Canadian Centre for Policy Alternatives

Growing older, Working longer

The New Face of Retirement

Monica Townson

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Preface

It's not surprising that, as the leading edge of the baby boom generation reaches its late 50s, retirement has become a major preoccupation—especially when the springtime ritual of the RRSP season rolls around. A bombardment of ads encourages us to believe that, if only we follow the right advice and invest in the right plan, by the time we're in our 50s we'll be able to spend the rest of our lives lying on a sandy beach in the Caribbean, travelling around Europe, or relaxing on the golf course, without a care in the world. "Freedom 55," originally presented as a clever marketing slogan for a major insurance company, has now become the goal everyone is persuaded to aim for—that time when, free of the burden of work and economically secure, we'll have years of leisure ahead of us.

But there is now growing uncertainty about retirement—how and when it might happen, and what form it might take. More and more people will not be able to achieve their dreams of early retirement. Volatile stock markets and low interest rates have pushed workplace pension plans into deficit positions and undermined the value of individual retirement savings. Many people are no longer sure about just when they'll be able to stop working, or even if they'll ever be able to stop. And many of those who retired early are now going back to work—some for financial reasons, others because they prefer to keep active.

Governments around the world are trying to persuade people to postpone their retirement and go on working to ease pressure on pension plans as the big generation of baby boomers gets set to retire. But it's not just the cost of pensions that is fuelling the development of policy here. Workers who produce the goods and services the economy needs are essential to economic growth and prosperity. There is growing concern that, as the baby boom generation retires, fewer workers will be available to support the growth of the economy and produce the goods and services needed by all Canadians.

Canada is being urged by international bodies such as the OECD to get rid of early retirement incentives, to abolish mandatory retirement, and to take other measures to persuade people to go on working and to raise the age of retirement. The fear is that these efforts may become coercive and that people may be forced to go on working against their will.

At the same time, strong pressure is building to shift responsibility for retirement provision away from collective actions and programs and onto individuals, who will be expected to fend for themselves. There are already signs that this is happening as employers move away from defined benefit pension plans where a pension related to earnings and years of service is guaranteed, in favour of defined contribution plans and group RRSPs where retirement income depends on investment returns and no particular pension amount is promised.

Regardless of policy measures adopted by governments, there are already signs that people increasingly believe they will have to go on working longer or take some other kind of job after a formal retirement from a long-term "career" job. More and more workers are doing just that. In fact, we probably need a new word to describe what happens when workers grow old, because retirement has become a process: it's no longer a point in time when work stops and leisure begins.

This book will look at how what we used to call "retirement" is changing, and what it may mean. It will look at changes already under way and at the growing uncertainty about retirement. We'll discuss how the current retirement income system is coping. We'll consider new and more positive perspectives on the aging population in some detail and follow the demise of the early retirement dream. We will also discuss how older workers might be protected in this changing environment. The idea of "increasing choice" and giving people a "better range of alternatives" is receiving growing emphasis in policy development, but what does it mean and what could be the likely consequences? We will conclude with some consideration of where we might go from here.

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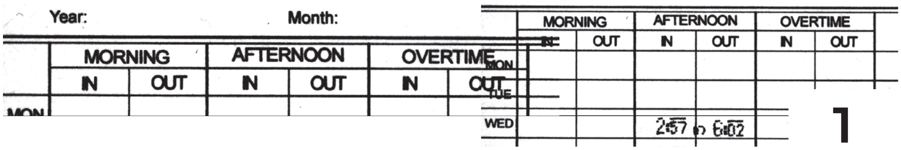
I am also grateful to John Myles, who read an early draft of the manuscript and offered helpful comments and advice. Responsibility for the opinions expressed in the book, and for any errors or omissions, is mine alone.

Monica Townson
Toronto, January 2006



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An Uncertain Future

Most of us look forward to spending our golden years relaxing and enjoying life, playing with our grandchildren, maybe traveling to exotic places, or taking up that hobby we've been thinking about for so long. Just how much we can do in those retirement years will depend on income, health, and family situation. But almost everyone now has years of leisure after finishing a lifetime of work.

It wasn't always so. In the early 1900s, when farming was still a major source of employment, many people carried on working until poor health or death intervened.[1] Retirement was only possible for a tiny minority of people who had managed to get together enough savings to support themselves in old age—or whose families could support them when they were no longer able to work for pay. As recently as the 1950s, for instance, U.S. surveys showed only about 5% of retirees had stopped work voluntarily to enjoy more leisure. The rest had been forced to "retire" because they were laid off or were in poor health.[2] And many of them spent the rest of their lives in poverty.

Being able to spend senior years in leisurely comfort has been described by one writer as "one of the great achievements of the affluent democracies in the 20th century."[3] Essentially, the expansion of mandatory, universal pension schemes "democratized" access to retirement, so that it was no longer the privilege of the few.

Perhaps not surprisingly, with the leading edge of the baby boom generation reaching its late 50s, retirement has now become a major preoccupation—especially when the springtime ritual of the RRSP season rolls around. A bombardment of ads encourages us to believe that, if only we follow the right advice and invest in the right plan, by the time we're in our 50s, we'll be able to spend the rest of our lives lying on a sandy beach in the Caribbean, traveling around Europe, or relaxing on the golf course, without a care in the world. "Freedom 55," originally presented as a clever marketing slogan for a major insurance company, has now become the goal everyone is persuaded to aim for—that time when, free of the burden of work and economically secure, we'll have years of leisure ahead of us.

While some people may be able to achieve their dreams of early retirement, many more do not. Some were forced into early retirement when their employers decided to lay off workers during economic down-times. As well, volatile stock markets have pushed pension plans into deficit positions and undermined the value of individual retirement savings, so that many people are no longer sure about just when they'll be able to stop working, or even if they'll ever be able to stop. And many of those who retired early are now going back to work—some for financial reasons, others because they prefer to keep active. There's growing uncertainty about retirement—how and when it might happen and what form it might take. In fact, we probably need a new word to describe what happens when workers grow old, because retirement has become a process: it's no longer a point in time when work stops and leisure begins.

