

# Notes and Brief Reports

## Study on Early Retirement Decision\*

*The material that follows has been excerpted from the first chapter of Early Retirement: The Decision and the Experience, which reports on the study of decision-making on early retirement, made by the Survey Research Center of the University of Michigan. The study was supported by the Social Security Administration under its research grant program.*

### I. INTRODUCTION TO THE STUDY

Early retirement<sup>1</sup> has become an increasingly important phenomenon in America. . . . And, there have been substantial improvements in retirement-income-maintenance programs in recent years, improvements which have not been available to the great majority of previous early retirees. Increases in OASDHI benefits have been significant, if not spectacular; perhaps more important has been the spread of private pension plans, many of which contain more or less comprehensive early retirement provisions. In particular, substantially liberalized early retirement benefits were negotiated during the fall of 1964 by the International Union—UAW and various companies in the automobile and agricultural implement industries; under the new agreement an auto worker could retire as early as age 60 with a monthly pension of up to \$400.

With this development as a major impetus, and with the belief that "a study of . . . the circumstances that favor or oppose early retirement is greatly needed in order to predict future trends and to assess their impact on the economy and the well-being of millions of people,"<sup>2</sup> the

\* Richard Barfield, George Katona, and James Morgan, *Early Retirement: The Decision and the Experience*, Survey Research Center, Institute for Social Research, University of Michigan (in press). Copies of the report may be obtained from the Publications Office of the Institute for Social Research, Ann Arbor, Michigan (\$6, softbound; \$8, hardbound).

<sup>1</sup> "Early" is defined throughout this study as "before age 65."

<sup>2</sup> "Study of Decision Making on Early Retirement" (unpublished study proposal of the Institute for Social Research, The University of Michigan, Ann Arbor, 1965).

Institute for Social Research and the Michigan Health and Social Security Research Institute began, in the fall of 1965, the study of decision-making on early retirement. The primary focus of the study has been on finding those factors which are important for the decision to retire voluntarily (that is, before one is compelled to retire by institutional arrangements or for health reasons); the factors investigated included attitudes toward employment (including positive or negative evaluation of income earned and of the kind of work done) as well as the evaluation of conditions expected under retirement (including satisfaction or dissatisfaction with expected retirement income and appreciation of or antipathy toward leisure). Supplementing this major part of the study was a survey of the situations and attitudes of the already-retired.

The study design provided for data collection from two sources: a representative sample of the national population and a random sample of older workers—those around 60 years of age—in the automobile industry. The latter sample was seen as particularly relevant for a study of retirement decision-making, since the auto workers formed a fairly homogeneous group which was eligible, as stated earlier, for a relatively attractive early retirement benefit program and which was involved at the time of initial contact in making a decision on early retirement. Yet homogeneity—blue-collar workers in a mass production industry who are entitled to similar retirement provisions—has obvious disadvantages; ability to generalize from findings obtained with a special group would be limited unless it were possible to place those findings in their proper broad frame. Thus the representative sample, with all the heterogeneity of age, current income, occupation, and retirement provisions which this implies. Interviewing of the national sample was completed during 1966;<sup>3</sup> mail contact was initiated with the auto workers during the same year, and personal interviews were conducted in the summer of 1967. (Reinterviewing of the auto worker sample was planned for the second half of 1969; a supplemental report of the results of this investigation was scheduled to be issued in 1970.)

<sup>3</sup> A smaller, supplemental national survey was also taken during August–September 1968.

## II. SUMMARY OF FINDINGS

As stated earlier, the study analyzed the effect on retirement planning of both situational and attitudinal variables, the expectation being that both types of factors would loom important in a decision to retire. *The major finding of the study (derived from both national and auto worker sample data) is this, however: that financial factors—primarily expected retirement income—are of principal importance in the retirement decision, with attitudinal variables having less influence, though usually operating in expected directions.* For both national and auto worker sample respondents, there was found a “threshold” level of retirement income which most people seem to consider necessary to insure a reasonably adequate post-retirement living standard. Currently this level is about \$4,000 per year; it is likely, though, that \$4,000 is not an absolute figure, but one which reflects a current consensus about the minimum income necessary to provide reasonably comfortable living after retirement. Thus, the “threshold” level may shift upward over time as living standards generally rise—and this upward movement should be all the faster if price level increases are not kept within reasonable bounds. Other economic aspects of retirement—number of dependents expected at retirement age, house equity at retirement age, and expected income from assets at retirement age—were also importantly related to retirement plans in both parts of the study.

