Men retiring early: How are they doing?

Dave Gower

During the first half of this century, men generally stayed in the labour force until at least age 65. In the second half, however, more men have been leaving at younger ages (Chart A). Initially, the percentage of men aged 55 to 64 who were in the labour force declined slowly, from 85% in 1954 to 80% in 1974. But in the following 20 years, the declines in labour force participation were much more rapid, dropping about 10 percentage points each decade to stand at 60% in 1994.[1]

The observed declines could be due to either of two factors. Men aged 55 to 64 may be participating intermittently, that is, dropping in and out of the labour force several months at a time, or they may be leaving the labour force permanently to retire. According to this study, about three-quarters of men aged 55 to 64 who are not in the labour force at any point in time appear to have left it permanently; this proportion has been relatively constant for the past decade and a half.

Why are these men retiring earlier? There are two broad possibilities. With the restructuring of the economy leading to employment declines in the goods-producing sector, and with claims that continuous skills upgrading is the order of the day, it is possible that they have been forced into retirement by job losses and bleak re-employment possibilities. Alternatively, with the growth in real wages in the 1960s and 1970s (Rashid, 1993), along with dramatic asset appreciation through home ownership between the 1960s and 1980s, these men may simply have chosen to retire early with retirement incomes sufficient to maintain a comfortable lifestyle.

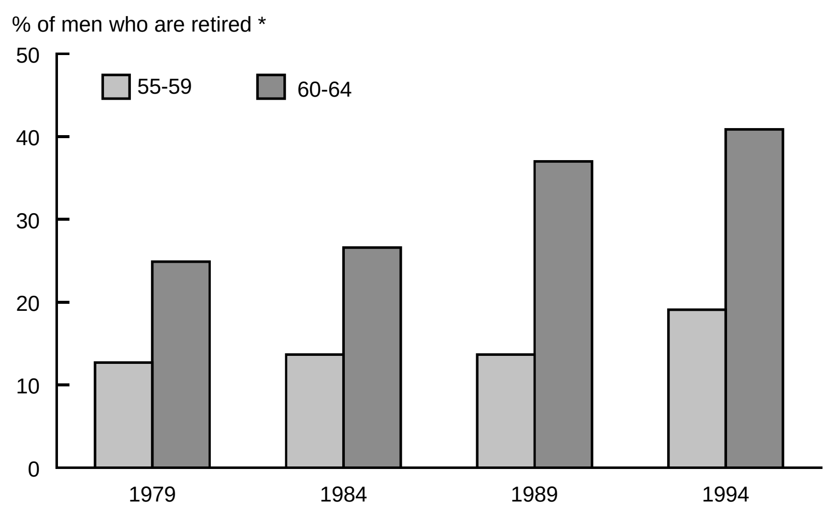
This is not to say that retirement income can be used to distinguish between voluntary and involuntary retirement. Some men with very low earnings prior to retirement may expect to find themselves only slightly worse off in retirement, or perhaps even slightly better off (Maser, 1995), and so retire voluntarily. Similarly, persons relatively well off at retirement, owing to high pre-retirement incomes, may have been obliged to leave the labour force because of illness or job loss.

Nevertheless, the extent and nature of retirement income is at least indicative of the motivations for retirement. This article is intended to provide information on the levels and sources of income of retired men aged 55 to 64 (see *About the data*).

Retirees have lower incomes

A useful first step in evaluating the income situation of early retirees is to compare their incomes with those of men the same age who are still working full year full time. This is not the same as measuring the income drop that accompanies retirement, since that would require longitudinal data (where the same people respond in consecutive surveys), which are unavailable from the data sources used for this study. In other words, the income of retirees prior to leaving the labour force is unknown.

Chart A
A growing proportion of men are retiring before age 65.



Sources: Labour Force Survey and Survey of Consumer Finances
** Out of the labour force in the survey month and throughout the preceding calendar year.*

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About the data

Sources

The source of participation rate data, the monthly Labour Force Survey (LFS), identifies persons in or out of the labour force during a selected week each month. In other words, the survey collects a series of independent snapshots. This means that observed declines in male participation rates could be due to the intermittent participation of 55 to 64 year-olds rather than to their permanent departure from the labour force.

