

## Mitchell's Musings 4-20-15: Moynihan's Fear

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The Age Discrimination in Employment Act, as amended, generally prohibits mandatory retirement ages except in a few occupations such as airline pilots. Yet at one time, such practices were commonplace with the mandatory age often set at 65 or 70. For tenured university faculty, mandatory retirement was permitted later than for other occupations, but it, too, was ended in 1993. New York Senator Daniel Patrick Moynihan – who had come out of the university setting with a PhD - expressed concerns about ending mandatory retirement in academia:

*I must note, however, that I am troubled by the application of this change to the unique situation of tenured faculty members at colleges and universities. In order for these institutions to remain effective centers of teaching and scholarship, they must have a balance of old and new faculty. Hence, universities must ensure that older faculty members retire at an appropriate age, not simply to "make room" for younger faculty, but to maintain a contemporary, innovative and creative atmosphere where students can obtain the fullest education. . .<sup>1</sup>*

However, despite Moynihan's concerns, Congressional policy was to delay the end of mandatory retirement for tenured faculty while a study was being prepared but then – based on the study – ended authority for universities to impose it.

Starting in the 1970s, the labor economics literature began looking at practices such as mandatory retirement ages under the rubric of the "new economics of personnel." Mandatory retirement was seen as a component of "implicit contracting" in the labor market. The rationale was that career employees – seen as having long-term relationships with employers – worked for less than their value early in their careers in exchange for an overpayment later. The early period was seen as a form of posting a bond for good performance, given imperfect

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<sup>1</sup>[http://www.nap.edu/openbook.php?record\\_id=1795&page=9](http://www.nap.edu/openbook.php?record_id=1795&page=9)

information at the time of hiring and as an incentive against “shirking.” Mandatory retirement was seen as a way of terminating the overpayment period.

Similarly, defined-benefit pensions were depicted as having a similar function (by making it advantageous to retire after a given age). Under a defined-benefit pension plan, the monthly annuity is typically a function of age, length of service, and the level of recent (pre-retirement) earnings. The expected value of the future stream of pension payments begins to fall beyond a certain age since each year of continued work means one year less of pension receipt.

Eventually, someone who continued working would be effectively working for nothing due to the continued pension loss which has to be subtracted from the pay expected from continuing to work.

All of this history and economics literature came to mind recently when I participated as a panelist on a program at UCLA developed for faculty who were thinking of retiring but who were uncertain as to whether to do so. You can hear my presentation at the program at <https://archive.org/details/MitchellRetirementWorkshop41015Edited>. One thing to note about UCLA (as part of the entire University of California system) is that it has a defined-benefit pension. In that respect, it is unlike most universities that have defined-contribution plans (such as TIAA-CREF) which provide no particular incentive to retire. My impression – based on anecdotal evidence – is that, as a result, there has been *less* of an issue regarding tenured faculty retirement decisions at UCLA than has developed at many other universities.

