Retirement age: Economic outcome or social choice?

Pension policies and retirement practices

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Abstract The age of retirement has always been for most people an outcome of economic circumstances rather than choice. This paper examines the origins of our pension policies and retirement practices. It considers how the notion of retirement age, embodied in public and private pension systems, evolved and how it is related to our concept of 'old age'. The paper discusses the aspiration of employees to choose the time of their retirement and how freedom to make the retirement decision may influence their health and wellbeing after they have retired.

Keywords: *pension policies; retirement practices; employee aspirations; retirement age; economic outcome; mandatory retirement; social meaning of age; authentic retirement choice*

Introduction

The historical evidence shows that the age of retirement has always been for most people an economic outcome — the result of circumstances over which they have had little or no control. Under what kind of conditions, it may be wondered, could the age of retirement become a matter of social choice, a choice exercised freely by people as citizens in pursuit of leisure, or a balance of work and leisure, in the later years of life?

This question is explored in two papers of which this is the first. The Italian philosopher and historian, Benedetto Croce, has written 'every

historical judgement gives to all history the character of contemporary history' because the events recounted, however remote in time, refer 'to present needs and present situations'.¹ This paper examines, in outline, the history of our pension policies and retirement practices. It considers how the notion of retirement age evolved, and how it is related to our concept of 'old age'. It also enquires whether there is anything 'constant about the social meaning of age' and whether there is any persuasive evidence that it is a major aspiration of employees to choose the time of their retirement.

The second paper attempts to discover

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any trends in the last 20 years towards greater flexibility in retirement practices which give people more freedom to choose their retirement age.² It then considers what conditions may be necessary for the realisation of authentic retirement choice, such as adequacy and flexibility in pension provision and a socially recognised retirement paradigm consisting of opportunities for work and leisure in old age which could benefit the individual and the community alike.

The meaning of 'retirement age'

Any meaningful discussion of 'retirement age' will not proceed very far without recognition that different strands of meaning, reflecting different interests, are implicit in the term. This becomes quite clear when we ask ourselves what we generally associate with the notion 'retirement age'.

The words 'retirement age', commonly suggest some predetermined age of retirement for a specified group of workers in a certain industry such as miners or civil servants, or special occupational groups like airline pilots or judges. In short, we think of a 'retirement age' established by statute ('the state pension age'), or established by industrial or labour market practices ('the occupational pension age') which, for the most part will operate independently of — and generally with manifest indifference to — individual or family circumstances, supposedly in the interests of some wider social or economic aim.

Such an aim may be conceived in terms of a utilitarian concern for 'the greatest good for the greatest number', or simply as an economic imperative founded on the requirements of industrial productivity or administrative efficiency. We do not normally think of 'retirement age' as the age at which an individual freely, or with few constraints, chooses to

retire from employment, although it would certainly be recognised as the age at which an employee does actually retire from employment. As these different strands of meaning start to unravel, we can see a pattern of different interests which constitute an intricate warp and weft of policies, practices and aspirations. Without overmuch simplification it can be said that these policies, practices and aspirations broadly represent the respective interests (often conflicting) of governments, employers and employees (together with other citizens).

Policies, practices and aspirations

In the last 30 years of the 20th century, two quite separate developments combined to call into question established practices in relation to retirement age. These are a deep sense of anxiety about the growing proportion of the aged in society, and the radical changes simultaneously occurring in employment patterns throughout the advanced industrial economies of the West. The curious irony is that the first of these, concerned as it is with supporting an ageing population, would seem to require, at least as a partial solution, the postponement of retirement until the onset of infirmity, whereas the second actually contributed in practice to a lowering of the age of retirement, ostensibly in the interests of greater productivity and industrial efficiency.

These developments raise some doubts as to what we should regard as the proper ends of retirement age policy. They represent a conflict, not to say collision, of interests, and yet, at root, neither of them is overmuch concerned with the aspirations or expectations of the ageing, or not so ageing, individual. In the view of the American historian,

Peter Stearns, 'the elderly and those that deal with them have long been trapped by history', and only perhaps through an historical understanding of the roots of a culture which has consistently denigrated them, will a way out of their predicament be found.³

A basis for an historical understanding of this kind can perhaps be found in some awareness of the developments which led to the evolution of present retirement age policies and practices. This may help us to judge the relevance of present retirement practices under both public and private pension systems in the light of social and industrial change. It is clear that future retirement age practices in particular, and pension policy in general, will not only have to take account of the social and economic consequences of an ageing population. They will also have to allow for the continuing change in patterns of employment and leisure in industrial, or post-industrial, society, and both state and occupational schemes will have to be adapted to the conditions of a much more flexible labour market.

