



Inflation and early retirement: recent longitudinal findings

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The long-run decline in the extent of work activity by middle aged and older men is well known. Between 1948 and 1979, the labor force participation rate of men 65 and older dropped from 47 to 20 percent and among men 55 to 64 from 90 to 73 percent.¹ The persistent trend toward earlier retirement, together with prospective increases in the proportion of older persons in the population, poses financial problems for the social security system and has generated fears that society will be unable or unwilling to bear an increasing burden of adult dependency.²

It is not clear, however, whether the trend toward earlier retirement will continue. Obviously it can be halted or reversed by policy measures such as an increase in the normal retirement age under the Social Security Act. Although this has been suggested, it may be politically difficult to implement.³ Keeping older men in the labor force was one of the arguments made in favor of the 1978 amendments to the Age Discrimination in Employment Act, which raised the minimum mandatory retirement age from 65 to 70. But the effect of this change, alone, is likely to be minimal.⁴ However, it is possible that retirement decisions will be modified even in the absence of legislative changes, by economic circumstance. Some observers have asserted that continuation of high inflation will tend to discourage retirement,⁵ because although social security benefits are fully tied to the Consumer Price Index (CPI), private pension plans almost invariably are not.

The results of a 1978 Louis Harris poll have frequently been cited in this context. The survey found that 49 percent of a national sample of employees in-

tended to continue working beyond the normal retirement age; that among those age 50 to 64, 48 percent expressed a desire to work beyond age 65; and that 46 percent of a national sample of retirees would prefer to be working.⁶ In testifying before the Select Committee on Aging of the House of Representatives, Harris concluded that the trend toward earlier retirement appeared to be reversing,⁷ with "more people postponing retirement."

Data that have recently become available from the 1978 National Longitudinal Survey of Middle Aged and Older Men (NLS)⁸ shed some light on this issue. Specifically, we are able to observe the changes that occurred between 1976 and 1978 in the retirement status and expectations of a representative national sample of men who were between the ages of 57 and 64 in 1978 and in the attitudes toward work and retirement of a representative national sample of retirees who in 1978 ranged between age 57 and 71. The story told by these data is quite different from that conveyed by the Harris survey, although the NLS survey was taken at about the same time.

NLS findings, 1966-76

As a backdrop against which to interpret the 1978 data, it is useful to review briefly the relevant findings from the surveys of the same sample of men between 1966 and 1976. During that time, the labor force participation rate of the 3,458 sample members, who by 1976 were 55 to 69 years of age, had dropped from 96 to 63 percent.⁹ Moreover, among men who had not yet reached 65, the proportion who were already retired or who expected to retire before 65 grew from about 26 percent in 1966 to 38 percent in 1971, and to 51 percent in 1976.¹⁰ By 1976, 1,600 members of the sample were retired, in the sense of having reported in one of the six surveys conducted during the 10-year period that they had "already stopped working at a regular job." Of these, only 3 percent, or 5 percent in the case of those age 65 to 69, had been unwillingly removed from jobs by mandatory retirement plans; 51 percent had retired because of failing health; and 46 percent had freely chosen to retire.¹¹

Less than 20 percent of the total group of retirees were employed at the time of the 1976 survey, primarily

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part time. Of those not in the labor market, less than 2 percent explained their absence by the belief that they could not find work. Only 3 percent said unconditionally that they would accept job offers in their local areas, while 85 percent indicated categorically that they would not, 44 percent because of health, the remainder because they simply did not choose to work.

Although family income of the retirees in 1975 averaged 40 percent below the preretirement level in constant purchasing power, large majorities were reasonably satisfied with their lot. Four-fifths reported in 1976 that their preretirement expectations had been fulfilled or exceeded. About three-fourths claimed that they would retire at the same or an earlier age if they had the decision to make again. A majority said that they were "very happy" with their lives, and only a tenth admitted to being "somewhat" or "very" unhappy. Excluding those who retired for health reasons, the remainder expressed as much satisfaction with various facets of their lives as men with the same amount of education who had continued to work.