However, data from the Survey of Consumer Finances (SCF), conducted in April of each year as a supplement to the monthly LFS, capture a relatively stable percentage of those "not in the labour force," because they reflect labour force activity over the previous year. These data can be used to show that the declines of the past several decades largely reflect moves to earlier retirement rather than to more intermittent participation.

The SCF data used in this paper were collected in April 1994, but data on income and weeks of labour force activity relate to the 1993 calendar year.

Definition

The term "retirement" means different things to different people. For example, a person may officially retire from one job, draw an employer-sponsored pension and take another job, either to fill in the time or to make extra money. Another person may lose his job, without obtaining a pension, and never work or look for work again – perhaps because he has lost hope of finding another job. A third person may reduce his hours of work from full-time to part-time. Yet each may consider himself retired.

For analytical purposes, a firm measure of retirement is required. To be considered retired in this study, a man aged 55 to 64 must have been out of the labour force, that is, neither employed nor unemployed,[2] both in the month of the survey (April 1994) and throughout the preceding calendar year (1993).

However, the available data do show a considerable income disparity between those working and those not. The 1993 median[3] income from all sources was $17,300 for retired men aged 55 to 64, versus $38,500 for their counterparts who were employed full year[4] full time – a ratio of 45 cents on the dollar (Table 1).

Three in ten retired men aged 55 to 64 had incomes under $10,000 (including those with no income), compared with only 5% of men working full year full time. Just 30% of retired men in this age group had incomes of $25,000 or more, as opposed to 77% of employed men. In higher income brackets, the contrast is even more striking: only 5% of retired men reported 1993 incomes of $45,000 or more versus 38% of men working full year full time.

Government transfers helpful

Overall, 90% of retired men aged 55 to 64 with income in 1993 received at least some of it from government sources (Table 2). Not only did the likelihood of receiving such payments rise as income levels dropped, but the reliance on government transfers also grew considerably. For example, men with incomes between $1 and $9,999 in 1993 obtained 87% of it from government programs, compared with 17% for men with incomes of $25,000 or more.

Although government-administered plans accounted for a much greater proportion of the total income of the "poorest" group, the median amount received by retirees in the middle income group was greater: $9,400 for those with incomes between $10,000 and $24,999, versus $6,800 for those with incomes between $1 and $9,999. The median value was lowest for recipients in the top income range.

Reliance on different types of government income varied with total income level. For men with incomes between $1 and $9,999, 38% of government benefits were from the Canada and Quebec Pension Plan (see *The Canada and*

Table 1
Income distribution of retired and employed men aged 55 to 64, 1993

	Retired *		Employed full year full time **	
	'000	%	'000	%
All men	**348**	**100**	**529**	**100**
With no income	9	3	-- †	--
With total income:				
$1 to 9,999	93	27	24	5
$10,000 to 24,999	143	41	92	17
$25,000 and over	103	30	408	77
$45,000 and over	18	5	202	38
Median income ($) ††	17,300		38,500	

Source: Survey of Consumer Finances
* *See* About the data.
** *Mainly full time for 40 to 52 weeks in 1993.*
† *Mainly self-employed individuals reporting losses.*
†† *Calculations are based on men reporting income.*

Quebec Pension Plan); the corresponding proportions for men with incomes between $10,000 and $24,999, and $25,000 or more, were 47% and 62%. Men with lower incomes relied more on sources such as Workers' Compensation and welfare. Their relatively light reliance on C/QPP benefits may reflect lower entitlements, which are based on employment earnings and years of pension contributions.

