Early retirement trends

Patrick Kieran

In the early 1970s, one in five Canadians was 50 or older. By 2008, one in three will fall into this age group. This reality has led many researchers to focus on the potential consequences of large-scale retirement from the workforce. Important questions about the future of the labour market abound. Will there be enough workers to ensure continued economic and social development? Will retirees be able to support themselves financially? Will there be enough taxpayers to support the full range of government services available today? The need for information on the aging workforce has never been stronger and will most likely continue to grow in the years to come.

The demographic reality facing the labour market is compounded by a trend towards earlier retirement (see *What is early retirement?*). Since 1976, the median retirement age has fallen from 65 to close to 60 as more and more Canadians are choosing retirement at a younger age. As the oldest members of the baby boom generation turn 54 in 2001, the expected large-scale exit of older workers from the labour market could soon begin.

This article paints a portrait of those currently retiring before the age of 60. Early retirement rates are presented by class of worker, sex, level of education, industry, province, and job status.

Canadians are retiring earlier

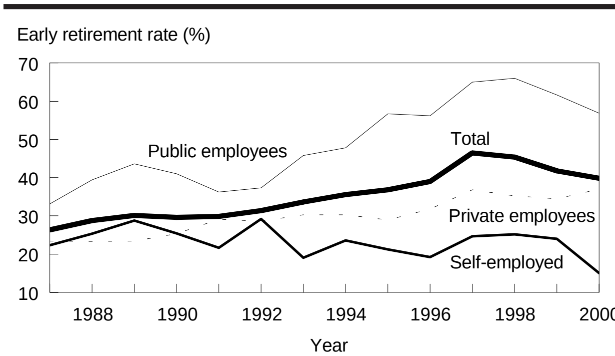
Compared with the late 1980s, early retirement in Canada is now more common. Between 1987 and 1990, only 29% of people who recently retired did so before the age of 60. In the 1997-to-2000 period, which had similar economic growth, the proportion grew to 43%. As the early retirement rate has risen, 65 has become a less popular age at which to retire, yet it still remains the most common (Chart A). Between 1987 and 1990, 19% of recent retirees left work at age 65. The proportion dropped to a 12% average for 1997 to 2000.

Chart A: Canadians are retiring earlier

Source: Labour Force Survey

From 1998 to 2000, the early retirement rate fell, although early retirement was still much more common than a decade earlier. Early retirement in the public sector drove the overall trend (Chart B).

Chart B: Public sector drives the early retirement rate trend



Source: Labour Force Survey

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What is early retirement?

Defining retirement is not straightforward (Gower, 1997). For purposes of this study, a very restrictive approach has been used. The Labour Force Survey (LFS) asks everyone who is not employed, but who had a job within the last 12 months, the reason for leaving their last job. Retirement is one possible answer. Some of these 'retirees' may in fact still be looking for work and others may re-enter the labour force some time in the future. All that is known for certain is that they are currently without a job and that they 'retired' from their last job.

Recent retirees are persons who worked within the previous 12 months and left their job because of retirement. Persons who retired before the 12-month limit are not included.

Early retirees are recent retirees under the age of 60.

The **early retirement rate** is the number of early retirees as a percentage of recent retirees.

Although Canada has no statutory retirement age, 60 was chosen because it probably meets normal expectations of 'early retirement', and is the minimum age at which Canada/Quebec Pension Plan benefits (other than for disability) are payable. Workers who begin collecting benefits between 60 and 64 are penalized 0.5% on their monthly benefits for each month before their 65th birthday that the pension begins. Retirees who begin receiving payments at 65 are eligible for full pension benefits. Old Age Security and the Guaranteed Income Supplement are additional retirement income systems that help to support Canadians 65 and over.

