



Government
of Canada

Policy Research
Initiative

Gouvernement
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Projet de recherche
sur les politiques

Population Aging and Life-Course Flexibility

Presentation to CAALL
May 17, 2006

Canada



A Horizontal Initiative

Our Partners

- Finance Canada
- Human Resources and Skills Development
- Social Development Canada
- Statistics Canada
- Health Canada
- Industry Canada
- Office of the Superintendent of Financial Institutions
- Canada Revenue Agency
- Social Sciences and Humanities Research Council
- Treasury Board Secretariat (PSC Case Study)



LifePaths: A dynamic, longitudinal, event-based, individual level, microsimulation model

DATA SOURCES:

- Census micro-data from 1971-2001
- Longitudinal Labour Force Survey (LFS) data from 1976-2004
- Historical demographic estimates
- Family History Surveys 1984-2001
- Post-secondary education administrative data
- Longitudinal income tax records
- School leavers surveys
- Survey of Labour and Income Dynamics (SLID)
- National Population Health Survey (NPHS)
- General Social Surveys (GSS)
- Others



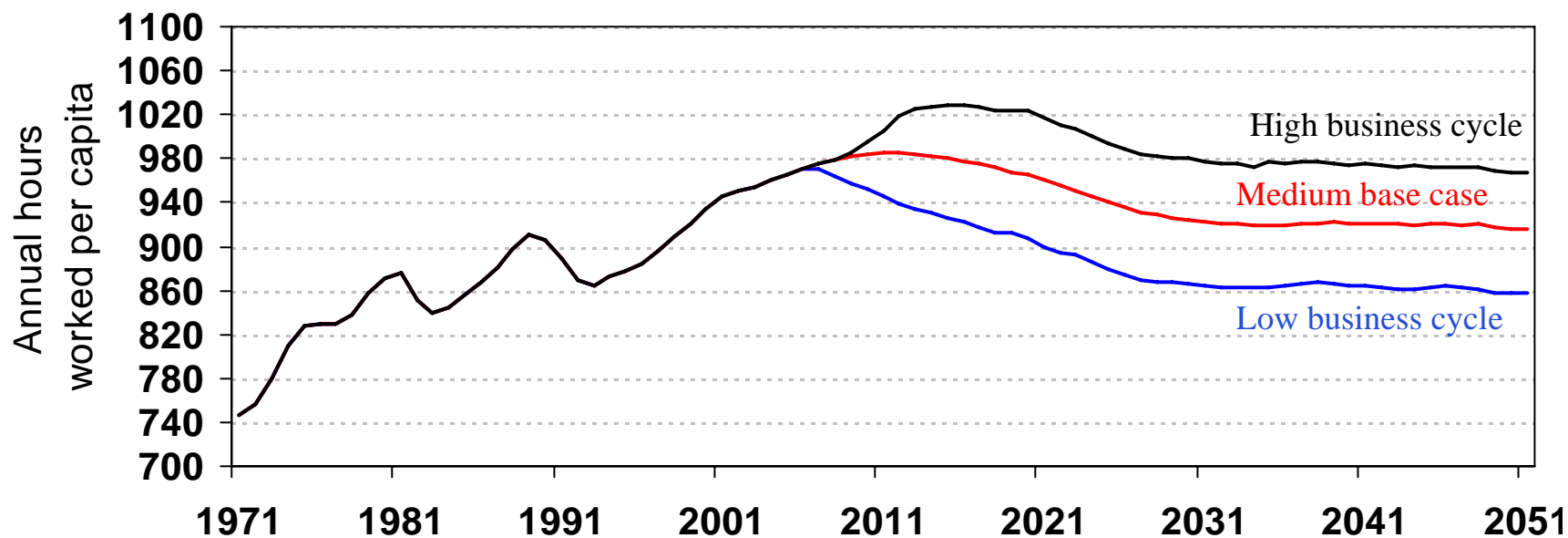
Annual hours of work per capita

- Annual hours of work per capita are calculated by dividing the total number of hours worked by individuals of all ages by the total population
- The calculation accounts for
 - Changing demographics/dependency ratios
 - Changing labour force participation rates
 - Changing education levels
 - Future behaviours conforming to those of the last observed period
- The calculation does not account for
 - Future business cycles
 - Changes in labour productivity
 - Changes in demand-side conditions