Ageing population in industrial societies

An ageing population and the practice of retirement at a fixed age have both come to be seen as characteristics of industrial society, almost as if they were developments of industrialisation itself. Whilst both features can undoubtedly be seen as distinguishing industrial from pre-industrial society, the historical evidence shows that they were by no means contemporaneous with the earlier stages of industrialisation. There is a notion that an alleged falling away of family care for the aged, coupled with a significant increase in the proportion of the elderly in the population during the period of industrialisation, could account for the

practice of fixed age retirement. The findings of historical demography have revealed, however, that, in most of the industrialised countries, the proportion of elderly people (those aged 60 and over) did not significantly increase until after 1911, the really substantial increase occurring after the 1920s.⁴

Peter Laslett has shown⁴ that the proportion of the population aged 60 and over in England and Wales remained relatively stable, at a level of about 7.3 per cent, between 1841 and 1901. His findings suggest that there were not significantly different proportions of the elderly in pre-industrial times. The tables in Laslett's study show that the percentage of elderly persons in England and Wales was still around 7.9 per cent as late as 1911, and had only reached 9.3 per cent by 1921. By 1931, however, the proportion of the elderly had risen to 11.5 per cent and by 1951 to 15.9 per cent.⁴ These later findings, related as they are to England and Wales, the most industrialised regions of Britain, are of particular interest in view of that country's history as the first industrial nation.

The experience of France in relation to an ageing population is also significant because that country — together with Sweden — was the earliest to have what we would call a high proportion of the elderly in the population, a development which was due, in the case of French society, to a sharply declining birth rate.³ The corresponding figures for France reveal that the experience of any one industrialising country in respect of ageing cannot be regarded as typical of all.⁴ In 1900, the proportion of the French population aged over 65 amounted to 8.2 per cent, which was exceeded only by Sweden with 8.3 per cent. According to Stearns, Belgium with 6.2 per cent, Holland with 6.0 per cent, England and Wales with 4.7 per cent and

the USA with 4.0 per cent were much more typical examples of industrial countries.³

In France, Britain and the USA, the really significant increases in the proportion of the aged took place more than a century after the dissolution of traditional society had set in, the two events occurring more closely together in Japan and parts of what was the USSR. In none of the industrialised nations did the two developments occur simultaneously.⁴ Laslett explains that this was because the demographic transition during which high birth and high mortality rates, characteristic of traditional society, gave way to the low birth and low mortality rates, associated with modern industrial society, did not occur simultaneously with the process of industrialisation, but took place some time afterwards. He also points out that there is no evidence to support the notion of a 'single transition' between pre-industrial peasant society in which the aged were socially valued and enjoyed the benefits of full family membership, and industrial or modern society where the aged are exiled from the family group. Neither industrialisation nor urbanisation appears to have increased significantly the numbers of the old living alone and reliant on support from sources outside the family.⁴

The evolution of 'retirement age'

The social origins of the 'retirement age' are by no means easy to uncover. The practice of what we may call 'fixed age retirement', as it evolved in most of the industrialised countries of the world, has undoubtedly come to colour our thinking about 'old age'. The popular notion that 65 marks the onset of old age is perhaps primarily due to the fact that this is the age at which state and occupational pensions customarily

commence being paid, and this notion persists despite the clear evidence of our senses that many retired persons in their sixties betray little sign of old age.⁵

According to the social historian, Pat Thane, the idea of a fixed age of retirement is relatively modern, being quite unknown, in Britain or elsewhere, until the mid-19th century.⁵ Prior to that, it seems likely that a less specific notion about the beginning of 'old age' would generally have prevailed. Another historian, Keith Thomas, has pointed out that 'there is nothing constant about the social meaning of age'. The historical evidence suggests that, between the 16th century and the middle of the 19th century, people tended to retire from their occupations at whatever age they ceased to feel able to conduct them effectively.⁶ In this there was at least an element of choice, although circumscribed by an individual's state of health and economic circumstances. People were regarded as 'old' when they had reached an age at which they were no longer physically or economically independent. In other words, old age was seen as essentially a dependency, and the age at which it commenced varied from person to person.

