.5 percent of the 7.45 percent tax in 2011.

The maximum tax base has also been multiplied over the years. It went from $3,000 in 1937 to $13,200 in 1974 — and is expected to go on rising for years to come, since the Social Security Act now calls for automatic increases (according to wage changes) in the maximum tax base for every year after 1974 in which a rise of three percent or more in the cost of living occasions an increase in benefits.[4] Because this happened in both 1974 and 1975, the maximum tax base was upped from $13,200 to $14,100 for

[4]Annual living cost rises that prompt increases in benefits also bring automatic increases (according to wage changes) in the maximum amount of other income a retiree may earn without losing some or all of his Social Security benefits. On January 1, 1976, this earnings limit was lifted to $2,760 per year (or $230 per month). It will go to $3,000 per year (or $250 per month) on January 1, 1977.

Will Mandatory Retirement Be Outlawed?

Company management had the cooperation of unions during the years they were establishing the practice of requiring employees to retire at age 65. The only objections at that time came from disaffected employees. Of late, however, this practice has been running into challenges from other sources. The National Council of Senior Citizens, the American Association of Retired Persons, and other organizations concerned with the welfare of the elderly are advocating the elimination of mandatory retirement at any age. So is the American Medical Association, which gives this reason for its stand:

"Considerable medical evidence is available to indicate that the sudden cessation of productive work and earning power of an individual, caused by compulsory retirement at the chronological age of 65, often leads to physical and emotional deterioration and premature death."

The AMA made this statement when it joined in a lawsuit brought by Martin O. Weisbrod, a 70-year-old attorney with the Department of Housing and Urban Development. He asked the courts to outlaw federal regulations which required him to retire because of his age, even though the government admitted that he was physically capable of performing his job duties and that his job competence was above average. The courts refused to do so and the case was dismissed "for want of a substantial federal question" [Weisbrod v. Lynn (383 F. Supp. 993), affirmed without opinion, 420 U.S. 940, 95 S. Ct. 1319, 43 L.Ed. 2d 420 (1975)].

In another case, *Cannon v. Guste* [Civil No. 74-3211 (E.D. La., 5/19/75), affirmed without opinion, 96 S. Ct. 257, 46 L.Ed. 2d. 245 (1975)], the U.S. Supreme Court affirmed a lower court decision that had upheld the validity of a Louisiana statute that compelled state civil service employees to retire at age 65. "There is a rational basis," the lower court stated, "for maintaining the mandatory retirement requirement at age sixty-five in that it is fairly and substantially related to the state's valid economic objective of maintaining an efficient, vigorous and healthy civil service, and of establishing a feasible system for promotions of younger employees.",

A third case (*Murgia*) involved forcing state policemen to retire at age 50.

While these three cases failed on appeal to the U.S. Supreme Court, efforts have been launched to enact state and federal legislation that would invalidate mandatory retirement for employees 65 or more years of age. Testimony in support of such legislation is now being collected by a Senate Special Committee on the Aging. Bills aimed in the same general direction have also been introduced in Congress and in several state legislatures.

Furthermore, the U.S. Department of Labor is stepping up its prosecutions of employers it feels have been unfair to employees because of their age. Carin Clauss, an associate solicitor for the department, was asked whether the Age Discrimination in Employment Act, which precludes discrimination against employees between the specified ages 40 to 65, would eventually mean an end to mandatory retirement. "I think so," she replied, then

1975 and to $15,300 for 1976 (and will go to $16,500 for 1977), even though the tax rate stayed the same.

As a result, the tax bill that an employee and employer each has to pay for maximum coverage under the Act has jumped from $30 in 1937 to $895.05 in 1976. (It will be $965.25 in 1977.) Furthermore, were the maximum tax base to increase as much during each of the next five years as it did between 1975 and 1976, the top tax payable in 1981 (by which time the tax rate will be 6.3 percent) would be $1,441.80.

During the beginning years, as has been noted, no one could qualify for Social Security benefits before the normal retirement age of 65. It was in 1956 that the Social Security Act was revised to make women eligible for reduced retirement benefits at the age of 62. The same early retirement option was extended to men in 1961. Ever since, "the proportion of workers with such (actuarially reduced) benefits in payment status has increased by about 3 percent a year for both men and women. Currently, about half the men and two-thirds of the women initially awarded retired-worker benefits elect an went on to say: "At present, we have not said that all mandatory retirement is bad, although as a practical matter it may be."[1]

Those who oppose mandatory retirement at age 65 claim there is no justification for conditioning retirement on the mere attainment of an arbitrarily determined age, since the effects that advancing years have on the capability to perform a job vary from employee to employee. Before an employee can be validly forced to retire, it is argued, he or she should be judged on individual merits. Another opposition argument is that surveys conducted by the U.S. and Canadian Labor Departments, the New York State Commission on Human Rights, the Gerontological Society, and several universities have found that: (1) employees from 65 to 70 and even 75 years of age can generally perform jobs as competently and productively as younger employees, as long as the jobs do not impose unusually heavy physical demands; (2) advancing years bring no significant decline in learning ability; and (3) older employees are likely to have greater experience, more mature judgment, and better records for attendance, punctuality and safety than younger employees.

Companies that require their employees to retire on reaching age 65 claim, on the other hand, that such a requirement is within their management rights, and that the current shortage of jobs makes its enforcement an economic necessity. Otherwise, they argue, they would be compelled to lay off young employees not entitled to retirement income, would be prevented from offering the motivating prospect of promotions, and would be unable to provide in a proper manner for the filling of future work force needs and the distribution of pension plan benefits. If they had to decide each employee retirement on an individual merit basis, they add, it would cause more problems than it would solve.

Up to now, both federal and state legislatures and the courts have looked with favor on the practice of mandatory retirement at age 65. Indications are that they will go on doing so as long as current economic conditions prevail. Emerging developments, however, such as the steady increase in the numbers of Social Security beneficiaries and the corresponding decrease in the number of Social Security taxpayers, could eventually change present legislative and judicial attitudes.

Meanwhile, the entrenched practice of compulsory retirement at age 65 is causing dissatisfaction and hardships among many employees who, although they get both Social Security and private pension benefits, object strongly to being forced to retire from their career jobs at an age when they feel they are capable of continuing to work productively for several more years. This is a reality of the retirement picture that some employers are worried about. A personnel vice president in a large company, for instance, ranks the following high on the list of questions he is actively investigating: "Should we replace our current policy of requiring retirement at age 65 with a more flexible policy allowing alternatives, such as part-time work, transfers to less demanding work, and so on?"

[1] "More Age Bias Settlements to Come, Says Labor Dept.," *Industry Week*, June 17, 1974.

actuarial reduction."[3] This reduction is five-ninths of one percent for each month of entitlement before age 65, with a maximum reduction of 20 percent at age 62.

What's Ahead?

Until recently, the Social Security system had been self-sustaining. From year to year, it generally took in more tax revenues than it paid out in benefits and even amassed a trust fund of some $40-50 billion. However, its future is far less promising. In 1975, benefit payments edged $2.7 billion ahead of annual tax collections. Subsequent years, moreover, are expected to bring increasingly larger annual deficits.

A number of reasons explain this financial reversal. One is the current high level of unemployment. Another is the relentless climb of inflation. The new automatic cost-of-living increase, for example, was added to benefit payments in June, 1975 and June, 1976.

[3] *Social Security Bulletin*, November, 1970, p. 3.

83-457 O - 81 - pt. 2 - 5

On a long-range basis, however, the recent sharp decline in the national birth rate may be the greatest contributor to the projected substantial annual Social Security deficits. There will be fewer and fewer taxpayers in the work force around the turn of the next century — a time when the many employees born during the "baby boom" of the 1940's and 1950's (most of whom are now paying taxes) will start qualifying for benefits. At present, the number of retired beneficiaries for each 100 working taxpayers is 30. This number will go up to 45 or more by the year 2030, according to forecasts by government-established study groups.

These developments will undoubtedly necessitate changes in the Social Security system. A "white paper" released by five former Secretaries of Health, Education and Welfare (HEW) and three former Social Security Commissioners in defense of the system mentions an immediate need for "some additional financing."[6] It emphasizes, however, that "the size of the problem over the next 25 years is easily manageable and certainly does not constitute a financial crisis."

It would seem that further increases in the rate and/or the base of Social Security taxes are the measures most likely to be adopted to satisfy the immediate need for additional financing. The Ford Administration rejected another approach suggested by the Social Security Advisory Council (13 private citizens appointed by the Secretary of HEW). It called for a gradual divorcing of Medicare from the Social Security system. Each annual deficit, as it accrued, would have been met with Social Security funds now allocated to Medicare, and the remaining Medicare costs would then have been paid out of general revenue funds.

Some who look at the projected difficulties with a long-range eye feel that Social Security's financial problems will ease up considerably when business conditions improve. Others advocate a cutback in Social Security benefits that would eventually make 68 the normal retirement age and 65 to 68 the early retirement ages. Former Social Security Administrator Robert Ball, who favors encouraging workers to continue working as long as they can, said in House Hearings on "Financing the Social Security System":

"The most significant social trend causing higher than necessary Social Security costs in the next century is the trend toward earlier retirement. . . . If we would reverse this trend and have *greater* labor force participation among older people in the next century than we have today, there could be a significant saving for Social Security over what is currently estimated." (Committee on Ways and Means, House of Representatives, *Financing the Social Security System,* Hearings before the Subcommittee on Social Security, Ninety-fourth Congress, First Session, 1975, page 607.)

Finally, the most drastic of the changes in the Social Security system proposed to date would put an end to the Social Security tax as a distinct levy. It would be incorporated into the federal income tax, and retirement benefits would be paid out of the government's general revenues.

Regulating Private Pension Plans

Social Security benefits, although they have been boosted repeatedly, still average only $2,616 a year for a single male ($2,496 for a widow or widower) and $4,464 a year for a married couple.[7] A comparison of these figures with the present poverty level for elderly persons — which is $2,580 a year for an individual and $3,255 a year for a couple — shows how difficult it would be for the average retiree to satisfy his financial needs if he had to live on Social Security benefits alone.[8]

Most large and some small employers,

[6] *Social Security: A Sound and Durable Institution of Great Value,* White Paper released February 10, 1975.

[7] Social Security Administration, Office of the Actuary, June, 1976.

[8] Bureau of the Census, 1975.

however, have voluntarily set up private pension or deferred profit-sharing plans to supplement the retirement income of their employees. The Bureau of Labor Statistics reports that, in 1970, more than four-fifths of workers in manufacturing industries were employed in establishments with employer contributions to pension or deferred profit-sharing plans.[9] A Conference Board study of employee benefits, made in 1974, reveals that 87 percent of the 1,600 participating companies support pension plans.[10]

The companies approached in BLS and Conference Board surveys, however, do not include the many thousands of very small companies that employ only a handful of workers and are not likely to have pension or other supplemental retirement income plans. Actually only 24 million (44 percent) of the 65.9 million wage and salary nongovernment workers in the nation's civilian labor force at the end of 1973 were covered by employer-financed retirement benefit plans.[11]

What is more, there have been several highly publicized instances in which employees of companies with pension plans were hit with the news, not long before they were scheduled to retire, that they would be paid either no pension benefits or benefits considerably below what they expected. In some instances, the reason was that the pension plan funds had been poorly or even criminally mismanaged by company or union administrators.

These "horror stories" were never the rule. Yet there are strong indications that the telling and retelling of them in the press and on the air had the effect of getting not just older workers, but younger ones as well, vitally concerned about protecting their pension rights. Shocked into action by the possibility that they could eventually be deprived of the pension benefits which they were accepting in lieu of current pay raises, employees of all ages began questioning employers about the financial soundness of their pension promises. They also flooded Congress with demands for pension reform legislation, which almost certainly played a part in the enactment of such legislation by Congress in 1974.

"In terms of formal history," two close observers relate, "the Employment Retirement Income Security Act of 1974 can be traced to the 1965 report of a committee appointed by President Johnson, which recommended that federal standards be imposed on the private pension system. More realistically, the origins of the legislation can be found in a continuing flow of complaints from participants regarding specific private pension plans — severe age and service requirements before eligibility for a pension, inadequate funding by employers, termination of plans without funds to assure pensions to qualified employees, and the diversion of pension funds for private purposes by the employer or union involved."[12] The Employment Retirement Income Security Act of 1974 (ERISA) provides remedies for all these complaints. (See box on page 8.)

Union Role Crucial

Around mid-century, when unemployment was relatively high in the steel industry, a good many of the available jobs were held by union members who were 65 or more years of age.[13]

[9] "Prevalence of Private Retirement Plans in Manufacturing," BLS *Monthly Labor Review,* September, 1973, pp. 29-32.

[10] Mitchell Meyer and Harland Fox, *Profile of Employee Benefits,* The Conference Board, Report No. 645, 1974, Chapter 7, pp. 50-64.

[11] Walter W. Kolodrubetz, "Employee Benefit Plans, 1973," *Social Security Bulletin,* May, 1975, Table 1, p. 23.

[12] Peter Henle and Raymond Schmitt, "Pension Reform: The Long, Hard Road to Enactment," *Monthly Labor Review,* November, 1974, pp. 3-12.

[13] For a number of years, the American Iron and Steel Institute published an annual statistical report with some data on the distribution of basic steel employment by age. The 1957 report showed that, in 1956, there were 12,178 employees (2.7 percent of the work force) who had reached their sixty-fifth birthday. By 1972, the latest such AISI report revealed, the number of employees 65 or more years of age had dropped to 2,058 (0.6 percent of the work force).

How ERISA Protects Pension Rights of Employees

It is still too early to determine the full impact of the Employee Retirement Income Security Act of 1974 (ERISA). As an AFL-CIO retirement specialist observes, some of the provisions of this Act — which many consider the most complicated legislation ever passed by Congress — will not be operating completely for years and the final results depend on such unpredictable factors as administration, regulations and court decisions.[1]

Nonetheless, the changes that have already been put into effect by ERISA provide extensive protection for the rights of millions of employees by imposing a number of statutory controls on all existing and future private pension plans.

Vesting Requirements: Some private pension plans enabled employees to gain vested rights to benefits after 5 to 10 years of service.[2] In many other such plans, however, vesting was delayed until the employees were close to retirement age, no matter how many years of service they may have had. Henle and Schmitt report that "the largest number of complaints against private pensions came from individuals who had worked as much as 30 years for a company but still had not qualified for a pension."[3]

On January 1, 1976, this was made illegal. The pension reform law now requires all employers who voluntarily set up plans that qualify for tax privileges to make every employee working at least 1,000 hours a year, who is at least 25 years of age (unless he was hired within five years of normal retirement age), and who has completed at least one year of service (or three years if the plan grants full and immediate vesting), eligible for vested benefit rights under one of these three optional methods:

(1) A 25 percent vesting at the end of five years' service, an additional 5 percent for each of the next five years, then a jump of 10 percent for each of the following five years.