The hours worked per capita are expected to decline in the future

Annual hours of work per capita 1971-2051

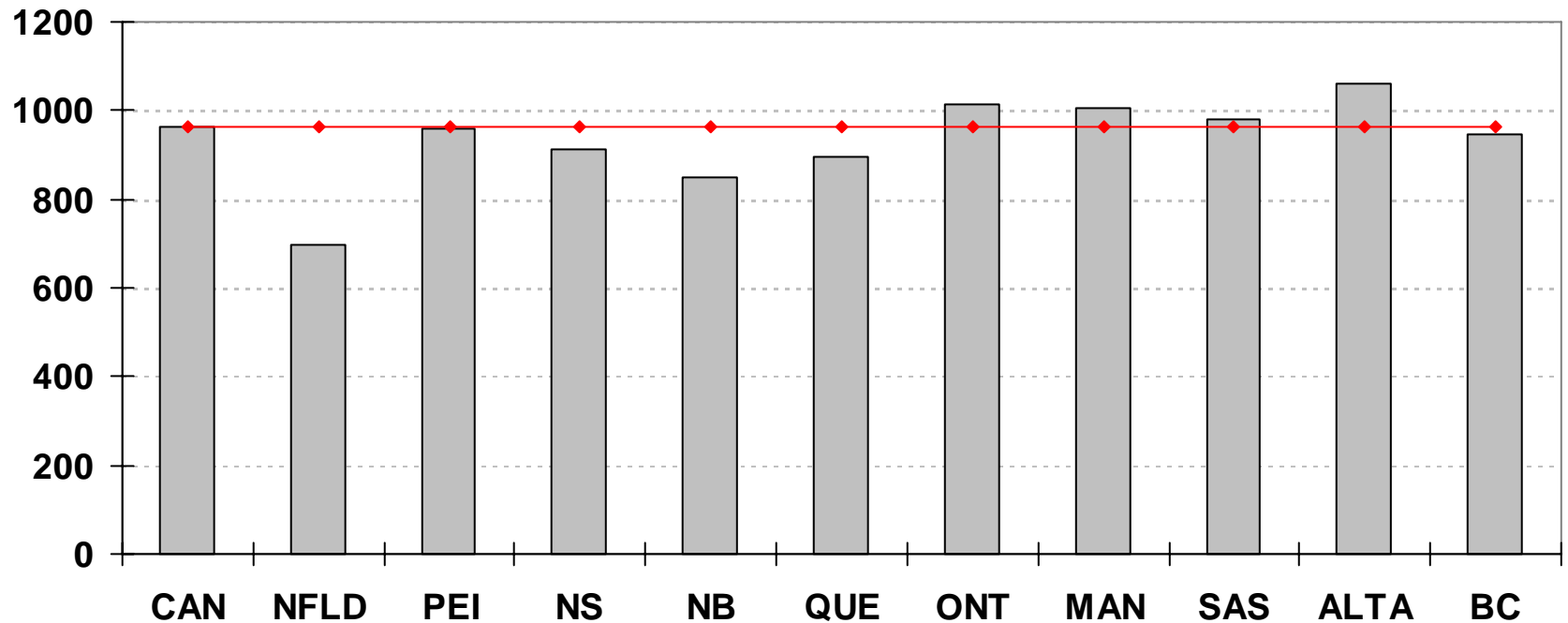


Source: LifePaths (Statistics Canada) using assumptions developed by the Interdepartmental Working Group on Population Aging and Life-Course Flexibility



The annual hours of work per capita vary across Canada...

