Mandatory or Flexible: Whither Retirement Age Policy?

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Abstract
The debate over whether to end mandatory retirement age policy in favor of flexible retirement policy has heightened. It is argued that it is wasteful to compel productive workers to retire at an arbitrary chronological age and that productivity should be the correct criterion for continued employment. This paper examines the preference between mandatory and flexible retirement age policies based on a survey conducted among workers in Lagos State, the former federal capital of Nigeria. It evaluates the impact of eliminating mandatory retirement age policy on the productivity of Nigerian workers. Particularly, the study investigates the influence of age, gender, income, and duration to retirement on workers' preference for the type of retirement age policy. The study found that all the factors of interest influence employees' preference for type of retirement plan and employees are indeed more disposed to flexible retirement. It also found that flexible policy will have a positive welfare effect as many employees can then take care of their extended span of dependants for a longer period and employee productivity will also be improved.

Key words: Retirement, Mandatory, Flexible, Pension Plan, Extended Family System.

INTRODUCTION

The retirement landscape is fast changing as transformations are witnessed in the nature of work, improvement in life expectancy and reforms in pension schemes. Jobs have become less physically demanding and more retirees are returning to work or shifting to part-time work before entirely leaving the labour force (Johnson, Butrica and Mommaerts, 2010). In many European countries burgeoning deficit and aging population have forced the respective governments to raise the retirement age (Huffington Post, 2010; Examiner, 2010). This development has rekindled the debate in Nigeria as to whether the mandatory retirement policy should be retained or abolished. Trade Unions are now demanding a review of their members' retirement age from 65 years to 70 years (Daily Champion, 2009)

Proponents of mandatory retirement age cite creation of new job opportunities for new blood, high costs of retaining high-salaried older workers (Gunderson, 2004; Munell and Lluberas, 2006) and the difficulty in evaluating the older workers, year after year beyond the Normal Retirement Age, to ascertain if they are still competent to effectively perform their work duties (Rosen & Jerdee, 1979). Further, Gokhale (2004) remarked that physical and mental capacities generally tend to decline with age. These impediments and other reasons, he submitted, led to the imposition of mandatory retirement age in certain occupations like the police, firefighters, air traffic controllers and commercial airline pilots (Gokhale, 2004).

Demographic developments coupled with advances in medical and health sciences have led to higher life expectancy of individuals (Barrus, 1953; Johnson, Butrica and Mommaerts, 2010).

With better health, productivity, physical ability and mental capacity become less linked to age. Indeed as early as 1960s there was mounting evidence that many of the retirees had the ability to continue with their jobs (Kreps, 1961). In the past two decades human rights activists have vociferously campaigned against any form of discrimination in the workplace based on age or otherwise. Employers have become more conscious of the need to treat all employees equal and with dignity and respect. On the basis of such arguments a flexible retirement policy seems to be a more plausible option. We use the term flexible retirement in reference to a policy that allows employees who have reached certain age to decide when to retire. Murell and Lluberas (2006) argue that the economic outlook of retirees in United States would have been dismal if mandatory retirement policy had been retained since they would not be able to maintain their pre-retirement standards of living over an increasingly long period of their retirement. In Canada, the Special Senate Committee on retirement age policies reported that 'mandatory retirement can cause severe economic hardship on older workers having financial obligations' (cited in Agarwal, 1998: 42). This argument seems to support Kreps' (1961) position that the most obvious solution to the low income status of the retirees would be to continue in employment.

Worman (2004) posited that in a tight labour market access to the best talent would be hampered if employers do not change their mindsets on age groups and abilities. She argued that people would have to work beyond what she referred to as "irrelevant mandatory age of retirement" and recognize the added value gained from older people with relevant experience. A similar argument is posited by Grattan (2004) who maintained that the real negative impact of retaining the mandatory retirement age is the shadow it casts over the final 10 to 15 years of working life. As a result of this, decisions on recruitment, training, promotion and retention for those over 45 years are often seen in the context of nearing retirement age.