(2) An immediate 100 percent vesting at the end of 10 years' service; or

(3) A 50 percent vesting under the "Rule of 45" (which is when the employee's age plus years of service add up to 45 *provided* he has five years' service, or after 10 years' service, regardless of age), then another 10 percent for each of the next five years.

Consequently, the benefit rights of employees have to vest 100 percent after 15 years' service under the first option, after 10 years' service under the second option, and after 10 to 15 years' service (depending on age variations) under the third option.

Ceiling on Retirement Benefits: The new law imposes limits on the maximum retirement benefits that can be paid out each year. For a life annuity-plan participant who is 55 or more years of age and who has at least ten years' service, this annual limit (subject to adjustments for future rises in the cost of living) is the lesser of 100 percent of the average of the top three consecutive years' compensation, or $75,000.[5] In the case of defined contribution plans (such as profit-sharing or stock-bonus plans), the yearly additions made to a participant's account cannot exceed the lesser of 25 percent of annual compensation, or $25,000.

Automatic Benefit for Surviving Spouse: Under the new law, the surviving spouse of a participant in any plan calling for a retirement benefit in the form of an annuity becomes entitled to at least half the

[1] Lawrence T. Smedley, "Pensions a Year Later," *The AFL-CIO American Federationist*, October, 1975, pp. 16-20.

[2] An employee never loses full legal title to the contributions he or she makes to a private pension plan. The "vesting" provided in the new law deals only with the right to *acquire* full legal title (vested rights) to the benefits made possible by the employer's contributions to the plan.

[3] Peter Henle and Raymond Schmitt, "Pension Reform: The Long, Hard Road to Enactment," BLS *Monthly Labor Review*, November, 1974, pp. 3-12.

[4] See "Federal Standards for Pension Vesting: A Summary," The Conference Board, February 7, 1975; and Mitchell Meyer and Harland Fox, *Profile of Employee Benefits*, The Conference Board, Report No. 645, 1974, p. 55.

[5] The $75,000 annual pension ceiling (which has since been lifted to $80,475 by cost-of-living adjustments) has been attacked from both ends. It is considered too high by employees eligible for much smaller pensions and too low by top-salaried executives who feel it will severely impair their life-styles. The *Wall Street Journal* reports (May 11, 1976) that several large corporations "will supplement tax-favored pensions" for executives by adding other forms of retirement income.

annuity that would be payable to the participant during the joint lives of the employee and spouse. This provision operates automatically if the participant was married for a year and did not specifically elect to the contrary. In the past, employers were not obligated to include a survivor-benefit option in their plans; if they did, the employees had to ask for it expressly.

Funding Restrictions: It has been common practice, when a company started a pension plan, to pay the full cost of the employees' current-year coverage; the cost of coverage for the employees' past service credits, however, has generally been handled through complicated accounting methods that permitted the funding of such plan liabilities to be dragged out indefinitely. Henceforth, not only will current-year coverage costs have to be paid as they accrue, but the cost of past service credits will have to be evenly amortized, both as to principal and interest, over a period of not more than 30 years in the case of new plans and of 40 years in the case of either plans already in existence or new multiemployer plans.

Fiduciary Responsibilities: Standards established by the new law require the fiduciaries of retirement benefit plans to act in the best interests of the plan participants and to refrain from using plan funds in any manner intended to advance their own interests or the interests of close relatives or partners. Furthermore, they are made personally liable and punishable for violations of the responsibilities entrusted to them. Under what is termed the "prudent man" rule, they are directed to diversify plan holdings so as to minimize the danger of losses. A further restriction, that is applicable only to pension plans (not to profit-sharing and stock-bonus plans), stipulates that no more than 10 percent of the plan's assets may be invested in the employer's stock or real property.

Plan Termination Insurance: So that participants in plans terminated with a shortage of funds will not be deprived of vested benefit payments, the law has created a new agency in the Department of Labor — the Pension Benefit Guaranty Corporation (PBGC). To build up funds for the benefit payments that this agency may have to make to employees, every employer with a private pension plan must pay an annual premium to the PBGC. As a beginning rate, this premium is $1 per participant in single-employer plans and 50 cents per participant in multiemployer plans. Employers who terminate pension plans will become liable, to the extent of 30 percent of their net worth, for any benefit amounts the PBGC pays their employees.

Employer's Reporting and Communications Obligations: The new law is under the joint jurisdiction of the Internal Revenue Service and the Department of Labor, while the Social Security Administration is charged with keeping records of vested benefit rights. The administrators of company retirement benefit plans have to register their plans each year with IRS and file a detailed annual financial report with the Department of Labor. Furthermore, they must give plan participants and beneficiaries:

(1) A summary description of the plan that is "written in a manner calculated to be understood by the average plan participant" and that is "sufficiently accurate and comprehensive to reasonably apprise such participants and beneficiaries of their rights and obligations under the plan." This description has to be republished at least every ten years, or every five years if the plan has been amended.

(2) An informative summary of the annual financial report filed with the Department of Labor.

(3) A statement to any participant, who requests it in writing, of his individual accrued and vested benefits. Though such requests may be made at any time, only one statement need be given the participant during any 12-month span.

(4) A statement to any participant, who is leaving the plan, of his right to a deferred vested benefit.

Special Pension Arrangements: The new law, in addition, contains provisions that permit self-employed persons and employees whose employers do not have a pension plan to save for retirement on a tax-free basis by the deposit of up to 15 percent of their annual earnings in an approved financial institution. The most a self-employed person can set aside for retirement in this way is $7,500 a year; the maximum for employees not covered by a pension plan is $1,500 a year.

Some job holders, in fact, were into their seventies.

This suggested a new bargaining objective to the Steelworkers Union. If benefits could be gained that made the prospect of voluntary retirement financially attractive to the older union members, their jobs could be taken over by the younger union members who were out of work.

In pursuing this objective, the Steelworkers have met with signal success. So have the other large unions that moved in the same direction. To illustrate, two of the benefits won in labor settlements during the last decade make it possible for union members to retire, without the loss of any of their accumulated company pension benefits, long before they reach the age of 65.

30 and Out

The first such bellwether benefit is the "30-and-out" provision negotiated by the Steelworkers in 1966. Previously, no employee could retire early unless he satisfied two requirements: (1) the completion of a specified number of years of service, and (2) the attainment of a fixed minimum age (usually 55 or 60).

Now any employee who is covered by the 30-and-out provision — which has since been obtained for large groups of their members by the United Auto Workers, United Rubber Workers, International Brotherhood of Electrical Workers, and a few other unions — may retire with full title to accrued company pension benefits as soon as the 30-year service mark is reached, regardless of age. Recently, for example, a clerical employee who went to work for the Chrysler Corporation at 19 was pensioned off at the age of 49.

Supplemental Early Retirement Allowances

Under the 30-and-out arrangement, an employee is entitled to accrued company pension benefits, even though retiring years before qualifying for Social Security benefits. During the intervening years, therefore, income could fall short of actual financial needs.

To obviate this possible drawback, some unions have won another benefit that requires employers to make supplemental payments, on an interim basis, to any union member who retires after completing 30 years of service but who is still too young to be eligible for Social Security benefits. Such temporary supplemental allowances are paid in various ways.

Rubber workers, for example, have a flat $200 per month added to their company pension benefits until they reach age 62; then they stop getting the extra $200 monthly payments and start receiving Social Security benefits instead.

Auto workers, in another variation, receive their accrued company pension benefits and a supplemental early retirement allowance. Together these dual sources of pre-Social Security income — which presently total $650 a month but will go up to $700 in 1978 — are intended to provide no more than 70 percent of preretirement pay. Should the total of the two exceed the 70 percent limit, the amount of the supplemental allowance is cut accordingly; the amount of the company pension benefit is never reduced. When the early retiree reaches age 62, the combined monthly payment is reduced from $650 to $400; at 65, what is received from the company each month is the individual's regular pension benefits plus $80.

Union Interest in Retirees

Benefits that encourage voluntary early retirement have not only opened jobs for younger union members; they have also proved highly acceptable to the older members. This is due, in part, to the efforts undertaken by many unions — either on their own or in cooperation with employers — to develop retirement planning programs.

Some unions, for example, furnish their members with a manual that offers written counseling on life-style adjustments, budgeting, health care, use of leisure, and other such retirement-related matters. For example, the manual distributed by the Paperworkers Union is titled "Plan to Live — *All* Your Life."

In other unions, the retirement counseling is made available through the organization of discussion seminars for members and their spouses. Suggestions covering the content and conduct of such seminars are sent to all the locals of the Electrical Workers Union in a publication, *Handbook for Conducting Preretirement Programs.* Locals and lodges of the Machinists and Aerospace Workers Union are urged to sponsor clubs for their retirees in a booklet called *Guide for Older Workers and Retired Member Programs.* It contains a step-by-step blueprint on how the clubs can be set up to serve the best interests of their members.

Other factors, too, can add appeal to retirement benefits. A few unions have established retirement centers where their members can live well on their pension and Social Security benefits. The Typographers Union, for instance, has been operating a retirement home in Colorado Springs since 1892; and the Carpenters Union and some railroad unions have long maintained retirement facilities for their members in Florida.

But even when such relocation inducements cease to be a factor, union members continue to look with favor on benefits that make early retirement financially possible. Years ago, for instance, the membership of the Ladies Garment Workers Union included many immigrants from European countries who welcomed retirement because it enabled them to return to their homelands with enough money to enjoy a comfortable way of life. Although the makeup of the work force in this industry has since changed extensively, retirement benefits remain as popular as ever with the union members. The major unions, therefore, are expected to go on pressing hard for early retirement benefits in the future, even though their top demands in current bargaining are for immediate pay raises to make up for inflation.

Shifts in Company Policy

Companies keep changing the provisions of their pension plans. Some of the changes, as noted, have been prompted by outside pressures such as governmental requirements or union demands. Other changes have been put into effect solely for reasons originating inside the companies — the emergence of an excess manpower problem, for instance, or a new turn in management thinking. But no matter what caused it, nearly every corporate pension plan change made to date has *liberalized* the retirement income provisions.

Increasing the Level of Income

What many companies have been trying to achieve, ever since the practice of mandatory retirement was established, is to provide their retired employees with enough income to satisfy their financial needs. But the cost of living has kept rising relentlessly over the years; and the companies, as a result, have found it necessary to go on raising the level of the pension benefits they pay their retired employees.

At present, long-service employees in business organizations with private pension plans can qualify for pension benefits which, when added to Social Security benefits, give them a retirement income that runs from 30 percent to 50 percent of their preretirement pay.

The 50 percent figure appears to be the desired goal. It is considered, as a general rule, the equivalent of preretirement pay [14] when allowances are made for the fact that a retiree is liable for less income taxes, has no commutation costs, and incurs lower luncheon, clothing and other such expenses.

Increasing Security of Income

At the start, pension benefits were generally regarded as a "gift" from the employer to the employees; and when companies started adding early retirement provisions to their plans, an

[14] Another comparison measure uses two-thirds of spendable preretirement income as its calculation base. Both these measures, however, produce approximately the same results. For example, if a retiree's gross preretirement pay was $25,000, his spendable income is presumed to have been $18,000. Two-thirds of $18,000 is $12,000, whereas half of $25,000 is $12,500.

employee who wished to retire early often had to meet specified age and length-of-service requirements, as well as obtain the permission of his employer.

The concept of pension benefits as a gift has been losing ground, however. Most company managements have switched to the view that pension benefits are a "right" which the employees earn through their years of contributing to corporate progress. As a result, relatively few employers today retain the prerogative of being able to deny early retirement to an employee who has satisfied the specified age and service requirements. This is evidenced in a recent Bankers Trust Company study which finds that "the trend continues toward giving the employee the option to retire early at his own election."[15] Only 12 percent of more than 200 of the 1970-1975 plans in the study require the company's consent for all cases of early retirement; this percentage was twice as much (24 percent) in the Bank's previous study of 1965-1970 plans. What is more, the Bank also found that in 85 percent of the 1970-1975 plans early retirees get more than the actuarial equivalent of their accrued pension benefits; this had been the case in only 47 percent of the 1965-1970 plans.

Voluntary Cost-of-living Hikes for Retirees

A 1971 decision of the United States Supreme Court ruled that retired pensioners are not bargaining unit "employees" within the meaning of the Labor Management Relations Act and that their benefits, therefore, are not a mandatory subject of collective bargaining.[16] Both before and after this decision, however, companies have been voluntarily granting cost-of-living pension hikes to their retirees, including those who had belonged to unions.

The Labor-Management Services Administration of the Labor Department reported in 1973 that an analysis it had made of 78 large company pension plans under collective bargaining revealed that, between 1955 and 1970, the benefits provided for retirees had been increased at least once in 54 (69 percent) of the 78 plans and two or more times in 42 (54 percent) of the plans. The increases, moreover, had served to moderate the impact of inflationary rises in living costs on the retirees' pension benefits. "In a significant number of plans," the analysis found, "the increases have exceeded the level of prices over a period of years. By the end of 1970, for example, the pension benefit of a 1955 retiree had been increased by an amount in excess of the rise in the level of prices in 23 (70 percent) of the 34 plans which were in effect and paying benefits in 1955."[17]

In like manner, the recent Bankers Trust study, which covers changes between 1970 and 1975, shows that nearly three-quarters of the more than 200 pension plans in the study extended cost-of-living increases to retired employees and that more than half of these plans allowed more than one such increase since 1939.[18] Why do companies, that have no legal obligation to do so, continue to up the pension benefits of retired employees, whether they were union members or not? One reason has to be human concern for the financial well-being of the retirees. The managements of the companies, having recognized that the fixed income of many of their retirees was being rendered painfully inadequate by the relentless climb of inflation, took steps to remedy the situation by voluntarily increasing the pension benefits of all of their retired employees. Some companies, as noted, have granted cost-of-living increases two or more times. General Electric Company, for example, which has over 60,000 retirees, has

[15] Bankers Trust Company, *1975 Study of Corporate Pension Plans* (the 10th in a series). New York, 1975, p. 13.

[16] *Allied Chemical and Alkali Workers v. Pittsburgh Plate Glass Co.*, 404 U.S. 157, 92 S. Ct. 383, 30 L.Ed. 2d 341 (1971).