Annual hours of work per capita 2005

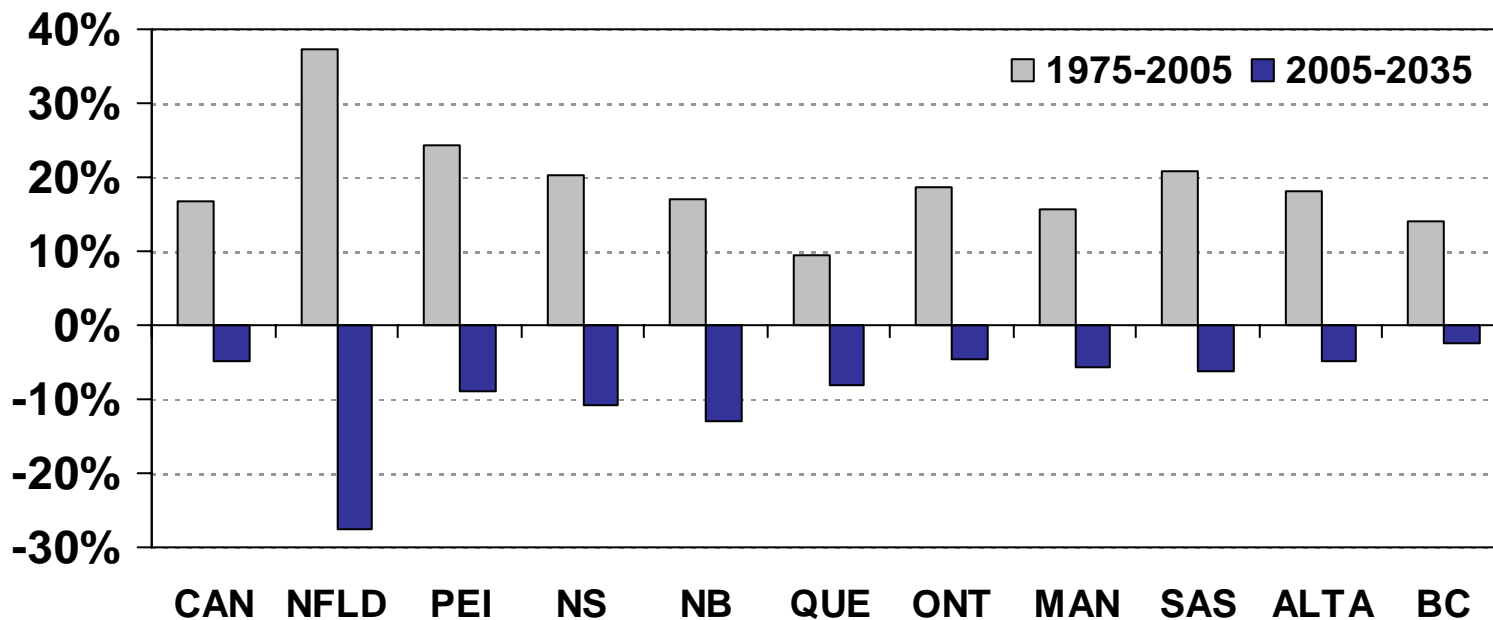


Source: LifePaths (Statistics Canada) using assumptions developed by the Interdepartmental Working Group on Population Aging and Life-Course Flexibility



...as do the historic and projected changes in the hours of work per capita

Change in historic (1975-2005) and projected (2005-2035) hours of work per capita



Source: LifePaths (Statistics Canada) using assumptions developed by the Interdepartmental Working Group on Population Aging and Life-Course Flexibility



Population aging will pose economic challenges...

- Economic growth could be restricted by a decline in relative labour supply
- OAS/GIS payments could rise by 1.0% of GDP by 2030
- Public health costs could rise by 4.0% of GDP by 2040
 - These cost increases are solely the aging-related portion
- CPP fund is stable with recently increased contributions



... and raise other issues...

- Periods of rapid labour force decline due to the retirement of baby boomers could cause short-term labour shortage and apply upward pressures on wages
- Possible pressure on the “social contract” and loss of intergenerational cohesion
- Increased income disparity due to larger returns to educational attainment
- Increased outsourcing of labour



But, not all of the news is bad...

