Living Longer but Working Longer: Where Are We Heading in Canada?

The average retirement age is often used to study changes in retirement behaviour. The average retirement age in Canada rose somewhat after bottoming out in the mid-1990s. However, since 2004 it has remained relatively stable at around 62, which is surprising because the employment rate of those 55 and over has been rising significantly for a number of years.

Whether average retirement age is calculated from the LFS or another source, it must be interpreted with caution for the following reasons:

- It is influenced by the age structure of the 50-and-over age group.
- It is more sensitive to early retirements than delayed retirements.
- It is not necessarily representative of the behaviour of all workers approaching retirement (in other words it does not take into account the prevalence of retirement).

The influence of the age structure of the 50-and-over age group may result in a lower average retirement age if most of the employed people in that age group are 50 to 59, or a higher average retirement age if most of those people are 60 to 69. Therefore, the gradual entry of the sizeable boomer generation into the 50-and-over age group may have a large impact on the average retirement age.

To illustrate this effect, the average retirement age from 1976 to 2031 was calculated using 2008 annual employment and retirement rates. Only the age structure was allowed to vary. In that way, the impact of age structure changes on the average retirement age between now and 2031 could be isolated.

In the mid-1990s, the first of the baby boomers turned 50, gradually making the 50-and-over age group younger overall and bringing down the average retirement age by 0.5 years for men and 0.6 years for women. Similarly, the gradual entry of the boomers into the 60-to-69 age group between 2006 and 2026 will age the 50-and-over worker group, increasing the average retirement age by approximately 1.5 years. The trend is significant because it could suggest a lengthening of the working life of older workers without any real change in retirement behaviour.

In addition to being influenced by the age structure, the average retirement age is more sensitive to early retirements than delayed retirements. For example, when the trend is to retire earlier, this will be reflected immediately in the number of retirements by age. However, when the trend is to postpone retirement, these delayed retirements will only be factored in when workers actually retire. Finally, in the most extreme case that, in a given year, only one person retired and all other employed individuals postponed their retirements, the average retirement age would be the age of that single retiree. The "average" retirement age would fail to capture the fact that all other older workers are in fact postponing their retirement.

For these reasons, the average retirement age does not reliably reflect changes in retirement behaviour. This partly explains why, for several years, the average retirement age has not increased significantly, even though the employment rate of Canadians 55 and over has risen sharply. The expected working life tables make it possible to measure changes in retirement behaviour much more accurately.

This has important implications in the discussion over the need to increase mandatory retirement age for full receipt of public pensions in Canada. Many countries have done so over the past few years, or have implemented regulations that will do so in the future. Reasons put forward have included long term viability of public pensions, intergenerational equity and trends in earlier retirement. In Canada, the public retirement income system has been considered sustainable for the foreseeable future while keeping contribution rates to their present level. However, if life expectancy increases while working life expectancy at age 50 remains stable or decreases, these assumptions may be wrong. This paper will allow for a more informed discussion over this sometimes heated debate.

**Data sources, method and definitions**

This study is based on data from the Labour Force Survey (LFS), which surveys approximately 54,000 households on a monthly basis. The LFS provides information on general labour market trends by industry and occupation, hours worked, participation rate and unemployment rate. The LFS also provides information on the number of retirements per year. That information is used to compute retirement rates, which in turn are used to produce working-life tables. Those tables show the number of years that a 50-year-old Canadian can expect to continue working before retiring if he or she experiences the retirement and mortality rates observed in a given year.

The working-life tables are based on retirement and mortality rates observed between age 50 and age 75, which represents the age group where the very large majority of retirements are taken. Since data for the Northwest Territories, Yukon and Nunavut are not included, the findings of this study apply only to the 10 provinces.

**Retirements**
The number of retirements in a given month or year is derived from the question on the reasons for stopping work, as one of its responses is "retired". That question is asked if the respondent is not working at the time of the survey but has worked in the preceding 12 months.

Retirements identified using the LFS are not necessarily full retirements, first retirements or career job retirements. The LFS records retirement as reported and perceived by the respondent at the time of the survey. As a cross-sectional survey, the LFS cannot identify the multiple states between first retirement and full retirement.

**Other definition of retirement**

Of course, when using the LFS, some older workers may have left a job within the last twelve months for medical, personal or economic reasons. Among these individuals, some may end up retired because they were not able to work or to find work over a long term period. We have expanded our definition of retirement to capture some of these "involuntary" retirements. Using the LFS question on the reason for stopping work, we can select employment exits associated with economic conditions, illness, disability or even personal and family responsibilities. However, we have no way of knowing whether those employment exits actually lead to retirement. We must therefore establish some criteria.

Various criteria were tested for selection of these retirements. First, we hypothesize that there is no involuntary retirement before age 55. Second, to be considered involuntarily retired, people had to be out of the labour force, not looking for work, unavailable for work, not wanting to work and not expecting to be called back. Finally, a different time period was used depending on the age of the respondent:

1. People aged 55 to 59: They are out of the labour force, have been unemployed for at least three months, are not looking for work, are unavailable for work, do not expect to be called back and do not want to work.

2. People aged 60 and over: They are out of the labour force, with no minimum jobless spell, are not looking for work, are unavailable for work, do not expect to be called back and do not want to work.

Before 1997, it was impossible to distinguish between exits from seasonal, temporary and casual employment. Temporary and casual employment exits may be associated with economic conditions. However, it is not advisable to treat seasonal employment exits as retirements. To avoid this problem, when including "non-voluntary" retirement in the analysis, we have to start the time series only in 1997.

**Our recent work on expected working life expectancy, using cross-sectional working life tables, has shown that:**

- in 2008, an employed 50-year-old had an expected additional 16 years before retiring. This is roughly 3.5 years longer than workers of the same age in the mid-1990s who could expect to work 12.5 more years. The 3.5-year increase was the same for both men and women;
- even though they are delaying their retirement, Canadians are not necessarily spending less time in retirement given a similar increase in life expectancy;
- expected length of retirement increased from 1977 to the mid-1990s and has remained relatively stable since;
- as a percentage of total life expectancy at age 50, the expected length of retirement was about the same in 2008 as it was in 1977 (about 48% for men and 55% among women);
- working-life expectancy drops by almost two years (from 16.3 to 14.5 years) when calculations include both voluntary and involuntary retirements;

- taking involuntary retirement into account, workers aged 50 in 2009 could still expect to work longer than their 1998 counterparts.
- involuntary retirements reduced the potential expected working life of workers at each level of schooling. However, the decrease is slightly larger for poorly educated people;
- given lower life expectancy at age 50, a less-educated 50-year-old worker can expect to live, on average, at least three years less after retirement than a 50-year-old worker with postsecondary credentials.

**Using the LFS data with a longitudinal and prospective approach**

The paper presented at the PAA would use a different approach to present the results by cohorts of Canadian older workers. Of course, using the LFS we are not able to track the same individuals over a long period of time. However, by looking at retirement rates for a given cohort of individuals born the same year we will be able to use the data with a longitudinal perspective. The paper will look at trends in working life expectancy before retirement among cohorts of Canadian workers reaching age 50 between 1976 and 2006. A complete picture will be presented for cohorts born between 1926 and 1936. Different projection scenarios will be used for cohorts born between 1937 and 1956. These results will be presented by gender, with additional results using broad schooling levels. The paper will also look at the trend in expected years lived in retirement given the increasing life expectancy at age 50 during the period of observation.

The discussion will focus on the need, or not, to increase mandatory retirement age for full receipt of public pensions.