Although census information can at best only indicate trends, the information available for England and Wales between 1891 and 1931 provides some interesting indications of the proportions of older workers still in employment. In the census of 1891, about 65 per cent of men over age 65 were recorded as being still in employment, in 1901 about 61 per cent, by 1911 about 56 per cent and by 1931 47.5 per cent.⁷ The concept of old age was therefore flexible enough to cover the differing situations of individuals. Titmuss, one of the founding fathers of modern social administration in Britain, traces the origin of the British pension system back, through the public

records, to '1684 when the first public pension was granted ...' to Martin Horsham, a landwaiter in the Port of London, who was 'so much indisposed by a great melancholye that he is at present unfit for business'. 'Unfitness', it will be noted 'was the criterion, not chronological age'.⁸

Titmuss describes the evolution of the system through three distinct phases between 1684 and 1712.⁸ First, the personal sale of an office on grounds of infirmity and old age, the new office holder becoming responsible for providing some income in old age to his predecessor. Secondly, the proposal of a pension by the public authorities who appointed a successor whose salary was then charged with the pension payments. The principle 'was that individual pensions were charged against individual positions'. The third phase was acceptance of the notion of collective responsibility and the inauguration of the superannuation fund, developments which were incorporated in a Treasury warrant on 3rd May, 1712.⁸

Retirement and physiological decline

In those days retirement and physiological decline tended to occur about the same time. The evolution of the fixed retirement age and the improving health standards of the elderly leading to a lengthening of the productive years, have resulted in the situation that, for many in our own time, retirement and physiological decline do not coincide. Over the last 100 years we have developed a less flexible idea of what constitutes 'old age'.⁵

In Britain a fixed retirement age was first introduced in 1859 for civil servants, as a means of improving the efficiency of the service. It was seen as a convenient way of removing those who had become

too old for effective work. Civil service pensions became payable from 1859 at a fixed retirement age of 65 on the grounds that this was the age at which 'bodily and mental vigour begin to decline'. The argument was based largely on 'impressionistic evidence'. An alternative proposal for an 'individual and flexible' retirement age which would enable civil servants to retire at whatever age they were considered, on medical grounds, to be incapable of performing regular and efficient work was rejected as being too difficult to administer and likely to cause resentment.⁵

The introduction of a fixed retirement age under the civil service scheme established a very influential historical precedent. The principle of the fixed retirement age spread first to those occupations under government control: the police in 1890, state school teachers in 1892, and Poor Law officials in 1896. In the last two decades of the 19th century some of the larger undertakings in the private sector of the economy, such as the railway companies, began to pay pensions to their salaried staffs between the ages of 60 and 65.⁵ These events doubtless tended to reinforce the notion that people generally became old and unfit for work during their early or middle sixties.

Beginnings of social security and the concept of 'state pension age'

Towards the end of the 19th century pressure was developing from the labour movement and welfare reform groups for pensions financed from public resources. The reformers wanted these state pensions to be payable from a fixed retirement age of 65, as in the case of many occupational schemes for larger groups of workers. It therefore seems likely that, at least in Britain, the

concept of a state pension age was derived from established practice under occupational schemes.⁵ Perhaps, in a not dissimilar way, the concept developed in other industrial nations. It was certainly well established in nearly all of them by 1914.

Society, which had become richer through industrialisation, could afford improved provision for its elderly poor. Moreover, if the existing social fabric was to be preserved at a time when radicals were advocating its transformation and revolutionaries its overthrow, the introduction of a social security system, including provision for old age pensions, was an essential reform. The welfare measures introduced by Bismarck in Germany in the 1880s are generally thought to represent the beginnings of social security. They included provision for old age pensions in respect of all wage earners. These state pensions, introduced in 1889, were payable from age 70, although the retirement age was subsequently reduced to 65. The retirement age of 70 under the original Bismarck pension system is still generally regarded as the first formal statutory retirement age or state pension age. Similar systems to provide financial protection for wage earners against the dependency of old age were later introduced in Austria, Hungary, Romania, Luxembourg, Sweden and Norway.