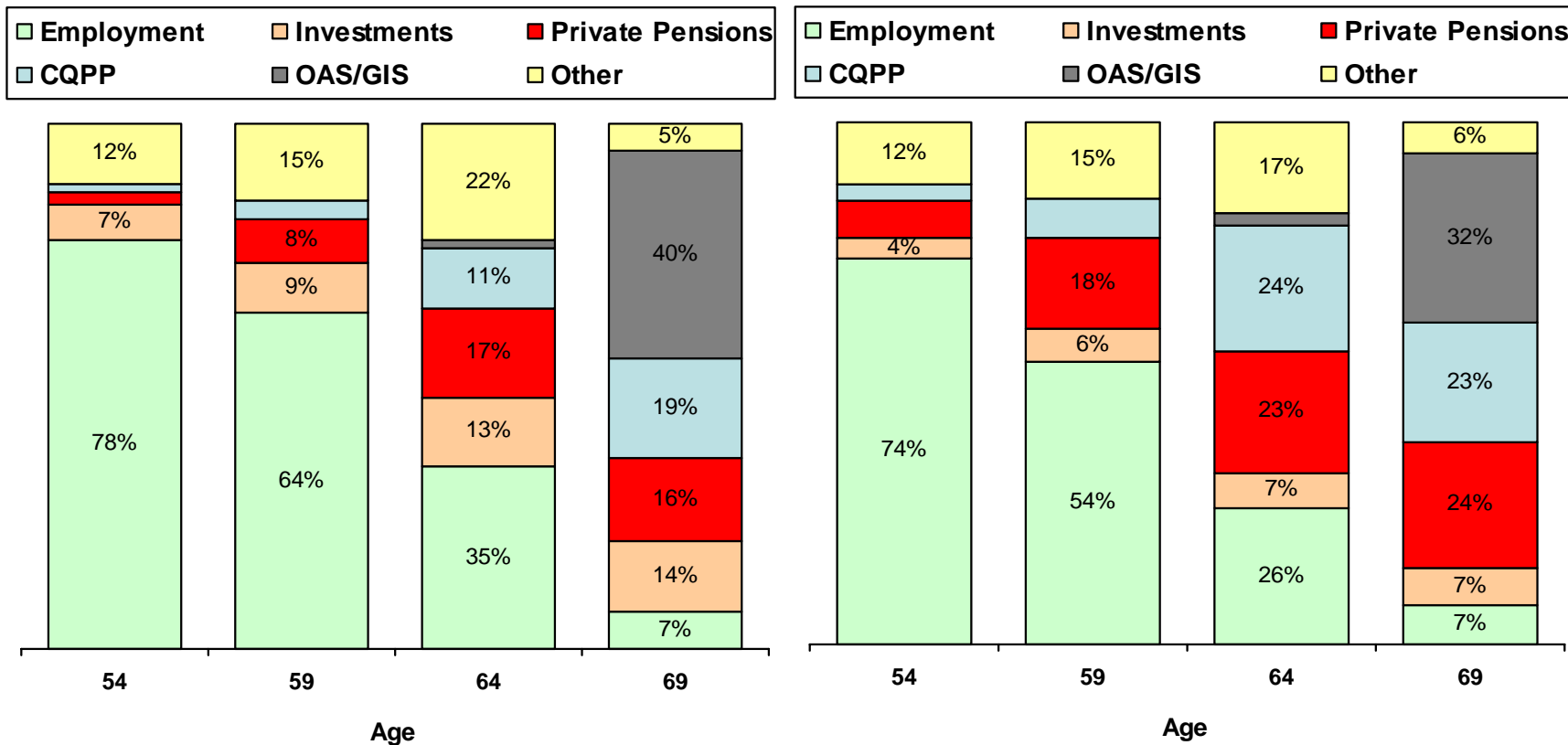
- In the future seniors are expected to be wealthier than they currently are
 - Income sources shifting from government to private savings (pensions, RRSPs)
 - Seniors will pay more taxes
- Future productivity gains may compensate for losses in labour force participation
 - Productivity gains are hard to project
 - HRSD projects an average 1.7% growth over the long term but other estimates are less optimistic