On this basis, it seems that raising or eliminating the mandatory retirement age, however desirable, will have no substantial effect on labor force participation rates of older workers. It also seems that there is unlikely to be a reversal of the trend toward early retirement unless there are changes in institutional arrangements that encourage retirement prior to age 65. However, there is some uncertainty on this point if current high rates of inflation persist.¹²

The 1978 survey

When the NLS sample was interviewed for the eighth time in 1978, the original sample of 5,020 men had shrunk to 3,219. More than half of the 36-percent attri-

tion rate, 20 percent of the total, was attributable to death. Of the 1,367 who reported in 1976 that they were retired,¹³ 1,217 were reinterviewed two years later. There were 470 additional retirements during the 2-year interval. Thus, we are able to ascertain what changes, if any, occurred in labor market participation and attitudes of an identical group of men who were retired in both years, and to compare their 1978 responses with those of the group newly retired between 1976 and 1978. It is also possible to compare the retirement status and expectations of identical samples of men in 1976 and 1978.

Trend in early retirement. Is fear of inflation likely to choke early retirement? Members of the NLS sample are asked in each survey at what age they expect to retire from a regular job. Of the 1,954 members of the sample who were under age 65 in 1978, the proportion already retired or expecting to do so continued to rise between 1976 and 1978, from 51 percent to 55 percent (table 1). Because corresponding increases over the 5-year periods 1966-71 and 1971-76 were 12 and 13 percentage points, the 4-point increase over the 1976-78 period is not far below the trend line. Although not shown here, the pattern for both black men and white men, and for three age categories of men were similar.¹⁴

Even more pronounced is the trend evidenced by the 229 respondents who in both 1976 and 1978 were employed in jobs covered by mandatory retirement plans. They were asked in each survey whether they would work beyond the mandatory retirement age if they could. In 1976, 26 percent of the men expressed the desire to work longer, while about half expected to retire before the mandatory retirement age. The remainder either expected to retire at the mandatory age, 16 percent, or were uncertain about what they would do, 6 percent. By 1978, only 17 percent said they would like to work longer than the age of mandatory retirement, a decrease of 9 percentage points, while 58 percent expected to retire before that age, an increase of 7 percentage points.

Labor market activity of retirees. Between 1976 and 1978, there was no change in the labor force participation rate of the approximately 1,200 men who retired during 1966-76 and who were reinterviewed in 1978. About 10 percent were in the labor force at the times of each of the two surveys.¹⁵ Among the 1976-78 retirees who were reinterviewed in 1978, 13 percent were in the labor force.

Nor was there any substantial change in the degree of interest in work (table 2). About 83 percent of the 1976 retirees who were out of the labor force had said categorically that they would not accept a job offer in the area, and the proportion was identical in 1978. Howev-

Table 1. Retirement expectations in 1976 and 1978 of men under age 65 in 1978, and attitude toward retirement of employed men covered under mandatory retirement plans, 1976 and 1978

[In percent]		
Characteristic	1976	1978
Expected age of retirement		
Number surveyed	1,954	1,954
Already retired	20	34
Under 65	31	21
65	25	18
Over 65	4	4
Never	10	10
Don't know	10	12
Attitude		
Number surveyed	229	229
Would like to work beyond mandatory age	26	17
Expect to retire at mandatory age	16	19
Expect to retire before mandatory age	51	58
Don't know	6	6

SOURCE: National Longitudinal Surveys. Tabulation of responses of the identical group of men interviewed in 1976 and 1978.