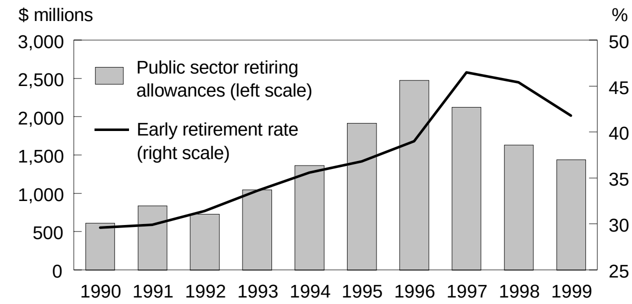
Government downsizing during the mid 1990s prompted many older workers to take early retirement packages, pushing the early retirement rate in the public sector up to 65% in 1997. The overall rate peaked in this year, hitting 46%. Since then, however, the rate has fallen, reaching 40% in 2000. Still, the proportion of recent retirees leaving work before 60 remained about 10 percentage points higher than at the beginning of the 1990s.

Retiring allowance[1] data confirm the effect of government downsizing on retirement (Chart C). From 1990 to 1996, severance pay disbursed to public-sector employees quadrupled. Payments hit a peak of \$2.5 billion in 1996 and subsequently dropped to less than \$1.5 billion by 1999,[2] following the same pattern as the early retirement rate.

Public sector workers retire earliest

The early retirement rate is much higher in the public sector than in the private sector, even though the public-sector rate has fallen in recent years. Between 1997 and 2000, 63% of public-sector recent retirees left their job before 60—nearly twice the rate of the private sector. This can probably be attributed to the more favourable pension benefits and early retirement plans offered to public servants. Some public employees with a minimum of two years of experience in the public service can retire as early as 50 and still receive an annual allowance. Those with tenures of 30 years or more are eligible for pension benefits at age 55. The benefits available at 55 made it the most popular retirement age for public-sector employees (Chart D). Private-sector employees tended to retire at 65. The self-employed retired even later—less than one-quarter stopped working before age 60, with only about one-tenth opting for age 65. Self-employment

Chart C: Early retirement rate peak tied to government downsizing



Sources: Labour Force Survey; Canada Customs and Revenue Agency

Chart D: Public sector employees retire earliest

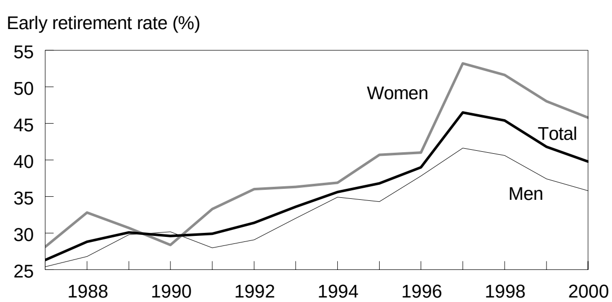
Source: Labour Force Survey

allows for a degree of flexibility not available to public or private employees. The self-employed have the option of reducing their activity gradually as they grow older. Furthermore, they are less likely to have a private pension plan, and some may continue to work because they have no choice.

More women than men retiring early

Women are much more likely than men to retire early (Chart E). Over the 1997-to-2000 period, approximately half of Canadian women retired before the age of 60 compared with just under 40% of men. Furthermore, greater early retirement in some public-sector industries during the late 1990s appears to have increased the gap between the early retirement rates of men and women.

Chart E: More women than men retiring early



Source: Labour Force Survey

Between 1987 and 1996, the early retirement rate difference between men and women was less than 4 percentage points. The gap grew to a 12-point average in the following four years. While the rate for men rose by 4 points from 1996 to 1997, early retirement for women jumped from 41% to 53%. This disparity may be explained by changes in certain female-dominated industries in the mid-1990s. From 1996 to 1997, early retirement in health care and educational services jumped 21 points (from 37% to 58%) and 13 points (from 53% to 66%) respectively. This is significant because more than one-quarter of all employed women are involved in these two industries.

Another factor may be the difference in marriage age for men and women. In most married couples, the husband is older than the wife—since 1974, the difference has remained steady at approximately two years. When it comes time to retire, many couples do so at the same time (Gower, 1998). If the husband is 60 or over, the wife may be under 60 and therefore counted as an early retiree. In 1997, one-third of married couples retired 'together' (that is, less than one year apart). Among these couples, the wife's average age was 58.5 versus 60.7 for the husband (Gower, 1998). An additional 37% of married women who retired in 1997 did so more than one year ahead of their spouses. The average age of these women was 56.4, compared with 62.2 for their husbands. These women are counted as early retirees, but their husbands are not.