In earlier years, Cochrane (1952) had observed that changes in general economic conditions and a country's manpower situation may require more flexibility in retirement policies. In Nigeria, a fixed retirement age has been the practice since colonial days. Under the colonial administration, the Workmen Ordinance of 1946 and subsequent amendments had fixed retirement age of government workers at 55 years. Fixing the retirement age was not seen to be a problem in Nigeria since life expectancy was far below 60 years. However, with advances in medical science bringing improvement in life expectancy, the proportion of older workers in the labour force ought to be addressed with some fresh thinking. Further, unfavourable investment climate has impacted negatively on retirees, some of whom have lost their retirement benefits due to poor performance of their investments. Clearly, there is need to re-think the current retirement policy and practices. This study seeks to evaluate the impact of eliminating mandatory retirement age policy on the welfare and productivity of Nigerian workers. Particularly, the study investigates the influence of age, gender, income, and duration to retirement on workers' preference for retirement age policy.

LITERATURE REVIEW

Over the last six decades controversy over the merits or demerits of retaining the compulsory retirement age policy has been on-going. Mandatory retirement, according to Wachter (2002) forces employees to retire once they attain a certain age. Cochrane (1952) notes that on attaining this fixed or mandatory retirement age, employees are compelled to retire irrespective of their circumstances. Cochrane advocated that retirement be a voluntary withdrawal from the labour force at the age that best suits the abilities, interests, and career plans of an individual. This view

is shared by Henkens (2005) who asserts that older workers have been compelled to retire through mandatory retirement once they reach a certain age even if they were still capable of giving valuable service and were willing to continue with employment. Orenstein (1961) highlighted five retirement problems experienced by the ageing population including; a) increased number and ratio of older workers to the total population in many countries, b) many retirees capable of continuing with active work but are removed abruptly, c) creation of a void in specialized skills by retiring employees, d) introduction of pension complications and e) the effect of mandatory retirement on the morale and health of the affected retirees.

Barr (2003) argued that since flexible retirement increases individual choice over consumption smoothing it has a positive effect on the welfare of workers. It enables them to phase-in their retirement gradually and to explore the possibilities of life after full-time employment (Taylor, 2003). Taylor also contends that it benefits the organizations too as it allows them to retain employees for a longer time and slow down the loss of skilled and experienced personnel.

Various theories have been put forward to illuminate aging and retirement behaviour. The main ones include disengagement theory expounded by Cumming and Henry (1961), activity theory developed by Havighurst (1963) and continuity theory proposed by Neugarten (1964). The disengagement theory and the activity theory present two opposing views. While disengagement theory regards aging as an inevitable, mutual withdrawal resulting in decreased interaction between the aging person and others in the social system to which he belongs, the activity theory argues that the older person can resist the negative effects of aging by remaining active. On its part, continuity theory posits that maintaining constant life and work pattern into retirement is associated with greater life satisfaction. Both activity and continuity theories seem to agree that staying active and involved could be an antidote for healthy aging. The interest that researchers have shown in retirement is reflected in the many approaches that have been adopted in analyzing it. The significant ones are logistic regression analysis to estimate age specific retirement rates (Clark & Ghent, 2006), probit analysis (Lahey et al. 2006; Rosen and Jerdee, 1979; Malroutu and Xiao,1995) and the pooled hazard model of Clark and Ghent (2006).

In a national study on the impact of abolishing mandatory retirement on faculty retirement rates in United States, Ashenfelter and Card (2002) reportedly found the abolition of mandatory retirement having no effect on retirement rates for faculty members below 70 years of age but reported significant reduction in retirement rates for faculty members aged 70 years and above. Clark and Ghent (2006) in a similar study using data from 15 tenure-granting institutions had results identical to Ashenfelter and Card's findings. Further, perceived adequacy of retirement income tends to differ significantly by age, gender, race, income, and job status (Malroutu and Xiao, 1995). Reday-Mulvey and Taylor (1996), noting that an ageing workforce have been forced to partial or part-time employment due to concerns about their welfare in retirement, have argued for an approach that combines part-time work and pension rights.