The first state pension scheme in Britain was introduced in 1908. This provided for payment of pensions to people who had reached age 70 and who had little or no income from other sources. On grounds of cost, the Treasury had refused to countenance state pensions from 65. It was however, a radical measure at the time, and it was one which, in G.M. Trevelyan's memorable phrase, 'helped to empty the workhouses'.⁹ The British scheme

(financed entirely from taxation unlike the 'contributory' Bismarck scheme) was similar in principle to the state pension schemes that had been introduced in Denmark in 1891 and New Zealand in 1898. The qualifying age for state pensions in Britain continued to be 70 until, as part of the 'post 1914–1918 war settlement', a contributory scheme was introduced in 1925. This provided 'old age' pensions for both men and women between the ages of 65 and 70.

Undoubtedly a factor in the planning of the 1925 scheme, with its reduction in the state retirement age, was the problem of mass unemployment. The Government believed that by lowering the retirement age they would be releasing employment for younger unemployed workers, which would have a beneficial effect on industrial output in the economy as a whole.¹⁰

Governments, social insurance and retirement age policies

The role of government as the executive arm of the state — which in a democracy is, at least in principle, the agent of the whole community — has, in terms of retirement income provision, undergone a transformation since the beginning of the 20th century. At that time, in most of the industrial democracies, its priority was the provision of state pensions for the relief of the elderly poor. As the century progressed, however, there was, in most of these countries, a gradual transition from social assistance to social insurance.

There were two main lines of development in social insurance after the Second World War. The first (epitomised by the Beveridge Scheme in Britain) was based on the principle that social security pensions should be universal (ie without test of means) and not linked to employment. In Britain, this first pillar of

social security aimed to provide a minimum pension for subsistence (generally payable from age 65 for men and age 60 for women) for individuals to 'freely build upon it' with pensions from employment and from personal savings. This 'universalist' design, which was adopted by a number of countries, followed the principles of the Beveridge Report, published in 1942.¹¹ The Report was influential because it had been widely studied in Europe during the war, copies having been parachuted to the resistance movements which were as much concerned then with social planning for post-War European society as with military action.¹²

Other countries adopted a different line of development for social insurance, preferring to build pension rights for employees on the basis of their different occupational groups, such as wage earners, salaried workers and the self-employed. State pension ages were still generally fixed at 65 for men and 60 for women. In this way the French social security system underwent a very considerable expansion. The system in Germany, which developed in the 1950s, was also unlike the British system in being a non-universal earnings-related system based on large occupational groups, and by providing relatively high levels of income replacement.¹²

Countries like Britain which had followed the first line of development founded on a state universal flat-rate pension soon encountered demands for a second-tier social security pension which would bear some relationship to pre-retirement employment income. In Britain a significant failure in pensions policy was identified in 1974, where 67 per cent of people in receipt of means-tested supplementary benefits were either pensioners, or widow pensioners. As less than half the work force were members of occupational schemes, it

seemed that this underclass of elderly citizens would be perpetuated indefinitely into the future.¹³ This led to the introduction of the state earnings-related pension scheme (SERPS) in 1978.

In Europe by the end of the 1970s there had been ten years of economic expansion followed by six years of zero economic growth. This had a significant effect on the financial underpinning of social security pensions.¹² Governments in some countries had started to re-think their pension policies when another agent of change appeared — the apparently worsening demographic scenario with its increasing ratio of the economically dependent to the economically active. The 20th century came to an end with governments seeking to contain, or reduce, the costs of state pensions. A legacy to the 21st century seems to be a widespread grave concern about the long-term costs of social insurance systems, as well as the cost of lost revenues to governments in terms of tax relief given to occupational schemes. A number of ways are currently being contemplated to reduce the costs of an ageing population, one of which is the raising of state pension age.

The costs of an ageing population

The costs of an ageing population manifest themselves in three principal ways. First, there is cash provision for the unemployed old in the form of income support and other allowances (such as UK housing benefit) from public sources, and retirement benefits from private sources subsidised by tax reliefs. In 1991–92 in Britain, for example, the total public expenditure on pensions, ie cash benefits plus income tax reliefs, amounted to £44,750m. This was made up of £31,450m on social security expenditures,¹⁴ £10,710m on

occupational pension income tax reliefs¹⁵ and £2,580m on social insurance contracting-out rebates, incentives and tax refunds.¹⁶ The state subsidy to private sector pensions represented 30 per cent of all public expenditure on pensions.