Another situational variable, subjective evaluation of health, was found to be substantially correlated with planning early retirement in both parts of the study; persons seeing their health as relatively declining were more likely to express plans for early retirement. Generally, other situational variables demonstrated little correlation with retirement plans.

In the national sample analysis, persons who looked forward to enjoying recreational activities—hobbies, sports, travel, etc.—were substantially more likely to opt for retirement before age 65. Persons who expressed dissatisfaction with their job, either directly or by stating that they had thought of moving to a more promising or lucrative job, were more responsive to the idea of early retirement, as were those whose overall commitment to the “work ethic” seemed somewhat ten-

uous. For perhaps a variety of reasons age was found to be negatively correlated with plans for early retirement; finally, the perception of pressures toward retirement—from the employer, from the union, from colleagues—tended to induce a little accommodating behavior. But current income, occupation, education, whether the respondent supervised others as a regular part of his job, and the time required to travel to work all exhibited no systematic relationship with retirement plans.

In the auto worker sample analysis, an investigation of the factors underlying actual retirement behavior as well as retirement planning was possible, since about a third of the workers had retired between the time of initial mail contact (in 1966) and personal interviews (in 1967). As implied above, both having retired early and planning to retire early were found to depend most directly on available retirement income (from both social security, if the worker had reached age 62, and private pension benefits). Further, persons who had difficulty keeping up with the job, *and* who were unable to do anything about it, were rather more likely either to have retired or to be planning to retire early. Some differences were uncovered in the analysis, however. *Having retired early* was correlated fairly strongly with subjectively feeling that one's health had improved during recent years, while persons who saw their health as declining were most likely to express plans to retire early. (This finding is entirely consistent with other findings that health—or at least *feelings* about health—may improve after retirement.) For those auto workers who had retired when interviewed, no other factors—including satisfaction with job and with place of work, ease or difficulty in getting along with superiors, extent to which the work was repetitive, and ability to control the pace of the work—were found to be systematically related to having retired early. For those workers who were still working when interviewed, several other factors seemed to be associated with planning retirement before age 65: having talked about “the question of when to retire” with people outside the immediate family; thinking that most younger people feel that older workers should retire to provide job openings; preferring less work than one is now doing, or no preferring more work; planning to spend time on leisure activities

after retirement; and finding the trip to work annoying were among those factors. From our analysis of the auto worker retirement decision we concluded that, in the main, the auto worker tended to make prompt use of the new early retirement provision if his available retirement income was of a size to enable reasonably comfortable living; he remained at work—perhaps only so long as was necessary to raise his prospective income—if this were not so.

While the major focus of the study was on the decision to retire or to remain at work, sufficient information was obtained from retired individuals, both in the national and in the auto worker sample, to enable some investigation of the factors associated with being generally satisfied with life after retirement. In both parts of the study about three-fourths of retired respondents reported being “satisfied” or “very satisfied” with their life since retirement. For national-sample respondents, satisfaction with retirement was substantially correlated with having an annual (retirement) income of \$4,000 or more and with viewing one’s present living standard as better than or the same as that enjoyed before retirement. Retirees who had retired as planned, rather than unexpectedly, were more likely to be enjoying retirement, as were those who had not had health problems serious enough to interfere with their pre-retirement work. Finally, relatively younger retirees, and those who had retired between ages 60 and 65, were somewhat more satisfied with retirement than others.

For auto worker respondents, several situational factors were importantly associated with retirement satisfaction; these included owning one’s home mortgage-free, having over \$10,000 in assets, being married, and having a substantial pension income. After the effects of the important situational variables were accounted for, the following other factors were found to be positively correlated with satisfaction:

- having retired as planned, rather than unexpectedly
- being in relatively good health
- having attended at least one retirement information meeting (sponsored by the union and/or the company of employment)
- having retired earlier (in 1965-66) rather than later (1967-68)
- participating in leisure activities.

By far the most important reason for auto worker dissatisfaction with retirement seemed to be serious health problems, either for the respondent himself or for other family members.