It could even be that early retirement is rapidly becoming just a fiction dreamed up by mutual fund companies and financial institutions to sell financial products at RRSP time. For instance, recent surveys have shown that high percentages of Canadians plan to go on working after taking a formal retirement, and many of those who took early retirement have returned to work in some capacity, even if not at the same kind of job from which they retired. One recent survey from Statistics Canada found that, while many people may say they want to retire early, less than one-quarter of people in their 40s and 50s plan to leave the work force before age 60.[4]

We can expect these trends to continue. In fact, governments will make sure they do. More and more jurisdictions have abolished mandatory retirement. Concerned about the growing cost of pensions as more and more people reach retirement age, governments in almost all the industrialized countries are now developing policies to encourage people to abandon their plans for early retirement and to keep on working to later ages. The United States is raising the age of eligibility for Social Security from 65 to 67, although the changes were announced 20 years ago and will be phased in over roughly the next 20 years. The United Kingdom government proposed age 70 as a "default" age of retirement, but then backed down and set the default age at 65—at least for now.

In Canada, a major federal government research initiative is looking at policies that might change the way people combine work, leisure, caregiving, and education over a lifetime instead of emphasizing only what policies are needed once they reach age 65. "Population Aging and Life-Course Flexibility" is what they've called the project. The aging population is no longer seen as a "crisis." Instead, officials say, "the coming retirement of the baby boom generation, if accompanied by good social policies, may provide an opportunity to make major social and economic gains."[5]

The view now is that tomorrow's generation of older people will be skilled and potentially productive in an economy based on knowledge and services. The growth of healthy life expectancy raises the possibility of increasing both time spent in work and time spent in leisure, with gains on both economic and social fronts. The process could eventually lead to a new definition of "retirement" and radical new policies that will change the way we look at the aging process.

This book will look at how what we used to call "retirement" is changing, and what it may mean. It will look at changes already under way and at the growing uncertainty about retirement. We'll discuss how the current retirement income system is coping. We'll consider new and more positive perspectives on the aging population in some detail and follow the demise of the early retirement dream. We will also discuss how older workers might be protected in this changing environment. The idea of "increasing choice" and giving people a "better range of alternatives" is receiving growing emphasis in policy development, but what does it mean and what could be the likely consequences? We will conclude with some consideration of where we might go from here.

Living longer and retiring earlier

The very idea of retiring in your 50s to live a life of leisure represents a remarkable turnaround in just a few generations. For instance, the first public pensions in Canada, introduced in 1927 through the Old Age Pensions Act, provided benefits only to people who had reached age 70. Our grandfathers—if they were lucky enough to have a company pension plan—could look forward to the proverbial gold watch once they reached age 65, after a lifetime of working for the same employer. And they went home to put their feet up. But they often didn't spend much time in retirement, because life expectancy was much lower then.

Our grandmothers, of course, generally didn't work outside their homes—at least if they were middle class. Busy with looking after their large families and keeping house, they didn't get to retire. Women from lower-income families generally have always had to combine those responsibilities with some kind of paid work—whether cleaning house or washing clothes for other families, or low-paid factory work or piecework in their own homes. They didn't get to retire either.

But life expectancy has increased significantly since grandmother was young. In 1921, a Canadian man who reached age 65 could expect to live another 13 years, on average. Women at age 65 in 1921 had an average 13.3 years still ahead of them.[6] Now, the life expectancy of men at age 65 has risen to 16.3 years, while women at age 65 can expect another 20.2 years on average.[7]

Ironically, while people are living longer, they are retiring earlier. In the 1970s and early 1980s, workers typically retired at age 65. But by 2001, the median age of retirement had dropped to 60.8.[8] Canada has just reached the cross-over point for men where lifetime years in and out of employment are about equal.[9] In 1970, Canadian men could expect to work 44 years of their lives and be doing other things—such as going to school, being unemployed, or retired—for another 26 years. Now, more time is spent out of employment than in it. The OECD suggests that, if current trends continue, by 2030 men would spend 35 years in paid work and 44 years not at work. In 1970, Canadian women could have expected to spend 19 years in paid employment and 58 years not in employment. By 2030, according to the OECD, women could spend 38 years in paid employment and 47 years out of employment.[10]

Early retirement could accelerate the process. Based on current life expectancy, anyone now thinking of retiring at 50 probably has more than one-third of their life still ahead of them. For instance, a 50-year old woman can expect to live another 33.2 years, on average, while a 50-year-old man probably has another 28.5 years to go.[11] That's a long time to be doing nothing.

Changing the culture of early retirement

While many observers believe there is now a general expectation of early retirement, it is important to note that early retirement is not always a voluntary choice. In the economic downturn of the early 1990s, for example, many employers laid off older workers as a way of downsizing their operations. Older workers may have been forced out of the work force even though they did not want to retire.[12] Some researchers suggest that the involuntary aspects of labour market withdrawal are often ignored in studies of retirement behaviour. In addition, older workers who keep working or return to the labour market may experience age discrimination, either by finding their job opportunities reduced, or having to accept lower-quality or lower-waged jobs. Protecting older workers from discrimination (discussed in more detail in Chapter 5) will have to be addressed if policy-makers hope to change the culture of early retirement.

One recent study, for instance, looked at individuals who turned 50 between 1976 and 1979 and followed their work patterns in the years leading up to age 65. Surprisingly, retirement as a self-reported event appeared to be relatively infrequent. Only about 51% of men and 30% of women in the selected age groups had retired from a job by age 65. In many cases, the job separation that ultimately ended a career must have been a layoff, an illness or disability, or a family-related event, according to this study. However, it must be noted that the workers who were the subject of this study would have turned 65 in the period from 1991 to 1994, part of which coincided with declining economic activity.[13]

Overall, the study found that about 60% of all job separations for both men and women in the age groups between 50 and 65 could be classified as involuntary. And the majority of those individuals found another job within 12 months. The authors of this study also say that the high rates of job change experienced within these age groups contradict the view that careers of older workers are characterized as either a process of gradual disengagement or a stable plateau preceding an abrupt final withdrawal. And, they say, "Since only a bare majority of men and a minority of women explicitly retired, many older workers seem to be interested in continued employment."

