STAYING ON THE JOB AFTER SIXTY-FIVE

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How many gold watches should a company order for its workers reaching the age of 65? Progressively earlier retirement has been the trend in recent years. Will newly passed legislation reverse that trend?

Since January 1, 1979, an organization cannot make retirement mandatory before age 70, except in a few specified circumstances. Varying forecasts abound as to how many employees reaching 65 will choose to stay on the job and who they will be. Such predictions are limited, however, by one of two factors: They project behavior based on experiences in a retire-at-65 world, or they report intentions only—what somebody says he or she will do in the future.

Clearly, no magic will wipe away these limitations. To assess the impact of the new retirement law on a specific firm, however, it does seem useful to look at three issues:

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1. What predictions do we have now on how many workers will stay on after 65? And how can aggregate data help a manager to forecast for a single organization?

2. Over the years, what factors have been associated with preference for retirement over staying on the job? If a manager knows what these factors are, he or she knows what to look for in a specific firm's employees. That look can lead to better estimates of the likelihood that a given organization will be above or below the projected "typical" organization in the numerical impact of the new law.

3. If a company wants to influence employee retirement decisions, what actions by a company do workers see as more likely to make retirement from their current job desirable?

To illuminate these three areas of interest, we offer the conclusions of gerontologists and the results of recent surveys, including two in which we participated. Like the historical data that go into a sales forecast, they offer a starting point for predicting and influencing the respective market shares of three competitive products: pre-65 retirement; retirement at 65; and the "new product," retirement after 65.

WHAT THE NEW LAW SAYS

– Effective January 1, 1979, a business with twenty or more employees cannot force them to retire before age 70.

– One exception: Executives whose pensions will be more than $27,000 per year can be retired before 70 if their companies now require earlier retirement.

– If a mandatory retirement age was written into a labor agreement effective September 1, 1977, or earlier, it holds until the agreement expires or until January 1, 1980, whichever comes first.

– Except for those in a few categories (for example, air-traffic controllers), federal employees cannot be retired simply because of age.

– State and local government employees can be retired at 70, but not before. Exceptions include police and firemen.

– Colleges and universities with a current retirement age of 65 may apply it to tenured professors until July 1, 1982; then retirement age moves to 70.

HOW MANY WILL STAY?

Up to the present, our insights into early retirement have come from studies of how many and who retired before 65 when 65 was a legal mandatory retirement age. Clearly, however, retiring at 67 in 1979 three years "early" differs from retiring at 62 in 1978. Consequently, we have a wide range of predictions on the immediate question: Now that the new law has gone into effect, what proportion of employees turning 65 will want to keep their jobs?

Today, out of every 100 workers (a mix of job levels, white and blue collar, men and women) who reach 65 years of age, thirty-three of them are still working at 65. We could assume that these thirty-three by definition are opposed to early retirement or they would already be gone. We could also recognize, though, the impact of Social Security benefits. Reduced benefits still begin at 62, and full benefits at 65. Therefore, someone who rejected early retirement when "early" meant pre-65 may accept early retirement *at* 65. The decision will, under those circumstances, stem from the added financial boost of full benefits.

The Department of Labor estimated that about 200,000 Americans would keep working past 65 when the law was changed last month. That number translates into an estimated one-third of those working at 65. One strength of this DOL figure is that it takes into account the relatively small base of 64-year-olds still working.

On the other hand, projecting from past retirement figures may lead to underestimating the number of employees who now will work past 65. A *New York Times*-CBS News poll in the fall of 1977 found that 58 percent of those questioned said they would work past 65 if they could. The poll did not distinguish between continuing to work at the present full-time job or switching to part-time work. But even to have 58 percent still in the work force after 65 would be a dramatic change from current numbers. And both this poll and a later one in Houston find the lowest enthusiasm for retirement at 65 among workers in their mid-60s, compared to those in other age groups. These, of course, are the workers of greatest interest to management today.

Suppose we accept for the moment the estimate that one worker in three nationally who reaches 65 still on the job will choose to stay on. (We realize that an "average" is unlikely to apply to any given organization.) For the federal government the issue is moot: Their work force has had no mandatory retirement age since January. It is also a less immediate issue for companies with a retirement age written into union contracts that were in effect on September 1, 1977; in those firms, the move to retirement at 70 will not apply until January 1, 1980. Other companies, though, may wish for a prompt answer to the question, Will our people be more or less likely than average to stay on after 65?

WHO RETIRES EARLY?