Table 2. Reaction to hypothetical job offer in 1976 and 1978 by 1976 retirees and in 1978 by 1976-78 retirees

[In percent]

Reaction	1976 retirees		1976-78 retirees
	1976	1978	1978
Number surveyed	1,098	1,098	445
Would definitely accept	3	6	5
Might accept	14	11	20
Would not accept, health	40	40	33
Would not accept, other	43	43	42

¹ Includes 4 percent who were either working or seeking work at the time of the 1978 survey

SOURCE: National Longitudinal Surveys. The 1976 retirees are respondents who reported in that year that they had already retired from a regular job and who were not in the labor force in 1976. In 1976-78 retirees are men who reported retiring between 1976 and 1978 and who were not in the labor force in 1978.

er, whereas only 3 percent of the group had said in 1976 that they would definitely take such a job, by 1978 the proportion who responded in this way or who were actually in the labor force had grown to 6 percent, a 3-percentage-point increase. Among the newly retired, the proportion responding affirmatively to the job-offer question was 5 percent, and respondents who would definitely turn it down was only 75 percent, 8 percentage points lower than among the 1976 retirees.

Retiree evaluation of retirement. There was very little change between 1976 and 1978 in the retirees' perception of retirement relative to their *a priori* expectations (table 3). However, the slight change that occurred was in the direction of greater disappointment. The proportion of the 1,102 retirees interviewed in both years who said that retirement did not meet their expectations grew from 19 to 23 percent, and the proportion who evaluated their experience as much better than they had expected shrank from 13 to 11 percent. On the other hand, the number whose experience exceeded their expectations grew by one percentage point. In both years, 3 in 4 of the retirees reported that their retirement experience was at least as good as they had anticipated.

There was, nevertheless, a substantial shift in the retirees' evaluation of their standard of living between 1976 and 1978. The proportion reporting themselves as "very happy" with this aspect of their lives dropped from 50 percent to 36 percent. Almost all of the decrease reflected a shift from "very" to "somewhat" happy. The proportion expressing unhappiness with their economic situation grew only slightly, from 13 to 15 percent.

Conclusions

This evidence does not provide a definitive indication of the potential effects of continuing high rates of inflation on retirement decisions. The 15-percent rise in the CPI over the 2-year period, while substantial compared with the average for the post World War II period, was

only about half as great as the rise over the two subsequent years. Nevertheless, even by 1976 the term "double-digit inflation" had leaped into the vocabularies of Americans after the CPI rose 11 percent between 1973 and 1974. A man contemplating retirement would have had to be almost completely insensitive to his environment not to be concerned about the implications of rising prices.

In any case, the conclusions drawn from the widely cited Harris poll of 1978 are not confirmed by the NLS data. Philip Rones has recently advanced several possible explanations for the results of the Harris poll, including the possibility that inflation had by 1978 created greater interest in working among retirees than had existed as recently as 4 or 5 years earlier.¹⁶ The present data make this explanation suspect. The trend toward earlier retirement that had been discernible in the longitudinal data between 1966 and 1976 continued without interruption between 1976 and 1978. Moreover, men who had been retired in 1976 showed only slightly more interest in postretirement jobs in 1978 than they had in 1976. And even the more recent retirees, those who had retired between 1976 and 1978, were only slightly more likely to be working, 13 percent versus 10 percent. Retirees were not unmindful of the impact of rising prices, but the chief manifestation of their concern was in the expression of less satisfaction with their economic circumstances. Our evidence is basically consistent with that reported by James N. Morgan on the basis of the 1979 wave of the Panel Survey of Income Dynamics. He reported that "even the few who said that inflation had affected their retirement ideas were indicating that it affected their feelings rather than their actions or plans."¹⁷

Wisdom requires ending on a note of caution. It is easier to describe the past than to predict the future.

Table 3. The 1976 retirees' evaluation of retirement relative to expectations and satisfaction with standard of living, 1976 and 1978

[In percent]

Evaluation	1976	1978
Expectation		
Number surveyed	1,102	1,102
Much better	13	11
Somewhat better	9	12
About same	59	53
Somewhat worse	13	16
Much worse	6	7
Degree of satisfaction		
Number surveyed	1,102	1,102
Very happy	50	36
Somewhat happy	38	50
Somewhat unhappy	10	11
Very unhappy	3	4

SOURCE: National Longitudinal Surveys. Tabulations of responses of the identical group of retirees in 1976 and 1978.