In the 1990s, some governments actively encouraged early retirement in an effort to free up jobs for younger workers and address the problem of high youth employment. The Quebec government, for instance, introduced a phased retirement scheme in 1997 which allowed people who would agree to reduce their hours of work to begin drawing on their workplace pension benefits, while continuing to contribute to the Quebec Pension Plan as if they were still working full-time. There's little evidence that such programs were successful in creating more job opportunities for younger workers. For one thing, younger workers generally do not have the same skills and experience as the older workers they are supposed to replace.

But there are signs that the culture of early retirement is changing. And it's likely to be helped along by public policies that will be designed to encourage people to stay at work longer—although some experts believe achieving the objective will not be easy. Sociologist and aging expert John Myles believes that institutions profoundly shape cultural preferences. "Once established," says Myles, "the expectation that 'normal retirement' occurs at age 55 or 60 may be extremely difficult to change."[14]

Nevertheless, phased retirement programs, intended to ease older workers out of the work force early, are now being abandoned. Sweden, one of the best-known practitioners of this type of policy, has dropped its well-known partial pension program and no new entrant has been allowed since 2000. And Quebec is now considering changes to the Quebec Pension Plan, outlined in a 2003 discussion paper called "Adapting the Pension Plan to Quebec's new realties."[15] Among other things, proposed changes would be designed to discourage early retirement. "Considering the rapid aging of the population and the new realities of the labour market," the Quebec government says, the Quebec Pension Plan must evolve so as to "make it more advantageous to remain employed."

In almost all industrialized countries, governments are looking for ways to ease the pressure on public pension programs. Having people retire later and keep up their pension contributions longer could be one way of doing that. The OECD has called for incentives for early retirement to be eliminated in favour of policies to encourage "active ageing."[16] Public pension programs, taxation systems, and social transfer programs should be reformed, the OECD says, to remove financial incentives to early retirement, and financial disincentives to later retirement.

In Canada, the Chief Actuary has suggested that the actuarial factors used to calculate early retirement pensions for people who claim their CPP benefits prior to age 65 are too generous.[17] An actuarial study of the plan, completed in 2003, found the formula currently being used effectively subsidizes early retirement and creates an incentive for individuals to opt for the CPP retirement pension at an early age (currently about 62, on average). The formula also penalizes those who want to continue working and claim their benefits after age 65, according to the study. The Chief Actuary said that, in the context of an aging population, where life expectancy at age 65 is expected to continue to increase and projected labour force shortages could induce older workers to stay at work longer, policy-makers will have to determine whether the legislated actuarial adjustment now in force should be changed or whether certain Plan provisions should be changed to restore cost neutrality.[18]

Peter Hicks, who was the first head of the federal government's Population Aging and Life-Course Flexibility research project, has expressed concern about "the significant real cost, both public and private, of supporting a much larger number of retirees, about sharing that cost across generations, and about the consequent need to make real changes in retirement ages and health care effectiveness."[19] He believes tomorrow's generation of older people will be skilled and potentially productive in an economy based on knowledge and services. According to Hicks, the growth of healthy life expectancy raises the possibility of increasing both time spent in work and time spent in leisure, with gains on both economic and social fronts."[20]

But it's not just the cost of pensions that is fuelling the development of policy here. Workers who produce the goods and services the economy needs are essential to economic growth and prosperity. There is growing concern that, as the baby boom generation retires, fewer workers will be available to support the growth of the economy and produce the goods and services needed by all Canadians.

Employers may soon be trying to address the looming shortage of younger workers as the baby boomers reach what used to be the traditional retirement age. They could do that by discouraging early retirement and trying to keep the older generation of baby boomers at work.

There's also the possibility that, as the population ages, employers may actively encourage those who took early retirement to come back to work. Analysts note that slow population growth has made the population 55 and over an important potential source of labour. But many of them have already left the labour force.[21]

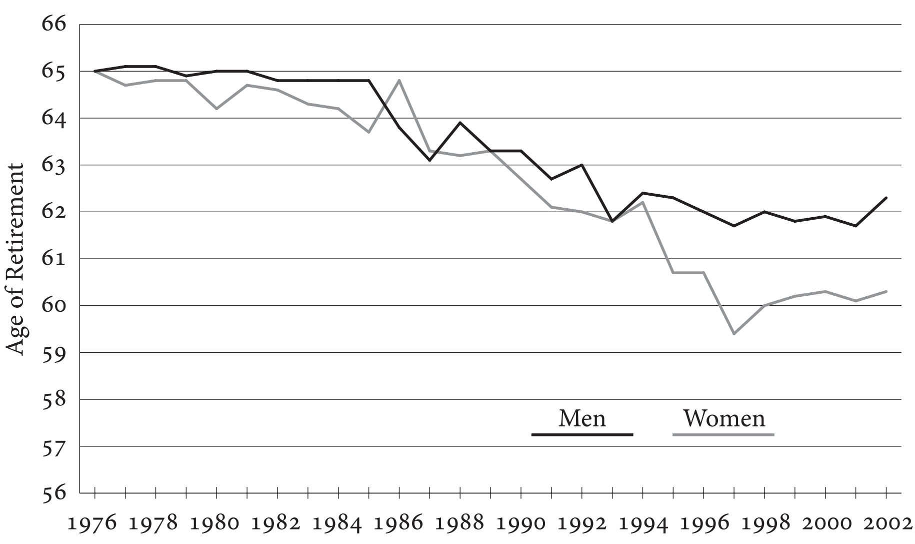
One recent study looked at men in the 55-to-59-year age group and found that just over 78,000 men in this age group were not in the work force in 1976. By 2001, however, almost 220,000 men aged 55 to 59, representing 6.6% of the total labour force, were not active in the work force. The labour market would lose a wealth of experience and potential economic contribution if inactivity continues to rise among men in this age group, the author of this study said.

