CHAPTER 1

A Short History of Retirement

"When I want to understand what is happening today, I try to decide what will happen tomorrow; I look back; a page of history is worth a volume of logic."

—Oliver Wendell Holmes

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The U.S. standard-gauge railroad track is four feet, eight and one-half inches wide. Why such an odd measure? Because that was the width in England and the United States when railroads were built by British expatriates.

Where did the English get that measure? The first rail lines were built by the same people who built the tramways that preceded railroads, and they built the trams with the same jigs and tools used for building wagons. The wagons were built to what is now the standard-gauge railroad track so their wheels would fit the ruts of England's ancient long-distance roads.

The ruts had been made by the war chariots brought to England by the occupying imperial Roman army. And the chariots were four feet, eight and one-half inches wide to accommodate the rear ends of two horses. You're not alone if you struggle with change.

Retirement as we know it today is a relic from a time and a world that have long since passed. In the context of our modern age, conventional ideas about retirement are not just inappropriate—they are counterproductive. The concept of retirement was a shortsighted

political machination and social manipulation that is no longer relevant and is hopelessly out of touch with our times.

Retirement is an unnatural phase in the modern life course. It is an insertion invented between work and death for purposes lying outside of those seeking to live a purposeful life. It is instructive for all of us to learn about the genesis of this life phase that was invented by a past society for purposes that are no longer relevant to most of us.

Retirement, as we understand it today, did not exist in preindustrial America. In those days, older members of society weren't sent to the sidelines. They actually held a more prominent place as a resource for their insight, knowledge of skills and crafts, and lessons gained from experience. It was the industrialization era that accelerated the conditions that gave us the traditional version of retirement. Industrialization ushered in a profound redefinition of work. Mass production became the popular mode of work, and workers began to be viewed as parts in the system, subject to wear and replaceable.

With the advent of industrialization came a population shift from the country to the cities. This brought about a significant lifestyle adjustment as people went from self-sufficiency to dependency. Work became a means to an end—an income to live on—as opposed to a way of life. In his book *The Sociology of Retirement* (John Wiley & Sons, 1976), Robert C. Atchley made an insightful comparison between a craftsman and a worker. A craftsman controls the process and the product, which makes his work both satisfying and integral to his identity. An industrial worker is responsible for one small part of the process. Consequently, the work offers little reward. Atchley also noted that the words *job* and *occupation* soon began to replace the terms *craft* and *vocation* in the American laborer's lexicon. We can trace a cycle of degradation of the American work ethic to this point in history, which comes as no surprise because you would naturally expect people to become lethargic about work that offers us no emotional reward.

As other nations were embracing industrialization, the world became a competitive commercial environment. America was intent on proving itself to be a world leader, and progress was the mantra of the industrialists. As a result, these industrialists began looking for ways to sweep away anything that stood in the path of progress. For some of them a major obstacle to progress was anyone considered "mature" in age. Because of advances in safety and health care, people were living longer and the workforce was getting older. Mature workers were

beginning to be viewed as a threat to progress. It was assumed that older people would not acclimate easily to changing procedures, and changes were needed for industry to become an efficient, well-oiled machine. The seeds of ageism were beginning to be sown. Those seeds of prejudice were watered over a century ago by a widely reported speech by Dr. William Osler, one of the nation's most prominent physicians, given in 1905 at Johns Hopkins University. Osler's thesis was that any man over 40 years old was virtually useless to society.[1]

"Take the sum of human achievement in action, in science, in art, in literature," Osler said. "Subtract the work of men above 40, and while we would miss great treasures, even priceless treasures, we would practically be where we are today." In short, Osler was postulating that any person over 40 was dispensable to the cause of progress. Osler went on to say that people over 60 were "entirely useless" and a drain on society because of their inelastic minds. Osler's articulation helped to embolden a growing intellectual trend and opportunistically served to answer the growing societal problem of unemployment. It seemed obvious, these intellectuals asserted, to replace the old with the new. All that was left was to come up with a way to get rid of the old. Mandatory retirement was one answer.

Another emerging force in this drama was the labor union, which was struggling to survive and fighting for the right to strike. Labor unions quickly embraced the idea of retirement because forcing out the older workers gave them the opportunity to deliver the jobs and job security they were promising their membership. Business leaders, labor leaders, and social engineers were all singing the retirement chorus. Older workers didn't have a chance—and soon wouldn't have a choice.