In Nigeria, literature on workers' preference for type of retirement age is scanty. The few studies available focus on the choice between defined benefit retirement plan and defined contribution benefit plan (Falade and Ojikutu, 2006). Since the Nigerian government has made its choice in favour of a contributory plan it would serve no purpose to belabor the issue except there is incontrovertible evidence that the choice is faulty. Okumagba, (2005) endeavored to examine employees' preparation for retirement but only employed simple analytical methods. As a result he failed to provide a robust framework that could be used in formulating a retirement age policy for the country.

METHODS

The Data and Measurement Instruments
For the purpose of the study we define flexible retirement policy to mean allowing employees freedom to decide when to exit from age 50 as stipulated by the Nigerian Pension Reform Act of 2004 for early retirement. We used a questionnaire to collect data from respondents. The questionnaire captured information on the income of the respondents, their age, gender and the remaining time to retirement. Some of the questions in the measurement instruments were adapted from Shacklock and Brunetto (2005) and Munnell, Soto and Sass (2006). Under the normal retirement age policy employees in the Nigerian public service retire at the age of 60 years or after 35 years in service, whichever comes first. Since civil servants constitute a considerable number of the workforce in Nigeria, the last factor was included to accommodate this regulation.

The questionnaire was administered to workers in both the private and the public sectors in Lagos State. Lagos was chosen because of its cosmopolitan nature. Being a former national headquarters and an important commercial center, its workforce population is representative of States in Nigeria. We categorized the entire workforce into five groups, namely: For-profit organizations, not-for-profit organizations, core civil service, government agencies (parastatals), and educational institutions. It was then convenient to use a two-phase stratified technique whereby within each group we selected three categories of employees, namely: top management, middle management and junior staff. For-profit organizations that were visited included Oil Companies (particularly because many of them operate Closed Pension Schemes), banks, insurance and other financial institutions and Food and Beverage sector employees. For the core public service, data were collected from civil service employees in Lagos State and the Federal Civil Service. We distinguished between other agencies/parastatals and Educational Institutions because of the special interest of the academic community on the outcome of the study. Copies of the questionnaire were also administered on the floor of the Nigerian Stock Exchange. A total of 1000 copies of the questionnaire, 200 for each subgroup, were administered. At the end of the field survey 648 participants completed the questionnaire over a period of two months. This represented a response rate of 64.8%. Out of these 576 or 89% were found usable.

Data Analysis and Results
Data was analyzed using logistic regression, a sub-class of statistical models known as generalized linear models (Menard, 1995). Logistic regression being a predictive model for analyzing survey data (Hosmer and Lemeshow, 2004) provides a means for modeling the dependence of a binary response variable on one or more explanatory variables where the latter is categorical or continuous (Bewick *et al.* 2005).

In Table 1 the effect of gender, age, income, marital status and education on employees' preference of retirement age policy plus the respective Chi-square and p- values are displayed.

TABLE 1
Gender, Age, Income, Marital Status, Education and Employee's Preference

	Mandatory	Flexible	χ^2	p-value
Gender				
Male	29.4	70.6	4.250	0.024
Female	38.4	61.6		
Age				
Less than 35 years	22.4	77.6	28.607	0.000
35 - 50 years	43.5	56.5		
50 - 60 years	27.0	73.0		
60 - 65 years	54.7	45.3		
Income				
Less than 20,000	42.9	57.1	10.721	0.030
20,000 - 50,000	26.6	73.4		
50,000 - 100,000	36.4	63.6		
100,000 - 200,000	45.2	54.8		
200,000 and above	12.5	87.5		
Marital Status				
Single	33.0	67.0	31.171	0.000
Married	41.6	58.4		
Divorced	9.0	91.0		
Widow	53.3	46.7		
Education				
Secondary school or less	39.0	61.0	9.836	0.043
Diploma	22.4	77.6		
First degree	37.1	62.9		
Professional	42.7	57.3		
Higher degree	42.1	57.9		
Total	34.6	65.4		

The results indicate a statistically significant influence of these factors on workers' preference of retirement age policy. Further the table shows that the preference for flexibility is tilted towards the male workers as 70 per cent of the respondents indicated that they would prefer flexible plan. The percentage of female workers opting for flexible retirement plan is lower going by the 62 per cent recorded for this question. Apart from workers in the 60-65 age group only widows express preference for mandatory retirement policy. Interestingly, across the different levels of income, well over 50 per cent would prefer the flexible plan with the highest percentage coming from those earning above Naira 200,000 per month. Overall, 65 per cent of the workers would prefer flexible retirement plan.

