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Canadian Megatrends

Seniors’ income from 1976 to 2014: Four decades, two stories

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[p] preliminary
[r] revised
x suppressed to meet the confidentiality requirements of the *Statistics Act*
[E] use with caution
F too unreliable to be published
* significantly different from reference category ($p < 0.05$)

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Seniors' income from 1976 to 2014: Four decades, two stories

CANADIAN MEGATRENDS

From 1976 to 1995, income grew much more rapidly for senior families than for younger families. This changed in the following years, as growth in the income of younger families outpaced that of seniors.

This month’s issue of *Canadian Megatrends* focuses on the changing incomes of seniors, looking behind the trend at the sources of income and social shifts that have contributed to these changes. It also examines the rates of seniors living in low income using two different measures.

From closing the gap to falling behind

The income of families whose major income earner was 65 years or older (senior families) rose steadily from 1976 to 2014. However, this was not the case for the income of younger families, which followed a significantly different trend.

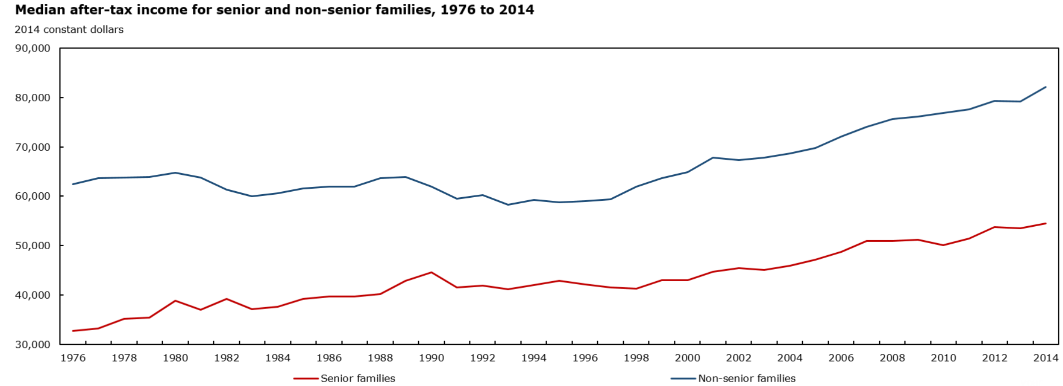
From 1976 to 2014, senior families saw their median after-tax income steadily rise, up 66.7% from $32,700 to $54,500 (in 2014 dollars).

In contrast, from 1976 to 1995, the median after-tax income of younger (or non-senior) families fell 5.9% from $62,500 to $58,800. From 1995 to 2014, however, the income of younger families rose markedly, reaching $82,100 in 2014.

As a result of these trends, the gap in income between senior and younger families narrowed from 1976 to 1995, but widened from 1995 onward. Comparing the two groups, the income of younger families rose 39.6% from 1995 to 2014, while that of senior families grew 27.0%.

For unattached individuals, from 1976 to 2014, the income gap between non-seniors and seniors was even wider, but followed the same trends as families, narrowing until the mid-1990s and then increasing until 2014. The median after-tax income of unattached seniors rose 52.2% from 1976 to 1995 (from $13,600 to $20,700), after which it grew more slowly, increasing 30.0% to reach $26,900 in 2014.

Chart 1
Median after-tax income for senior and non-senior families, 1976 to 2014



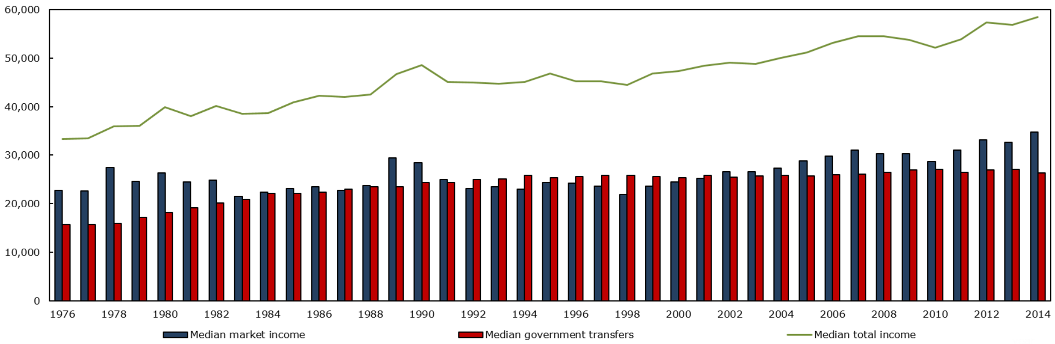
Sources: Statistics Canada, Survey of Labour and Income Dynamics, Canadian Income Survey, CANSIM table 206-0011.