Uncertainty is increasing

All the evidence points to an uncertain future for Canadians as they get older. It's hardly surprising that people are worried that they will not have enough to live on in retirement. Some groups, such as recent immigrants, unattached individuals, and lower-income households, face particular challenges. There is widespread confusion about pension plans and how the retirement income system works. Many people don't understand the difference between a group RRSP, which doesn't guarantee any pension, and a defined benefit pension plan, in which the employee is entitled to a pension guaranteed by the plan sponsor related to earnings and years of service.

One recent survey from Statistics Canada revealed numbers of people who thought they had pension coverage at work when in fact there wasn't a pension plan at all.[22] Some who were in a group RRSP thought they belonged to a pension plan where retirement pensions are guaranteed. University graduates, unionized workers, workers in large establishments, and those employed in finance and insurance, and communications and other utilities, seem to be better informed than other workers. But recent immigrants seem to be having a particularly hard time understanding the system. Among recent immigrants who reported having a registered pension plan in their job, a solid 53% were in firms with no pension plan. While new immigrants are generally better educated than their Canadian counterparts, they may not be as familiar with labour market institutions in Canada. But the end result is that almost one recent immigrant

CHART 1 Median age of retirement in Canada



in ten appears to be seriously misinformed about their coverage in an employer-sponsored retirement plan.[23]

Company pension plans that had been in surplus for many years faced deficits when the stock market tanked. Now they are having to make up the shortfall from current earnings so their pension plans will have adequate funding to finance the retirement of growing numbers of workers over the next few decades. Some employers in sunset industries already have more pensioners than current workers. And some companies, experiencing tough economic conditions, are even suggesting abandoning their defined benefit pension plans and switching workers to defined contribution arrangements, where the entire risk of providing a retirement income is shifted from the employer to the employee. Workers who had expected to get a decent and guaranteed pension at retirement may now find their retirement income depends on how well their investments perform. Those who counted on private saving through RRSPS to fund their retirement have seen the value of their investments drop, although by mid-2004 a recovery seemed to be under way. All these developments have increased uncertainty about retirement—especially for younger workers who have other priorities and for whom retirement may seem a very long way off.

It seems the majority of younger Canadians don't think the Canada Pension Plan will be there when they get to retirement.[24] Apparently they are not aware that the plan was substantially overhauled in 1998 and now has a reserve fund that is building up assets to help fund future pensions. As the former head of the CPP Investment Board pointed out, "They are still concerned that money may not be there for them when they retire—a myth promulgated during RSP time."[25] Confusion and uncertainty have proved a powerful selling tool for the promoters of mutual funds and RRSPS who try to attract investors by implying they will not be able to count on CPP pensions or government benefits in retirement.

Annual surveys of RRSP intentions, conducted by major financial institutions, seem to play on the uncertainty by asking respondents if they are confident the CPP will still be there when they get to retirement. Given the abysmal lack of knowledge about the plan and how it is funded, it is not surprising that so many express doubts. One recent survey by a major bank revealed that more than half of Canada's Generation

Xers—people between the ages of 25 and 39—are "not very confident" or "not at all confident" in the availability of the CPP when they reach retirement.[26]

So serious has the situation become that the former head of the CPP Investment Board had to call on the financial services industry to help "dispel the unsettling myth that the CPP may not be there for Canadians."[27] He pointed out that CPP pension reserves are segregated from general government revenues, so there is no fear of political interference in the plan. He also reminded his audience that the Chief Actuary of Canada has certified that the plan, as currently constituted, is sound for at least 75 years. He might also have added that, contrary to widespread popular belief, the CPP is not a federal government social program paid for by tax revenues. It is funded by contributions from employers and employees and administered by federal, provincial, and territorial governments. Changes can only be made with the approval of two-thirds of the provinces having two-thirds of the population—a formula that is even more restrictive than that required to amend the constitution.

But it seems the message is still not getting out. Media coverage has almost certainly added to the confusion and uncertainty by repeating the myths and creating an atmosphere of doom and gloom. Undoubtedly, it makes a better story to claim the CPP is going bankrupt—even if anyone who knows anything about pension funds will tell you that such a claim is nonsense.

Many people in their late 40s and 50s say they don't know when they're going to retire. But even those who say they plan to retire at a particular age may really only be making a best guess, given that they're still 10 or 15 years from their retirement transition. A lot can happen in the intervening period, and plans may be difficult to make in the face of such uncertainty.

The stock market correction through the early 2000s, for instance, may have forced near-retirees to adjust retirement plans to match returns on their investment income. There are already signs that this has begun to happen. People with lower personal and household incomes face more uncertainty about retirement timing. So do those without a pension plan. Greater uncertainty about planned retirement is more prevalent among self-employed individuals, and it is higher among immigrants than people born in Canada.

Statistics Canada's General Social Survey, conducted in 2002, looked at "near-retirees"—people aged 45–59—and documented many of these trends.[28] Almost one-fifth of those surveyed said they did not intend to retire—a finding that was greeted with skepticism by some in the financial community. But many of these people had lower household incomes, didn't own their own homes, and had lower levels of education. Saying they have no intention of retiring probably means they were worried about their financial ability to leave the labour force. For them, the idea of retirement probably seemed a distant and maybe even unattainable goal.

Almost one-third of the near-retirees felt they hadn't made adequate financial preparations to maintain their standard of living after they leave their jobs. Although no definition of "adequate" was provided, these findings were very similar to those of an earlier StatsCan survey that concluded about one-third of near-retirees may not be saving enough for retirement, because their post-retirement income would not be enough to replace 70% of their pre-retirement earnings, or to generate an income that is likely to be above Statistics Canada's low-income cut-off.[29]

Whether or not financial preparations for retirement were considered adequate was strongly associated with demographic characteristics and labour market experiences. For instance, women surveyed in 2002 were slightly more likely than men to say they expect their retirement income to be inadequate, or barely adequate, to maintain their standard of living. Recent immigrants were also more likely than persons born in Canada to believe they would not have enough to live on. In fact, other studies have found that declining earnings among recent immigrants will make it much more difficult for them to make ends meet and make them much more vulnerable to setbacks such as job loss or unexpected expenditures.

Individuals in poor health were almost twice as likely to view their retirement preparations as inadequate as were those who said their health was excellent. And people who were widowed, separated, or divorced were far more likely to feel financial preparations were inadequate, compared with those who were married or living in a common-law relationship.