[17] U.S. Department of Labor, Labor-Management Services Administration, Office of Labor-Management Development, "Union Status and Benefits of Retirees," 1973.

[18] Bankers Trust Company, 1975, pp. 34-36.

given them five such increases over the period from 1961 to 1976.

Another contributing factor may be that retirees, as their ranks continue to grow, are gaining broader influence and learning how to use it effectively. More and more, they are organizing into groups whose members have the time to press demands for improvements in their financial status on governments, unions and companies. Companies are especially sensitive to these demands in communities where they are a principal employer; their corporate image is at stake. What is more, the retirees are winning the support of their children (who may be active employees and averse to being burdened by the financial problems of their retired parents) and of other young employees who see themselves as eventual retirees and feel they can further their own future security by backing the demands of present retirees.

Whenever companies voluntarily boost the pension benefits of their retirees, they are usually deluged with enthusiastic letters of thanks. Among the many such letters that reached a manufacturing concern, however, was this more subdued expression of gratitude:

"Frankly, this announcement was as much a morale stimulus as a financial boost. Bearing in mind the company's traditional conservatism, I had assumed that inflation would continue to erode the (unaltered) pension checks until that unhappy day when the postage exceeded the value of the contents."

Increasing Early Retirement Incentives

Several reasons can prompt an employee to opt for early retirement. He may be in poor health; interested in starting a second career; or ready to exchange job pressure for a life of ease. Frequently, too, female employees retire before age 65 because their older husbands have had to retire at this age. Again, conditions existing within a particular industry can influence early retirement decisions. For example, an aerospace executive notes: "Admittedly, the trend to early retirement has been unusually high in our business for some years, due to the contracting situation. The company has not actually encouraged early retirement. But its availability in the face of a shrinking work force has caused many eligible employees to elect it."

Most employees who retire early, however, are encouraged to take the step by an offer of special monetary incentives — such as the suspension of the benefit reduction charged for early retirement in company pension plans, or the addition of extra retirement income supplements. Some companies, in making such special inducements available, extend them to executive and nonexecutive employees on an equal basis. Other companies treat their executives — particularly key executives — differently, because they feel that different considerations are involved.

Incentives for Executives

During recent years, the average age of executives in business organizations — especially those in top positions — seems to be dropping. The Conference Board has completed an as yet unpublished survey of some 700 senior personnel executives. It reveals that their median age is 47 years and that only about 3 percent of the 700 executives are over 60 years.[9] Factors contributing to this development include the explosive growth of technological innovations that has rendered the knowledge of many older executives obsolete; the demands of highly knowledgeable young executives for greater responsibilities; the desire of more older executives to get away from the strain of competitive pressures and pursue more leisurely second careers.

But perhaps the most influential factor has been the ready acceptance in business circles of the theory that the peak effectiveness of top executives cannot be maintained beyond a certain number of years. How many years? The span of time most frequently mentioned is ten

[9] See also "A Group Profile of the Fortune 500 Chief Executives," *Fortune*, May, 1976, p. 172.

years.[20] After that, the theory goes, the policy-level executive is likely to refrain from making bold new innovations and corporate progress suffers unless new and younger executives are placed at the helm.

This theory has given rise to a variety of financial incentives designed to encourage older executives to retire well in advance of age 65 in order to make room at the top for younger people. In some instances, the incentives are provided for in formal plans. At IBM, for example, "corporate officers" have to retire when they reach age 60, but are given relatively generous retirement benefits. Westinghouse adopted a "Step Down at 60" policy in 1972. Donald C. Burnham, who was then the corporation's Chairman and who has since passed his sixtieth birthday and become a "Director-Officer," explained at the time this policy was announced:

"Under the unique plan, which applies only to members of the five-man Management Committee, these five top officials remove themselves from their present executive positions at age 60 and become 'Director-Officers' who will concern themselves with long-range plans and strategies of Westinghouse. They will devote their efforts to socially important issues which are also of importance to the long-range future of the company, while younger managers assume corporate executive leadership . . . younger men who are flexible, venturesome and in tune with the changing nature of our society and will be best prepared to meet the new demands and challenges facing business and industry."[21]

A more common practice is to provide early retirement inducements for executives on informal basis. Each case is handled indi[illegible]ually. As the particular circumstances warr[illegible] an executive might be urged to retire early by offer of extra pension benefits, a spe[illegible] retirement bonus, or a consulting arrangem[illegible] that would preclude him from peddling [illegible] company's trade secrets to a competi[illegible]

These incentives for management people [illegible] apparently serving their intended purpose. H[illegible] of some 50 cooperators, who were questio[illegible] on this point by The Conference Board, s[illegible] that the percentage of executives retiring early [illegible] their companies is about the same as t[illegible] percentage of other employees doing s[illegible] Executives in these companies, however, a[illegible] offered special incentives. Where this is not t[illegible] case, early retirements are likely to be le[illegible] prevalent at the executive level. One explan[illegible]tion, given by a vice president of a large bank, [illegible] that jobs at this level are generally mo[illegible] challenging and rewarding. The employ[illegible] benefits manager of a giant manufacturi[illegible] concern offers another explanation:

"An analysis of early retirements from a[illegible] occupational viewpoint shows that executive[illegible] tend to retire later and production employe[illegible] earlier. Social Security has much to do with this when Social Security benefits become a signifi[illegible]cant percentage of an employee's total retire[illegible]ment income (as is the case with productio[illegible] employees), there is a greater incentive to reti[illegible] early. Conversely, when such benefits represent a smaller percentage of total retirement income (as is the case with executives), early retirement is less attractive. This is why the largest percentage of employees retiring early in our company are production workers."

[20] Harold Stieglitz, "The Chief Executive — and His Job," *Studies in Personnel Policy*, No. 214, The Conference Board, 1969, p. 34.

[21] It is suggested that Officer-Directors (who are asked to devote two-thirds of their time to the corporation) study the following issues: technologies of the future, developing-nations strategy, world energy sources, government relations, and education. Should a Management Policy Committee member prefer outright retirement on reaching age 60, he would be free to engage in public service work or in noncompetitive business and professional pursuits. A few other companies, including Texas Instruments and Dow Chemical, require top executives to retire before age 65.

Incentives for all Employees

Ordinarily, when an employee retires early, the percentage formulas used to compute his monthly pension benefits are reduced. This reduction is called an "actuarial discount." It allows for the fact that contributions to the pension plan on his behalf will have been made for fewer years, and that he will be receiving pension benefits for more months than if he had retired at the normal age.

Employers who are faced with the need of cutting down their work forces often promote early retirement by agreeing not to apply the actuarial discount to pension benefit computations, or by applying it at a lower reduction than the plan permits. Large companies in the oil and auto industries make periodic use of this type of early retirement inducement.

In 1971, Eastman Kodak offered a temporary early retirement inducement that went a step further. Any employee at least 55 years of age who retired with company consent between September 1 and December 1, 1971, was paid not only the full amount of his pension benefits calculated to retirement date, but also a supplement of $200 a month to age 62 or 65. Employees aged 55 had to have 30 years' service to qualify for the offer; for each year over that age, the service requirement was cut two years. The $200 monthly supplements were paid to employees retiring at ages 55 through 59, until they became eligible for Social Security benefits at age 62. Employees leaving between 60 and 62 years of age got the $200 monthly supplements for two years, while those going out between 63 and 65 years of age received them until age 65.

A temporary incentive to pursue interests outside of the company was offered by IBM in 1971 and again in 1975. Employees with the company 25 years or more (there were some 7,000 such employees in 1971, some 8,000 in 1975) were offered the opportunity to leave IBM and be paid a bonus of two years' salary, payable over a four-year period. If they were also eligible to retire, they received this bonus in addition to their regular retirement benefits. Both times eligible employees were given six months to accept the offer. One-third accepted in 1971, and about one-quarter in 1975.

Incentives on a Selective Basis

One drawback of making early retirement incentives available to all employees on a temporary basis — or to all union employees on a continuing basis under a negotiated labor contract — is that it involves the risk of a company's losing employees it does not want to retire early because it needs their skills and knowledge. One executive observes in this regard: "We would prefer that our highly motivated and highly competent employees not retire early. Still, the same is true of their retirement at age 65. This is a problem that society has not yet learned to cope with creatively."

The Conference Board asked some 30 company executives for their experiences in this connection. Half a dozen of the cooperators said they had used "personal appeal and/or salary recognition" to persuade needed employees to forego early retirement and met with fair success. The rest answered that they had not yet encountered such a situation. "Should it occur," they confided, "what we do will depend on how much we need each particular employee."

Most companies that are not exposed to this problem by union contract provisions bypass it by offering early retirement incentives on a strictly individual basis. The incentives are tendered only to those employees who are deemed expendable because their work skills have been rendered obsolete by technological progress — because segments of the companies' work forces are overstaffed — or because room has to be made for the advancement of younger employees. Commenting on how the attrition thus made possible can help achieve job security for younger employees, Markley Roberts, an AFL-CIO economist, writes:

"Early retirement is certainly no cure-all for the problem of job displacement resulting from automation and technological change. But if retirement benefits are large enough to provide a decent standard of living and retirement counseling and constructive opportunities for leisure time activities are available, early retirement options for those workers who wish to take advantage of them can be humane and effective."[22]

Other Early Retirement Incentives

While the incentives offered employees to retire early are generally restricted to unreduced pension benefits or special retirement income supplements, a few companies add others as well. The manager of employee relations in an oil company gives this example:

"From time to time, changes in company operations have necessitated work reductions. This is done largely by encouraging employees in the retirement zone to retire early by supplementing retirement income. For salary-exempt employees interested in other employment, the company has also employed the services of placement firms to assist such employees in their search for a second career job. This is expensive, but the company feels it's a fine investment in helping an employee who is forced to leave us before he had anticipated doing so.

"In addition to the income he will receive from us, an employee considering retirement is concerned about his continuing life and medical insurance coverage. The programs that provide such coverage must be geared so that his transition from employee to annuitant brings no sharp reduction in his protection levels. Otherwise, he may be hindered from electing early retirement."

Although few companies go this far, many of them fret about the possible human consequences of encouraging employees to retire early. "Early retirement," a manufacturer's director of compensation confides, "has us worried — not so much because of how it will affect the company, but more because our management is greatly concerned that some employees will be lured out before they are ready for total retirement." A bank vice president considers the individual treatment accorded each early retiree more significant than the monetary inducements he is offered. The vice president of personnel in a chemical company warns: "Early retirement can create severe financial problems. It can create even stronger psychological problems. Because of increased longevity, many individuals want to work longer. At present, however, our society provides little opportunity for retired people in their fifties or sixties to really contribute in a constructive way."

Or, as a bank official expresses it: "Our responsibilities as managers of a business may require us to ease out certain employees before their normal retirement date, but it's a tough course to take. No one wants the capable young stagnating and underutilized. This nation, nevertheless, cannot countenance a policy which would create a human scrap heap."

Are Early Retirement Incentives Justified?

There are companies that are inalterably opposed to early retirement incentives. A metal products manufacturer, for instance, rejects it on principle; he regards the encouragement of early retirement by offering monetary and other inducements as "a misuse" of a valuable asset, adding:

"Many companies use it to 'open up the organization,' but I question its real worth for the reason that, if proper planning is accomplished, attrition is generally a known quantity and will provide for younger employees. If the economic situation is causing a company to cut its work force, I would still question the use of wholesale early retirements because an individual's performance should be the determinant."

Another opinion voiced by a few cooperators

[22] "Adjusting to Technological Change," *AFL-CIO Federationist*, February, 1973, pp. 13-18.

is that the trend to early retirement has passed its peak. "The economics of the situation and the age discrimination law," a senior vice president in a bank predicts, "will slow up any tendency to drastic changes in early retirement." A steel company vice president foresees that, if the trend to early retirement continues: "It's not difficult to visualize shortages of many types of personnel, which could lead to a strong discouragement of early retirement." This is a view shared in Canada, where another steel company executive observes: "Studies in our country indicate that, beginning about 1980, we will be having population inversion, due to our declining birth rate, our declining emigration rates, and other such factors. I think it is entirely possible that we may offer incentives for people not to retire." Such action has already been taken by a department store in New York City. "Rather than encourage early retirement," an official of the store remarks, "the quality of our new hires has led us to request postponement of the retirement of experienced employees beyond the age of 65."

What is more, there are several cooperators who believe that early retirement inducements would not be necessary if companies faced up to their management obligation and eased out unproductive and obsolete employees at the first sign of their declining usefulness, regardless of their age. A few companies have set up or considered programs aimed in this direction:

• A food service has a managerial counseling program, in which each manager is invited to a "life planning" personal interview every two or three of the years he is with the company. During the interview, he is given an honest appraisal of his abilities, his productivity, his potential for promotion, and his future prospects with the company. Should the appraisal lead him to conclude that he would be better off elsewhere, he is offered psychological and other professional consultation service at company expense.

• An insurance company has an "unsatisfactory performance and job abolishment" program that covers all employees. But it contains a specific provision for employees who are asked to leave the company between the ages of 55 and 65, when they are eligible for early retirement. Such employees receive the regular early retirement income they are entitled to under the company pension plan and, in addition, an allowance equal to 13 weeks' pay. A greater added allowance (based on years of service) is provided for long-service employees whose jobs are abolished.

• Another insurance company has enlarged its basis for selecting employees it will "encourage" to retire early. Every affected employee, however, must be given at least one year's advance notice. In the event a reorganization requires an employee to retire early with less than a full year's notice, he or she is awarded a year's pay in one lump sum.

• A program proposed for adoption in a manufacturing company would provide for the termination of unsatisfactory employees of any age. Each terminated employee would get a severance advance that would depend on the individual's age, job level, and length of service. The decision to terminate, though, would never be left to a single company executive; it would be reached by a board or a committee. "We have terminated long-service employees with useful knowledge and experience," a company spokesman explains, "because some 'young genius' came in and sold management on how much more productive we could be if we unloaded all our older employees. Later, when we realized that the young genius was a flash in the pan and had gotten rid of him, we found ourselves in the position of having to recruit employees with the same abilities as the older employees we had pushed into early retirement not long before."

Changing Employee Life-styles and Values

A generation ago, the prospect of retirement held little promise for the average employee. Stories were frequently heard of people who retired and died soon afterwards. It was said they died of broken hearts, because their jobs were their lives. Many of them, more likely, died from reasons related to empty pocketbooks, since the income of most retirees was pitifully low.

Certainly, this view of retirement has been altered considerably for many employees by the assurances they have received from their employers and Social Security of more ample and more secure income, and by the opportunities they are afforded to retire at younger ages. But there have been other developments as well that have put the prospect of retiring in a new light by gradually reshaping the life-styles and values of the average employee.