The second source of cost to the community is the provision of care for the infirm or dependent old, through health and social services. The third source is support for the old 'in need' from voluntary organisations, which may be partly funded by the state. These costs impose a considerable economic burden on the community and, because the relative number of the elderly is rising in most industrial countries, the costs can be expected to increase in the future. To be realistic in our reckoning, there has to be added to these costs the value of the lost production of the unemployed active old. Some social commentators believe that by raising the retirement age, or introducing upward flexibility in retirement age, to extend the working life-span, some of this lost production could be reclaimed for the benefit of the community. The economic value of this reclaimed production could then be offset against the costs of supporting the infirm and dependent old.

Limiting state pension costs

In some countries governments have sought to limit liabilities by making cuts at the margin of the social security system, whilst more or less maintaining income replacement levels. A number of British governments, for example, have steadfastly refused to restore the link between state pensions and average earnings, and German governments have reneged on their earlier commitments to provide full inflation-proofing of pensions under the state earnings-related system of 1957.

In the USA, the state pension age has

been increased (for those born after 1959) from 62 to 67. In Britain it is now 65 for women (born after 1955) and men, and there has recently been a recommendation in the Report of the Pension Reform Group (the Universal Protected Pension, Autumn 2001) that the British Government should establish a Retirement Age Commission with the remit to make proposals every five years to Parliament on changes to the state pension age. These proposals would be based on demographic and economic variables, including estimates of future life expectancy, sickness and disability rates, projections of dependency and passivity ratios (dependants per worker and average years at work per year of retirement) as well as projections of productivity per worker. Some British politicians are advocating a phasing in of a state pension age of 70.

Other recent pressures to increase the retirement age have been mainly evident in Sweden, Finland, and Norway although, in the case of Norway, the pressures are largely due to concern over the shortage of manpower. Like the Italian Government, the Spanish Government has actually taken steps to encourage retirement deferral, and measures are being considered to encourage employers to retain employees older than 65 by granting discounts in social security contributions. This is a useful reminder that governments and citizens have not always thought that state pension age and retirement age should necessarily coincide.

The ageing population problem and state pension age

State pension age is not a mark of the onset of old age, but rather the age at which a full state pension becomes payable on the basis of a record of insurance contributions. The so-called

'problem of an ageing population' has been with us for some time. Even the Beveridge Report in 1942 contained gloomy prognostications of future population trends.¹¹ Beveridge saw provision for the elderly as the most intractable of all problems of social security, because the numbers of the elderly were increasing, so the cost of pensions would increase. To contain the cost of state pensions during the early years of the post-War reconstruction, Beveridge recommended, at official request conveyed by John Maynard Keynes (who was at the Treasury during the war), that through additions to the state pension rate the 'active elderly' should be encouraged to defer retirement for as long as possible, and that the pension should be explicitly an income for retirement, rather than merely for 'old age' according to popular conception.¹⁰ When this principle was applied in 1948, about two-thirds of the men and one-half of the women eligible for the retirement pension elected to stay on at work. Accordingly, in Britain it could be argued that there never has been a fixed state pension age but merely a minimum state pension age. Nevertheless, in Britain in 1954 the revised estimates of future populations of 'pensionable age' used by the Phillips Committee, while less daunting than those employed by Beveridge, still culminated in the Committee's recommendation that even this minimum state pension age should be raised.

A somewhat different view of 'the problem of ageing' was taken by Richard Titmuss. Writing one year after the publication of the Phillips Report, he argued that concern about the burden of an ageing population was to a large extent misplaced. Titmuss saw the increase in the relative number of the elderly as a social achievement. 'What we have to our credit as humanists and

good husbands is a great reduction in premature death since the nineteenth century; and as a result we have derived many benefits from our growing ability to survive through the working span of life.'⁸ These views accord very closely with those of the Geneva Association today.