Private income usually needed for "the good life"

No matter how one defines being well off, substantial private income is usually a requirement. Almost half of early retirees' total 1993 income came from private pensions. An additional 16% was obtained from investments and other private sources (Chart B). As expected, however, the amounts and proportions of revenue from private sources varied according to income group.[6]

Some 86% of men in the $25,000-and-over bracket received private pensions from a former employer, with a median benefit of $25,600. In contrast, just over half the men in the middle income range ($10,000 to $24,999) reported this type of income, with a median pension of $11,200. Low income retirees seldom had private pensions (only 8% of those with incomes between $1 and $9,999), and when they did, the amounts were small (Table 2).

Investment income was earned by 68% of retirees in the highest income group but by only 24% of those in the lowest group. The median investment income (among men who reported such income) was somewhat higher for the former group ($2,100 versus $1,100).

Family situation also makes a difference

Although 3 in 10 men retiring before age 65 had total incomes under $10,000 in 1993 (including those with no income), many shared living expenses with other family members.[7] To better evaluate their financial well-being, this study uses family-based low income cutoffs (LICOs), a measure that takes into account factors such as family size and place of residence.[8]

Overall, 73% of families with retired men aged 55 to 64 (246,000 of 339,000) had family incomes above the LICO in 1993 (Table 3).[9]

The Canada and Quebec Pension Plan (C/QPP)

The C/QPP is funded by contributions from both employers and employees. Pension benefits, which are indexed to inflation, vary according to the contributory history of an eligible recipient and the age at which that person starts to draw benefits. The maximum benefit available in 1993 was $8,008.[5] Prior to 1987 (1984 in Quebec), persons without disabilities had to be 65 to qualify. Now they may draw benefits as early as age 60, although the amount is reduced by 6% for each year short of 65 (for a maximum reduction of 30%).

When these changes were introduced, many eligible people applied for benefits (Frenken, 1991). Although people need not be out of the labour force to draw benefits (some employment income is permitted), the simultaneous drop in the labour force participation rate of men aged 60 to 64 and the surge in early applications for C/QPP benefits are likely related.

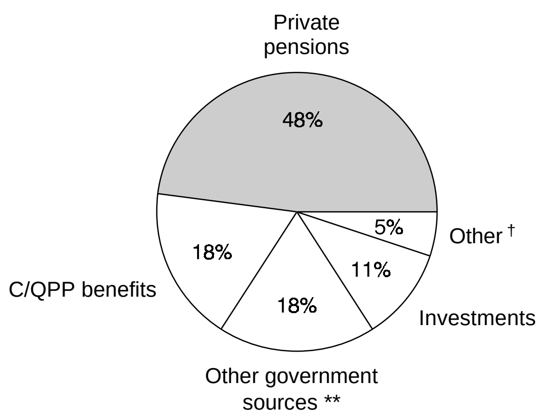
Persons with disabilities, regardless of age, may also qualify for benefits under the plan. Those under 65 do not suffer a penalty, although many receive less than the maximum entitlement because of an intermittent or brief work history. Currently, about 36% of men aged 55 to 64 collecting from the CPP are drawing disability benefits (Health and Welfare Canada, 1993).

Table 2
Income sources of retired men aged 55 to 64, 1993

	Total income			
	Total	$1 to 9,999	$10,000 to 24,999	$25,000 and over
All retired men with income ('000) *	**339**	**93**	**143**	**103**
Total income ($ billion)	6.9	0.6	2.4	3.8
Median income ($)	17,300	7,200	16,800	33,400
With government income ('000)	306	88	135	82
% of retired men with income	90	95	94	80
% of total income	36	87	51	17
Median government income ($) **	7,100	6,800	9,400	5,700
With private pension ('000)	170	7	74	88
% of retired men with income	50	8	52	86
% of total income	48	4	35	63
Median pension ($) **	17,600	2,400	11,200	25,600
With investment income ('000)	148	22	56	69
% of retired men with income	44	24	39	68
% of total income	11	7	9	13
Median investment income ($) **	1,900	1,100	2,000	2,100

Source: Survey of Consumer Finances
* *The number of retired men with income exceeds the sum of retired men with government, private pension and/or investment income because many men have more than one type of income.*
** *Calculations are based on men reporting this type of income.*

Chart B
In 1993, private pensions accounted for nearly half the income of early retirees.*



Source: Survey of Consumer Finances
* *Men aged 55 to 64 who were out of the labour force in the survey month and throughout the preceding calendar year.*
** *Mainly social assistance and Workers' Compensation benefits.*
† *Mainly retirement allowances, severance pay and income maintenance plan payments.*

But over half of all unattached individuals (56%) had incomes below it. While low income status was more common among "loners," it was by no means confined to them: in 55,000 families with two or more persons (one in five such families) incomes were also below the LICO.