Greater Longevity

Today, thanks to the striking progress achieved in scientific research, an employee's retirement years can span an appreciable period of time. Life expectancy at age 65 is now 13.1 years for men and 17.2 years for women.[23] For more and more employees, too, this normal span of retirement years is being steadily lengthened by the growing trend toward retirement before age 65.

Better Health Care

Increased normal life expectancy is largely the result of the many advances in medical science that make it easier for people to remain healthy. Employees are provided with the benefits of these health care advances through company-financed medical plans and Medicare.

An employee has to be 65 years of age to qualify for Medicare. However, in many companies, employees who retire early are continued in the medical plan until they reach age 65. Furthermore, some companies provide additional medical benefits for all retirees entitled to Medicare coverage.

Active Leisure

Shakespeare, when he divided man's life into seven ages, made no provision for retirement. The omission was not an oversight. Working men were not expected to retire at an appointed age in Shakespeare's day — nor for many decades thereafter. But this century, as already noted, has brought revolutionary changes in the concept of the work ethic. And these changes have led, in a step-by-step process, to the addition of an eighth age to the life of man — the age of retirement.

In the first step of the process, the duration of the workday was shortened. Henry Ford gave forceful impetus to this development when, in spite of vehement opposition from his fellow industrialists, he inaugurated the eight-hour day. Next, came a cut in the duration of the workweek. Many employees still on their career jobs remember having just one full day off each week (Sunday) and being allowed fewer paid holidays than they are today. The third step reduced the duration of the workyear by a steady lengthening of paid vacation time. Long-service hourly workers, for instance, who were usually not eligible for paid vacations some thirty years ago, are now commonly entitled to four weeks off with pay each year.

These progressive reductions in the workday, the workweek, and the workyear paved the way for the fourth and final step in the process — the shortening of the work life. But they served another purpose as well: They helped prepare employees for the coming of mandatory and early retirement by gradually exposing them to the experience of having longer and longer stretches of leisure time on their hands.

Large segments of society seem to have profited from the experience; they have learned to put the added leisure time to active use. Active leisure, in fact, has become the normal life-style. The average employee spends the extra days and weeks and months that he is off the job busily engaged in pursuits of his own choosing — participating in sports, traveling, reading, developing hobbies that range from rock collecting to creative painting, going back to school, doing home repairs, or volunteering for community work.

Retirement, as a result, apparently keeps becoming more desirable for more and more

[23] The Institute of Life Insurance, *Life Insurance Fact Book, 1975.* New York: 277 Park Avenue, 10017, p. 86.

employees. It is seen as offering unlimited possibilities for active leisure — as a reward for contributing many years to company progress, not as a rejection because of advancing age. So long as employees are assured an adequate retirement income, they are much more willing than they once were to leave their career jobs as soon as they can (as is witnessed by the spread of early retirement). They want to retire while they are still young and healthy enough to fully enjoy the activities of their choice. Rocking chairs have no place even in their plans for the declining years that they know will come later on. They realize they may have to slow down then — maybe switch to golf when tennis gets too demanding — but they have no intention of ever stopping. Active leisure makes retirement make sense.

Increased Savings and Home Ownership

Since World War II, pay scales at every level of the work force have been rising constantly. This has contributed to the growing trend toward early retirement, because it enabled many employees to start saving money as soon as they started working. Thus, by the time they reach an age when they are eligible for early retirement, the length of years over which they have been saving provides them with enough accumulated money to make it financially possible for them to take the early retirement.

Higher earnings also enabled many employees to buy their own homes. There were only 15.2 million home owners in this country in 1940. By 1970, the count had more than doubled to 39.9 million.[24] Employees, of course, made up the bulk of those who became home owners during the intervening three decades, especially since the end of World War II.

As a result of this great increase in home ownership, there was a steady upward climb in real estate values that now gives added appeal to the prospect of early retirement for many employees. Take the instance of a worker, now around 60 years of age, who purchased his own home back about 1950. Over the years, the value of his home may have doubled or tripled. Meanwhile, he has paid off a 20- or 25-year mortgage, and his children have grown and gone off on their own. He can afford to retire early and he and his wife can live where they choose. If they decide to remain where they are, the fact that they have no rent to pay helps substantially to offset the reduced income which retirement brings. On the other hand, if they want to relocate, they can realize a sizable sum of money from the sale of their home to finance new living arrangements.

Lure of a Second Career

Employees today are afforded endless opportunities to broaden the range of their interests and to acquire additional learning. In books, magazines and newspapers, and in radio and television programs, they are kept well-informed of emerging developments. They can go to local high schools for all kinds of adult education courses that will teach them new manual and intellectual skills. Some employers even allow employees approaching retirement to use the company tuition-aid plan for courses not related to their company job duties.

Taking advantage of such opportunities can open new horizons for the employees and suggest second career possibilities that lend great appeal to the prospect of retirement. Stories are told in the employee publication of many companies of men and women who voluntarily leave their career jobs before age 65 to devote themselves full time to activities they had been engaging in only during their off-the-job time. There are stories, for example, of employees who studied politics and ran successfully for public office, or who became so expert in a particular hobby that they could put this knowledge to profitable use by starting small businesses of their own.

As a rule, though, the employees best equipped to take early retirement to enter second careers are the executives. They are usually better educated and have more adapt-

[24] H. Axel, ed., *A Guide to Consumer Markets: 1975-1976*, The Conference Board, Report No. 675, 1975, p. 186.

able skills than other employees; they tend, too, to be less dependent on the need for a regular pay check. Many executives, moreover, have risen to positions of relative importance but not the top positions they had anticipated when they left college. One man, for instance, who became disillusioned with his corporate progress, retired in his fifties, studied law, and not only became a highly successful lawyer but now also has exhibits of his paintings at well-known galleries. Other executives, on being sent back to universities for advance courses in their fields of specialty, have become enamored of campus life and stayed on to devote themselves full time to teaching.

ERISA, incidentally, will probably increase the numbers of executives retiring early to undertake second careers. This law's requirement that pension benefits vest 100 percent after a maximum of 15 years' service affords a form of built-in portability. An executive hired out of a university with a master's degree at age 25 can leave his original employer at age 40, without losing his accumulated pension benefits, and then start accumulating new pension benefits with a new employer.

Chart 1. Civilian population 16 and over and civilian labor force, by growth pattern, 1955–95

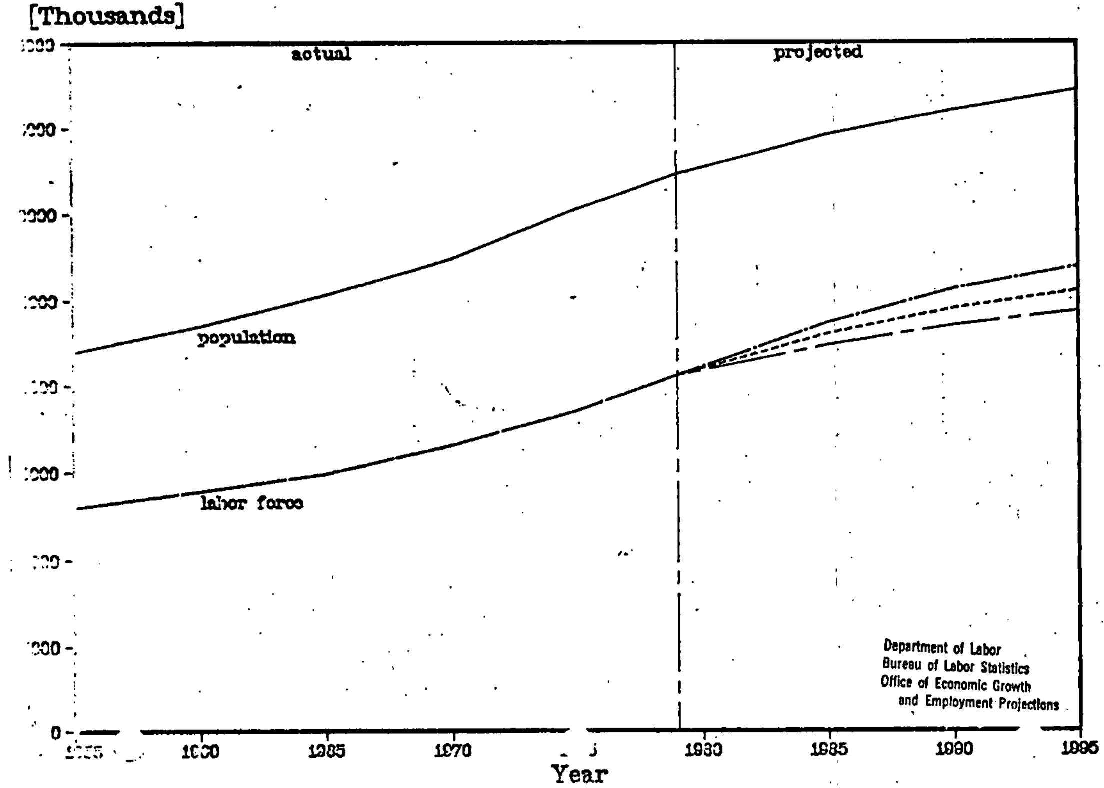


Chart 2. Labor force rates by sex and major age group, 1965 to 1995

[in percent]

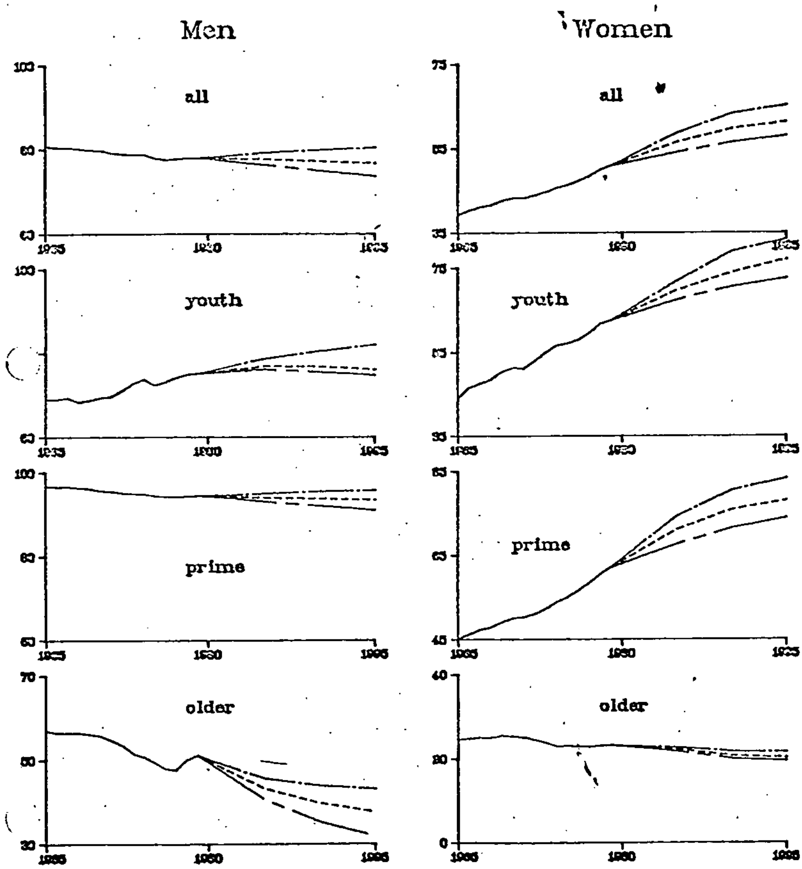


Chart 3 Profile of the women's labor force, 1955, 1979, and 1995

Department of Labor
Bureau of Labor Statistics
Office of Economic Growth
and Employment Projections

[In percent]

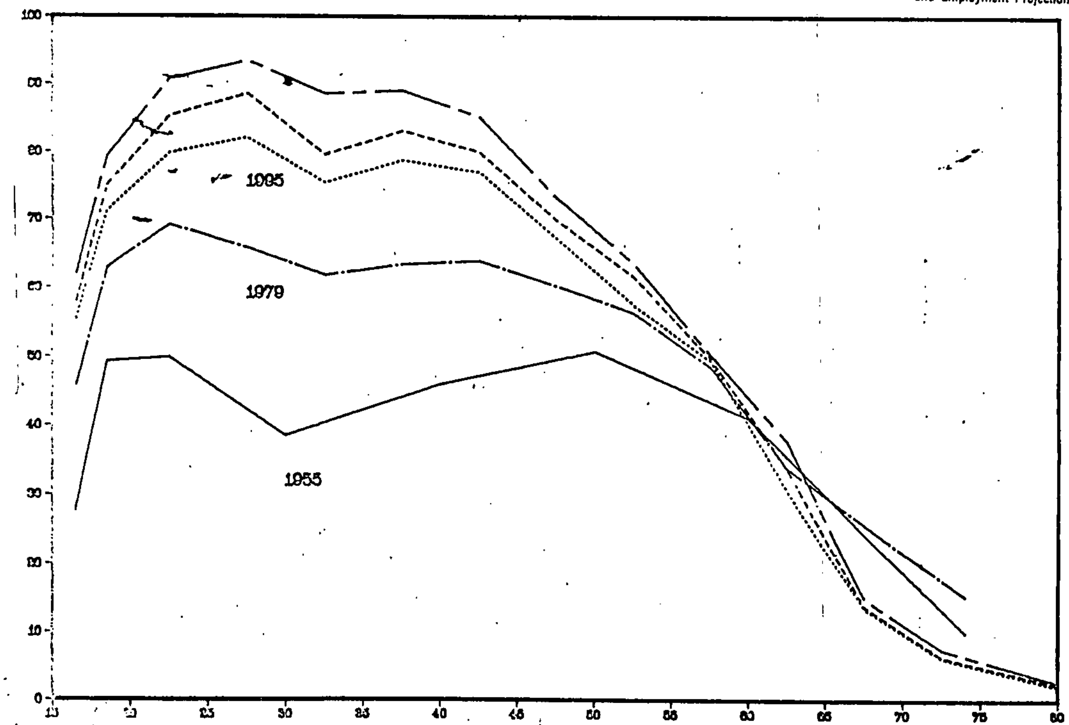
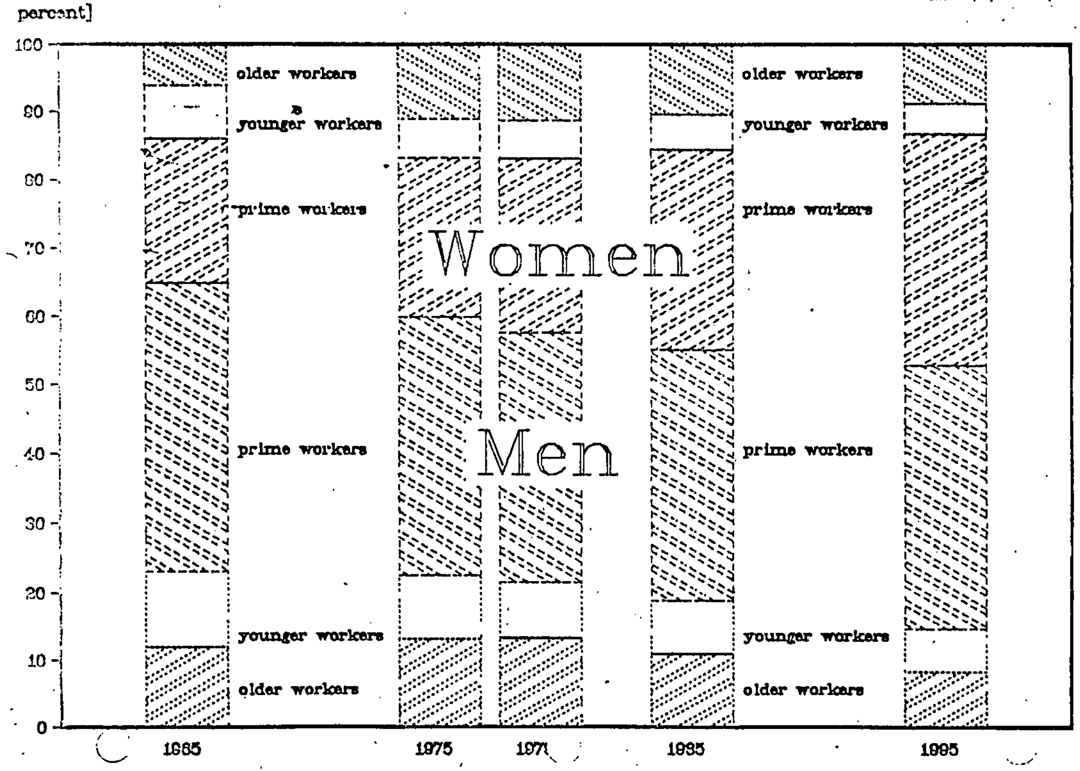