To shed light on this issue, it helps to know who retires early and what benefits are seen in retirement. As clues, we have results of various studies that preceded the new retirement law. They are useful, of course, only if we assume that the reasons for early retirement will not change now that our definition of "early" has changed to pre-70.

Following this approach, here are a few conclusions from research in the past fifteen years:

– Health is the predominant reason to retire early.

– A second powerful reason is what two Michigan researchers call "economic history"—all the things that happen to an individual that affect his or her confidence in the financial future. They have found, for instance, that workers now 50-54 are particularly likely to plan on early retirement. In explanation, they speculate that these workers entered the labor force during a prosperous era, bought homes before inflation became a major issue, but joined their company recently enough that a pension fund was already in place. Today's oldest workers (less likely to have pensions awaiting them) and youngest workers (more sensitive to inflation) are more likely to reach 65 determined to keep working, according to this line of reasoning.[1] Thus the proportion of those who keep working past 60—and then keep working past 65—will vary from decade to decade.

– Availability of retirement benefits strongly affects the retirement choice.[2] Eligibility for Social Security benefits was found to be the single greatest influence (besides health) on the retirement decision, particularly for people with health limitations and in intermediate income brackets. Therefore, it seems thoroughly unrealistic to expect the number of retirements at 65—five years before the new mandatory retirement age—to be no greater than last year's retirements at 60—five years before last year's retirement age. Then as now, benefits were available at 60 only for the disabled or through some private pension plans.

– Based on a 1977 study in Houston, "economic history" can be translated into retirement plans that vary by sex, job category, and income. Women are more likely than men to say they would work past 65, and white collar workers are more likely to say they would keep working than are blue collar workers. But, of course, women are disproportionately likely to be in white collar jobs. The Houston study also found that a family income between $10,000 and $14,000 puts a worker in the income bracket where retirement is seen as most desirable.

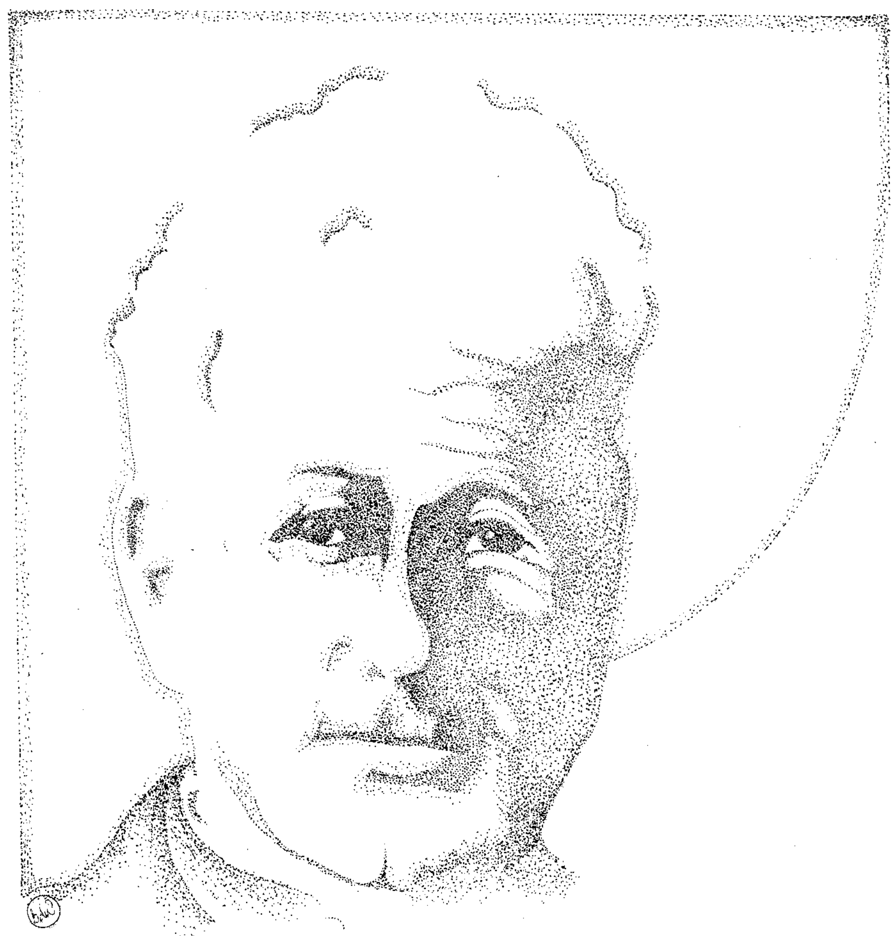
– Also from the Houston study, we have some information on the attractions of retire-

1. Richard E. Barfield and James N. Morgan, "Trends in Planned Early Retirement," *The Gerontologist,* February 1978: 13-16.