In fact, unattached individuals—particularly women—in the older age groups may be particularly vulnerable as they approach the retirement transition.

There's an interesting difference between when Canadians plan to retire and when they would really *like* to retire. The 2002 survey asked respondents: "If you could choose, at what age would you like to retire?" Two-thirds of near-retirees said that, if they could choose, they would retire before age 60, and 88% said they would retire before age 65. Analysts interpret this to mean that many older workers would like to leave the labour force. But, while such a preference is widespread, the circumstances and constraints that people face often prevent it from being realized.

The age of retirement has stabilized

Perhaps another sign of the times is the finding that, over the past few years, the age of retirement has stabilized after more than a decade of decline (*see chart*). Twenty-five years ago, age 65 was the typical age of retirement for Canadian workers. After the Canada and Quebec Pension Plans introduced early retirement provisions in the mid-1980s, the median age of retirement—the age at which a typical worker retires—started to fall. By 1993, it had stabilized at around 62 for men, although the typical retirement age for women continued to fall to a low of 59.4 years in 1997.

Median age of retirement in Canada

Since then, the median age at which women retire has risen slightly and now seems to have leveled off at just over 60. That's probably not surprising, since CPP/QPP benefits are an important source of income for seniors, and these benefits may be claimed at age 60—although starting the pension prior to age 65 means an actuarially-reduced benefit. In the past few years, however, labour force participation among older Canadians has been increasing, as we shall see later in Chapter 5. That could mean the median age of retirement will start to rise.

The average retirement age dropped to 61.0 years in 1989 and to 60.4 years in 1994, when the average retirement age for women was 58.5 years, compared with 61.4 years for men.[30] In 1994, 31% of men and 43% of women had retired prior to age 60. Although the age of retirement fluctuated during the 1990s, after 1997 it increased slightly and it has stabilized since then.[31] Statistics Canada says the retirement age fluctuations in the 1990s may reflect government cutbacks and corporate downsizing. The popularity of early retirement incentives as a tool for workforce adjustment may also have influenced recent retirement behaviour, according to the agency.[32]

In the period from 1992 to 1996, 36% of all workers had retired prior to age 60. But, in the period from 1997 to 2001, the percentage retiring prior to age 60 had risen to 43%. There were noticeable changes during the 1990s in the proportion of those retiring at younger and older ages, as Table 1 shows.[33] The percentage under age 55 increased from 11% to 16%, while the percentage retiring between ages 55 and 59 increased from 25% to 27%. On the other hand, fewer people waited past age 65 (19% compared with 22%). About 7% waited until age 70 or later.

Statistics Canada points out that many factors influence the timing of retirement. Among the most important are the type of the last job held and the length of tenure. How long a person worked at a job prior to retirement is strongly related to retirement age. Long-term employees whose employer has a pension plan have had a chance to build

TABLE 1 Distribution of ages at retirement

	1992 to 1996		1997 to 2001	
Age group	**'000**	**%**	**'000**	**%**
Total	605	100	706	100
50 to 54	64	11	112	16
55 to 59	150	25	193	27
60 to 64	216	36	216	31
65 to 69	132	22	133	19
70 +	42	7	52	7

SOURCE Statistics Canada 2003d: 2.

up substantial pension entitlements and are more likely to take early retirement.

The sector where the person works also makes a difference. In the period from 1992 to 1996, employees in the private sector retired an average three-and-a-half years later than public sector workers.[34] Of course, this may also reflect the fact that almost all public sector workers belong to defined benefit pension plans, while few workers in the private sector have pension coverage. The gap between the two sectors increased even further over the period from 1997 to 2001. Self-employed workers tend to retire later, and they reach the decision to retire in a very different way from employees.

Going back to work again

Many studies have found that retirement does not necessarily mean an abrupt end to employment. The transition from work to full retirement can be interspersed with periods of employment. Some workers may retire from their job, begin to draw their pension, and yet work part-time either to supplement their pension or to pass the time. Some may retire and start their own business, taking advantage of the flexibility in work arrangements that comes with some businesses. Some may return to the labour market after a period of retirement.

And there are those who continue working, simply moving to a new full-time job. The 2001 Census of Population indicated that an increasing number of older workers are still employed.[35] For example, in 2001, 13.0% of men and 4.8% of women aged 65 or older had jobs. Between 1996 and 2001, while the population of seniors increased by 11%, the ranks of working seniors rose by 20%.

As well, more and more people are now going back to work after taking a formal retirement. And people who retired because they had access to early retirement incentives are twice as likely to return to the labour market as those without such a program.[36] A 1994 Statistics Canada survey found that people who returned to the labour market had initially retired at an average age of 57.9, compared with 60.6 years for those who did not return. Contrary to popular belief, for full-time as well as part-time employees, the return to the work force is based more on personal than financial reasons. In fact, the survey found that, of those retirees who reported returning to work, only 25% cited financial reasons, while 20% said they wanted to occupy their free time; 20% said it was their personal preference; and 35% gave other reasons.

Those who return to the work force are very likely to hold non-standard jobs, such as self-employment, part-time work, or temporary jobs. In fact, part-time paid work could be considered a transitional stage to a second retirement, when the individual continues to work, but has the benefit of more free time.[37]

Other studies show that a growing number of people whose career job has ended in fact continue to work. Almost half of workers aged 50–67, who had retired from a long-term career job lasting at least eight years between 1993 and 1997, were at work again within two years.[38] (This particular study is based on the Survey of Labour and Income Dynamics, or SLID—a longitudinal survey which follows the same people over a six-year period). Almost one-third had begun a new full-time job, and a smaller but significant portion (10%) had switched to part-time employment. More self-employed people returned to work, and they returned sooner than salaried workers did. For those aged 55 to 59, less than a third left a long-term job to begin another full-time job. Most of them did not work again within two years, suggesting that they could have taken early retirement. But about 11% of the under-60s switched from a full-time career job to a part-time job.