Chart 4. Distribution of the civilian labor force,

selected years, 1965 to 1995

Department of Labor
Bureau of Labor Statistics
Office of Economic Growth
and Employment Projections



The 1995 labor force: a first look

All three projections—high, middle, and low—indicate that women will account for two-thirds of the growth, most of which will occur in the prime working-age group; the black labor force will grow twice as fast as the white force

HOWARD N FULLERTON, JR.

By the mid-1980's, persons in the labor force are projected to exceed those not in the labor force—including babies. This development reflects the changing age composition of the population which, in turn, is caused by the swings in births over the past 50 years. By 1995, this labor force would have a greater proportion of women and minorities; indeed, about two-thirds of the labor force growth would be generated by women, reflecting their continued labor force participation.[1]

The projections discussed in this article are part of a continuing program of economic projections made by the Bureau of Labor Statistics. As part of this program, every 2 years labor force projections are prepared, followed by projections of the economy, of employment by industry, of demand, and ultimately, of occupations by industry.

The Bureau of Labor Statistics developed three labor force growth scenarios: a *high-growth* projection, which assumes rapid growth in the labor force participation of women in the 1980's and the convergence of participation between black men and white men under age 65; a *middle-growth* scenario, with the expansion coming from women; and a *low-growth* path with only moderate increases in the participation of women and with the divergence in male participation between races continuing.[2]

In the intermediate scenario, the labor force is projected to reach 115 million by 1985 and 128 million by 1995. (See table 1.) This represents 1.8 percent growth per year from 1979 to 1985 and 1.0 percent per year from 1985 to 1995. (See table 2.) Under this scenario, labor force rates of women age 20 to 44 are assumed to rise at an increasing rate until 1983. For most age groups of men, participation is projected to decline, although not as fast as it did in the 1970's. Overall participation is assumed to increase more rapidly for whites than for blacks.[3]

In the high growth scenario, the labor force is projected to grow 2.3 percent per year between 1979 and 1985 and 1.1 percent per year between 1985 and 1995. Under this scenario, about 135 million persons would be in the labor force in 1995. The participation rates for women age 16 to 19 and 45 to 64 are projected to grow at an increasing rate until 1985, before tapering off in the 1990's. The rates for white men age 25 to 39 are assumed to rise, reversing a long-term drop since 1960. By the end of the century, the labor force participation ratio of black men are projected to converge to the ratio of white men. (With the higher rate of black involvement in the Armed Forces and higher rates of institutionalization, the civilian labor force rates for

Howard N Fullerton, Jr., is a demographic statistician in the Office of Economic Growth and Employment Projections, Bureau of Labor Statistics.

some age groups of black men would exceed those of white men.) However, because blacks make up about 12 percent of the labor force, this assumption of the high-growth scenario does not have a significant impact on the level of the overall labor force.

In the low-growth scenario, the labor force is projected to grow 1.1 percent a year from 1979 to 1985 and 0.8 percent from 1985 to 1995. By 1995, the civilian labor force is projected to be only 122 million. The participation rates of women age 20 to 44 are projected to rise over the entire period, but at a decreasing rate. For other age groups of women, participation is assumed to increase at a slower rate than in the middle-growth path, reflecting a longer run experience than that in the 1970's. For men, labor force activity is projected to decrease more rapidly than in the middle-growth scenario, leading to an increased disparity in rates by race.

Women provide most growth

As a base for these projections, we used the population projections prepared by the Bureau of the Census. Under the Series II (middle) projection, the population 16 and older grows steadily through 1995, although the decrease in births (which began around 1960) means slower rates of growth during the remainder of this century.[4] (See table 3.) Because of reduced birth rates during the 1930's and the 1970's and the baby boom of the 1950's, the age composition of the population and, thus, of the labor force will change significantly during the next 15 years.[5]

In the past, much of the increase in the labor force has been generated by the entrance of youth and women. The number of new labor force entrants could drop in the future because there will be fewer youths. This means that the labor force would consist of more experienced workers than now. By 1985, the small number of persons born during the Great Depression will begin to leave the prime working ages. They will be replaced by the more populous baby-boom generation; the growth of the older population will be slowed.

More than two-thirds of the 1980-95 labor force growth would come from women. (These projections do not yield estimates of new entrants and of re-entrants.) Women are expected to compose an additional 4 percent of the labor force in 1995 under each of the three patterns of labor force growth. The increase in the proportion of employed women in the prime working-age group would more than offset the decreasing proportions of younger and older working women. On the other hand, the proportion of men in the labor force is assumed to be slightly less. Under the medium- and low-growth scenarios, the activity rates of men age 25 and over is expected to drop. Under the high-growth path, the rates for men age 40 to 64 are projected to remain constant and the rates for men age 25 to 39 will increase slightly. Rates for men and women under age 25 are moving up, but those for women are increasing faster. In the older age groups, where rates for men and women are dropping, those for men are dropping faster. Hence, women's increasing share of the labor force reflects their own greater activity as well as the decrease in male participation.

Until recently, labor force participation has been dropping for most age groups of black men, while their population has been increasing at a higher rate than that of whites. As the black population continues to grow at a faster rate, the black labor force also can be expected to grow at a faster rate. Thus, under all three projections, the black labor force is growing considerably faster—at about twice the rate of whites. That the relatively rapid growth is related to population growth may be seen by comparing possible participation rates. Under middle and low scenarios, the overall rate is lower for blacks than for whites. Under the high-growth scenario, which assumes convergence of male total participation ratios for blacks and whites, black civilian la-

Table 1. Civilian labor force based on three different growth paths to 1995

Growth path	Actual (in millions)			Projected (in millions)			Annual percent change[1]					Participation rate					
												Actual			Projected		
	1965	1975	1979	1985	1990	1995	1965 to 1975	1975 to 1979	1979 to 1985	1985 to 1990	1990 to 1995	1965	1975	1979	1985	1990	1995
Total	74.5	92.6	102.9				2.2	2.7				58.9	61.2	63.7			
Middle growth				115.0	122.4	127.5			1.9	1.3	0.8				66.5	67.9	68.6
High growth				118.3	128.1	134.7			2.4	1.6	1.0				68.4	71.1	72.4
Low growth				111.7	117.4	121.7			1.4	1.0	.7				64.6	65.2	65.9
Men	48.3	55.6	59.5				1.4	1.7				80.7	77.9	77.9			
Middle growth				63.6	65.9	67.6			1.1	.7	.5				77.7	77.2	76.8
High growth				64.8	68.2	70.8			1.4	1.0	.8				79.2	79.9	80.5
Low growth				62.5	63.9	64.9			.8	.4	.3				76.3	74.9	73.7
Women	26.2	37.0	43.4				3.5	4.1				39.3	46.3	51.0			
Middle growth				51.4	56.5	59.9			2.9	1.8	1.2				56.5	59.6	61.2
High growth				53.4	59.9	63.9			3.5	2.3	1.0				58.7	63.2	65.2
Low growth				49.2	53.5	56.8			2.1	1.7	1.2				54.1	56.4	57.9

[1] Compounded continuously.

Table 2. Annual rate of growth of the civilian labor force by sex, age, and race, 1975-79 and projected to 1995
[In percent]

Age, sex, and race	Actual	Projected								
		Middle growth			High growth			Low growth		
	1975 to 1979	1979 to 1985	1985 to 1990	1990 to 1995	1979 to 1985	1985 to 1990	1990 to 1995	1979 to 1985	1985 to 1990	1990 to 1995
Total, age 16 and over	2.67	1.86	1.25	.83	2.34	1.61	1.01	1.37	.99	.72
Men	1.70	1.11	.70	.52	1.43	1.01	.76	.80	.45	.32
16 to 24	3.15	-1.47	-2.17	-1.16	-1.11	-1.67	-.63	-1.67	-2.26	-1.19
16 to 19	1.39	-2.25	-.79	-.34	-1.76	-.14	.28	-2.41	-.87	-.38
20 to 24	2.72	.06	-2.94	-1.66	.22	-2.53	-1.21	-.28	-3.04	-1.69
25 to 54	1.83	2.06	1.88	1.10	2.24	2.04	1.23	1.88	1.72	.96
25 to 34	3.32	2.18	.52	-1.59	2.43	.75	-1.40	2.01	.35	-1.74
35 to 44	2.45	3.88	3.18	1.87	4.00	3.28	1.97	3.72	3.03	1.75
45 to 54	-.91	-.41	2.37	4.03	.28	2.50	4.14	-.63	2.19	3.88
55 and over	-.91	.78	-1.20	-.57	1.69	-.26	.14	-.27	-2.30	-1.48
55 to 64	.56	-.04	-1.43	-.44	.58	-.83	.00	-.99	-2.37	-1.15
65 and over	-6.96	4.47	-.33	-1.04	6.51	1.64	.58	2.98	-2.01	-2.80
Women	4.06	2.85	1.91	1.18	3.52	2.33	1.29	2.13	1.67	1.18
16 to 24	3.30	.49	-.90	-.21	1.02	-.24	-.28	-.04	-1.20	.46
16 to 19	2.63	1.16	.08	.30	.84	.48	.73	-1.55	.23	.10
20 to 24	3.73	1.48	-1.46	.52	2.12	.65	.88	.85	-1.76	-.81
25 to 54	4.88	4.28	3.24	1.73	5.05	3.56	1.86	3.42	3.04	1.83
25 to 34	7.19	4.98	2.06	-.73	6.03	2.38	-.60	3.82	1.93	-.55
35 to 44	5.78	6.12	4.64	2.69	6.84	5.01	2.85	5.35	4.41	2.84
45 to 54	.72	.52	3.28	4.56	.80	3.59	4.75	.12	2.96	4.31
55 and over	2.05	.45	-.61	.01	.86	-.15	.30	.07	-.85	-.10
55 to 64	1.91	.44	-.98	.11	.83	-.63	.29	.13	-1.26	-.04
65 and over	2.60	.47	.78	-.38	1.02	1.62	.33	-.13	.72	-.30
WHITE										
Total, age 16 and over	2.49	1.71	1.08	.63	2.10	1.37	.76	1.22	.84	.57
Men	1.56	.96	.55	.36	1.20	.77	.52	.68	.32	.19
16 to 24	2.07	-.97	-2.28	-1.25	-.91	-2.14	-1.09	-1.16	-2.34	-1.26
25 to 54	1.68	1.88	1.72	.93	2.04	1.84	1.01	1.75	1.59	.82
55 and over	.39	-.22	-1.32	-.64	.60	-.47	-.01	-1.31	-2.47	-1.60
Women	3.89	2.72	1.74	.96	3.32	2.11	1.04	1.97	1.49	1.02
16 to 24	3.11	.36	-1.07	-.57	.68	-.72	-.78	-.16	-1.38	-.59
25 to 54	4.74	4.19	3.11	1.55	4.92	3.44	1.67	3.29	2.91	1.68
55 and over	1.94	.28	-.88	-.16	.68	-.43	.09	-.08	1.12	.29
BLACK AND OTHER										
Total, age 16 and over	3.97	2.97	2.39	2.02	4.01	3.14	2.46	2.42	2.05	1.65
Men	2.95	2.27	1.85	1.58	3.26	2.71	2.32	1.80	1.40	1.20
16 to 24	3.29	-.07	-1.41	-.56	2.33	1.06	1.66	-.32	-1.65	-.76
25 to 54	3.13	3.42	3.08	2.29	3.82	3.45	10.35	2.91	2.62	1.91
55 and over	1.52	.46	-.07	.07	2.11	1.57	1.49	-.18	-.19	-1.02
Women	5.15	3.71	2.92	2.44	4.81	3.56	2.58	3.09	2.70	2.08
16 to 24	4.67	1.35	.13	1.90	3.19	2.37	2.11	.72	-.11	.28
25 to 54	5.11	4.85	3.96	2.73	5.79	4.18	2.64	4.20	3.74	2.63
55 and over	2.94	1.77	1.25	1.18	2.27	1.79	1.62	1.33	1.03	1.14

NOTE. Compounded continuously.

bor force participation exceeds that of whites by 1995. (This reflects, for black women, an expected continuation of higher participation and, for black men, higher rates of institutionalization and of participation in the Armed Forces.) Under the middle and low scenarios, the racial gap in male participation rates is projected to approximately double from the percentage point difference in 1979.