In countries that have adopted the occupational group social insurance model (such as France, Germany and Italy), governments invariably find it more difficult to raise the state pension age. Labour unions, which were involved in the original consultation process to establish the social security schemes, inevitably have to be consulted in any process to change the pension age. In France, for example, there seems to be pressure from some sources to increase, and from others to decrease, the state pension age, as well as to introduce an element of flexibility which would enable an individual to choose an age of retirement within a specified range of ages. Similarly the German Government seems to find itself in a conflict situation. Whilst it accepts that raising the state pension age, or encouraging older workers to remain in employment, would reduce the strain of financing pensions, it also recognises in common with the labour unions that persistently high unemployment rates would appear to require some downward flexibility in retirement age to release jobs for younger workers.

The concern with providing social protection against the dependency of 'old age', which has been a major pre-occupation of 20th century European society, accounts for the evolution of social security pensions founded on the concept of a state pension age. This has been generally interpreted as marking the onset of old age. This situation, however, cannot adequately explain the growth of occupational schemes providing pensions

at fixed retirement ages for better paid workers. The development of these schemes, as Thane suggests, can perhaps best be explained by the growing demands for greater efficiency and higher productivity. Employers were less troubled about dispensing with the services of ageing workers if they could be 'humanely retired' on pension.⁵

Origins of occupational pensions

The origins of occupational pensions can be traced back to labour market conditions in the last half of the 19th and the first half of the 20th centuries. During the 19th century, friendly societies and some trade associations had developed schemes for the accumulation of retirement savings. In Britain, one of these schemes, the Northumberland and Durham Miners' Permanent Relief Society, became, with the support of the employers, the largest occupational pension scheme in the country in terms of the number of contributing members. At the beginning of the 20th century the scheme had about 140,000 members and nearly 4,000 pensions in payment. The noteworthy point is that it was the employers, and not the labour unions, who were the prime movers in the development of occupational pensions.¹⁷ Hannah and others have described how old age savings became vested in the employment relationship.

Although the practice of '*ex gratia*' pensioning was widespread in the 19th century and, in some cases, was difficult to distinguish from formal retirement benefit schemes, the historical evidence shows that it was the larger employers in all the industrialising countries who, in the early stages, were generally the sponsors of occupational schemes.¹⁷ The development of these schemes, whilst reflecting the drive for economic efficiency and productivity in the

workforce, also represented a fundamental change in the employment relationship and can be seen as attempts to create a long-term identity of interest between capital and labour in industrial and commercial organisations.

In 1859 the civil service pension scheme in Britain, with a fixed retirement age of 65, replaced the earlier schemes for civil servants, and became an influential model for occupational pension schemes for clerical and managerial staff in other sectors of the economy. The British Civil Service scheme provided retirement benefits calculated by reference to service and pay at or near retirement age and was the 'prototype' of the defined benefit (DB) 'final salary' pension scheme which was subsequently adopted as the model for the schemes of most of the larger employer organisations. It eventually became the labour market norm in a number of industrial sectors in many countries.

Employers, occupational pensions and retirement age

The deferment of part of pay, for pension purposes, gave employers an effective sanction against disloyalty or misconduct. This was particularly useful in financial institutions or in others where staff handled money. An employee dismissed for fraud or misconduct forfeited a portion of his deferred pay. It also served to ensure loyalty in other ways. It was not uncommon at one time for pension scheme rules to empower employers to suspend pension payments to retired employees who acted against the employer's interest by joining a competitor. The schemes did confer on employees an equity interest in their job through entitlements to benefit on retirement, or earlier if leaving service

where this was at the instigation of the employer other than for misconduct.

Not all employers adopted the defined benefit model. Until the late 1950s, a significant proportion of (mainly smaller) companies operated defined contribution (DC) schemes under which benefits depend on the 'money purchase' value of accumulated contributions. These were simple to administer and provided control over contribution outlay. In the late 1950s and early 1960s, however, there was a significant movement towards replacing DC schemes by DB schemes operated on 'final salary' principles.

The catalyst for change was wage inflation coupled with persistent negative rates of real return. DC schemes became largely discredited as systems of income replacement. This remained the case until the late 1980s when there was a resurgence of interest in some countries in providing pensions on DC principles mainly as a result of changes in the goals of business organisations. Interest also grew at this time because of publicity about the Chilean pension system, based on individual capitalisation, which represented a privatisation of the social security retirement pension. It also increased because of the introduction by the British Government of a new tax regime for 'personal pensions' based on accumulated contributions.