Table 4. Average civilian labor force participation rates of men age 55-64 and age 65 and older, by race, January-September, 1979 and 1980

[In percent]

Age and race	January-September 1979	January-September 1980
All men		
55-64	73.1	72.5
65 and over	20.2	19.2
White		
55-64	73.7	73.4
65 and over	20.2	19.4
Black and other		
55-64	67.1	62.9
65 and over	19.4	17.6

SOURCE: Calculated from data in *Employment and Earnings*, February-October, 1979, 1980.

Moreover, in this case, the past is already 2 years old. The results of the 1980 and 1981 surveys of the NLS sample will be awaited eagerly, for they contain even richer materials on post-retirement attitudes. Nevertheless, it is worth noting that even through 1980 there was no evidence in official labor force statistics of a reversal of the trend that has characterized the past decade (table 4). During the first three quarters of 1980, the labor force participation rate of men age 65 and over was 19.2 percent, 1 percentage point lower than in the corresponding period of 1979. For men age 55 to 64 the participation rate dropped 0.6 point, to 72.5. The decreases were considerably more pronounced among black men, 4.2 percentage points among those age 55 to 64 and 1.8 percentage points among those 65 and older. □

FOOTNOTES

¹ Data are from the *Employment and Training Report of the President* (Washington, Government Printing Office, 1980), table A-2.

² See Harold Sheppard and Sara Rix, *The Graying of Working Americans: The Coming Crisis of Retirement Age Policy* (New York, The Free Press, 1977), chapters 1 and 2.

³ A recent version of this proposal was made by the 1979 Advisory Council on Social Security, which recommended legislation that would raise the normal retirement age by two months annually commencing in the year 2000 and ending in 2018, at which time it would stand at 68. The minimum age for actuarially reduced benefits would rise from 62 to 65. A similar proposal has been made more recently by the President's Commission on Pension Policy. See Advisory Council on Social Security, *Social Security Financing and Benefits* (Washington, Social Security Administration, 1980).

⁴ See Herbert S. Parnes and Gilbert Nestel, "The Retirement Experience," in Parnes et al., *Work and Retirement Data: a Longitudinal Study of Men* (Cambridge, MIT Press, 1981), Chapter 6.

⁵ See, for example, J.W. Walker, "Will Early Retirement Retire Early?" *Personnel* January-February 1976, pp. 33-39.

⁶ The Harris report is reproduced in its entirety in *American Attitudes toward Pensions and Retirement*, hearing before the Select Committee on Aging, House of Representatives, 96th Congress, First session, Feb. 28, 1979, pp. 12, 80-81.

⁷ *American Attitudes*, p. 11.

⁸ For a detailed description of the National Longitudinal Surveys, see *The National Longitudinal Surveys Handbook* (Columbus, Ohio State University, Center for Human Resource Research, 1980).

⁹ See Herbert S. Parnes, Lawrence Less, and Gilbert Nestel, *Work and Retirement Data: National Longitudinal Surveys of Middle-Aged and Older Men* (Columbus, Ohio State University, Center for Human Resource Research, 1980), p. 48.

¹⁰ *Work and Retirement Data*, p. 138.

¹¹ "The Retirement Experience," pp. 204-05.

¹² "The Retirement Experience," p. 269.

¹³ This number is smaller than that of the 1,600 NLS respondents who retired during 1966-76 because it excludes those who had reported themselves retired in a previous survey but not in the 1976 survey.

¹⁴ Race and age breakdowns were originally obtained in all tabulations. None of them are shown since there were no exceptions to the generalizations yielded by the aggregated data.

¹⁵ The rate for 1976 differs from that reported in the 1966-76 NLS findings because the data here exclude men who had earlier reported themselves retired but who did not so report themselves in the 1976 survey. See footnote 13.

¹⁶ See Philip L. Rones, "The retirement decision: a question of opportunity?" *Monthly Labor Review*, November 1980, p. 16.

¹⁷ See James N. Morgan, "Antecedents and Consequences of Retirement," preliminary draft of Chapter 7 in *Five Thousand American Families*, Vol. 9 (Ann Arbor, University of Michigan, Survey Research Center, 1980).