The findings of the StatsCan study are confirmed by other recent surveys commissioned by firms in the financial industry. They show that, while Canadians are still clinging to their dreams of early retirement, many now plan to go on working in some capacity after they retire. Although most working Canadians apparently don't know how much money they'll need in retirement, it seems a high percentage of those people plan to supplement their pensions by finding paid employment somewhere.

According to one survey, conducted by Decima Research for Investors Group, 72% of non-retired Canadians are strongly considering working after they "retire." That's a stark contrast with what retired Canadians are doing today, when only 23% said they are currently working.[39] The survey also looked at the retirement lifestyle expectations of Canadians. It showed that, while working Canadians envision spending their golden years going on winter getaways and pursuing their hobbies, today's retired Canadians say their lifestyle doesn't match this picture.

Winter getaways, often promoted as the retirement lifestyle choice for retired Canadians, are a standard dream of 62% of young Canadians, according to this survey. And 55% of the non-retired survey respondents expected to be able to spend a lot of time pursuing their hobbies during retirement. The reality is that only 30% of retirees today indicated they escape the worst months of Canada's winter. And only 35% of retired Canadians say they pursue their hobbies to any great extent.

Early retirement dreams—however unrealistic—also showed up in a survey conducted by SOM Opinions and Marketing for Desjardins Financial Security.[40] This survey found that only 16% of Canadians had a high degree of confidence in their ability to save for retirement, while 46% felt they would not be able to set aside enough money for this phase of life. But more than 40% of baby boomers—now aged 40 to 54—wanted to fully retire before age 55.

About 60% of survey respondents over 40 were interested in gradual retirement once they leave the work force, but very few of them want to return to work on a permanent basis once they retire. They are more likely to look for opportunities to work on their own terms, whether that be part-time consulting or turning a hobby into a business. Fifty-nine per cent planned to be self-employed and work about 20 hours a week so they can remain active.

Women and retirement

Much of the discussion about the changing nature of retirement overlooks the particular concerns of women. Several studies of retirement behaviour, for example, are based on male workers only, even though women now constitute more then 46% of the labour force. Although the vast majority of adult women now participate in paid employment, they are still generally expected to undertake a major caregiving role for their families. Child care years may affect their labour force activity early in their careers, but elder care will have a growing influence on the work patterns and retirement decisions of women in the work force as the population ages.

Among current seniors, about 22% of women compared with 3% of men have never worked outside their homes.[41] But almost all women retiring in the future will have spent considerable time in paid employment. For example, in 1999, only 5% of women aged 25 to 54 had never been employed. The percentage of adult women in paid employment has increased dramatically over the past three decades. In 1976, for example, about 50% of women aged 25 to 44, and 46% of those aged 45 to 54, had paying jobs.[42] By 2003, 76% of women aged 25 to 44 and 75% of those aged 45 to 54 were in paid employment. Even among women aged 55 to 64, 45% had paid employment in 2003, compared with only 30% of women in this age group who were working for pay in 1976.[43]

On average, women will spend many more years in "retirement" than men because they retire earlier and they live longer than men do. But because most women must combine both paid and unpaid work, they may never experience "retirement" in the same way men do. For example, an analysis of Statistics Canada's 1994 General Social Survey found that a large proportion of married women aged 60 to 70 defined their main activity as "housekeepers."[44] Among women aged 70 and over, 50% who were married declared their main activity as "housekeeping" and only 40% said they were "retired." Between 90% and 95% of men aged 65 or older who were no longer working at a job or business considered themselves "retired."

TABLE 2 Women with jobs

Percentage of women and men in paid employment in Canada

Year	People aged 25–44		People aged 45–54		People aged 55–64	
	% Women	% Men	% Women	% Men	% Women	% Men
1976	49.9	90.9	45.6	88.9	30.4	72.8
2003	76.1	86.1	75.0	84.5	45.0	61.4

SOURCE Statistics Canada 2000: 118; 2003f: 1.

Women's unpaid work and family responsibilities clearly continue even after they may have stopped working for pay. In fact, the 1994 Survey found that a considerable number of retired women had left work quite early to engage in unpaid activities. A significant proportion of retired women reported they had retired for "family reasons," whereas practically no men had done the same.[45] The average retirement age of women citing this reason for retirement was 48 years. Early retirement among women also reflects the fact that married women, who are generally younger than their spouses, may want to retire at the same time as the spouse does. The average age of women citing this reason was 59.2 years.

As the population ages, it is likely that more and more women will be called on to care for older and dependent family members. The increasing burden of eldercare will almost certainly affect the retirement plans of women who, unlike previous generations of women, will have been in paid employment for most of their adult lives. In 2002, nearly half a million Canadians 45 and over provided personal care to a senior and three-quarters of these caregivers were women.[46] More than half of personal care providers were 45 to 54 yeas of age, with proportions decreasing with age. And all indications are that eldercare is a very demanding role.

Female caregivers are also more likely than male caregivers to have to change their work patterns as a result of this unpaid work. For instance, the 2002 General Social Survey showed that 27% of female (compared with 14% of male) caregivers aged 45 to 54 had to change their work patterns—perhaps through working split shifts or leaving early and then making up the time later. Reducing hours of work was common for caregivers aged 45 to 54, and 20% of women compared with 13% of men reported having done so. Among caregivers aged 55 to 64, about 12% of women compared with 8% of men reported cutting down on the amount of time spent on paid work. Studies of women's caregiving activities have found that women are twice as likely as men to report missed promotional opportunities and four times as likely as men to report having left a job because of eldercare demands.[47]

All these working-time adjustments may affect women's ultimate retirement income and play a part in their retirement decisions. It is also important to note that policies designed to discourage early retirement may also have a differential impact on women. While women whose paid employment experience has been intermittent may—at least in theory—welcome the opportunity to continue working past the usual retirement age in order to augment low pension entitlements, their unpaid work for their families may make it impossible to continue in paid employment. As a result, they could find themselves doubly penalized: by having to continue working, but as unpaid caregivers in their homes; and by being unable to accumulate adequate retirement income to finance a withdrawal from their paid employment because early retirement is penalized in the pension system. Policy-makers will have to give special attention to these issues in any redesign of aging and retirement policies.