Source of Income

Income Shares 1985

Income Shares 2000



Source: 2001 Census, Statistics Canada



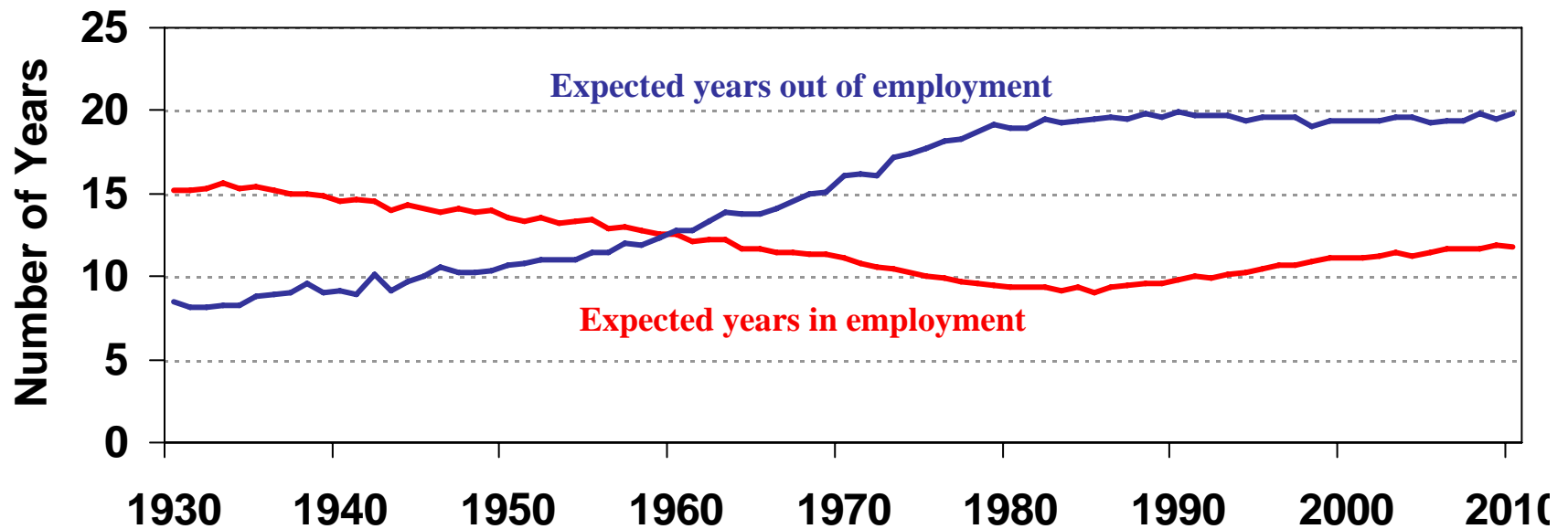
...and there are opportunities for social & economic gains

- Increased labour force participation by
 - Older workers
 - Women
 - Low-participating groups
- Increased investment in human capital
 - Higher returns to education and skills
- Increased investment in physical capital
 - Substitute technology for low-skill jobs



Older Workers: A significant pool of time is now spent in retirement...