Early retirement increases with income and education

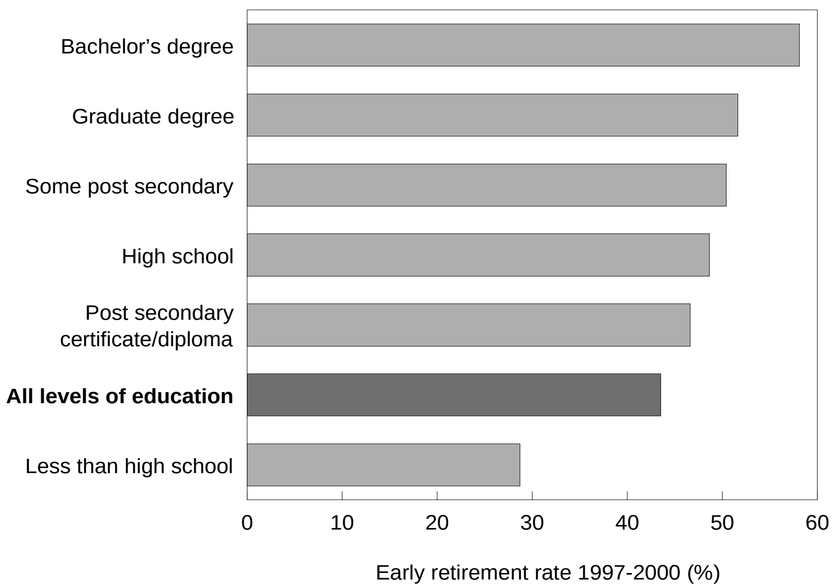
Highly educated workers seem more likely to retire early than those with less formal education (Chart F). Less than 29% of recent retirees with less than a high-school diploma left work before 60. Those with a bachelor's or graduate degree had early retirement rates of 58% and 52% respectively. Recent retirees with moderate levels of education fell in-between.

Predictably, Canadians with higher levels of educational attainment have higher earnings. In 2000, employees with a high-school diploma averaged $14.69 per hour. Those with a community-college diploma or certificate earned $17.32, and those with a bachelor's degree $21.90.

As income level rises, so does the likelihood of saving, making early retirement more feasible. In 1999, only 15% of tax filers with a total income of less than $20,000 contributed to a registered retirement savings plan or were covered by an employer-sponsored pension plan. About 63% of tax filers with total incomes of $20,000 to $39,999 saved. This proportion climbed to 92% for those with total incomes over $60,000 (Statistics Canada, 2001).

Despite the overall trend, recent retirees with a bachelor's degree had significantly higher early retirement rates than those with a master's or doctorate (58% compared with 52%). This could be explained in part by the additional years the latter group spends in school, which translates to a later career start and, presumably, a later finish.

Chart F: Highly educated more likely to retire early



Source: Labour Force Survey

The extremely low early-retirement rates in agriculture can be explained by a more detailed class-of-worker analysis. Workers in this industry are primarily self-employed (69% compared with the overall average of 17%). Also, many farmers are lower-income workers—average earnings for agricultural employees are less than $11 per hour compared with the overall mean of $17. Some farmers and their staff may have no choice but to postpone retirement until Canada or Quebec Pension Plan benefits can be collected.

Moreover, the nature of the farming business may discourage early retirement. Traditionally, family farms were passed down through generations as the primary means of income for the family. As farms became more mechanized,