2. Joseph F. Quinn, "Microeconomic Determinants of Early Retirement: A Cross-Sectional View of White Married Men," *The Journal of Human Resources,* Summer 1977: 329-346.

ment as they are seen by people still on the job. The greatest attraction is the expected opportunity to rest or take it easy, a reason given by 44 percent of respondents. But 71 percent of people over 60 stated a "take-it-easy" reason. Second in importance as the primary reason to retire was the desire for variety, or "to do what I want in my spare time," named by 29 percent. Men disproportionately (36 percent) chose that reason. Traveling was a distant third, stated as the reason for retiring by only 10 percent of the sample. The desire to pursue some hobby or recreation was fourth, named by 9 percent. It seems reasonable to conclude that if Houston workers are typical, escape from the job seems more important than alternative uses of time.

To use all this information, a manager needs to analyze his or her work force by age, sex, and job type, and then can at least begin some estimations. All other things equal, a challenging, nonfatiguing white collar job will attract a $15,000-per-year employee to stay; a routine, tiring blue collar job will send another $15,000-per-year employee into retirement. Consequently, to accept an idea like "one in three will stay" is unnecessary; it may be possible to forecast that in one set of jobs the number will be closer to two out of three, in another set of jobs perhaps one in ten. Executive positions are a special case: The new law provides that top-level personnel whose pensions will be at least $27,000 per year can still be retired at 65 strictly on the basis of age.



INFLUENCING EARLY RETIREMENT

Forecasting who will retire, "all things equal," ignores, however, what a company can do to affect the odds by marketing retirement at 65 or even earlier. Such actions by a company may simply represent an attempt to offer an employee a greater choice than the either/or dilemma of the employee's present job versus no job at all.

Since no one has to work past 65 to collect a pension or Social Security benefits, most employees will at least consider a decision at that point. Many companies will want to open promotion opportunities for younger workers, and therefore will want to encourage an employee to leave his or her job. At the same time, management will recognize the disadvantages of retirement for the employee—the uncertainty of fixed income in an inflationary era, plus possible losses of status, friends, and challenge. Consequently, the idea of a different job to ease the employee into retirement has been suggested.[3]

To test the appeal of such jobs, a study in Texas looked at employee reaction to four possibilities. From a statewide random sample of people 55 and over, a subgroup of 284 who work full time reacted to hypothetical offers by their current employer. The offers were a half-day job at half pay, a half-year job at half pay, an easier job at less pay, or a job "helping others" at no pay.

The results were surprising: An easier job, paying less, was chosen by half of those questioned. As the table shows, the half-day job was second in order of preference, followed by the half-year job. Even the hypothetical offer of a volunteer job caused 28 percent to say they would choose it over the full-time alternative.

Clearly, no move by management can be expected to affect the majority of workers who prefer to stay on a full-time job. Still, in a company where 100 workers coming up to 65 would choose not to retire, it could be desirable, for both employer and employees, to free up perhaps twenty job slots if forty of the 100 workers switch to half-time work.

Preference for a Full-Time Job versus a Substitute Job

Type of Job Offered	*Percent Choosing Substitute Over Full-Time Job*
Easier job, paying less	50%
Half-day job for half pay	41
Half-year job for half pay	36
Job with no pay, helping other people	28

Not to be overlooked, too, are companies who may want to discourage retirement at 65. It has been suggested that employees who foresee opportunities for advancement even into their late sixties will be better workers at 58; perhaps "marking time until retirement" results less from the age factor than from the perception that management has given up expecting improvement in performance.[4] To the extent that workers are encouraged to stay as long as they feel productive, management communicates higher expectations about the abilities of all older workers.

Realistically, however, it appears that most workers will continue to retire before 65, and most of those who reach 65 still on a full-time job will retire from it before 66. In a single company, or in a job category within that company, the situation may, of course, be different. And factors such as inflation may change the proportions from year to year.

Nevertheless, it would be wise for a company to reappraise its standing order for gold watches this year. □

3. Betsy D. Gelb, "When Compulsory Retirement at 65 Is Ended . . . ," *Harvard Business Review*, July-August 1977: 1-4.

4. Benson Rosen and Thomas H. Jerdee, "Too Old or Not Too Old," *Harvard Business Review*, November-December 1977: 105.