Expected Remaining Lifetime years in and out of Employment for Men at Age 50

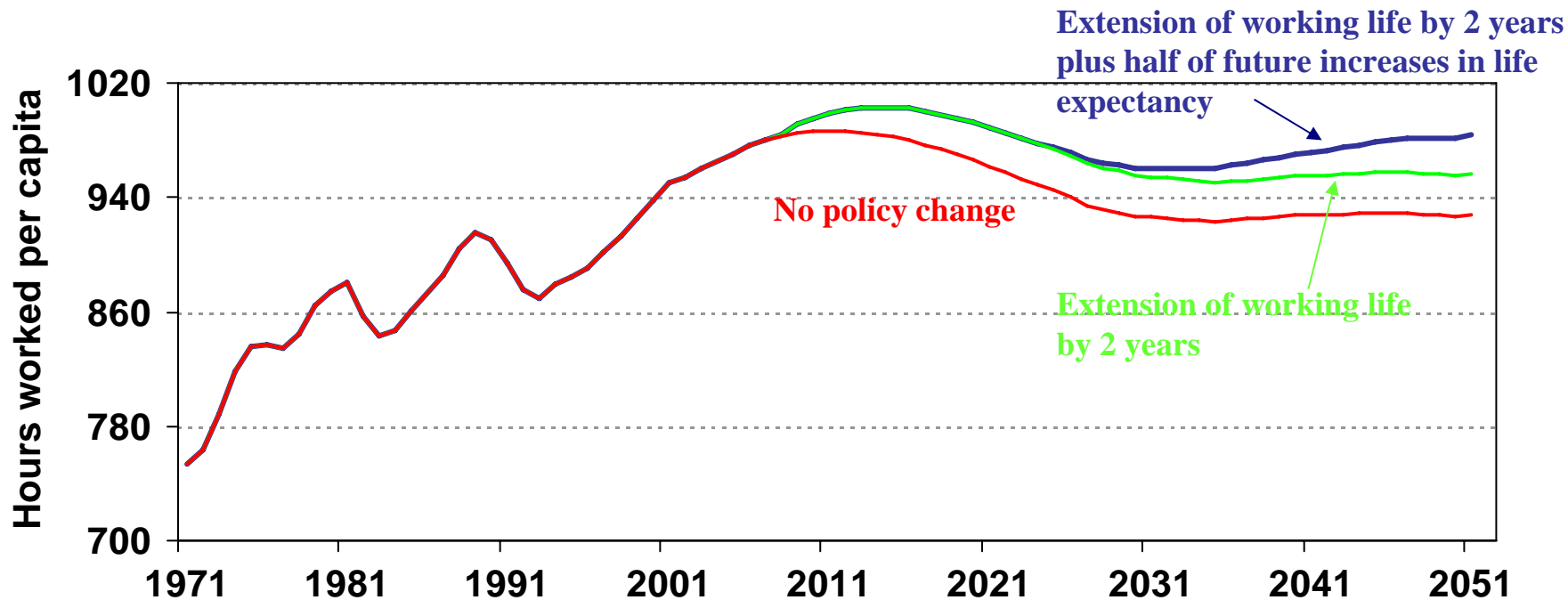


Source: LifePaths (Statistics Canada) using assumptions developed by the Interdepartmental Working Group on Population Aging and Life-Course Flexibility



There is an opportunity for significant gains if older workers were to be employed longer (medium scenario)

