

A note on the recession and early retirement

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When planned and anticipated, retirement can be a wonderful experience. But not everyone who leaves the workforce does so of their own accord or when expected.

In November 1992, there were over 1.5 million retirees aged 50 to 69 in Canada. For about half of this group, the timing of their retirement had been anticipated; for the other half, retirement came earlier than they had planned.

By convention, early retirement is considered to mean retirement before the traditional age of 65. However, in this note, early retirement refers only to those that occurred *earlier than planned*. This definition allows us to investigate workers whose careers have been unexpectedly curtailed.

Why do workers retire earlier than planned?

Workers retire early for a variety of reasons. According to the Survey of Persons Not in the Labour Force [\(1\)](#) (see [Data Source](#)), the most common one, reported by 36%, was their own illness or disability. In addition, 18% retired early because they wanted to stop working, 14% because they were offered an early retirement plan or incentive, and a further 14% because of layoffs or plant closures. In particular, early-retirement incentives, as well as layoffs and business closures are suspected of having fuelled an increase in early retirement during the recent recession. To determine if there is a relationship between the state of the economy and early retirement, this note compares retirement patterns during two three-year periods: the pre-recession years, 1987-1989, and the recession years, 1990-1992. [\(2\)](#)

Early retirement during the recession

During the 1990-92 recession years, 211,000 persons retired earlier than planned, an 11% rise from

190,000 for the previous three-year period ([Table](#)). Was this increase in early retirement related to the state of the economy?



Table **Persons not in the labour force who retired earlier than planned.**

Source: Survey of Persons Not in the Labour Force, November 1992

Note: Estimates may not add up to totals due to rounding.

The early 1990s were a difficult time for Canadian employers in both the public and private sectors. Many of them found it necessary to restructure and reduce their workforce while other, less successful businesses were forced to close. As a result, workers became unemployed. Some of them decided to withdraw from the labour force and retire sooner than planned. The number of workers who retired early due to layoffs or closures in the 1990-92 period (45,000) was more than double the number for the 1987-89 period (20,000).

To avoid layoffs but still downsize, some firms offered "golden handshakes" to older workers. During the 1990-92 recession, 43,000 retirees reported a cash-out or an early retirement package as their main reason for retiring early. This figure was up 28% from 34,000 for the previous three-year period.

Own illness or disability number one reason

Though the numbers declined slightly from 69,000 to 63,000, own illness or disability was the foremost single reason for early retirement during both periods, accounting for 36% and 30% of early retirees in the pre-recession and recession years, respectively.

But, if the economic-related reasons (layoff, company closure, and early retirement plan or incentive) are combined into one category, the picture changes ([Chart](#)). Using this new grouping, for the pre-recession period, illness or disability still ranks above economic-related reasons: 36% compared with 28%. However, for the recession years, economic-related reasons top the list (42%), followed by illness or disability (30%).



Chart **During the 1990-92 recession, economic factors were the main reason for early retirement.**

Source; Survey of Persons Not in the Labour Force, November 1992

Summary

The data suggest a link between the state of the economy and the number of workers retiring earlier than planned. An increased number of workers retired early due to layoffs and plant closures during the recent recession. In addition, offers of early-retirement packages coaxed even more workers out of the labour force. And while own illness and disability was the leading reason for early retirement in the pre-recession period, economic-related reasons were the main motive for early retirement during the recession.

Data Source

The Survey of Persons Not in the Labour Force was designed to gather more comprehensive data on the approximately seven million Canadian adults who are neither working nor looking for work. The survey was partly driven by the fact that labour force participation rates have been dropping steadily in recent years. This situation has generated a need for more information on the people who are not in the job market. Data were collected on past attachment to the labour force and plans to rejoin it; current non-labour market activities; financial resources of the family; educational plans of youths neither working nor attending school; and reasons for early retirement. For more information, contact Deborah Sunter at (613)951-4740.

Notes

Note 1

The Survey on Persons Not in the Labour Force, a supplement to the monthly Labour Force Survey, focused on individuals not in the labour force aged 15 to 69. The set of questions relating to the circumstances concerning retirement were asked of respondents (not in the labour force) aged 50 to 69

only. Although the decision to retire earlier than planned may be based on several factors, this survey asked for the main reason only.

Note 2

The Survey of Persons Not in the Labour Force provided a snapshot of the survey population aged 15 to 69, as they were in November 1992. The analysis in this note, however, uses this data to investigate early retirement over a period of time. This application has some limitations. Factors such as mortality, entry into the labour force, and the specification of the survey population could affect the results. The 1990-92 analysis period excludes December 1992 since the survey was conducted in November of that year. Therefore, the figures presented slightly underestimate the number of persons who retired earlier than planned during the recession years.

References

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Source

Perspectives on Labour and Income, Winter 1993, Vol. 5, No. 4 (Statistics Canada, Catalogue 75-001E). This is the first of six articles in the issue.

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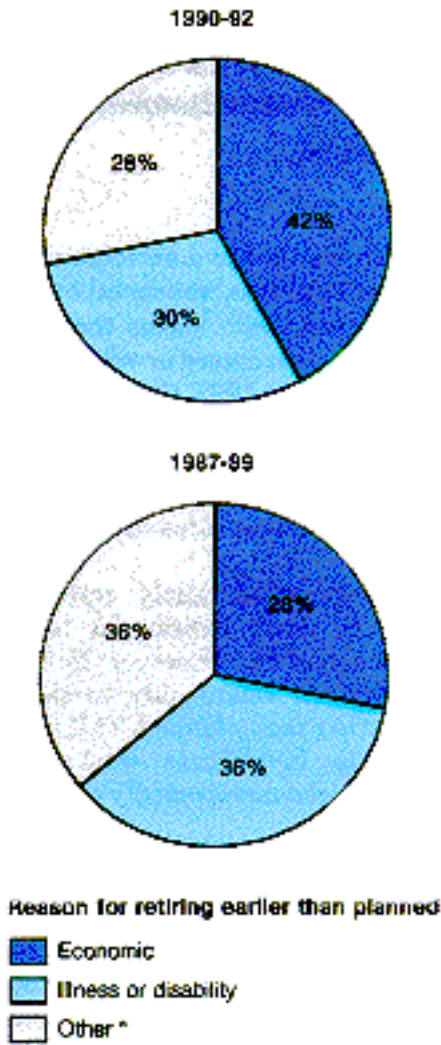
	Period of retirement	
	1987-89	1990-92
	'000	
Retired earlier than planned	190	211
Reasons for early retirement		
Illness or disability	69	63
Economic-related reasons	54	88
Incentive	34	43
Closure/layoff	20	45
All other reasons*	68	60

Source: Survey of Persons Not in the Labour Force, November 1992.

** Includes care for relative or friend, wanted to stop working, other reasons and not stated.*

Note: Estimates may not add up to totals due to rounding.

During the 1990-92 recession, economic factors were the main reason for early retirement.



Source: Survey of Persons Not in the Labour Force, November 1992

* Includes care for relative or friend, wanted to stop working, other reasons, and not stated.