### III. CONCLUSIONS

The study of retirement decision-making implies that, even allowing for some wishful thinking, the proportion of people retiring early will increase. Evidence from the national sample part leads on to believe that, during the last 5 or 6 years, there has been some tendency for early retirement *planning* to become more common. It is likely, then, that more and more early retirees will be people who planned for early retirement and are financially prepared for it. The result is likely to be an increasing discrepancy among the retired between those who retired as they had planned to and those who retired unexpectedly, often without planning and hence in most cases with inadequate retirement incomes. The discrepancies probably will be accentuated by the growth of private pension plans covering only some workers and (in some cases) not even all the workers in any particular company or industry. One of the authors of this monograph has offered the following as a suggestion for alleviating this dichotomization of future retirees:

The implications of this for policy with respect to OASDHI are that perhaps the most important revision might be the introduction of a provision by which workers would make voluntary supplemental contributions to the system and thereby raise their retirement benefits. In this way workers in jobs without supplemental private pensions could provide similar supplemental benefits through the Social Security System efficiently. There would be some competition with private pension and annuity plans, but for the most part only with the individual, not the group, plans; and the proposed scheme would be a great deal more efficient than individual private schemes.

Earlier retirement could also be handled this way, by allowing additional worker contributions to build a fund similar to the supplemental early retirement benefits the auto workers now have. Indeed, it could be left flexible whether the worker would use his extra payments to provide earlier retirement, or to provide higher benefits upon regular retirement.<sup>4</sup>

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<sup>4</sup> Letter from James N. Morgan to Harrison A. Williams in *Long-Range Program and Research Needs in Aging and Related Fields*, United States Senate Special Committee on Aging, 1968, page 262.

The vigorous response of auto workers to the improved early retirement package (two-thirds either having retired or planning to retire early) would seem to imply that an increase in pension benefits will lead to a significant increase in early retirees. It is important to realize, though, that the increase in negotiated pension benefits provided by the 1964 agreement was indeed a substantial one, and it seems quite likely that a gradual improvement in pension levels, either through the social security mechanism or via private pensions, will not have such a dramatic impact on the number of early retirees. Given the "threshold" phenomenon discussed before, it is probable that a continuation of the present pace of OASDHI improvements and private pension expansion will have a notable effect on early retirement only after we are well into the 1970's. A speeding up of the early retirement process (beyond that which is apparently occurring now) would seem to require either large increases, generally, in retirement - income - maintenance schemes or a selective distribution of available funds among particular groups of workers.

A finding which certainly bears repeating is that retirement can, apparently, be a genuinely satisfying time of life for many, if not most, people. The design of the study renders this judgment somewhat tentative for national-sample respondents, but a reading of the auto worker responses leads one to believe that it certainly can be true for this type of mass-production-industry worker. And this is important to know, for some observers, noting the considerable increase in leisure time which future productivity increases likely will make possible, have questioned whether a choice to appropriate a large part of this increase to the retirement years would be wise. Juanita Kreps in particular has suggested the wisdom of "diverting more and more of our time to education, investments in education being the corollary of our high current growth, and the sine qua non of future, even higher, rates.<sup>5</sup> Certainly the argument is a persuasive one. But the expressions of joy in the freedom of retirement on the part of a large majority of auto workers are also persuasive and should perhaps be con-

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<sup>5</sup> Juanita M. Kreps, "Lifetime Tradeoffs Between Work and Play" (paper delivered at the annual meeting of the Industrial Relations Research Association, 1968), page 17.

sidered when we arrange our priorities. At the least, further investigation into the satisfactions afforded by retirement would seem to be worthwhile before a decision on the allocation of leisure time is made.

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## Self-Employed Doctors of Medicine Under OASDHI \*

Almost 140,000 self-employed doctors of medicine reported taxable earnings under old-age, survivors, disability, and health statistics (OASDHI) for 1965, the first year that physicians were covered under the program.<sup>1</sup> Their average net earnings from all sources was \$28,000, though nearly more than 11,000 reported total earnings of less than \$4,800, the maximum taxable amount for that year. Fifty percent of those reporting were aged 48 or over, 10 percent had reached age 65, and nearly 4 percent (about 6,000) were aged 72 or over.

By the end of the first year of coverage, a surprisingly large number (about 75,000) had earned sufficient quarters of coverage to be fully insured under the program. Their coverage, of course, has been acquired previously in another self-employed occupation or in wage-and-salary work.

### Background

Social security coverage was extended to self-employed nonfarm and nonprofessional persons in 1951, and to self-employed farmers and certain professional people in 1955. In 1956, all the remaining professionals (lawyers, dentists, etc.) except physicians were brought under the program. Opposition on the part of members of the medical profession delayed their inclusion until 1965 when Congress, after studying recommen-

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<sup>1</sup> Limited data on wage and salary earnings of physicians in earlier years are included in the overall classification "medical and other health services" in *Workers Under Social Security, 1960* (Office of Research and Statistics, Social Security Administration, 1968), and its predecessor publication, *Handbook of Old-Age, Survivors, and Disability Insurance Statistics*.