Annual hours of work per capita

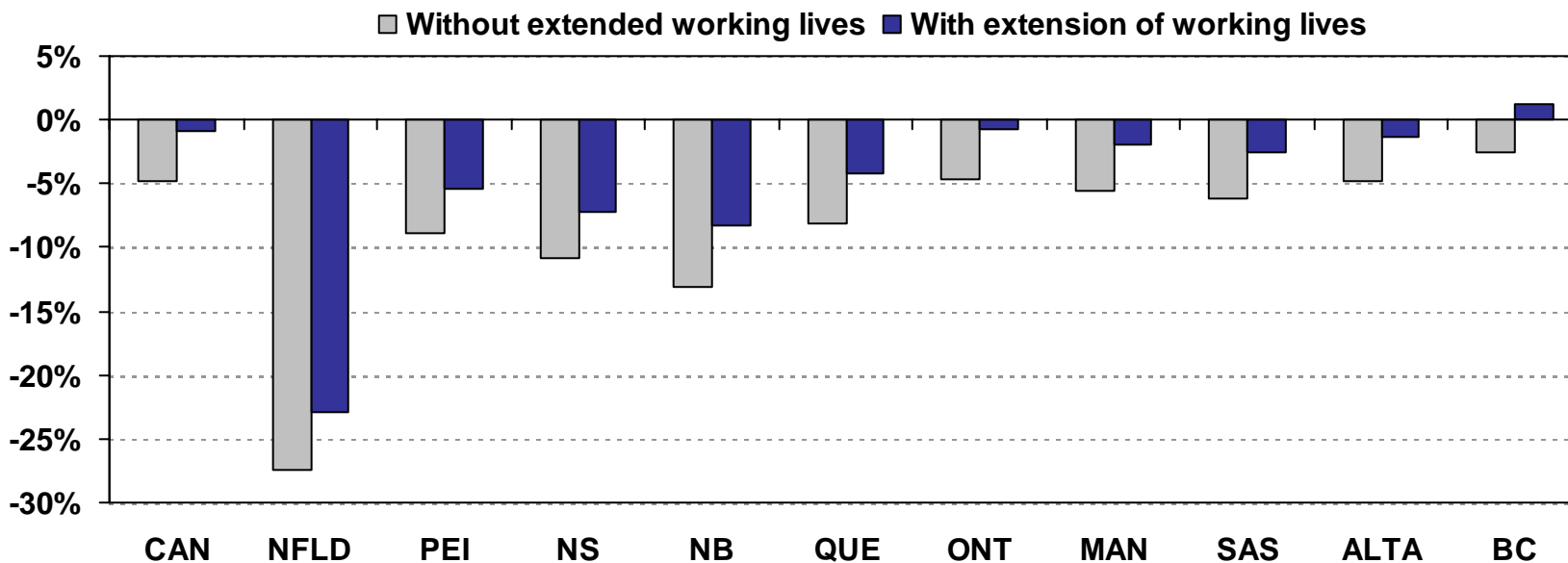


Source: LifePaths (Statistics Canada) using assumptions developed by the Interdepartmental Working Group on Population Aging and Life-Course Flexibility



An extension of working life would help to reduce the impact of aging in all provinces

Projected change in the hours of work per capita 2005-2035



Source: LifePaths (Statistics Canada) using assumptions developed by the Interdepartmental Working Group on Population Aging and Life-Course Flexibility