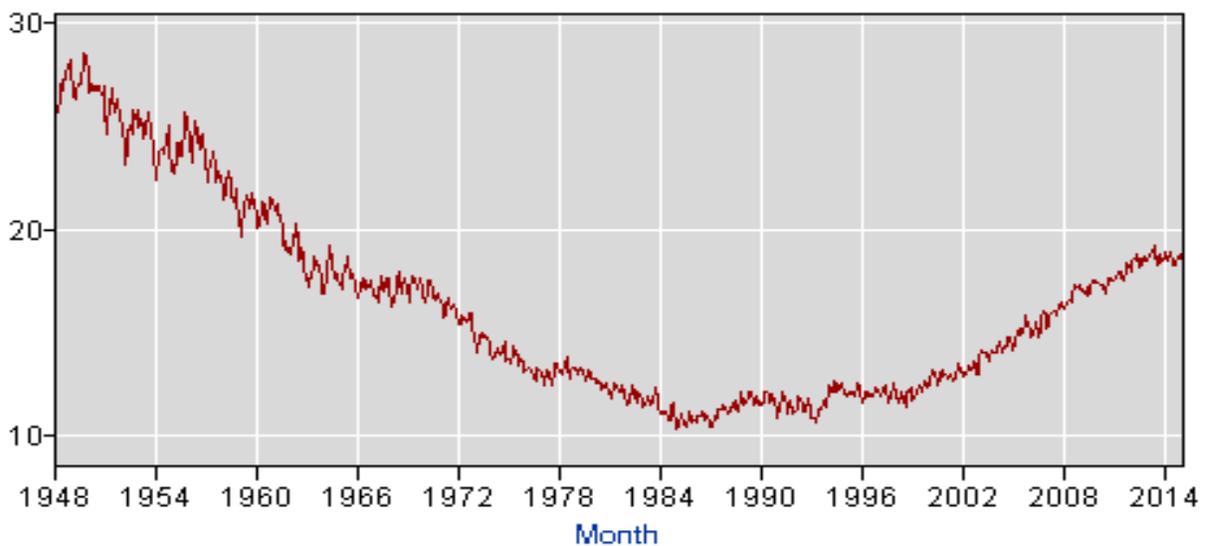
Nonetheless, some elderly faculty do have a problem in making the retirement decision, even at UCLA. One factor is that the defined-benefit incentive to retire – while self-evident to economists – is not necessarily fully appreciated by others. (Having *understandable* incentives is always an issue in designing personnel systems and retirement programs are no exception.) Thus, some faculty may think that the point of “working of nothing” arrives only when the pension is equal to the rate of final pay, which at UCLA occurs only after 40 years of credited

service.<sup>2</sup> Or they may think that the optimum decision is to wait until you are working for nothing.

It was clear from the program at which I spoke that there is a subset of folks who have a problem in letting go of their long-time activities despite economic incentives to do so. What about folks in sectors outside academia? We do know that labor-force participation rates for those 65 years and over have been increasing since the late 1990s, as the charts below show. Participation rates fell from the end of World War II until they leveled out in the 1980s (particularly for men). Clearly, there were various underlying factors in this pattern, notably the availability of Social Security, private pensions, and improved elder health.<sup>3</sup>

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### Civilian Labor Force Participation Rate: Both Sexes, Age 65 and Over