DB 'final salary' schemes had become popular with employees during the inflation of the 1960s and 1970s because they guaranteed a level of income replacement at retirement — and employee preferences were translated over time into labour market pressures. That was at a time when governments were still motivated to provide significant levels of social protection against the problems of old age. Higher social expenditure benefited not only the public pension system in financing higher

social security pensions, but also the occupational pension system through large transfer payments in the form of tax allowances and reliefs. This, combined with labour market pressures in a period of full employment, operated as an incentive to employers to increase pension provision. The process was further aided by large corporate profits and economic growth.

The British occupational pension system is largely a funded system. The exceptions are the Civil Service scheme and a number of other large schemes in the public sector of the economy which are still financed on a 'pay-as-you-go' basis — this year's contributions being used to pay this year's benefits. There is still a strong consensus in the private sector, even among the very large employers, that the advance funding of pension liabilities provides greater security to members than pay-as-you-go systems. In the private sector, during the period of rapid growth of occupational pension provision between 1930 and the late 1950s, a substantial proportion of pension rights were accrued in insurance contracts, with capital and interest guarantees, so that security depended on the solvency of the insurer rather than the sponsoring employer. The number of funded self-administered pension funds with no such guarantor, and dependent entirely on the security of their own assets, only increased significantly after the early 1950s.

Employers, labour unions and mandatory retirement

Many of the occupational pension schemes established in Britain in the later part of the 19th century provided a great deal of flexibility in relation to retirement practice. The retirement age specified was generally a minimum, and not a maximum, pension age. There was

an expectation that employees would generally work until physical incapacity necessitated their retirement.¹⁷ It was only in the 20th century that it became customary for occupational schemes to have what we call a 'normal' retirement age.

A number of reasons have been put forward to explain the origin of the 'normal' retirement age and how it encouraged the practice of mandatory retirement. The role of the state was considered critical in this development; first in requiring schemes to specify a normal retirement age as a condition for qualifying for tax reliefs, and second in setting the standard of a state pension age providing an 'incentive for occupational schemes to follow suit'.¹⁸

Although a normal retirement age does not equate in principle to a mandatory retirement age there was, as Johnson and Falkingham¹⁸ have pointed out, a convergence. A 1977 survey of retirement practices in Britain which asked retirees why they had retired revealed that 53 per cent of the male respondents, who had retired at age 65, had done so because of mandatory retirement. Of those who reported that they had been, or would expect to be mandatorily retired at age 65, 65 per cent said it was the employer's policy, 3 per cent the trade union policy and 27 per cent a joint policy of employer and union.¹⁹

Employers and unions might favour mandatory retirement at a fixed age for a variety of reasons. Unions are concerned to protect agreed pay settlements. If older workers are considered to be less productive than other workers, employers may wish to pay them less. Unions fear that if this should happen it would undermine negotiated pay scales. As a result, unions tend to support mandatory retirement in the economic interest of most of their members.¹⁸

Two reasons are commonly advanced for the preference of employers for mandatory retirement. One is administrative and economic, the other is bound up with the management of the employer's internal labour market. The operation of a flexible retirement policy requires the measurement and monitoring of the productivity of older workers with a corresponding pay cut, or enforced retirement, in the case of any worker whose productivity falls below the cost of his labour. Such a system of monitoring is expensive to administer and mandatory retirement schemes may seem more cost-effective.¹⁸

Employers historically have managed their internal labour markets for administrative and managerial employees through age-related pay scales under which pay increases with age and length of service. As a result, younger workers were paid less than the value of their product whilst older workers tended to be paid more.²⁰ This system of 'deferred payment' supposedly rewarded longer-serving employees for their performance in earlier years with the firm. Employee benefit costs also generally increase with age. A problem arises, however, if the cost of employing older workers adversely affects profitability, or if they impede the career progress of younger workers. Demotion, or reductions in pay, for those older workers could undermine the age-related pay and seniority structure within the firm. Accordingly, mandatory retirement was, and still is, seen as an acceptable way of removing the problem of older workers.¹⁸

Employees, pensions and retirement age aspirations

Surveys, however, have consistently shown that it is a major aspiration of many employees to choose the time of

their retirement. For the elderly who wish to plan for their future, freedom to choose the date of retirement from what has been their main lifetime occupation is undoubtedly of great benefit. An employee's plans may entail staying on at work after the 'traditional retirement age', or retiring from his occupation early to take other paid employment, either full-time or part-time, or to pursue other occupational or voluntary activity, on a formal, or informal basis.