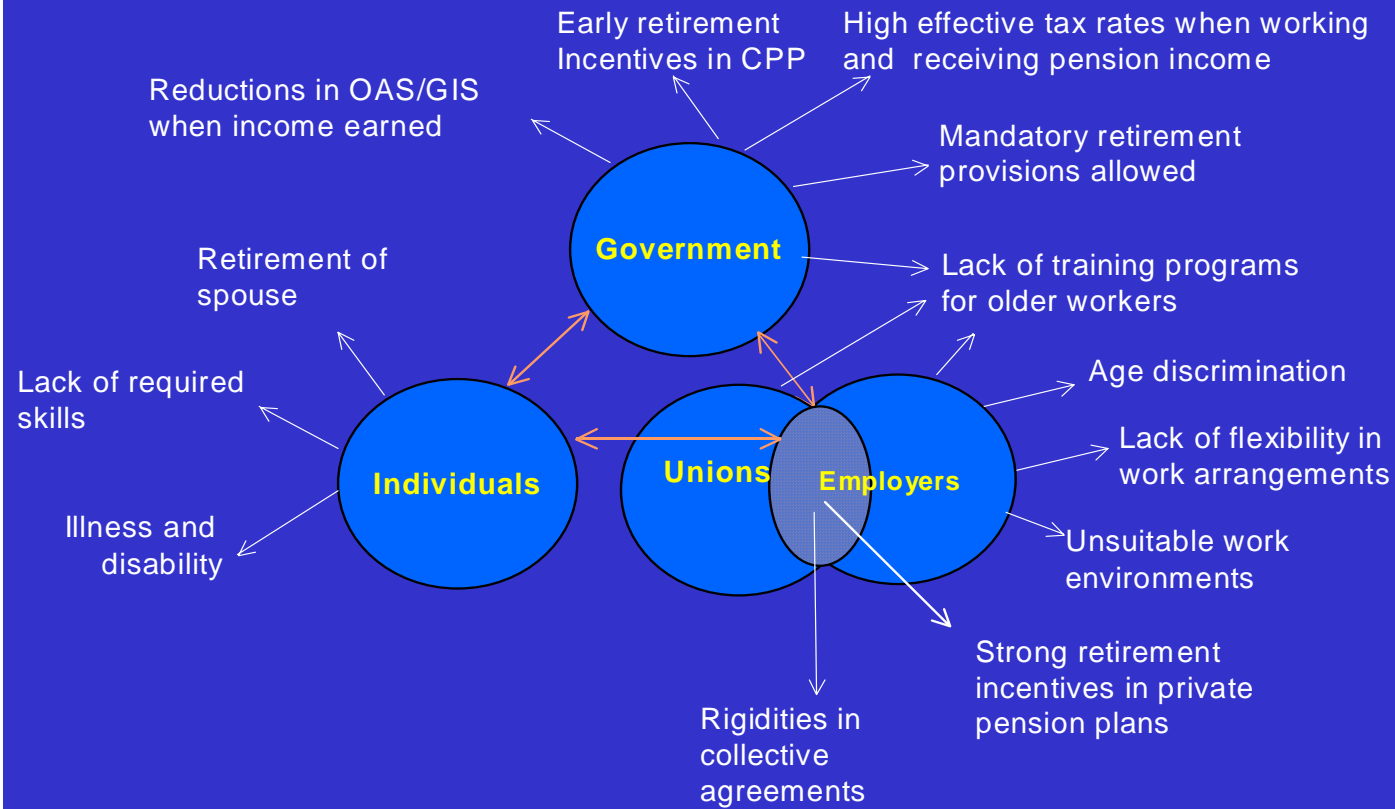


Options for Canada – General Approach

- Comprehensive program that promotes the engagement of older Canadians in
 - The labour force
 - The community
 - Active living
- Commitment at many levels
 - Federal and Provincial governments
 - Labour organizations
 - Employers
 - Employees



Retirement Influences: Older Workers





Options for Canadian Employers

- Employers Practices
 - Adapt workplaces to older workers
 - Promote flexibility in scheduling (job sharing, part-time, etc.)
 - Improve knowledge on health, well-being and safety issues at work
 - Promote phased retirement practices
 - Eliminate age discrimination in HR practices



Options for Canada - Policies

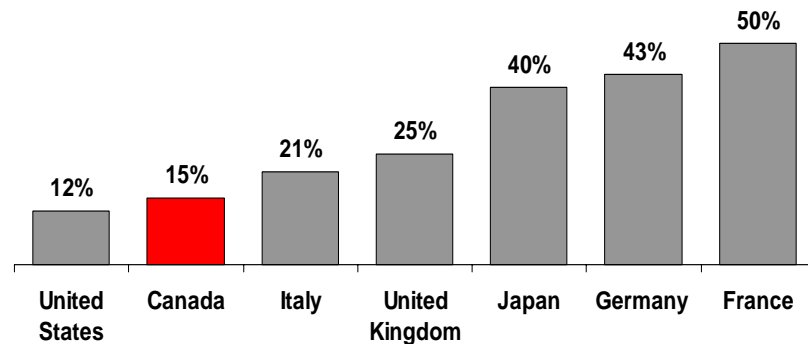
Coercive Measures Not Required

- Canada's mixed retirement income system is adaptive
- Public incentives to early exit are weak
- Retirement incentives in private pension plans are stronger

CPP

- Remove the work cessation test
- Rebalance the actuarial adjustment, 8% per year after 65
- Continued accumulation of credits after age 65

Canada's Implicit tax rate on continued work at age 60



OAS/GIS/SPA

- Allow deferral of OAS, with an actuarial adjustment
- Exempt a portion of earnings from the GIS claw back provision after age 65, for low income individuals



Options for Canada – Policies

- RPPs
 - Modify the Income Tax Act to allow individuals over a certain age to continue to make contributions while working after pension receipt
- Mandatory Retirement
 - Unions, employers and governments need to revisit collective agreements, programs and legislation to allow for increased flexibility
- Employability for older workers
 - Adapt employment services to older jobseekers
 - Increase access to training and skill development
 - Facilitate self-employment through training and counseling
 - Disability--prevention, rehabilitation and workplace adjustments