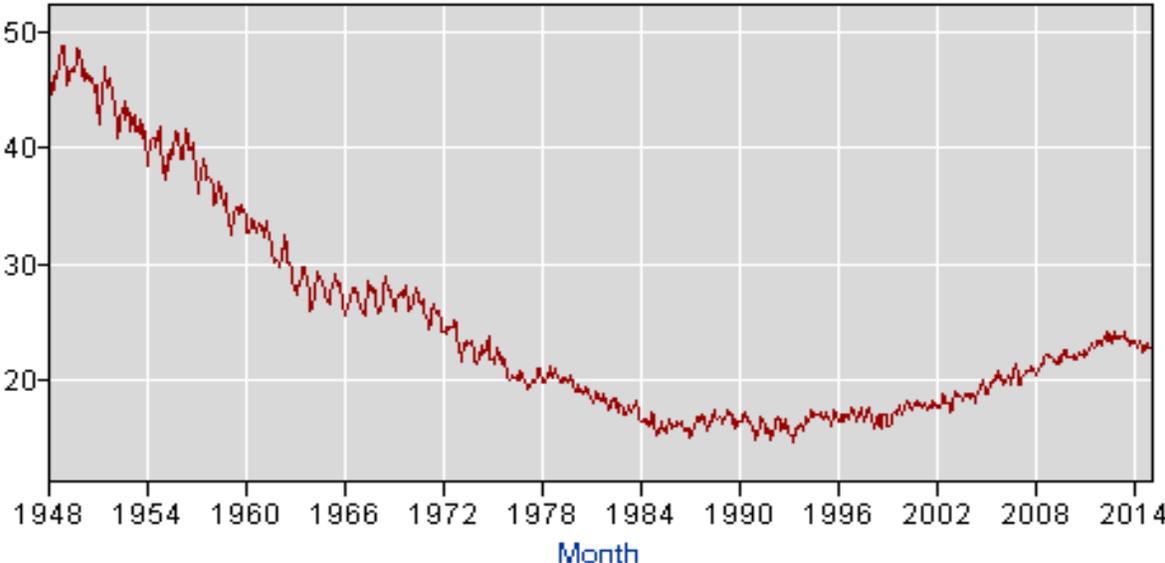


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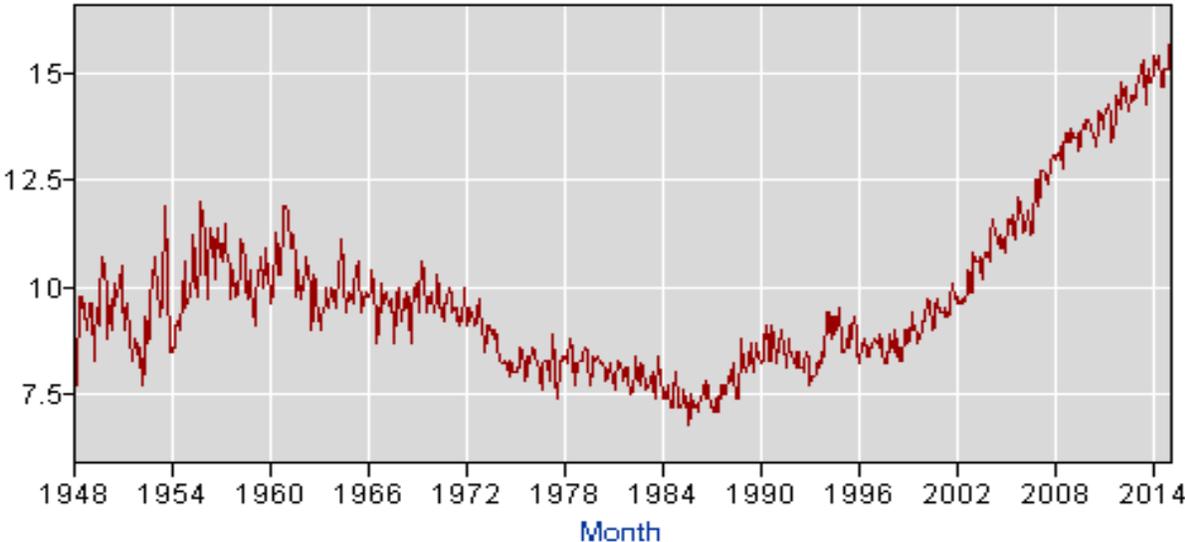
<sup>2</sup>The system multiplies an age factor of 2.5 times years of service and then multiplies that product by what for most faculty is final base pay for the last three years. (The age factor rises with age but peaks at 2.5.) For many faculty, it might be noted, the base rate of pay on which the pension is calculated excludes pay beyond the official salary rate. Such extra pay may be a considerable fraction of total pay – especially in medicine. Pay received during the summer months for teaching, research, or other reasons is also excluded from the pension to avoid “spiking.” So, in such cases, i.e., cases in which non-base pay is significant, the idea that you are working for nothing only if your pension equals your pay means that such a condition is perceived never to arrive.

<sup>3</sup>Data for the charts are from the U.S. Bureau of Labor Statistics website. The charts were created on the website.

**Civilian Labor Force Participation Rate, Males, Age 65 and Over**



**Civilian Labor Force Participation Rate, Females, Age 65 and Over**



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Now it's easy to say that the experience of university faculty is vastly different from those of other employees in other sectors and occupations. Other employees may not be committed to their careers to the same extent as faculty and they rarely have anything like tenure. They may have work histories in physically demanding occupations that produce health issues which make job continuance difficult beyond a given age. Nonetheless, for whatever reasons, the overall participation rates for those 65 and over throughout the labor market have been rising as a long-term trend.

Note, too, that the stories that were especially in vogue about stock market losses in 401k plans due to the Great Recession don't fit the timing of the trend. Such stories tied continuation of working to depleted retirement accounts. The rise in participation for older women seems to start in the late 1980s. For older men, it seems to occur in early the 2000s, *halting* – not beginning - in the Great Recession.