The above description of population and labor force changes suggests that the discussion of future labor force trends should focus on two periods, 1979 to 1985, and 1985 to 1995. During 1979–85, the teenage and young adult population will decline in absolute numbers and the prime-age population will grow sharply. During 1985–95, the older adult population will grow at a slower rate. Further, during the late 1980's and early 1990's, women of the baby-boom generation will pass their prime childbearing ages.

The changing labor force, 1979–85

A look back to 1975 will help our gaze forward to 1985. In 1975, the total fertility rate was 1.8 children per woman; for 1985, the Census Bureau's Series II population projection is for 2.0 children per woman.[4] Because the total fertility rate adjusts for changing age composition, there would be an increase in births from the levels of the 1970's. This increase in fertility rates, coupled with the increase in the labor force participation of women, means there would be more working mothers.

In 1975, 46 percent of all women were in the labor force. By 1985, this is projected to increase to 56.4 percent under the middle-growth scenario. (See tables. 4 and 5.) This dramatic increase reflects both the movement of women of the baby-boom generation into the prime working-age group and the projection of increased activity rates. In 1975, women represented 40 percent of the labor force—by 1985 they would represent about 45 percent. The percents do not vary much across scenarios.

Slow growth for youths. Since the early 1960's, the youth population (age 16 to 24) has been growing at a faster rate than has the older population. However, 20 years have passed since the years of peak births, and the size of this age group has begun to fall. Thus, with the aging of the baby-boom cohort, the numbers of those age 16 to 24 almost certainly will decline so that, despite a projected increase in their labor force participation rates, the level of the youth labor force would fall. (Of course, the drop would not be as sharp as that for the population component.)

The composition of the younger population will also be affected by the difference in fertility between blacks and whites. Although fertility for both groups has been falling, black fertility rates remain higher. As a consequence, the black population is younger (the median age is lower), and the youth population will have a greater proportion of blacks than will the population age 25 and over. At the same time, black youths have lower labor force participation than do their white counterparts, so if other things remained the same, the

Table 3. Civilian noninstitutional population, by age, sex, and race, 1975-79 and projected to 1995

[Numbers in thousands]

Age, sex, and race	Actual population		Projected population			Net change				Annual percent change[1]			
	1975	1979	1985	1990	1995	1975 to 1979	1979 to 1985	1985 to 1990	1990 to 1995	1975 to 1979	1979 to 1985	1985 to 1990	1990 to 1995
Total, 16 and over	151,268	161,532	172,850	180,129	186,034	10,264	11,318	7,279	5,905	1.65	1.14	0.83	0.65
Men	71,403	76,449	81,889	85,285	88,031	5,046	5,440	3,396	2,746	1.72	1.15	.82	.64
16 to 24	16,793	17,669	16,364	14,695	13,983	876	-1,305	-1,669	-712	1.28	-1.27	-2.13	-.99
16 to 19	8,046	8,155	6,920	6,521	6,403	109	-1,235	-399	-118	.34	-2.70	-1.18	-.35
20 to 24	8,747	9,514	9,444	8,174	7,580	767	-70	-1,270	-594	2.21	-.12	-2.85	-1.50
25 to 54	36,617	39,381	44,707	49,224	52,190	2,764	5,326	4,517	2,966	1.84	2.14	1.94	1.18
25 to 34	14,537	16,552	18,988	19,574	18,122	2,015	2,436	586	-1,452	3.30	2.31	.61	-1.53
35 to 44	10,756	11,838	14,947	17,510	19,236	1,082	3,109	2,563	1,726	2.43	3.96	3.22	1.90
45 to 54	11,324	10,991	10,772	12,140	14,832	-333	-219	1,368	2,692	-.74	-.33	2.42	4.09
55 and over	17,994	19,399	20,818	21,366	21,858	1,405	1,419	548	492	1.90	1.18	.52	.46
55 to 64	9,215	9,782	10,217	9,819	9,738	567	435	-398	-81	1.50	.73	-.79	-.82
65 and over	8,779	9,617	10,601	11,547	12,120	838	984	946	573	2.31	1.64	1.72	.97
Women	79,865	85,083	90,961	94,844	98,003	5,218	5,878	3,883	3,159	1.59	1.12	0.84	0.66
16 to 24	17,686	18,397	17,012	15,322	14,560	711	-1,385	-1,690	-762	.99	-1.30	-2.07	-1.02
16 to 19	8,215	8,224	6,981	6,560	6,421	9	-1,243	-421	-139	.03	-2.69	-1.24	-.43
20 to 24	9,471	10,173	10,031	8,762	8,139	702	-142	-1,269	-623	1.80	-.23	-2.67	-1.48
25 to 54	39,326	42,031	47,318	52,022	55,156	2,705	5,287	4,704	3,134	1.68	1.99	1.91	1.18
25 to 34	15,488	17,499	19,906	20,533	19,071	2,011	2,407	627	-1,462	3.14	2.17	.62	-1.47
35 to 44	11,632	12,780	15,938	18,553	20,384	1,148	3,158	2,615	1,831	2.38	3.75	3.06	1.92
45 to 54	12,206	11,752	11,474	12,936	15,701	-454	-278	1,462	2,765	-.94	-.40	2.43	3.95
55 and over	22,853	24,656	26,631	27,500	28,287	1,803	1,975	869	787	1.92	1.29	.64	.71
55 to 64	10,347	10,930	11,293	10,736	10,637	583	363	-557	-99	1.38	.55	-1.01	-.19
65 and over	12,506	13,726	15,338	16,764	17,650	1,220	1,612	1,426	886	2.35	1.87	1.79	1.01
WHITE													
Total, 16 and over	133,501	141,614	150,085	155,029	158,791	8,113	8,471	4,944	3,762	1.49	.97	.65	.48
Men	63,385	67,493	71,632	73,982	75,770	4,108	4,139	2,350	1,788	1.58	1.00	.65	.48
16 to 24	14,526	15,175	13,796	12,154	11,418	649	-1,379	-1,645	-733	1.10	-1.58	-2.50	-1.24
25 to 54	32,569	34,816	39,151	42,788	45,002	2,247	4,335	3,637	2,214	1.68	1.98	1.79	1.01
55 and over	16,291	17,501	18,685	19,040	19,350	1,210	1,184	355	310	1.81	1.10	.38	.32
Women	70,115	74,120	78,453	81,047	83,021	4,005	4,333	2,594	1,974	1.48	.95	.65	.48
16 to 24	15,068	15,522	14,118	12,482	11,724	454	-1,404	-1,636	-758	.74	-1.57	-2.43	-1.25
25 to 54	34,315	36,339	40,457	44,115	46,352	2,024	4,118	3,658	2,237	1.44	1.81	1.75	.99
55 and over	20,733	22,257	23,878	24,450	24,945	1,524	1,621	572	495	1.79	1.18	.47	.40
BLACK AND OTHER													
Total, 16 and over	17,768	19,918	22,765	25,100	27,243	2,150	2,847	2,335	2,143	2.90	2.25	1.97	1.65
Men	8,018	8,955	10,257	11,303	12,261	937	1,302	1,042	958	2.80	2.29	1.96	1.64
16 to 24	2,267	2,493	2,568	2,541	2,565	226	75	-27	24	2.40	.50	-.29	.19
25 to 54	4,048	4,564	5,556	6,436	7,188	516	992	880	752	3.04	3.33	2.98	2.23
55 and over	1,703	1,897	2,133	2,326	2,508	194	236	193	182	2.73	1.97	1.75	1.52
Women	9,750	10,963	12,508	13,797	14,982	1,213	1,545	1,289	1,185	2.97	2.22	1.98	1.66
16 to 24	2,618	2,873	2,894	2,840	2,836	255	21	-54	-4	2.36	.12	-.38	-.03
25 to 54	5,011	5,691	6,861	7,907	8,604	680	1,170	1,046	897	3.23	3.17	2.88	2.17
55 and over	2,120	2,399	2,753	3,050	3,342	279	354	297	292	3.14	2.32	2.07	1.85

[1] Compounded continuously.

Table 4. Civilian labor force participation rate by sex, age, and race, 1975–79 and projected to 1995
[In percent]

Sex, age, and race	Actual		Projected								
			Middle growth			High growth			Low growth		
	1975	1979	1985	1990	1995	1985	1990	1995	1985	1990	1995
Total, age 16 and over	61.2	63.7	66.5	67.8	68.6	68.4	71.1	72.4	64.8	65.2	65.4
Men	79.7	77.9	77.7	77.2	76.8	79.2	79.9	80.5	76.3	74.9	73.7
16 to 24	78.7	77.9	76.0	76.8	76.1	78.7	80.5	82.0	76.1	75.5	74.7
16 to 19	59.2	61.7	63.4	64.7	64.7	65.3	68.0	71.1	62.0	63.8	63.7
20 to 24	84.6	86.8	86.9	86.4	85.7	88.4	83.8	91.2	85.8	84.9	84.1
25 to 54	94.4	94.4	94.0	93.7	93.4	95.0	95.5	95.7	93.0	92.0	91.0
25 to 34	95.3	95.4	94.7	94.3	94.0	96.1	96.7	97.4	93.7	92.5	91.5
35 to 44	95.7	95.8	95.4	95.2	95.1	96.0	96.4	96.7	94.4	93.6	93.5
45 to 54	92.1	91.4	91.0	90.8	90.6	91.7	92.1	92.4	89.8	88.8	87.9
55 and over	49.5	44.2	43.1	39.8	37.6	45.5	43.8	43.1	40.5	35.1	31.8
55 to 64	75.8	73.0	69.7	67.5	66.5	72.4	72.2	72.8	65.8	60.7	57.8
65 and over	21.7	20.0	17.5	15.8	14.3	19.7	19.6	19.2	16.1	13.3	11.0
Women	46.3	51.0	56.5	59.6	61.2	58.7	63.2	65.2	54.1	56.4	57.9
16 to 24	48.3	62.6	69.7	73.9	77.0	71.9	78.9	81.8	67.5	70.5	72.5
16 to 19	49.2	54.5	59.8	63.9	66.3	61.0	66.5	70.5	58.4	61.4	63.1
20 to 24	64.1	69.1	76.5	81.4	85.3	79.5	88.1	90.7	73.8	77.3	79.8
25 to 54	55.0	62.2	71.1	75.9	78.0	74.3	80.5	83.3	67.7	71.5	73.9
25 to 34	54.6	63.8	75.1	80.7	83.7	79.7	85.9	90.8	70.3	75.0	78.5
35 to 44	55.8	63.6	72.9	78.6	81.7	75.9	83.2	87.2	69.8	74.4	77.9
45 to 54	54.0	58.4	61.7	64.3	66.2	62.7	66.4	69.0	60.2	61.8	62.9
55 and over	23.1	23.2	22.1	20.7	20.2	22.6	21.7	21.5	21.6	20.0	19.4
55 to 64	41.0	41.9	41.6	41.7	42.3	42.6	43.4	44.5	40.9	40.3	40.6
65 and over	8.3	8.3	7.7	7.3	6.8	7.9	7.9	7.6	7.4	7.0	6.6
WHITE											
Total, age 16 and over	61.5	64.0	66.8	68.3	68.8	68.4	70.9	7.19	65.0	65.6	65.9
Men	78.7	78.6	78.5	78.1	77.7	79.6	80.1	80.3	77.2	76.0	74.9
16 to 24	74.3	77.2	80.1	81.0	80.9	80.4	81.9	82.5	79.2	79.8	79.7
25 to 54	95.1	95.1	94.6	94.3	93.9	95.5	95.7	79.9	93.8	93.0	74.0
55 and over	49.8	47.1	43.6	40.0	38.1	45.8	43.9	43.1	40.8	35.3	32.1
Women	45.9	50.6	56.2	59.3	60.7	58.2	62.5	64.3	53.8	56.1	57.6
16 to 24	59.0	64.8	72.8	78.0	80.6	74.2	80.9	82.8	70.5	74.4	76.9
25 to 54	56.2	61.6	70.8	75.7	77.8	73.8	80.2	83.0	67.2	71.2	73.6
55 and over	22.8	22.9	21.7	20.3	19.7	22.2	21.2	20.9	21.2	19.6	18.9
BLACK AND OTHER											
Total, age 16 and over	59.3	61.8	64.4	65.8	67.0	68.5	72.5	75.4	62.4	62.7	62.7
Men	71.5	71.9	71.9	71.5	71.3	76.2	79.0	81.7	69.9	68.0	66.6
16 to 24	60.1	62.3	60.2	56.6	54.5	69.4	74.0	79.6	59.3	55.1	52.5
25 to 54	89.0	89.3	89.8	90.2	90.5	91.8	94.0	96.0	87.1	85.8	84.3
55 and over	45.1	43.0	39.3	35.9	33.5	43.4	43.0	42.9	37.8	33.5	30.3
Women	49.2	53.5	58.3	61.1	63.5	62.2	67.1	70.3	56.3	58.3	59.5
16 to 24	46.4	50.8	54.7	56.1	61.8	60.9	69.8	77.6	52.7	53.4	54.2
25 to 54	60.8	66.3	73.1	77.0	79.2	77.1	82.1	84.9	70.4	73.5	75.2
55 and over	26.4	26.2	25.4	24.4	23.6	26.2	25.8	25.5	24.7	23.5	22.7

growth of the youth labor force would be slower. (See table 6.)

The number of black youths should increase slightly while the number of whites should drop. Only black young men had lessening labor force participation during the 1970's. Under the middle-growth projection, this drop is assumed to continue, although at a decreasing rate. The effects of greater labor force participation by black women and a proportionately larger youth population would offset the decline in male participation, and black youths would constitute the same proportion of the labor force in 1985 as at present. Under both the middle- and high-growth projections, the black youth labor force would be half men and half women. In the high-growth scenario, black youths represent an even greater proportion of the labor force in 1985; the more pessimistic low-growth pattern yields a lower proportion.

Prime-age labor force. The prime-age workers (25 to 54 years) would be the fastest growing component of the labor force under each of the growth paths. The following tabulation shows annual growth rates by major age group and race, 1975–79, and projected growth for 1979–85:

	1975–79	*1979–85*
Youth	3.2	−0.6
Prime	3.0	3.0
Older	.2	.7
White	2.6	1.7
Black and other	4.0	3.0

In each scenario, the prime-age labor force of women would grow at a faster rate than that of men. Under the high projection, between 1975 and 1985, the female labor force is projected to grow at twice the male rate and at a pace faster than that experienced in the 1970's. This is due to three factors: the movement of women of the baby-boom generation into this age group, a moderate rise in fertility, and a continued growth in female labor force participation. The high-growth scenario for women in this age group is an attempt to reflect the acceleration in participation that was exhibited in the 1970's.