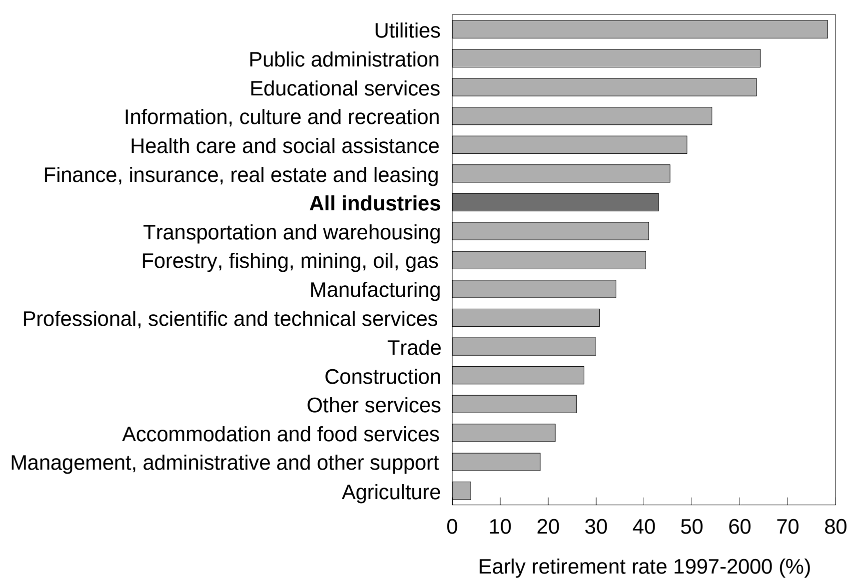
Early retirement by industry

In line with the trend towards early retirement in the public sector, the highest early retirement rates are found in utilities, public administration, and educational services, with five-year average rates of 78%, 64%, and 63%, respectively (Chart G). Agriculture exhibits the lowest early retirement rate, at just 4%.

Influence of class of worker

The trend in early retirement by industry can be explained in part by the class of worker found in each industry—for example, a clear relationship exists between early retirement and the proportion of public-sector workers in an industry (Table 1). Industries with the lowest early retirement rates were also the ones with the lowest proportion of public-sector workers; those with the highest early retirement rates had the highest proportion.

Chart G: Utilities, public administration and education have the most early retirees



Source: Labour Force Survey

Table 1: Public sector composition and early retirement rate by industry, 1997-2000

	Percent public	Early retirement rate
		%
Agriculture	0.0	3.8
Accommodation and food services	0.1	21.4
Other services	0.2	25.8
Manufacturing	0.3	34.1
Professional, scientific and technical services	0.9	30.6
Trade	0.9	29.9
Management, and administrative and other support services	0.9	18.3
Construction	2.4	27.4
Forestry, fishing, mining, oil and gas	3.9	40.3
Finance, insurance, real estate and leasing	4.8	45.4
Information, culture and recreation	13.0	54.1
Transportation and warehousing	18.7	40.9
Health care and social assistance	48.6	48.9
Utilities	71.6	78.3
Educational services	85.3	63.4
Public administration	100.0	64.2

Source: Labour Force Survey

less labour was needed. At the same time, many children began to leave the family farm in pursuit of other opportunities—over one-quarter of Canada's population lived on a farm in 1941, compared with just 2% in 1996. Studies comparing 1971 and 1996 showed an increased exodus of young people from rural areas across Canada (Tremblay, 2001). Many aging farmers may no longer have the option of handing the reins over to their offspring; consequently they work into their 60s and beyond to maintain the family business.

Early retirement by province

The Atlantic provinces demonstrate much higher early retirement rates than the rest of the country with Newfoundland, Nova Scotia, and New Brunswick among the top four provinces (Chart H). With 59% of its recent retirees leaving early, Newfoundland exhibited the highest rate in Canada. The Prairie provinces fell at the bottom of the list, none with a rate over 39%. Saskatchewan boasted the lowest rate with only one-quarter of its recent retirees leaving before age 60.