TABLE 2
Type of Organization and Employee's Preference

	Mandatory	**Flexible**	**χ^2**	**P-value**
Type of organization				
Not for profit	30.0	70.0	4.129	0.389
For profit	34.1	65.9		
Government Agency	23.4	76.6		
Civil Service	38.3	61.7		
Educational Institution	25.0	75.0		
Kind of Pension Scheme offered				
New DC Scheme	31.0	69.0	1.989	0.094
Old DB Scheme	35.6	64.4		
Closed Pension Fund	42.9	57.1		
None	41.2	58.8		
How adequately prepared, financially, do you think you are likely to be at retirement?				
Very inadequately prepared	38.3	61.7	8.295	0.040
Inadequately prepared	22.9	77.1		
Somewhat adequately prepared	34.1	65.9		
Very Adequately prepared	41.6	58.4		
To what extent is this affected by the new pension reform?				
Greatly	27.7	72.3	3.503	0.320
Some Extent	40.1	59.9		
Not at all	27.3	72.7		
Does your organization offer employer sponsored health insurance?				
Yes	32.8	67.2	8.189	0.017
No	39.0	61.0		

Table 2 shows that the type of organization makes little or no impact in the employee's preference for type of retirement plan. Generally, well over 60 per cent of the employees across the five different classes of organizations to which the respondents were grouped preferred the flexible retirement plan. It also appears from Table 2 that the kind of pension scheme adopted by an organization does not influence the preference for type of retirement plan by workers. However, the level of preparation for retirement significantly affects the preference of employees for flexible retirement. What seems to be of significant import to employees' preferences is whether or not the organization for which they work offers health insurance benefit. Most of the organizations covered by the survey offer employer-sponsored health insurance scheme but in over seventy percent of the cases such cover does not include the period of retirement.

To provide a more robust analysis of the relationship between gender, age, marital status, and number of dependants and workers' preference of retirement policy plan, we applied logistic regression analysis. The subsequent results for the analysis are shown in Table 3.

TABLE 3
**Logistic Regression Analysis of Explanatory Variables**

(1)	(2)	(3)	(4)	(5)	(6)	(7)
	B	S.E.	Wald	df	Sig.	Exp(B)
Male	0.343	0.244	1.976	1	0.160	1.409
Marital Status			28.449	3	0.000	
Single	-0.715	0.708	1.020	1	0.312	0.489
Married	-0.117	0.639	0.034	1	0.854	0.889
Divorced	2.718	0.827	10.791	1	0.001	15.153
Age			21.122	3	0.000	
< 35 years	1.909	0.494	14.921	1	0.000	6.745
35 - 50 years	0.549	0.423	1.684	1	0.194	1.731
50 - 60 years	0.774	0.469	2.720	1	0.099	2.169
Number of Dependants			25.309	5	0.000	
0 dependants	-21.565	40192.970	0.000	1	1.000	0.000
1 dependant	0.069	0.506	0.019	1	0.892	1.071
2 dependants	-0.214	0.572	0.140	1	0.708	0.807
3 dependants	-1.417	0.467	9.212	1	0.002	0.242
4 dependants	0.196	0.405	0.234	1	0.629	1.216
Income			6.292	4	0.178	
< N20,000	-20.685	20559.364	0.000	1	0.999	0.000
21,000 - 50,000	-19.580	20559.364	0.000	1	0.999	0.000
51,000 - 100,000	-19.827	20559.364	0.000	1	0.999	0.000
101,000 - 200,000	-20.258	20559.364	0.000	1	0.999	0.000
Constant	19.533	20559.364	0.000	1	0.999	0.000
R-square	0.339					
-2 Log likelihood	466.797					