Under the high-growth scenario, prime-age men (particularly young men), are also expected to experience an increase in participation. Under the high-growth path, prime-age men would represent 78 percent of the total male labor force, a moderate increase from 1979. Under the middle-growth path, such trends would also be evident, although less significantly. For example, by 1985, prime-age male workers would represent only 75 percent of the male labor force. With the more pronounced drop anticipated under the low-growth scenario, the proportion of prime-age men would be less than in 1975, while their female counterparts would be more than 10 percentage points higher than in 1975.

Older workers. Older people (age 55 and over) have the most on-the-job experience, although on average, they have the least formal education. From 1979 to 1985, older workers are expected to participate less intensively in the labor force. These projections do not indicate the extent of part-time labor force activity that this growing segment of the population might elect.

Under the high-growth scenario, men age 55 to 64 are expected to have only a modest decrease in participation. This decrease, coupled with population growth, will result in an increase in their labor force. Under the

Table 5. Civilian labor force by sex, age, and race, 1975–79 and projected to 1995
[Numbers in thousands]

Sex, age, and race	Actual		Projected								
			Middle growth			High growth			Low growth		
	1975	1979	1985	1990	1995	1985	1990	1995	1965	1990	1995
Total, age 16 and over	92,613	102,908	114,985	122,375	127,542	118,252	128,123	134,753	111,706	117,394	121,684
Men	55,615	59,517	63,600	65,880	67,611	64,625	68,174	70,835	62,458	63,888	64,918
16 to 24	12,158	13,769	12,592	11,282	10,641	12,873	11,833	11,463	12,445	11,099	10,450
16 to 19	4,760	5,031	4,387	4,216	4,144	4,521	4,489	4,553	4,344	4,158	4,078
20 to 24	7,398	8,239	8,205	7,066	6,497	8,352	7,344	6,910	8,101	6,941	6,372
25 to 54	34,569	37,160	42,029	46,147	48,755	42,473	46,988	49,950	41,584	45,287	47,507
25 to 34	13,854	15,792	17,976	18,453	17,029	18,239	18,934	17,645	17,796	18,113	16,583
35 to 44	10,288	11,337	14,252	16,672	18,297	14,353	16,873	18,604	14,116	16,393	17,350
45 to 54	10,426	10,051	9,801	11,022	13,432	9,881	11,181	13,701	9,672	10,781	13,044
55 and over	8,668	8,568	8,979	8,451	8,212	9,479	9,353	9,422	8,429	7,502	6,961
55 to 64	6,982	7,140	7,122	6,625	6,479	7,393	7,090	7,092	6,725	5,963	5,626
65 and over	1,926	1,428	1,857	1,826	1,733	2,086	2,263	2,330	1,704	1,539	1,335
Women	36,998	43,391	51,385	56,495	59,931	53,427	59,949	63,918	49,248	53,506	56,766
16 to 24	10,108	11,511	11,854	11,325	11,205	12,235	12,083	11,912	11,477	10,800	10,551
16 to 19	4,039	4,481	4,176	4,194	4,259	4,259	4,363	4,526	4,079	4,031	4,053
20 to 24	6,069	7,029	7,678	7,131	6,946	7,976	7,720	7,386	7,398	6,769	6,498
25 to 54	21,613	26,156	33,650	39,469	43,021	35,163	41,885	45,934	32,020	37,198	40,735
25 to 34	8,456	11,167	14,955	16,568	15,971	15,870	17,853	17,322	13,968	15,396	14,971
35 to 44	6,493	8,130	11,617	14,581	16,651	12,094	15,444	17,781	11,121	13,805	15,687
45 to 54	6,665	6,660	7,078	8,320	10,399	7,199	8,588	10,831	6,911	7,997	9,877
55 and over	5,277	5,724	5,881	5,701	5,705	6,029	5,981	6,072	5,751	5,508	5,480
55 to 64	4,244	4,579	4,703	4,476	4,502	4,812	4,662	4,731	4,615	4,330	4,320
65 and over	1,033	1,145	1,178	1,225	1,203	1,217	1,319	1,341	1,136	1,178	1,160
WHITE											
Total, age 16 and over	82,084	90,602	100,316	105,867	109,292	102,667	109,930	114,208	97,496	101,661	104,604
Men	49,881	53,074	56,228	57,800	58,871	57,014	59,245	60,817	55,287	56,197	56,752
16 to 24	10,795	11,718	11,047	9,843	9,242	11,090	9,953	9,421	10,923	9,699	9,103
25 to 54	30,965	33,105	37,041	40,342	42,255	37,370	40,939	43,051	36,742	39,775	41,447
55 and over	8,121	8,251	8,140	7,615	7,373	8,554	8,353	8,345	7,622	6,723	6,202
Women	32,203	37,528	44,088	48,067	50,421	45,653	50,685	53,391	42,209	45,464	47,852
16 to 24	8,890	10,051	10,271	9,731	9,453	10,472	10,100	9,710	9,952	9,284	9,013
25 to 54	18,595	22,362	28,635	33,379	36,052	29,872	35,391	38,462	27,187	31,389	34,118
55 and over	4,717	5,095	5,182	4,957	4,916	5,309	5,194	5,218	5,070	4,791	4,721
BLACK AND OTHER											
Total, age 16 and over	10,529	12,306	14,669	16,508	18,250	15,585	18,193	20,545	14,210	15,733	17,080
Men	5,734	6,443	7,372	8,080	8,740	7,811	8,929	10,018	7,171	7,691	8,166
16 to 24	1,363	1,552	1,545	1,439	1,399	1,783	1,850	2,042	1,522	1,400	1,347
25 to 54	3,602	4,075	4,988	5,805	6,502	5,103	6,049	9,899	4,842	5,512	6,060
55 and over	768	816	839	836	839	925	1,000	1,077	807	799	759
Women	4,795	5,863	7,297	8,428	9,510	7,774	9,264	10,527	7,039	8,042	8,914
16 to 24	1,216	1,460	1,583	1,594	1,752	1,763	1,983	2,202	1,525	1,516	1,538
25 to 54	3,091	3,774	5,015	6,090	6,969	5,291	6,494	7,472	4,833	5,809	6,617
55 and over	560	629	699	744	789	720	787	853	681	717	759

other two scenarios, male participation is expected to drop more sharply, and the male labor force age 55 to 64 would actually decrease. Participation rates for women in this age group are expected to increase under both the moderate- and high-growth projections. The result would be an older labor force with proportionately more women.

The scenarios in these projections for the age group 65 and over are the same for both sexes. For the high projection, recent legislation forbidding mandatory retirement before age 70 is expected to hold participation constant. Under the moderate-growth scenario, the measured rate of decrease in participation is reduced somewhat, so that labor force activity drops at a slower rate than in the past. Under the low-growth projection, the measured declines in labor force participation are projected to continue.

An experienced labor force, 1985–95

During 1985–95, the baby-boom generation will be in the prime working ages and the relatively small number of persons born in the Great Depression will begin retiring, easing pressures on retirement systems.

To put the 1995 projections in context, it is useful to look back to 1965, a time of the buildup of forces in Vietnam and a period of lower inflation. The fertility rate was 2.9 children per woman, well above the Census Bureau's Series II projection of 2.1 for 1995.[7] In fact, 1965 was the first year in which births were below 4 million—after 11 years of high birth rates. In 1965, 40 percent of all women, 34 percent of all married women, and 23 percent of mothers with children under age 6 were in the labor force. Although comparable projections of the labor force by marital and parental status were not made by the Bureau of Labor Statistics for 1995, more than half of all married women were already in the labor force by 1979, as were 45.2 percent of mothers with preschool children. Both groups (which, of course, overlap) are projected to supply much of the labor force growth in the 1990's.

Youths. In 1965, youths were a relatively small proportion of the labor force, 18 percent. By 1979, this number had climbed to 24.4 percent. The effects of changes in the composition of the labor force may be seen by looking at the median age of the labor force. In 1965, it was 40 years; by 1979, it had dropped 5 years, taking the effects of both greater retirement and the aging of the baby-boom generation into account; by 1995, the median age of the labor force is projected to be 37.5 years.

Based on the Census Bureau's Series II birth rate projection, the youth labor force would continue to decrease from 1985 to 1995, although a larger proportion of teenagers would participate in the labor force. Only under the high-growth pattern would young men age 16 to 24 have a greater participation rate than in 1979. By 1995, the youth labor force would be a smaller proportion of the labor force than in either 1979 or 1985.

Prime-age workers. By 1995, more than 70 percent of the labor force would be in the prime working ages. For the middle- and high-growth scenarios, this is actually a lower proportion than in 1985. The projected growth for prime-age men is about the same under all three scenarios; consequently, even after the growth in female participation is taken into account, the prime-age labor force is still more stable over the scenarios than that of the younger and older age groups. (See table 6.) In the middle- and low-growth projections, it is assumed that the youth and the older labor force grow relatively slower than the prime-age labor force, so these scenarios have a higher proportion of prime-age workers. However, the greatest number of prime-age workers would be attained under the high-growth pattern. Under all projections, the labor force would have more women and more blacks than now: 47 percent of the labor force would be women, and 14 to 15 percent of the labor force would be black. Following are selected annual growth rates (in percent) of all persons in the labor force, by major age group and race, 1965–79, and projected growth to 1995:

	1965–79	*1979–95*
Youth	3.9	−0.9
Prime	2.2	2.3
Older	.4	−.2
White	2.3	1.2
Black and other	2.8	2.5

Older workers. Under all scenarios, workers age 55 and older would continue to be a decreasing proportion of the workforce. The changes for the 25 years from 1970 are most dramatic in the low-growth projection—in 1995, older workers would constitute about two-thirds the proportion of the labor force that they did in 1970. This drop reflects both their expected continued drop in participation and the increase in the numbers of persons in the prime working ages, when participation is highest. The drop in the proportions for the middle- and high-growth paths is less extreme, from 14 percent in 1979 to around 11 percent in 1995.

How the projections were revised

The uncertainty of the projection process is indicated by the changes from the 1978 set.[8] (See table 7.) The difference between the high and low in 1985 and 1990 is about the same as that in the 1978 projections; the current middle projection is midway between the previous middle and high. Each scenario, high, middle, and low was revised upward—the low one the most, to almost

Table 6. Labor force distribution by sex, age, and race, 1975-79 and projected to 1995

[In percent]

Sex, age, and race	Actual		Projected								
			Middle growth			High growth			Low growth		
	1975	1979	1985	1990	1995	1985	1990	1995	1985	1990	1995
Total, age 16 and over	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Men	60.0	57.8	55.3	53.8	53.0	54.8	53.2	52.5	55.9	54.4	53.3
16 to 24	13.1	13.3	10.9	9.2	8.3	10.8	9.2	8.5	11.1	9.4	8.5
16 to 19	5.1	4.8	3.8	3.4	3.2	3.8	3.5	3.3	3.8	3.5	3.3
20 to 24	7.9	8.0	7.1	5.7	5.0	7.0	5.7	5.1	7.2	5.9	5.2
25 to 54	37.3	36.1	36.5	37.7	38.2	35.8	36.6	37.0	37.2	38.5	39.0
25 to 34	14.9	15.3	15.6	15.0	13.3	15.4	14.7	13.0	15.9	15.4	13.6
35 to 44	11.1	11.0	12.3	13.6	14.3	12.1	13.1	13.8	12.6	13.9	14.6
45 to 54	11.2	9.7	8.5	9.0	10.5	8.3	8.7	10.1	8.6	9.1	10.7
55 and over	9.5	8.3	7.8	6.8	6.4	8.0	7.3	6.9	7.5	6.3	5.7
55 to 64	7.5	6.9	6.1	5.4	5.0	6.2	5.5	5.2	6.0	5.0	4.6
65 and over	2.0	1.3	1.6	1.4	1.3	1.7	1.7	1.7	1.5	1.3	1.0
Women	39.9	42.1	44.6	46.1	46.9	45.1	46.7	47.4	44.0	45.5	46.6
16 to 24	10.9	11.1	10.3	9.2	8.7	10.3	9.4	8.8	10.2	9.1	8.6
16 to 19	4.3	4.3	3.6	3.4	3.3	3.6	3.4	3.3	3.6	3.4	3.3
20 to 24	6.5	6.8	6.6	5.8	5.4	6.7	6.0	5.4	6.6	5.7	5.3
25 to 54	23.3	25.4	29.2	32.2	33.7	29.7	32.6	34.0	28.6	31.6	33.4
25 to 34	9.1	10.8	13.0	13.5	12.5	13.4	13.9	12.8	12.5	13.1	12.3
35 to 44	7.0	7.9	10.1	11.9	13.0	10.2	12.0	13.1	9.9	11.7	13.0
45 to 54	7.1	6.6	6.1	6.7	8.1	6.0	6.7	8.0	6.1	6.8	8.1
55 and over	5.6	5.5	5.1	4.6	4.4	5.0	4.6	4.5	5.1	4.6	4.5
55 to 64	4.5	4.4	4.0	3.6	3.5	4.0	3.6	3.5	4.1	3.6	3.5
65 and over	1.1	1.1	1.0	1.0	.9	1.0	1.0	.9	1.0	1.0	.9
WHITE											
Total, age 16 and over	88.6	88.0	87.2	86.5	85.6	86.8	85.8	84.7	87.2	86.5	85.9
Men	53.8	51.5	48.9	47.2	46.1	48.2	46.2	45.1	49.4	47.8	46.6
16 to 24	11.6	11.3	9.6	8.0	7.2	9.3	7.7	6.9	9.7	8.2	7.4
25 to 54	33.4	32.1	32.2	32.9	33.1	31.6	31.9	31.9	32.8	33.8	34.0
55 and over	8.7	8.0	7.0	6.2	5.7	7.2	6.5	6.1	6.8	5.7	5.0
Women	34.7	36.4	38.3	39.2	39.5	38.6	39.5	39.6	37.7	38.7	39.3
16 to 24	9.5	9.7	8.9	7.9	7.4	8.8	7.8	7.2	8.9	7.9	7.4
25 to 54	20.0	21.7	24.9	27.2	28.2	25.2	27.6	28.5	24.3	26.7	28.0
55 and over	5.0	4.9	4.5	4.0	3.8	4.4	4.0	3.8	4.5	4.0	3.8
BLACK AND OTHER											
Total, age 16 and over	11.3	11.9	12.7	13.4	14.3	13.1	14.1	15.2	12.7	13.4	14.0
Men	6.1	6.2	6.4	6.6	6.8	6.6	6.9	7.4	6.4	6.5	6.7
16 to 24	1.4	1.5	1.3	1.1	1.0	1.5	1.4	1.5	1.3	1.1	1.1
25 to 54	3.8	3.9	4.3	4.7	5.0	4.3	4.7	7.3	4.3	4.6	4.9
55 and over	.8	.7	.7	.6	.6	.7	.7	.7	.7	.6	.6
Women	5.1	5.6	6.3	6.8	7.4	6.5	7.2	7.8	6.3	6.8	7.3
16 to 24	1.3	1.4	1.3	1.3	1.3	1.4	1.5	1.6	1.3	1.2	1.2
25 to 54	3.3	3.6	4.3	4.9	5.4	4.4	5.0	5.5	4.3	4.9	5.4
55 and over	.6	.6	.6	.6	.6	.6	.6	.6	.6	.6	.6

the level of the previous middle-growth path. The changes reflect the effects of two additional years of observations, as well as changes in the assumptions made for women age 20 to 44 mentioned earlier. They also reflect the general experience that it is more difficult to project an increasing phenomenon.