From public to private sources of income growth

From 1976 to 1995, the increase in the median after-tax income of senior families was mainly attributable to government transfers, such as Canada Pension Plan, Old Age Security and Guaranteed Income Supplement transfers. During this time, the amount that seniors received from government transfers rose 61.8% from $15,700 to $25,400. Over the same period, the median market income of senior families grew at a slower pace, up 7.0% from $22,700 to $24,300.

In contrast, from 1995 to 2014, market income became the main source of income gains for senior families, increasing 43.2% to $34,800 in 2014, while the amount that seniors received through government transfers was relatively stable, rising 3.9% to $26,400 in 2014.

Chart 2
Median market income, government transfers and total income for senior families, 1976 to 2014
2014 constant dollars

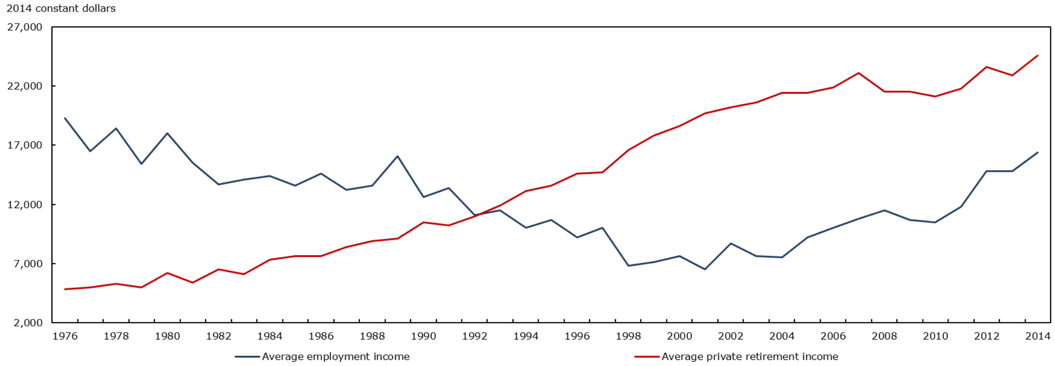


Sources: Statistics Canada, Survey of Labour and Income Dynamics, Canadian Income Survey, CANSIM table 206-0021.

Private retirement income

From 1976 to 2014, the average private retirement income of senior families increased over fivefold from $4,800 to $24,600. Regarding employment income, again there were two trends. From 1976 to 2001, average employment income for senior families fell from $19,300 to $6,500. Following this low-point, the employment income of seniors trended back upwards (reaching $16,400 in 2014) and returned to levels seen in the early 1980s. This turnaround in employment income reflects a similar change in the trend in the employment rate of seniors, which fell from 9.0% in 1976 to 5.9% in 2001, only to rebound and surpass its historical level, reaching 12.9% in 2014.

Chart 3
Average employment and private retirement income for senior families, 1976 to 2014
2014 constant dollars



Sources : Statistics Canada, Survey of Labour and Income Dynamics, Canadian Income Survey, CANSIM table 206-0021.

Seniors in low income – viewed through two lenses

There are two ways of measuring the rate of seniors living in low income. The first is to compare seniors' income levels to contemporary living standards using the After-tax Low-Income Measure (LIM-AT) thresholds. The principle underlying the LIM-AT thresholds is the following: if a family's income is below half of the median family income in a given year, then that family is considered as being in low income for that year.