Table 3 provides estimates for the odds ratios for each of the independent variables in the model. For instance to determine how much a male worker aged 50-60 is likely to prefer the flexible retirement plan we take the exponent of the regression estimate in column 2 to obtain the figure in column 7. Thus, the odd that a male worker would prefer flexible retirement option is 1.409. Similarly the odd that a worker who is a divorcee would prefer flexible retirement option is 15.153 while that for workers aged 50 - 60 year group is 2.16. The odd that those aged less than 35 years would prefer flexible retirement is 6.745. Comparatively, workers that have 4 dependants are about 5 times more likely to prefer the flexible retirement plan than those with 3 dependants. Workers aged 50 – 60 years are 1.25 times more likely to prefer flexible retirement plan than those in the 35 – 50 year bracket.

Effect on Worker Productivity

Next we sought to find out the extent to which organizational policies, health care provision, compensation, type of pension scheme, acquisition of new knowledge and work structure affected workers' level of productivity. A seven-point Likert scale was used in each case and the results are shown in figure 1.

FIGURE 1
Organizational Factors and Productivity
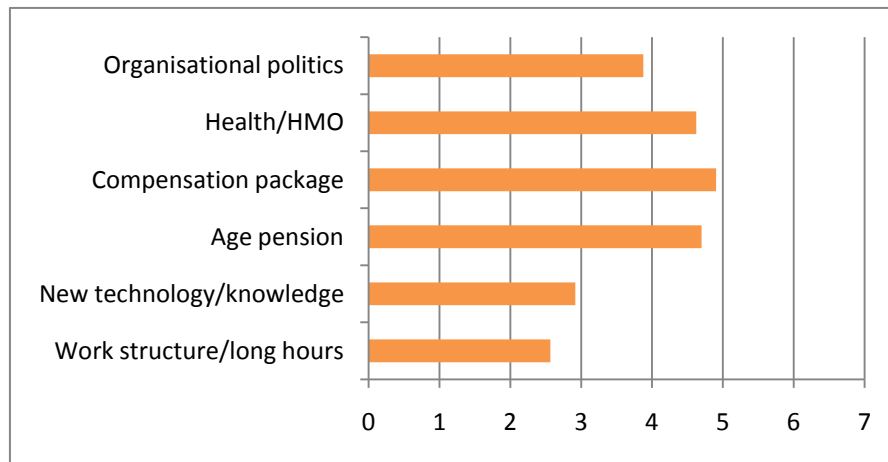
Compensation, health care, and retirement age policy, with particular reference to flexible retirement policy, were rated to be the most significant factors that impacted workers' productivity. Within a flexible retirement framework this implies that a good compensation package, a retirement-linked health programme and pension plan with benefit available as and when due would enhance productivity. It would seem that including retirees in the employer's health programme will foster help in structuring a flexible retirement policy.

Policy Implications and Conclusion

In this study, we examined how the choice of retirement age policy is influenced by age, gender, marital status, time to retirement, and income. Our results show that these variables have significant influence on the kind of retirement policy the Nigerian workers would prefer. It is significant to note the concern employees have about the length of their employment has a considerable impact on their productivity. It appears, going by the results of our study that a flexible retirement age policy would be availing to the workers' productivity than a mandatory one. These results are homologous to current trends in other parts of the world where increase in the aging population is leading to a deferment of retirement age (D'Autume, 2003). Further, a flexible policy would have a positive welfare effect as employees could take care of their dependants for a longer period. Moreover, a flexible retirement plan means that employees remain in their employers' health schemes longer and thus their health worries are reduced.

In Nigeria corruption has been identified as one of the causes of underdevelopment. With a flexible retirement, we can speculate that workers who might have engaged in this practice in order to take care of their dependants after retirement would have a rethink. A flexible plan may thus be an incentive to discourage corruption.

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