What is on the horizon?

Major changes in the nature of retirement are clearly well under way. Policy development now in progress will reflect those changes and probably try to put a positive spin on them. It is possible to identify several key themes now emerging:

• **There is strong pressure to raise the age of retirement.** This could be achieved through some form of moral suasion—for example, offering incentives to workers to continue in paid employment. It could also be done by raising the age of eligibility for public pension programs, as the United States and other countries have done. It's worth noting here that, while the U.S. is raising its age of eligibility for Social Security to 67 from 65 over the next 20 years, many other countries, which had much lower ages of eligibility for their public plans, are only moving now to age 65. Some countries, such as the United Kingdom, which had lower eligibility ages for women than for men, are simply increasing the age of eligibility for women to match that of men—generally age 65.

Aging expert John Myles believes the case can be made that the result of later retirement may be more benign than its alternative: reduced living standards for retirees and workers.[48] If the market is able to generate sufficient employment to absorb older workers and raise total employment levels, a potential payoff is greater economic growth and higher living standards for all. In any case, Myles points out that, since people are and will be living longer, more working years does not mean fewer retirement years.

• **Mandatory retirement may be abolished in those jurisdictions that have not already taken this step.** Although there is no legislation in Canada that requires people to retire by age 65, Human Rights legislation in some jurisdictions prohibits age discrimination only up to age 65. As a result, human resources practices of employers, collective agreements, or pension plan provisions requiring employees to retire by age 65 do not contravene such legislation. Some provinces in Canada have already abolished mandatory retirement, and others are thinking of doing so. However, the Supreme Court of Canada has ruled that, while mandatory retirement contravenes the equality provisions of the Charter of Rights and Freedoms, it is saved by Section 1 of the Charter because it is "a reasonable limitation" in a free and democratic society.[49] Abolition of mandatory retirement is highly controversial and raises a number of issues relating to discrimination against older workers. We will return to this issue in Chapter 4.

• **Much more emphasis will be placed on the "life course" perspective.** In line with the new focus on active aging and the positive aspects of an aging population, policy development will emphasize a life course perspective that looks at different ways in which people might combine work, leisure, caregiving, and education over the course of their lives. The actual life course followed by Canadian women and men is already far from standardized. Yet, as aging expert Lynn McDonald points out, "Policy-makers persist in making policy according to an orderly life course of education, work, and retirement founded on the experience of the 19th century male industrial worker."[50] The federal government's Policy Research Initiative research project on aging, discussed in detail in Chapter 3 of this book, is trying to move away from this approach. It is based on a new life course perspective and will almost certainly come up with policy proposals that could be implemented over the longer term.

• **Shifting more responsibility onto individuals to provide for their own retirement.** This will involve much more than simply switching employees from defined benefit pension plans, where the employer or plan sponsor is on the hook to provide a pension related to earnings and years of service, into defined contribution plans or group RRSPS where the individual must bear the entire risk of providing a pension. Policy prescriptions increasingly mention giving older workers more "choice" and more "flexibility"—both code words, it would seem, for expecting them to fend for themselves much more than they do now.

For example, the OECD says that, "once poverty alleviation goals have been met, the total amount of an individual's retirement income should not be a goal of public pensions in isolation, but reflect individual choice based on all resources available on retirement, including earnings, private savings, or the use of assets such as reverse mortgages for housing."[51] The OECD also believes that "individuals should be free to choose how they allocate their time to work, unpaid work, and active and passive leisure activities. However," this organization says, "longer-term policy questions must arise if the consequence of public policy is to encourage ever-longer periods of passivity in the last third of life. Should such arrangements continue to have a high priority on the public policy agenda?"[52]

New public policies may establish a framework that will allow individuals to make different choices about how their own particular life course is ordered. But there will probably be a strong expectation that older people will continue to work well into their 60s and that they will have the necessary and up-to-date skills to do so.

• **Active aging will be official policy.** As the World Health Organization sees it, "years have been added to life, now we must add life to years." But active aging is not just about prolonging working life, it is a comprehensive way of organizing participation across the life course.[53]

Active aging, as the OECD defines it, refers to "the capacity of people, as they grow older, to lead productive lives in society and the economy. This means that people can make flexible choices in the way they spend time over their lives: earning, working, and partaking in leisure activities and giving care.[54] These choices are often constrained in ways that harm both individuals and society," according to the OECD. Constraints may include poor health or disability, or even lack of wheelchair access. But they may also include inflexibility in the workplace, where perhaps it is not possible to take time off for raising children, giving care to the elderly, or undertaking further education.

Other constraints may arise as a result of public policies that have not kept up with changes in demography, families, or employment, says the OECD. Educational arrangements may be aimed only at young people instead of allowing for lifelong learning. Social and labour market programming that encourages early retirement can also be a constraint.

Active aging policies must take a multi-dimensional approach. Alan Walker, professor of social policy at the University of Sheffield in the UK, says the policy challenge is to recognize the thread that links all of the relevant policy areas: employment, health, social protection, social inclusion, transport, education, and so on. An active aging strategy, he says, demands that all these elements are connected and become mutually supportive. The danger, however, is that this sort of approach will become coercive. That can be avoided, Walker believes, if policy takes an enabling and facilitating role and is responsive to age, gender, race, culture, and other differences.[55]

• **Special programs may be developed for older workers.** These might include special training programs or other employment initiatives to ensure that older workers have the updated skills they need to find or continue in work, and that there are real opportunities for them to continue in paid employment. Preventing discrimination against older workers will be essential if people are to be expected to work until later ages. The European Union, for example, issued an Employment Directive in 2000 that prohibits age discrimination in employment and vocational training.[56] However, it appears it still will not address the problem of pension plans that require retirement at a particular age. According to the Directive, differences in treatment in connection with age may be justified under certain circumstances if they relate to "legitimate employment policy, or labour market and vocational training objectives"—for example, some types of work involving heavy physical labour may not be suitable for older people.