There was, however, one massive obstacle standing in the way of this strategy. What would these new retirees live on? In the late 1800s, Chancellor Otto von Bismarck had come up with a disability insurance program in the German Empire for all disabled workers 70 and older. This was instituted by von Bismarck, in part, to undermine demands for democracy and to reaffirm workers' commitment to the government. Around that same time, American Express created the first private pension in America in 1875.[2] In 1900 the Pattern Makers League of North America became the first union to offer pensions to its members. Up until that time, pensions were typically available to veterans and some civil servants such as policemen and firefighters (and, in some states, teachers).

It was not until 1910 that the pension movement gained steam. That year, the Taft administration started promoting pensions as a major piece of its platform on industrial efficiency. From 1910 to 1920, more than 200 new pension plans were formed. A change in the corporate tax law that made pension plans more tax advantageous resulted in the doubling of new plans in 1920. Overall, the penetration rate for pensions was quite slow, with only 15 percent of American workers covered by a plan by 1932. The watershed moment came in 1933, in the deepest, darkest depths of the Great Depression. Social conditions had reached an explosive point because of the 25 percent unemployment rate. Franklin D. Roosevelt and the New Dealers were in a precarious and potentially disastrous situation, with masses of angry young men demonstrating in the streets. Roosevelt had already seen where these situations could lead by the examples set in Germany and Italy. It was exactly these conditions that gave rise to both Hitler and Mussolini. The New Dealers' plan to get young people working again was to offer a public pension so the older men would retire.

Combine this reality with the fact that a movement was afoot with the elderly to demand pensions for those over 60. People wanted the federal government to get involved. At that time, 28 states had pension programs—which made little difference in the lives of the recipients because the programs were sparsely funded as a result of the Great Depression. Many corporate pensions were defaulting as well. As a result, 50 percent of the elderly were living in poverty.

The New Dealers needed to test their plan before implementing it on a national scale. Would the older workers like the idea? Senator Robert F. Wagner introduced a bill in 1934 that established a pension for retiring railroad workers. Wagner compelled 50,000 workers to consider retiring immediately. The bill passed. Wagner played a major role in 1935 in persuading FDR to introduce the Older Workers Pension Act, later called the Social Security Act, the statute that would forever change our views of work and retirement. However, Roosevelt had to settle two major issues that would echo through the generations. How would Social Security be paid for, and at what age would workers become eligible? This Social Security program would not work if it failed to provide instant benefits for those who were currently at the retirement age. Rather than taxing these people for their own retirement, the politicians came up with the idea of taxing those who were still working on behalf of retirees. Tax the younger generation to pay for the retiring generation. When the Social Security Act

was implemented, the number of beneficiaries was small enough that no one would have to pay much for the plan.

Now the biggest question had to be answered: at what age can one receive Social Security? Precedents existed at the time in Germany, Great Britain, and France, with ages pegged to 60, 65, and 70. Citing a biblical reference to "threescore and ten years," Bismarck's original retirement marker was set at 70, allowing the workers enough time to pick out a gravestone if they should be lucky enough to live much longer. Eighteen years later, Germany lowered the age to 65—because very few people lived to 70 to collect the benefits—the average life expectancy at that time was just 46 years!

The retirement plans designed by Bismarck and others had obviously not been intended to give a worker any time for enjoyment—not with a life expectancy of 46 and a retirement age of 65. It helps to move to our modern age to understand Bismarck's original intent. The age of retirement was 19 years beyond the average life expectancy. In those days a person who was 65 was indeed old—much older than today's 65-year-old.

When FDR and the New Dealers settled on the age of 65 in 1935, the average life expectancy in America was 63 years. Bear in mind, however, that life expectancy statistics can be misleading because factors such as infant mortality are calculated into them. In fact, according to the Social Security Administration the average number of years lived in retirement today hasn't changed much since 1935, increasing only about five years during that period.[3] The obvious conclusion one could make is that retirement was never intended to remove people with strong productivity potential out of the workplace. Our view is skewed on this issue, however, as a result of the difference in the constitution of a 65-year-old today and that of a 65-year-old in 1935. Because the retirement markers were set later than the average life expectancy, many people didn't live long enough to collect Social Security benefits. FDR eventually moved to have the age of retirement set to age 62.

The benefits that a retiree did receive were just enough to support a meager lifestyle, providing bare sustenance. It was this generation of retirees that evoked the images of widows wearing full winter gear for lack of heat in decrepit one-room apartments in the winter and eating cat food to survive. It would take another 20 years before the social net and workplace invention known as retirement would become a part of the American way of life.