Home ownership widens the gap

Income is not the only determinant of economic standing. Asset accumulation is also an important indicator of financial well-being after retirement. While data are not available on the full range of retirees' assets, one factor that can be measured is whether they live in rented or owned (with or without mortgage) accommodation.[10]

Only 23% of families with retired men aged 55 to 64 were tenants in 1993 (78,000 families out of 339,000). Most families paying rent had incomes below the LICO (58%); in contrast, 8 in 10 families living in mortgage-free homes had incomes above the LICO (Table 3). Of course, the rent paid by some low income retirees may be modest (for example, subsidized housing), while some in the highest income group may prefer rental accommodation, which requires less maintenance on their part. Nevertheless, the comfortable economic situation of many "early retirees" is reflected in the high incidence of home ownership (77%) among their families. Moreover, two-thirds of retirees in families with incomes above the LICO in 1993 lived in mortgage-free homes, as did 41% of those with incomes below the LICO.

Summary

The income situation of retired 55 to 64 year-old men varies greatly. Those with low incomes depend on government programs for the bulk of their income. They are more likely to live alone than are those with higher incomes. They are also more likely to live in rented accommodation. Retired men with higher incomes tend to benefit more from private pensions and are more likely to live in mortgage-free homes.

Although a substantial number of retired 55 to 64 year-old men were living on relatively comfortable levels of income in 1993, the

Table 3
Families with retired men aged 55 to 64, by family income, size and home ownership status, 1993

	Total families	Below LICO*	Above LICO*
		'000	
All families with retired men	**339**	**93**	**246**
Family size **			
Unattached individuals	68	38	29
Two persons	179	38	140
Three or more persons	93	16	76
Home ownership status			
Tenants	78	45	33
Homeowners	261	48	213
With mortgage	58	9	49
Without mortgage	203	38	164

Source: Survey of Consumer Finances
* *LICOs are low income cut-offs. A family's total income is either below or above a specific LICO based on family size and geographic area.*
** *There may be other unattached individuals or families residing in the same household.*

proportion with incomes over $25,000 was much lower than that of men the same age who were employed full year full time. Moreover, nearly 100,000 families with early retirees (over one in four) were living on incomes below Statistics Canada's low income cut-offs. □

Notes

1 These data are annual averages from the Labour Force Survey (LFS).

2 To be unemployed, a person must have looked for work in the four weeks prior to the LFS reference week, or been on temporary layoff, or had a job starting within four weeks. In addition, he must not have been working during the reference week, but have been available for work.

3 Half of the retired population of 55 to 64 year-old men had incomes below the median and half had incomes above it.

4 In this article, a full-year worker is one who was employed 40 to 52 weeks in 1993.

5 The annual ceiling was raised to $8,333 in 1994 and $8,558 in 1995.

6 Withdrawals from registered retirement savings plans (RRSPs) are not included in these income figures because they are considered a drawing out of savings, rather than income.

7 These are families of two or more individuals who live together and are related by blood, marriage or adoption. They may share their living quarters with other families or unattached individuals, however. Similarly, unattached individuals may live alone or with other people to whom they are not related.

8 Families with income below the LICO spend, on average, a significantly higher proportion on necessities than do Canadian families as a whole. LICOs are calculated for different family sizes and for different areas. For more information on this measure see Statistics Canada (1995).

9 Table 3 deals with families, not individual retirees, unless they are unattached. A family may include more than one retiree; for example, two brothers living together.

10 In the case of retirees living with other family members, the home may be owned or rented by another family member.

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