There is clear evidence that a not inconsiderable proportion of older people in the industrialised countries wish to choose the time of their retirement. One of the earliest, as well as most interesting, pieces of statistical evidence supporting this statement are the results of a survey, carried out in 1977, on the attitude of the working population to retirement in nine member states of the European Community. How this freedom actually affects those who retire at a date of their own choosing is perhaps less clear from the 1977 EC survey. However, the findings of a US study, carried out in 1978, which had a crucial bearing on this question strongly suggested that those who had the freedom to choose the time of their retirement generally experienced more satisfaction and better health in retirement, than those who retired at a date not of their own choosing.²¹

The study which was carried out by Douglas C. Kimmel, Karl F. Price and James W. Walker, set out to explore the relationship between pre-retirement, and the degree of satisfaction achieved in retirement itself. The findings were based on an analysis of answers to a questionnaire sent to 1,486 men who had retired from large US corporations. The average age of the respondents was 66. The majority had retired at 61, just over half of them having retired voluntarily. It was discovered that

members of the voluntary retirement group had not, on average, retired any earlier than members of the compulsory retirement group. However, 72 per cent of the voluntary group had actually planned for their retirement compared with only 42 per cent of those compulsorily retired.²¹

There appeared to be a positive connection between the nature of the pre-retirement attitudes and the freedom to make the retirement decision. As many as 75 per cent of those who retired voluntarily had actually looked forward to retirement compared with only 39 per cent of those forced to retire, and a higher proportion of those who retired of their own accord reported good health before they retired.²¹ The indications were that those who had the freedom to choose the time of retirement generally experienced more satisfaction and better health in retirement. One may wonder whether the retirement decision itself was perhaps as significant as other factors. Analysis of the findings revealed that the nature of the attitudes before retirement and health after retirement had a greater bearing on the degree of satisfaction actually achieved in retirement than income, education or social status.

Enforced retirement, which is not a natural consequence of infirmity or chronic ill-health, can be a deeply traumatic experience, and a number of gerontological studies have shown that it is far from uncommon for retired persons to become disorientated and confused as a result of the idleness forced upon them. Retirement can reduce the range of social contacts, roles and relationships and accelerates the need for social support. As long ago as the 1970s, *Troisième Age*, France's most popular journal aimed at the elderly, was advising its readers to plan for old age by building up secure pension rights to

enable them to retire at a date of their own choosing, whilst seeking to be eligible to work part-time if they wished.³

The psychological benefit for the individual — which is supported by gerontological evidence — is that regular work of some kind, if only of a part-time nature, plays an essential role in countering the ‘existential vacuum’, the all-passive boredom, which for many, is the inescapable consequence of occupational retirement. As Simone de Beauvoir has written in *La Vieillesse*, ‘the greatest good fortune for the old person is to have his world still inhabited by projects: then busy and useful, he escapes both from boredom and decay’.²²

The notion that there is a psychological, as well as an economic, benefit in a period of ‘less stressful and flexible employment’ towards the end of working life is supported by the findings of surveys such as that carried out by Alan Walker.²³ This survey suggests that people in employment after age 65 tend to have a higher degree of job satisfaction than workers in other groups. The economic benefit is the continuance of earnings (albeit generally reduced) from employment to augment retirement income — the financing of the ‘fourth pillar of pensions’ in terms of the Geneva Association’s research project into a new design for retirement.

The benefit for society in the realisation of an individual’s aspiration to prolong the working lifespan is self-evident. By remaining economically active, the older worker continues to pay taxes on earnings from employment and by being wholly, or even partly, self-supporting he will contribute to reducing the burden on the public welfare system.

Any aspiration to prolong the span

of working life, however, is confronted by two major problems. The first problem is the lack of flexibility in retirement practice under our pension systems, often unduly influenced by the concept of a ‘normal retirement age’ which tends to lead to the premature substitution of retirement income for employment income. The second problem is the inflexibility of labour markets in relation to older workers. Although in recent years there has been a considerable increase in part-time work, employers are still generally hostile to the notion of employing older workers. These problems of inflexibility in retirement practice and of age discrimination in employment, together with some of the proposals which have been put forward for their resolution, will be considered in the author’s next paper.²

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