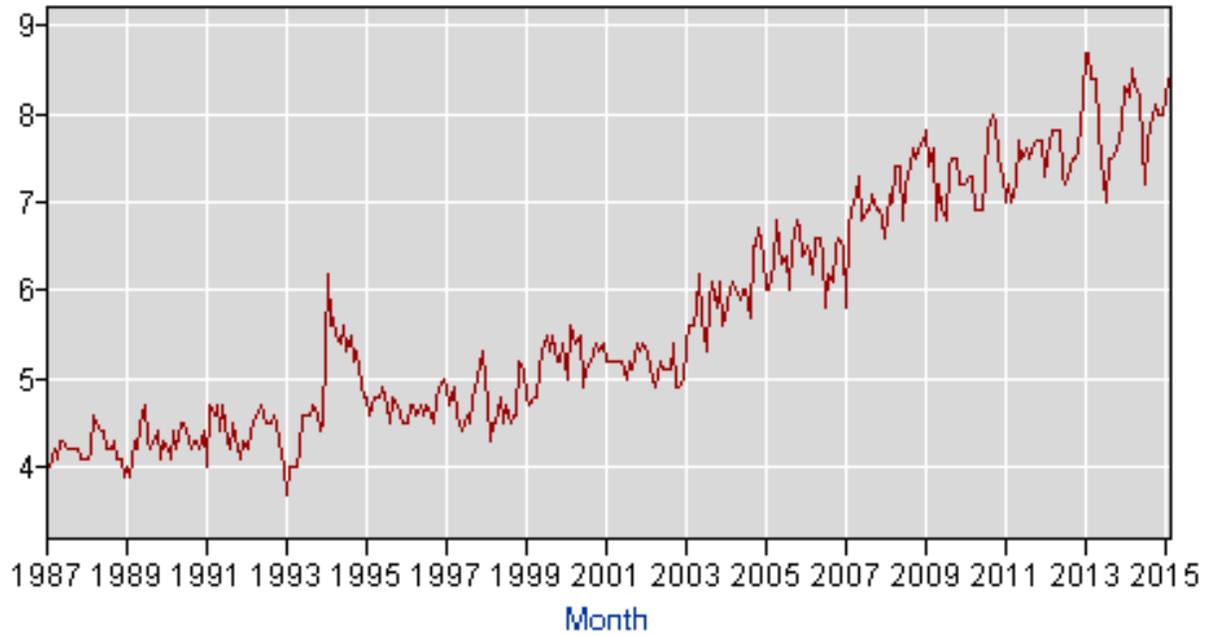
When we move to a still older age bracket – 75 years and over – the same pattern emerges, as the charts below illustrate. The male participation rate heads up after the late 1990s; the female rate goes up from the late 1980s.<sup>4</sup> Using the older age cutoff likely filters out individuals with physically difficult job histories. But it can be assumed that most remaining workforce participants still are not tenured faculty.

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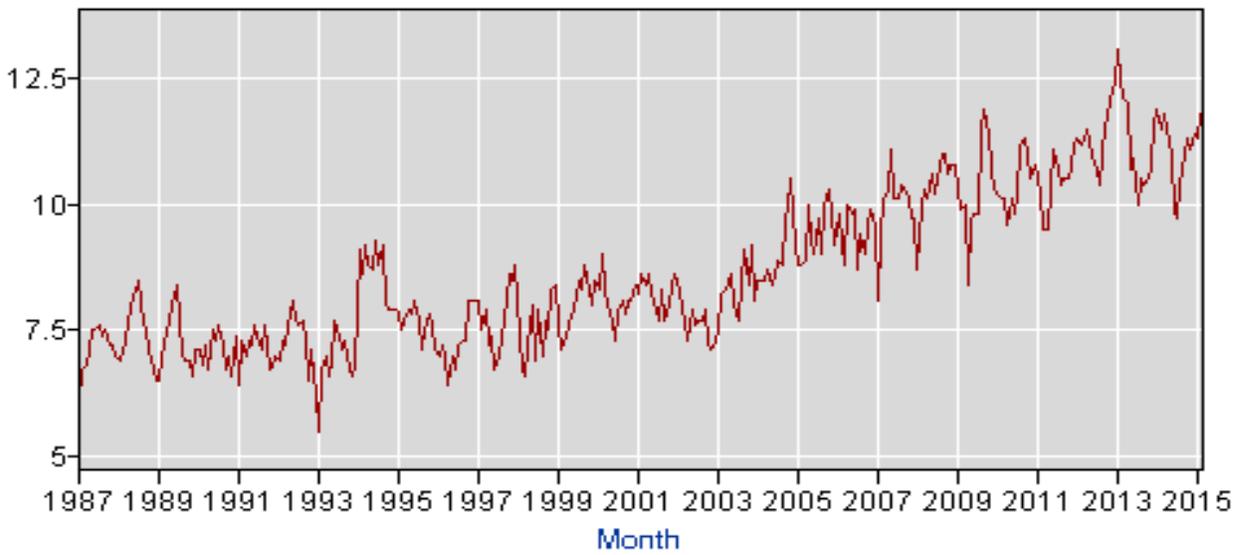
<sup>4</sup>Data from U.S. Bureau of Labor Statistics for ages 75 and over are not available before 1987.