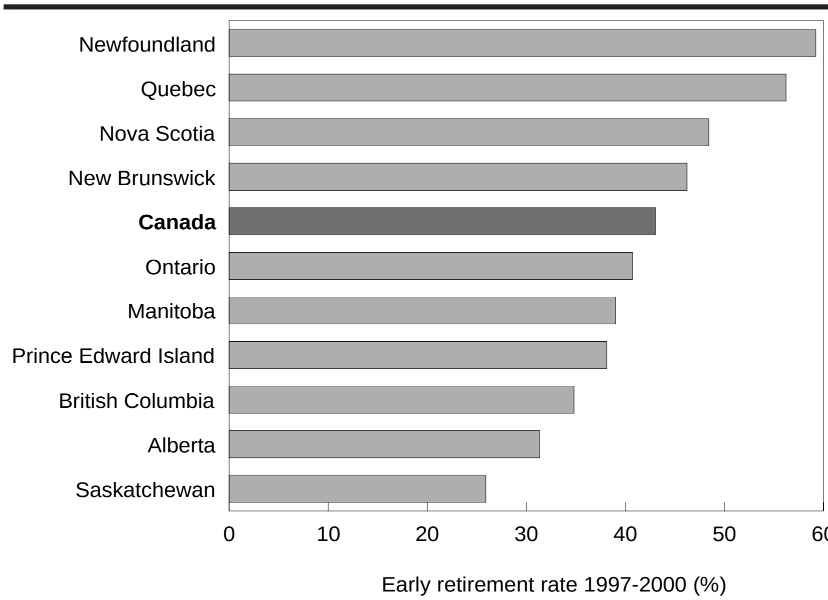
Agriculture content a good indicator

The differences can be explained in part by the industry mix in each province. One of the major factors contributing to the high early retirement rates in Newfoundland, Nova Scotia, and New Brunswick may be the very low ratio of agricultural workers in each province's labour force (Table 2). In Saskatchewan, which had the lowest early retirement rate, one in seven workers were involved in the farming industry. The proportion of agricultural workers in each province influences early retirement rates because very few agricultural workers retire early.

Early retirement tied to provincial unemployment

Another possible explanation of provincial differences may be the economic situation in each jurisdiction. The strong relationship between unemployment and early retirement suggests some Atlantic

Chart H: Early retirement highest in Atlantic provinces, lowest in western Canada



Source: Labour Force Survey

Table 2: Agriculture content and early retirement rate by province, 1997-2000

	Share of work force in agriculture	Early retirement rate
		%
Newfoundland	0.5	59.2
British Columbia	1.6	34.8
Nova Scotia	1.7	48.4
Ontario	1.9	40.7
Quebec	1.9	56.2
New Brunswick	1.9	46.2
Alberta	5.4	31.3
Manitoba	7.0	39.0
Prince Edward Island	7.0	38.1
Saskatchewan	14.2	25.9

Source: Labour Force Survey

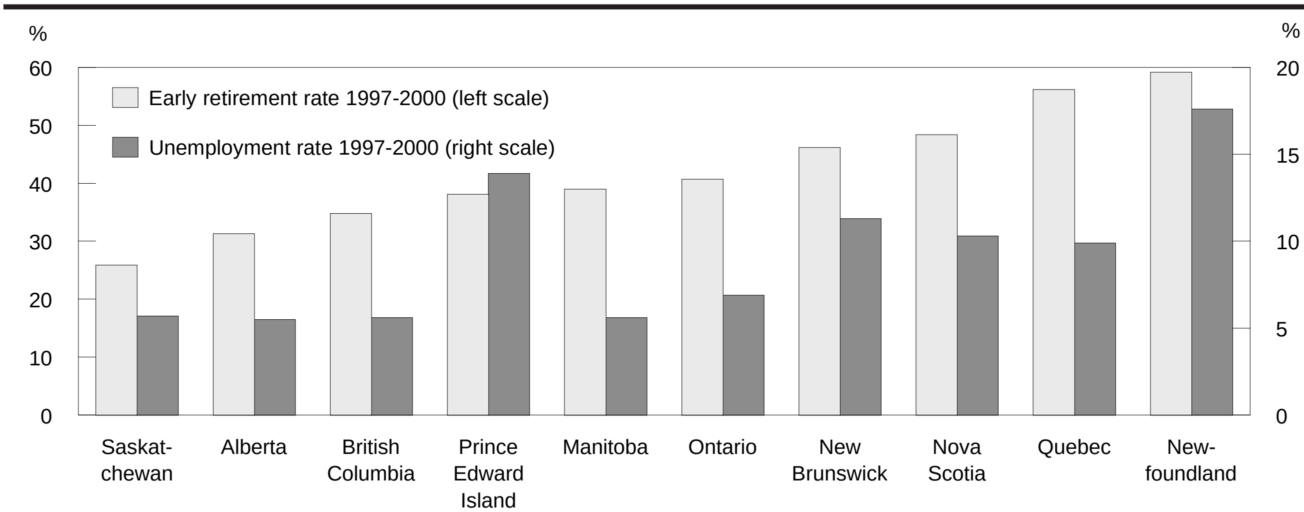
Canadians may have been forced to leave the workforce before turning 60. Whereas unemployment and early retirement rates were highest in the east, both rates were lowest in western Canada (Chart I). Notably, Newfoundland had a 17.6% unemployment rate combined with a 59% early retirement rate. These percentages were well above the 1997-to-2000 national averages of 8% and 43%. In contrast, Alberta, Saskatchewan, Manitoba and British Columbia experienced unemployment of less than 6% and early retirement rates of around one-third.