In 1990, the projected number of women would be about 2.5 million higher under each scenario, but the proportion of the labor force in each major age group differs among scenarios. Under both the high and middle scenarios, the number of young women in the labor force would be smaller than in the previous projection, reflecting their slower participation growth. For women in the 20 to 44 age group, the 1978 projection included an adjustment to the high-growth scenario to reflect accelerating participation rates; in the current projection, this assumption was formally introduced in both the middle- and high-growth scenarios.

The differences between the two sets of projections are less uniform for men. The number of men in the labor force is essentially unchanged in the high-growth scenario; in the low and middle scenarios the number of men is projected to increase. The Bureau of Labor Statistics typically revised downward the number of men in the labor force with each succeeding labor force projection (while increasing the number of women). These changes reflect the slowing or ending of the decline in male participation rates. For the high-growth scenario, it is assumed that male participation rates will either rise or at least hold constant.

To summarize, for each scenario, the number of women expected to be in the labor force was revised upward by about the same amount. For men, the high-growth projection was approximately the same as the [illegible] ward slightly, and the low-growth path was revised upward significantly.

Possible consequences

A number of questions could be asked about the possible consequences of the changes in the structure of the population and of the labor force in these projections. Would these changes affect the ability of society to maintain the responsibilities it has assumed, such as social security? Could the changing composition of the labor force make goals such as equal employment opportunity easier or more difficult to accomplish? Is there potential for changes in productivity? Will there be scarcities of certain kinds of workers? How would migration affect the composition of the labor force?

Societal responsibilities. One of the implications of these projections is the change in the "economic dependency ratios" for both the high and middle projections. The economic dependency ratio is defined as all persons not in the labor force (including those under age 16) divided by the total in the labor force.[9] This ratio should drop to below 100 nonworkers per 100 workers. Under the conditions of the middle-growth pattern, the dependency [illegible] would [illegible] Under the conditions of the high-growth scenario, (which assumes higher participation), the dependency ratio drops significantly; in fact, it shows no sign of leveling off in this century. Under the conditions of the low-growth projection, the dependency ratio would stabilize above the 100-nonworker-per-100-worker level, but well below historic levels. The following tabulation shows dependency ratios for 1965–79 and projected ratios for the three scenarios, 1985–95:

	Actual	Projected: Middle	Projected: High	Projected: Low
1965	151.8	...	...	...
1970	138.5	...	...	...
1975	125.4	...	...	...
1979	110.1	...	...	...
1985	...	98.8	93.5	104.5
1990	...	95.6	87.0	103.4
1995	...	94.5	84.4	104.1

These favorable ratios are a characteristic of the age of the baby-boom cohort and of the numbers of projected births. A large labor force is combined with low births to give low economic dependency ratios. As the baby-

Table 7. Comparison of the current and previous projections for 1985 and 1990

[Numbers in thousands]

Growth path, sex, and age	1985 Previous[1]	1985 Current	1985 Difference[2]	1990 Previous[1]	1990 Current	1990 Difference[2]
MIDDLE						
Total, age 16 and over	112,953	114,985	2,032	119,366	122,375	3,039
Men	63,007	63,600	593	65,115	65,880	765
16 to 24	12,465	12,592	127	11,156	11,282	126
25 to 54	41,824	42,029	205	45,845	46,147	302
55 and over	8,718	8,979	261	8,114	8,451	337
Women	49,946	51,385	1,439	54,251	56,495	2,244
16 to 24	11,934	11,854	-80	11,225	11,325	100
25 to 54	32,432	33,650	1,218	37,713	39,469	1,756
55 and over	5,580	5,881	301	5,313	5,701	388
HIGH						
Total, age 16 and over	117,005	118,252	1,247	125,603	128,123	2,520
Men	65,013	64,825	-188	68,220	68,174	-46
16 to 24	12,882	12,873	-9	11,879	11,833	-46
25 to 54	42,533	42,473	-60	47,056	46,988	-68
55 and over	9,598	9,479	-119	9,285	9,353	68
Women	51,992	53,427	1,435	57,383	59,949	2,566
16 to 24	12,510	12,235	-275	12,054	12,083	29
25 to 54	33,596	35,163	1,567	39,630	41,885	2,256
55 and over	5,886	6,029	143	5,699	5,981	282
LOW						
Total, age 16 and over	108,900	111,706	2,806	113,521	117,394	3,873
Men	61,169	62,458	1,289	62,472	63,888	1,416
16 to 24	12,134	12,445	311	10,744	11,099	355
25 to 54	41,219	41,584	365	44,844	45,287	443
55 and over	7,816	8,429	613	6,884	7,502	618
Women	47,731	49,248	1,517	51,049	53,506	2,457
16 to 24	11,315	11,477	162	10,375	10,800	425
25 to 54	31,220	32,020	800	35,942	37,198	1,256
55 and over	5,196	5,751	555	4,732	5,508	776

[1] The previous projections were published in Paul O. Flaim and Howard N Fullerton, Jr., "Labor force projections to 1990: Three possible paths," *Monthly Labor Review*, pp. 25–35, December 1978.

[2] A minus sign indicates that the current projection is lower than the previous projection.

boom cohort leaves the prime working ages (after 2015), the dependency ratios should rise again, although the higher mortality of older people will prevent it from reaching the levels of the 1960's. Differences in the number of older people are a consequence of past fertility—not improvements in mortality—but if spectacular increases in longevity occur, this could change.[10] Thus, the current difficulties of the social security system are not a result of the current age composition of the population. This favorable age composition effect on social security almost certainly will reverse in the early part of the next century.

Black-white differentials. One dilemma confronting labor force forecasters and policymakers concerned with employment and training programs has been the continued divergence of labor force participation between blacks and whites in the prime-age groups. As recently as the mid-1950's, the rates for men were virtually the same; but since then, the participation rates for black men have dropped more rapidly than those for white men.[9] The high-growth scenario projects a possible return to parity of their labor force rates. The extent to which black rates have to increase is a measure of the problems that have to be confronted. In numbers, about 1.3 million more black men would participate in the high than in the middle-growth path labor force. For women, the picture has been different; in 1979, the rate for prime-age black women was higher than that for their white counterparts (despite higher fertility among black women). Moreover, participation of women in both groups is increasing, although faster for whites.

The differences in female participation reflect the greater family responsibilities of black women—more are single parents than are whites, although the number of such white women is increasing.[11] The higher fertility of black women obviously translates into higher population growth and then into higher labor force growth. Thus, the youth groups of the 1980's and 1990's will have a higher proportion of blacks.

Productivity. One question raised by these projections is the effect of a proportionally greater prime-age labor force on productivity. The proportion of prime-age workers will increase at least by 10 percentage points (with the low-growth projection having the greatest concentration in the prime ages). Analyses have centered on the relative size of the youth labor force (which will diminish) and on the likely impact this would have on productivity gains.[12] The growing proportion of the prime-age labor force should have a favorable impact on productivity because of the greater continuity of participation by women and because of the higher educational attainment of all age, sex, and ethnic components.[13]

In the 1980's and 1990's, employers may have increasing difficulty finding young workers. The decline in the number of youths will be particularly important to the Armed Forces—the largest single employer of youths. Given the decrease in the youth labor force, those who employ unskilled workers may also experience difficulty—depending to some extent on the Nation's immigration policy.

The growth of the prime-age labor force would exceed that of the overall labor force by 20 percent. Because this is the experienced component of the labor force, analysts who look for a shortage of skilled workers must consider likely changes in the composition of the prime-age labor force. More than half (59 percent) of the growth is projected to be generated by women and 22 percent by blacks (black women are in both groups). Skilled and professional workers will have to come from these groups in greater numbers than in the past if there is not to be a shortage.

In the U.S. labor market, there is a tradition of male occupations and of female occupations, and there has been little change in this pattern.[14] The growth in female participation has occurred largely in occupations traditionally held by women. What would happen if demand would no longer grow in those sectors? The argument has been presented that higher participation would be translated into greater continuity of work and, thus, into more capacity to retain skills and professional abilities that diminish if not used. Given that much of the increase in female labor force activity will probably come from mothers, employers may have to review their personnel practices (such as provision of day care) to attract these workers.[15]

By 1995, the youngest of the baby-boom generation will be in their thirties. They may well face competition for career positions which may result in frustration for some and greater productivity for all. The older members of the baby-boom generation will be in the preretirement years and should be at the peak of their productivity.

Immigration. Along with growth in the native adult population and increased labor force activity, immigration represents a possible source of labor force growth. For purposes of this discussion, migration can be divided into two groups, legal or "documented" migration and illegal or "undocumented" migration. The Bureau of the Census projects that "documented" net migration will average 400,000 persons a year, with bulges in a few years such as 1976 and 1980 when large numbers of refugees reached our shores. To estimate the proportion of the labor force growth that net migration represents, we can look at 1979. The labor force participation rate for those age 16 and older was 63.7 percent. If the comparable rate for the migrant population was about the some, and ignoring the fact that there are proportionately fewer older persons in the migrant population, some 173,000 would have been in the labor force in 1979, or about 7 percent of the actual labor force growth.[16] Documented workers vary from those with high skills (the brain drain) and professional athletes to lower skilled agricultural and service workers.

Undocumented workers also represent a variety of skills, from college graduates to unskilled workers. By their nature, we know little about these people as a group. The discussion that follows is based on a study conducted by Jacob S. Siegel, Jeffrey S. Passel, and J. Gregory Robinson for the Select Commission on Immigration and Refugee Policy.[17] After a review of past estimates, they concluded that there are 3 to 6 million undocumented workers in the United States. It is important not to confuse the *stock* of undocumented workers with the *flow* of documented workers discussed in the preceding paragraph. The only information available about flows of undocumented workers is for Mexicans. There appears to be considerable movement in both directions netting to zero (with large seasonal fluctuation). There is no way of ascertaining what portion of undocumented workers, if any, are currently accounted for in existing labor force data. Therefore, no changes have been made to the projections to account for undocumented workers.

Obviously, these last few paragraphs have raised rather than answered questions about the implications of the changing structure of the labor force. The topics discussed here illustrate some uses for which these projections have been generated; there also are other uses. □

——FOOTNOTES——

[1] These projections replace those described by Paul O. Flaim and Howard N Fullerton, Jr. in "Labor force projections to 1990: three possible paths," *Monthly Labor Review*, pp. 25–35, December 1978.

[2] These scenarios are prepared by projecting the changes in the ratio of the total labor force to the total population for each of 54 age-sex-race groups; the levels of the anticipated labor force were calculated by applying the projected rates to the Bureau of the Census' population projections. The high and low scenarios do not represent "confidence intervals," but rather different views of the future. A complete methodological statement is in preparation.

[3] The term "blacks" refers to black and other races, which includes Negroes, American Indians, Eskimos, and others. At the time of the 1970 Census of Population, 89 percent of this population group was black.

[4] *Projections of the Population of the United States: 1977 to 2050, Current Population Reports* (Bureau of the Census, Series P-25, No. 704, 1977). For an analysis of recent fertility trends, see Arthur A. Campbell, "Baby Boom to Birth Dearth and Beyond," *Annals*, January 1978, pp. 40–60.

[5] There is no standard definition of the baby-boom period; this article uses the 1950's, as described in Leon F. Bouvier, "America's Baby Boom Generation: The Fateful Bulge," *Population Bulletin*, Vol. 35, No. 1, 1980.

[6] *Projections of the Population* . . . , Table A-5. A moderate increase in fertility is plausable because the Series II population projections are tracking well at this time.

[7] *Projections of the Population* . . . , Table A-5.

[8] Flaim and Fullerton, "Labor force projections. . . ." Projections were not published for 1995.

[9] There is no standard definition of the "economic dependency ratio." See Henry S. Shryock, Jacob S. Siegel, and others, *The Methods and Materials of Demography* (Bureau of the Census, 1973), p. 235.

[10] Jacob S. Siegel, "On the Demography of Aging," *Demography*, forthcoming, and Nathan Keyfitz, *Applied Mathematical Deomography* (New York, John Wiley and Sons, 1977).

[11] Elizabeth Waldman and others, "Working mothers in the 1970's: a look at the statistics," *Monthly Labor Review*, October 1979, pp. 39–49.

[12] George L. Perry, "Potential Output and Productivity," *Brookings Papers on Economic Activity*, 1977; J. R. Norsworthy, M. J. Harper, and K. Kunze, "The Slowdown in Productivity Growth: Analysis of Some Contributing Factors," *Brookings Papers on Economic Activity*, 1979; and the discussion by Martin Neil Baily, Edward F. Denison, and Michael L. Wachter in the same issue.

[13] Edward F. Denison, *Accounting for United States Economic Growth, 1929–1969* (Washington, The Brookings Institution, 1974), and *Accounting for Slower Economic Growth* (Washington, The Brookings Institution, 1979).

[14] Valerie K. Oppenheimer, "Demographic Influence on Female Employment and the Status of Women," in Joan Hamber, ed., *Changing Women in a Changing Society* (Chicago, University of Chicago Press, 1973).

[15] Peter F. Drucker, *Managing in Turbulent Times* (New York, Harper and Row, 1980).

[16] *Projections of the Population*. . . . Table C-1 contains the distribution of the immigrant population.

[17] Jacob S. Siegel, Jeffery S. Passel, and J. Gregory Robinson, "Preliminary Review of Existing Studies of the Number of Illegal Residents in the United States" (Washington, Select Commission on Immigration and Refugee Policy, 1980).