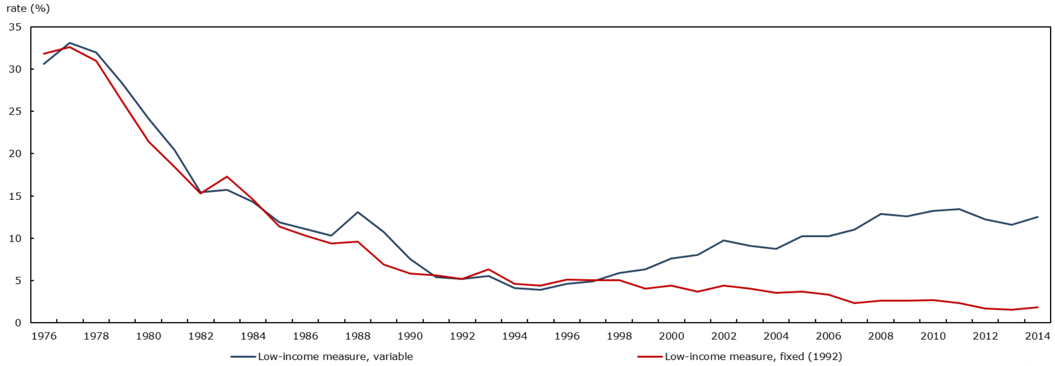
According to the LIM-AT, the low-income rate for seniors fell substantially between 1976 and 1995, from 30.6% in 1976 to a low of 3.9% in 1995. However, the rate rose during the next two decades, hitting 12.5% in 2014. This trend reflects a faster growth in median income among seniors than among non-seniors from 1976 to 1995, and the subsequent slower growth for seniors compared with non-seniors after 1995.

The second measure compares seniors' income levels to a threshold that is fixed (in real terms) at some point in the past, independent of changes in living standards. For example, one can fix the LIM-AT thresholds at their value in 1992, and then index the thresholds for inflation, using the Consumer Price Index. Changes in the low-income rate under these "fixed" LIM-AT thresholds reveal whether incomes of lower-income seniors are keeping up with or falling behind inflation.

Based on a LIM-AT with a low-income threshold fixed in 1992, the low-income rate for seniors fell steadily between 1976 and 2014, from 31.8% in 1976 to a low of 1.8% in 2014. This means that the income of lower income seniors rose faster than inflation, and that, in real terms, seniors are better off than in the past. Statistics Canada's well-known low-income cut-off measure is also fixed in real terms in 1992 and shows the same trend.

These two views on trends complement one another and present a more complete portrait of low income among seniors. Together, they show that low-income seniors are better off now than in the past, in terms of their real income level, but that the income gap has been widening between low-income seniors and other Canadians since the mid-1990s.

Chart 4
Low-income rates for people aged 65 years and older, 1976 to 2014



Sources: Statistics Canada, Survey of Labour and Income Dynamics, Canadian Income Survey, CANSIM table 206-0041.

Definitions

Total income refers to income from all sources including government transfers before deduction of federal and provincial income taxes. It may also be called income before tax (but after transfers). All sources of income are identified as belonging to either market income or government transfers.

After-tax income is the total of market income and government transfers, less income tax.

Market income consists of employment income, private pensions and income from investments and other market sources.

Investment income refers to interest received during the reference period, as well as interest on savings certificates, bonds and debentures, and dividends from corporate stocks and mutual funds. Also included is other investment income, such as net rents from real estate, mortgage and loan interest received, regular income from an estate or trust fund, and interest from insurance policies. It does not include capital gains or losses.

Other income refers to regular cash income received during the reference period and not reported in any of the other sources listed on the questionnaire such as severance pay and retirement allowances, alimony, child support, periodic support from other persons not in the household, income from abroad (excluding dividends and interest), non-refundable scholarships, bursaries, fellowships and study grants, and artists' project grants.

Government transfers consist of benefits that include Old Age Security, the Guaranteed Income Supplement, Canada and Quebec pension plans, Employment Insurance, social assistance, the goods and services tax credit, provincial tax credits and various types of child benefits.

The **Low Income Measure (LIM)** defines individuals as having low income if their adjusted after-tax income falls below 50% of the median adjusted after-tax income. Adjusted after-tax income is derived by dividing household income by the square root of the household size and assigning this value to all persons in the household.

The **Fixed Low Income Measure (LIM) threshold** is calculated relative to the entire populations' income distribution for a fixed period in time. As the fixed LIM threshold maintains the same standard of living, accounting for inflation only, low-income rates that are based on it reflect how seniors' incomes have changed relative to the last year in which it was updated.

Seniors are defined as persons 65 years or older. **Senior families** are families whose major income earner is 65 years or older. In this article, data on low-income rates were calculated for seniors, while other income data were calculated for senior families.

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