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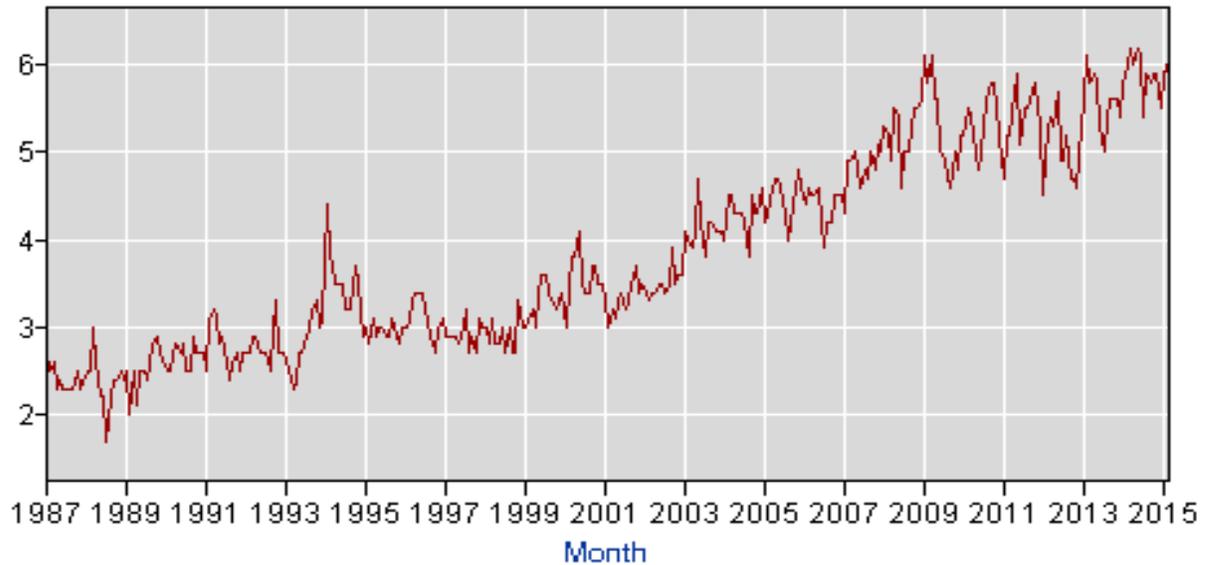
**Civilian labor force participation rate: Both Sexes, 75 years and older**



**Civilian labor force participation rate: Males 75 years and older**



## Civilian labor force participation rate: Females 75 years and older



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In short, the faculty reluctance-to-retire phenomenon may be part of a larger set of forces that are not unique to academia. Economic incentive devices such as defined-benefit pensions may mitigate the phenomenon for many individuals.<sup>5</sup> But they don't entirely eliminate it. Thus, universities may need to consider other types of programs - such as phased retirement - to encourage turnover.

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<sup>5</sup>Universities with defined-contribution pension systems sometimes create *ad hoc* incentives – essentially retirement bonuses – from time to time. But such practices can have perverse effects; faculty may delay retirement waiting for the next special deal to come around.