The retirement lifestyle got a major boost during World War II when workers' wages were frozen. Because wages were nonnegotiable, union leaders began bargaining for pensions where they didn't exist and for bigger employer contributions where they did exist. These contributions were tax deductible, and future pension obligations weren't reflected in a company's balance sheet. World War II conditions caused pension coverage to flourish across most industries. The timing could not have been better for the Social Security system, which was being roundly criticized for allowing retirees to live in poverty. Opportunistic politicians in the following decades began to push for broadened coverage to include husbands of working women, farmers, the self-employed, members of the armed forces, and so on. Coverage itself was expanded to include health and disability insurance, welfare for the disabled, and, as an answer to the senior poverty issue, annual cost-of-living adjustments to keep up with inflation.

With all these changes, retirement began to shed its destitute and forsaken image. Combining Social Security payments with pension checks allowed people to live out a respectable, if modest, retirement—but it still typically lasted only a year or two at best. It was during this period of retirement's image transition that financial services companies stepped up their efforts. They began to market retirement as *an individual's rightful reward for his or her years of labor and loyal service.* People began buying more retirement investment products and looked forward to an era of reward that would be timed on their new gold watch.

William Graebner, in his *History of Retirement* (Yale University Press, 1980), shares an interesting anecdote regarding a shift in the financial services industry's marketing of retirement. The story is told that in 1952, H. G. Kenagy of Mutual Life Insurance advised business leaders on the National Industrial Conference Board about the best way to sell retirement to their employees. The tack he suggested was distributing stories by these business leaders via company newsletters and the like about happily retired people fishing or playing golf and sipping martinis. Sell the blissful retirement life and don't forget to mention how to get to nirvana by investing in both the company plan and other financial vehicles. This was not a difficult story to sell to a workforce that now had jobs instead of vocations. As one 82-year-old nonretiree put it, "They that lack a vocation are always longing for a vacation." Retirement had now

become the permanent vacation—without the kids! This retirement pitch from 1952 has hardly changed more than 60 years later. Although some firms in the retirement products industry are catching on to the philosophical shift regarding what people really want out of their longer lives, many companies in the industry lag woefully behind, with antiquated images of fishing ponds, beachside, and golf course heaven.

People began to retire in unprecedented numbers because (1) they felt they had to or were forced by retirement age policy to do so, and (2) the unexpected appreciation in home prices made comfortable retirement a real possibility. The implied message to workers: "You don't have a choice. Once you hit 62, you're out the door." No employers were begging them to stay around for a while or maybe to just cut back their hours. It was universally accepted that you were no longer welcome in the working world at retirement age.

Crossing the Bridge

We have, in years past, had our brains pummeled with warnings that we should save more if we hope to leap off the economic cliff known as "retirement" at age 62. Many of us had been convinced that we wanted to jump off that cliff earlier—if possible, much earlier. But, today, we understand that the new retirement resembles a bell curve rather than a cliff. Rather than jumping off a vocational cliff, we will gradually slow down.

The metaphor that I believe is more fitting for our age is that of a bridge between full-time work and full-time retirement. The length of the bridge varies from person to person, and the bridge can appear for any length of time and can be entered and exited multiple times in the post-60 years. And there are some of us who want to do the work we do as long as we possibly can—meaning as long as we are healthy and competent, we will be on that bridge.

A new realization around retirement has dawned as the result of the confluence of an asset-eroding economy and a cultural epiphany around retirement. The great recession convinced millions that a longer work life would be necessary, and many of those who had retired were returning to at least part-time work because they found something missing in the traditional vision of retirement.

The reality we are left with is that most of us will work longer than previously expected but not necessarily for reasons we assumed. Yes,

economic incentives will play a role as many of us seek to replenish retirement funds or extend benefits, but the incentives don't begin and end with your checkbook—they are much more holistic than previously understood. Many of us are choosing to work longer for our own well-being, for the well-being of a relationship, and for the well-being of society.

Individual Retirement Attitude

One thing is for sure: We are no longer living with industrial-age realities, and the industrial machine should not be making life decisions on our behalf. As individuals, we need to decide when we are done. It should be a matter of personal policy, not corporate or government policy. The first order of business, then, is to eradicate artificially imposed finish lines in our life and begin designing our own track to run on.