A previous study demonstrated the link between high rates of early retirement and economic factors by comparing the 1990-1992 recession with a three-year pre-recession period (Siroonian,1993). Early retirement due to layoffs, company closures, and early retirement packages rose significantly during the recessionary period. Today, provinces with weaker economic growth may see older workers forced to retire early. Furthermore, older workers who are laid off may find themselves competing with younger and better-educated workers for jobs in new and growing industries. Rather than start a difficult search for a new job, some older workers may choose early retirement.

Pension coverage influences provincial trend

While economic factors help to explain early retirement patterns in most provinces, some stand out against the trend. Prince Edward Island's unemployment rate stood at nearly double the national rate, yet its early retirement rate was among the lowest. This may be attributable to the relatively low proportion of workers in the province who are covered by an employer-sponsored pension plan—in 1997, only 24% of the provincial labour force as compared with 33% nationally. Pension plans also help to explain the high early-retirement rates in Newfoundland and Quebec where coverage rates were 39% and 35% respectively.

Chart I: Early retirement tied to provincial unemployment



Source: Labour Force Survey

Early retirement higher among full-time workers

Canadians who worked full time in their last job had higher early-retirement rates than those who worked part time—46% of recent retirees who had worked full time quit before 60 compared with 30% of part-time recent retirees. This is no surprise, as full-time workers earn more, and therefore may be able to save more for retirement. In fact, 58% of 1996 part-time or part-year employees earned less than $10,000 per year. Part-timers may also lack many of the retirement benefits granted to their full-time counterparts. Only one-fifth of part-time workers received an employer-sponsored retirement, compared with nearly three-fifths of full-timers. The lower early-retirement rates among part-time workers may also reflect a shift into part-time employment by older workers. Part-time work facilitates the transition to retirement, unlike full-time work, which brings an abrupt halt to working life (Walsh, 1999).

Summary

As a large-scale exit of baby boomers from the workforce looms, understanding trends in retirement has never been so important. Canadians today are retiring much earlier than only 10 years ago; however, government downsizing during the 1990s may have been a primary reason for the surge in early retirement of the last decade. After the 1997 peak, early retirement rates tapered off, suggesting that the growth seen in the 1990s may not be indicative of the future.

The propensity to retire early is driven not only by trends in public-sector employment, but also appears to be related to financial factors—specifically, the existence of a pension plan or other means of supplementary retirement income. Retirees with accumulated savings or pension benefits are more likely to retire before 60 because they need not rely on Canada or Quebec Pension Plan payments.

It is impossible to tell if early retirement rates will continue to rise in the years to come or follow the downturn seen since 1997. The change in trend makes any long-term projection based on recent behaviour uncertain. Regardless, the age at which workers choose to retire in the coming decades will have social and economic implications for the entire country.

Perspectives

■ *Notes*

1 A retiring allowance (or severance pay) is an amount paid to officers or employees at the time, or after, they retire from an office or employment in recognition of long service, or for the loss of office or employment. Retiring allowances include payments for unused sick leave credits and amounts received for termination of employment, but exclude superannuation or pension benefits, amounts received as a result of an employee's death, or benefits derived from certain counselling services.

2 The different reference periods of the sources may account for the differences in peak years between the early retirement rate and retiring allowance data. In the LFS, retirees who left work within the last 12 months are considered to have retired in the year of the survey, which may not necessarily be the year in which they retired. For example, respondents who retired in July 1996 may have been surveyed in June 1997. Even though they left work in 1996, they are considered 1997 recent retirees. Many public sector workers who retired in 1996 could have been recorded as 1997 recent retirees. Retiring allowance data are from Canada Customs and Revenue Agency and include only payments made between January and December of one year. Therefore, the 1996 retiring allowance peak could coincide directly with the 1997 early-retirement rate peak.

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