Should We Bring Back Mandatory Retirement?

September 23, 2013

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Such policies might make employers more willing to hire older applicants

While the unemployment rate for older workers is lower than that for the general population, older workers who lost their jobs during the Great Recession are still suffering. The re-employment rate for those 55-64 is 47 percent compared to 62 percent for 20-54 year olds. And it takes an average of 52 weeks for older workers to find a new job compared to about half as long for workers in their early 20s. Experiments sending resumes for older and younger workers with similar skills have shown that older workers are much less likely to be called in for an interview. Employers are clearly reluctant to hire older men and women. One reason might be that employers fear that once they hire an older worker, they may not be able to get rid of these older hires when they are no longer productive.

In the early 1970s, about half of all Americans were covered by mandatory retirement provisions that required they leave their jobs no later than a certain age, usually 65. In 1978, the earliest legal age for mandatory retirement was increased from 65 to 70 through amendments to the Age

Discrimination in Employment Act (ADEA). Under pressure from civil rights activists, an aging population, and rising Social Security costs, mandatory retirement was eliminated entirely in 1986 for the majority of workers through further amendments to the ADEA. Some exceptions to the prohibition include airline pilots, judges, partners in professional firms, and some highly placed executives.

Life without mandatory retirement is hard. Compensation and health care costs tend to increase with age, and in many – albeit not all – cases productivity declines. Employers can dismiss older workers who cannot do their jobs. But that is a very unpleasant task for both parties. The elimination of mandatory retirement combined with the shift from defined benefit to 401(k) plans also means that retirement is a much less predictable and orderly event than it has been in the past. With mandatory retirement, both the employer and the employee knew that as of a certain age the relationship would end. And they knew that with the promise of lifetime benefits that employees would have enough money to retire. No such structure exists in a 401(k) environment. If the stock market tanks, employers face the prospect of workers with inadequate 401(k) balances hanging on much longer than desirable – at least from the employer's perspective.

The real challenge in a world of 401(k) plans and an increasingly mobile workforce is for workers in their 50s to be able to get jobs. It seems at least worth considering the possibility that mandatory retirement might make employers more willing to accept older applicants.

Mandatory retirement might be set at the age at which individuals can receive their maximum monthly Social Security benefits – currently 70. While the presumption would be that employees would have to retire at the mandatory age, the employer could always ask productive older workers with key skills to remain on the job. It may well be that putting a cap on the cost of employing older workers would make hiring workers below that mandatory age more attractive.