The United Kingdom government, in a Consultation Paper outlining how it intends to comply with the Directive, points out that "mandatory retirement is only permissible under the Directive when it can be objectively justified."[57] However, the UK Government also says it intends to take advantage of the Directive's provisions that allow occupational pension schemes to set ages for admission or entitlement to retirement benefits. It points out that "a normal retirement age—that is, the date from which full scheme benefits are payable without actuarial enhancement—is necessary for the operation of defined benefit schemes, It is not the same as a mandatory retirement age." It proposes to address the problem by allowing people to draw their occupational pension while continuing to work for the same employer.[58]

• **Will inter-generational conflict be revived?** Conflict between the different generations over how public pensions were to be paid for was a big issue in the late 1990s when changes in the Canada Pension Plan were being contemplated. Pay-as-you-go plans, such as the CPP, are financed by contributions from the working age population. But, when the percentage of older people is increasing in relation to those of working age, contributions to these types of plans must increase to provide benefits for increasing numbers of retirees. It was suggested that younger Canadians would resent having to pay higher contributions to the plan to finance growing numbers of retired people.

Changes in the way in which the CPP is funded, implemented in 1998, were intended largely to address potential inter-generational conflict. The establishment of the CPP Investment Fund was made possible by a sharp increase in contribution rates over a brief period of time, generating surplus funds that could be invested to provide an additional source of income for the plan to help pay benefits when the baby boom generation would be retiring in about 20 years from now. In some respects, this was seen as requiring members of the baby boom generation to contribute more now to finance their own pensions payable down the road.

But discussion of inter-generational conflict issues among progressive scholars has always emphasized that a full accounting scheme of the allocation of retirement costs among the working and retired populations requires the inclusion of both the public and private side of the national ledger.[59] They have also pointed out that the well-being of future generations does not depend on the design of pension plans, but rather on the productive capacity—schools, hospitals, infrastructure, and so on—that one generation leaves to the next.[60]

However, scholars also emphasize that the relative size of economic differences between generations pales in comparison with those that exist within generations. For example, John Myles points out that raising the age of eligibility for public pensions will have the greatest effect on those without sufficient means to finance early retirement on their own and the least impact on those who do. Since health—life expectancy, disability—and wealth tend to be correlated, the equity problem is compounded. Similarly, the behavioural response to lower mandatory pensions will depend on income level, Myles notes. Low-income families are less likely than high-income families to compensate with more private saving.

A new social contract for older people

There is a growing consensus among progressive scholars that what is needed now is a comprehensive strategy to address issues raised by our aging population. In many countries, what should have been seen as a welcome demographic change has been transformed into a crisis of the welfare state.[61] The new direction must be to bring together and make the connections between pensions, employment, retirement, health, and citizenship and to join them together in the policy process. This is essential, says Alan Walker, if we are to move successfully towards an older society because, so far, the policy responses to the challenges created by population aging have been piecemeal and strongly compartmentalized in traditional policy domains and ministries.

There may be good reason to rewrite the retirement contract, but there is no need to abandon it.[62] However, there are very real risks in moving forward. In his 2002 paper on *A New Social Contract for the Elderly,* John Myles outlines them:

> The key issue is whether the progress made in democratizing retirement during the post-war decades is about to erode, and whether further democratization (e.g., equalizing retirement opportunities for

> men and women) is precluded. Does re-design mean convergence on some hypothetical neo-liberal model for the allocation of retirement wealth, one in which the rights of citizens contract while the importance of markets expands? Will, in short, the pressures of population aging on the public budget prove to be an additional source of dualism and polarization in the 21st century?[63]

But Myles also believes that the political constraint on policy-makers to reach reform through a "negotiated settlement" with a broad range of relevant actors makes radical demolition of the post-war retirement contract impossible. Myles argues that re-designing the retirement contract will require consideration of the three major components of the retirement income system: the age of retirement, the benefits structure, and the method of financing retirement incomes.[64] We will explore these issues in subsequent chapters of this book.

Notes

1 Rowe and Nguyen 2003: 55.

2 Myles 2002: 130.

3 Ibid.

4 Statistics Canada 2003c: 1.

5 Hicks 2003b: 12.

6 Statistics Canada 1999: 67.

7 Baxter and Ramlo 1998: 15.

8 Statistics Canada 2003d: 3.

9 OECD 2000: 112.

10 Ibid.

11 Baxter and Ramlo 1998: 15.

12 Rowe and Nguyen 2003: 55.

13 Ibid.

14 Myles 2002: 131.

15 Régies des rentes du Québec 2003: 28.

16 OECD 1998: 14.

17 Chief Actuary 2003: 38.

18 Ibid.
19 Hicks 2003b: 15.
20 Ibid. 3.
21 Habtu 2003: 3.
22 Morissette and Zhang 2004: 11.
23 Ibid. 15.
24 TD Bank Financial Group 2004: 1.
25 MacNaughton 2004: 7.
26 TD Bank Financial Group 2004: 1.
27 MacNaughton 2004: 7.
28 Statistics Canada 2003c: 1.
29 Maser and Dufour 2001: 27.
30 Monette 1996: 16.
31 Statistics Canada 2003d: 1.
32 Ibid.
33 Ibid. 2.
34 Ibid.3.
35 Duchesne 2004: 5.
36 Monette 1996: 26.
37 Ibid. 29.
38 Pyper and Giles 2002: 15.
39 Investors Group 2003: 1.
40 Desjardins Financial Security 2003: 4.
41 Statistics Canada 2000: 276.
42 Ibid. 118.
43 Statistics Canada 2004a: 1.
44 Monette 1996: 11.
45 Ibid. 17.
46 Cranswick 2003: 16.
47 Keating et al 1999: 62.
48 Myles 2002: 154.
49 Townson 1997: 25.
50 McDonald 1997: 395.
51 OECD 1998: 22.
52 OECD 2000: 105.
53 Walker 2003:29.

54 OECD 2000: 126.

55 Walker 2003: 36.

56 European Union 2000: 1.

57 United Kingdom Government 2003: 21.

58 Ibid. 23.

59 Myles 2002: 144.

60 See Osberg 1998 for a full discussion of generational equity.

61 Walker 2003: 2.

62 Myles 2002: 132.

63 Ibid. 132–133.

64 Ibid. 153.